EQC
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

Annual Report
2014–2015

Authority, period covered and copyright

This Annual Report is submitted by the Board of the Earthquake Commission 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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INTRODUCTION

New Zealand is one of the few countries in the world that operates a national natural disaster insurance scheme for homeowners. The widespread damage generated by the powerful Murchison, Napier and Wairarapa earthquakes more than 70 years ago galvanised lawmakers into establishing the Earthquake and War Damage Commission in 1945.

Over time, the Earthquake Commission (EQC) scheme has changed the range of natural disasters it covers by insurance, but its core role remains, as originally envisaged. That is, to operate a fund to pay out on claims for natural disaster damage, and encourage homeowners to insure and insurers to offer affordable cover.

Today, EQC insures against property damage from earthquakes, landslips, tsunami, volcanic eruptions and hydrothermal activity; flood and storm damage to residential land; and fires resulting from these events.

EQC extends significant support for research and education to better understand the nature and effects of natural disasters, and thereby assists communities to prepare for, and be more resilient to, their consequences.

Current EQC legislation requires insurance companies to pay EQC a premium each time a residential building or personal property is insured against physical loss or damage by fire in New Zealand. As a result, New Zealand has one of the highest rates of residential insurance cover for natural disasters in the world.

Marking EQC's 70th anniversary in January 2015, the Minister Responsible for the Earthquake Commission, the Honourable Gerry Brownlee, spoke about the positive impact of EQC in Canterbury and New Zealand.

"...New Zealanders can be thankful that their grandparents' generation had the foresight to create such a scheme. The EQC scheme is unique internationally and has, in the Government's view, proven its value to New Zealand."

The intent of the current Treasury-led Government review of the Earthquake Commission Act 1993 (EQC Act) is to identify areas where the scheme has not delivered on policy expectations and where change to the EQC Act is needed. The many lessons EQC has learnt from the Canterbury earthquakes, and from the events in the 22 years the current scheme has been in operation, will inform the review to better meet the needs of future homeowners.

CHAIR'S **REPORT**

EQC administers the world's leading national natural disaster insurance scheme. The Canterbury earthquake sequence really showed this, requiring EQC to handle the biggest and most complex claims management and settlement programme ever undertaken by a single disaster insurer worldwide.

The Canterbury earthquakes were a tragedy for the province and the nation. The scale and impact of what have been New Zealand's most damaging natural disasters was significant internationally. Even though New Zealanders know they live in a seismically active part of the world, it is impossible to do more than prepare in a very general manner for the risks we all face.

What Canterbury has shown is that the establishment of the forerunner of EQC in 1945 was a far-sighted public policy initiative. At the United Nations Conference in Sendai, Japan in March this year, the United Nations Secretary-General's Special Representative for Disaster Risk Reduction, Margareta Wahlstrom, said:

"Insurance helps people and countries recover more quickly after a disaster. Loss of economic capacity is one of the hardest issues for people to face and we need mediation between the insurance industry and public sector."

Strong and stable insurance arrangements in New Zealand have played a significant role in assisting Canterbury, and the country more widely, to recover from a devastating tragedy, and avoid serious fiscal pressure.

Strong and stable insurance arrangements in New Zealand have played a significant role in assisting Canterbury, and the country more widely, to recover from a devastating tragedy, and avoid serious fiscal pressure. About 80 percent of the losses in Canterbury were covered either by EQC or private insurers. For homeowners in Canterbury, because of the high level of home insurance, almost every home repair or rebuild will have some form of insurance cover. That is remarkable, and unique internationally for a disaster of this scale.

EQC's ability to support the settlement of claims in Canterbury has been underpinned by its extensive reinsurance arrangements with a large group of international reinsurers. The relationships with the reinsurers are longstanding, and remain strong. EQC has been able to renew appropriate reinsurance contracts every year since the September 2010 earthquake, thus providing essential ongoing cover for the entire country for any additional events. The value to New Zealand of those reinsurance contracts is high. Their continuance reflects EQC's, and New Zealand's, reputation for transparency, sound governance and management, trustworthiness, good science, and a proven ability to deliver in very difficult circumstances.

This Annual Report covers the period when EQC's direct response to the Canterbury earthquakes is nearing its conclusion. Since the first earthquake in September 2010, EQC has received 470,561 claims from the Canterbury earthquake series. As at 30 June 2015, 99 percent of contents exposures and 80 percent of land exposures had been settled in Canterbury, with 96 percent of the more than 167,000 dwellings with building damage either having been fully cash-settled to the extent of EQC's liability or repaired through the Canterbury Home Repair Programme (CHRP). These are significant milestones. Nonetheless, the Board, management and staff of EQC are well aware that the job is not yet finished, and that for those claimants who are still to be fully settled the wait has been a long one. We are exerting every effort to ensure that the remaining settlements are completed as soon as reasonably practicable.

We are also mindful that even when the CHRP draws to a close, EQC will have ongoing obligations to its customers under the EQC Act and other relevant legislation. EQC will fully stand by the repairs to its customers' properties, working with contractors to remediate defects in any home repairs, in line with its statutory requirements.

We will also continue to work with customers, or their advocates, to resolve outstanding disputes through mediation or otherwise, or when they come before the courts. Currently, there are about 150 proceedings before the courts.

The past year has seen EQC substantially conclude its management of claims arising from the Cook Strait and Eketahuna earthquakes, in 2013 and 2014 respectively. The Cook Strait earthquakes generated more than 12,000 claims, making it the second largest event in EQC's claims history, with the Eketahuna earthquakes generating more than 5,000 claims.

EQC is committed to retaining its longstanding contribution to research and education about natural disaster risk in New Zealand, thereby building a stronger, safer and more resilient country.

EQC is committed to retaining its longstanding contribution to research and education about natural disaster risk in New Zealand, thereby building a stronger, safer and more resilient country. The importance of EQC's longstanding partnerships with GNS Science, in relation to GeoNet, and with other research partners locally and internationally has been reinforced by the events of the past five years.

EQC has a central role to play in the broader conversation about natural disaster risk reduction and resilience in New Zealand and the region. In June 2015, EQC contributed to the meeting in Wellington for New Zealand's follow-up to the United Nations Disaster Risk Reduction Conference. EQC looks forward to an increased role in this sphere in future years, with local government, the private sector, universities, Crown Research Institutes and others. EQC is looking at how its experience can be shared more widely by exploring options for improved support for disaster risk reduction and insurance in the South Pacific. We are also engaging with an Australian taskforce that has been set up to explore options for reducing home, contents and body corporate insurance premiums in Northern Australia that have increased significantly in recent times due to cyclone risk.

Over the past year, in addition to driving for the Canterbury response effort to be completed, the Board has led further work to define the role and shape of the "future EQC". The broad outline of the new strategy is nearing completion, and will be set out in a revised Statement of Intent in coming months. The new strategy reinforces the focus on reducing the impact on people and property of natural disasters, by providing access to natural disaster insurance and reinsurance, and lifting EQC's role in natural disaster risk reduction to improve national resilience.

The challenge for EQC will be to learn from the 70 years since the Earthquake and War Damage Commission was established in 1945 about what went well, and what did not, and how the overall system can be improved. This is a key objective of the Treasury-led review of the EQC Act that the Government is currently undertaking. Public submissions have already been sought. The Board and management of EQC have been consulted fully on the proposals in the Review, and look forward to the outcome of the public discourse and legislative reform processes. Our judgement is that the proposals in the Review's discussion document, if adopted by Parliament, will strengthen and improve an important national institution in its support for New Zealanders at the time they need it most. Whatever the outcome of the review, EQC is committed to taking the lessons learned from the Canterbury earthquake series to improve future customer experience.

On behalf of the Board, I extend my gratitude to all of EQC's staff, and management, for their unflagging commitment to delivering to the people of Canterbury, and New Zealand. Many staff have already departed from the organisation, but their contribution has not gone unnoticed, and the Board is most grateful for their efforts and commitment.

Sir Maarten Wevers, KNZM
Chair

The new strategy reinforces the focus on reducing the impact on people and property of natural disasters, by providing access to natural disaster insurance and reinsurance, and lifting EQC's role in natural disaster risk reduction to improve national resilience.

CHIEF EXECUTIVE'S **REPORT**

SUPPORTING RECOVERY

Following the 2010 and 2011 earthquakes, EQC became responsible for the largest managed repair and residential cash settlement programme ever undertaken by a single disaster insurer. The repair programme itself was of a size and scale beyond what the New Zealand Government could have anticipated when the Earthquake and War Damage Commission was established in 1945.

The magnitude and nature of the Canterbury earthquake sequence, with significant multiple events in the same location within a 15 month timeframe (during 2010 and 2011), created a significant challenge for EQC. We received 470,561 claims from customers relating to more than 167,000 dwellings in Canterbury. In the last financial year, EQC has cash-settled or repaired over 20,000 dwellings, and closed over 3,000 contents exposures and almost 25,000 land exposures.

EQC is working on the remaining claims with its customers in Canterbury. Our focus is on fully supporting these customers to resolve their claims. We are providing face-to-face services and seminars at forums such as the 'In The Know' hub in Christchurch, and working with other rebuild agencies, including the Christchurch City Council and community advocacy groups, to identify customer needs and, where appropriate, front customer meetings together. EQC is committed to ensuring all of our customers receive full information and their fair entitlements under our governing Act.

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On 19 August 2015, the Ministry of Business, Innovation and Employment (MBIE) released a report into the Building Code compliance of earthquake repairs to Canterbury homes. The report followed an independent survey of 101 homes selected from more than 2,700 addresses provided by Housing New Zealand, insurers and EQC. The survey focused on homes with structural repairs that did not require building consent, including floor re-levelling using the 'jack and pack' repair method.

The MBIE report identified that some work carried out did not meet the Building Code. Most of the shortcomings were "relatively minor and easy to fix" and "there are no concerns for the safety of occupants". EQC will fully stand by the repairs to its customers' properties, working with contractors to remediate defects in any home repairs, in line with its statutory obligations. For context, the MBIE report notes the level of non-compliance identified in the survey was similar to that being found in Auckland and Christchurch for consented projects. Given the size and scale of the CHRP, it is not unexpected that there will be remedial work as the programme nears completion. It is expected that the properties that MBIE reviewed, and identified that a repair is needed, will repaired by the end of October 2015.

Many customers have been paying their EQC excess after the completion of their CHRP repairs. EQC began invoicing customers for these excess amounts in April 2015 after contacting customers personally, or via a pre-invoice pack, to explain how the process works.

Underpinning the recovery of Canterbury has been EQC's strong relationships with international reinsurers on our reinsurance panel. This is a reflection of the reinsurance market's confidence in New Zealand's ability to recover from the Canterbury events and EQC's ability to process the large number of claims received.

LEADING WITH SOLUTIONS

EQC is unique among insurers for providing cover for land damage. In Canterbury, two forms of land damage that EQC had never received claims for, and had not anticipated, posed new challenges. These are Increased Flooding Vulnerability (IFV) damage, where an earthquake causes changes to the residential land resulting in the property being more vulnerable to flooding, and Increased Liquefaction Vulnerability (ILV) damage, where an earthquake causes residential land to subside, bringing it closer to the water table, thereby increasing its vulnerability to liquefaction.

In December 2014, EQC obtained a Declaratory Judgement to confirm that IFV is a form of land damage that EQC can recognise. The High Court also decided that, in appropriate cases, EQC can settle land damage by paying the amount of the "Diminution of Value". Diminution of Value measures the reduction in market value of the property which has been caused by land damage, including IFV land damage. Settlement of IFV claims began in March 2015.

While the main questions addressed by the Declaratory Judgement relate to IFV, the High Court also confirmed that EQC could recognise ILV as a form of land damage. This has helped inform the development of our approach to the way we should settle claims for ILV to ensure customers receive their fair entitlement under the Act. Settlement of land claims that include ILV land damage will start once the ILV policy is finalised.

As well as settling claims, EQC has worked this year to complete findings for a world-leading research programme (the Ground Improvement Programme) to identify practical and affordable ways to strengthen residential land that is vulnerable to liquefaction. This research programme aims to strengthen overall community resilience to earthquakes, enabling people to remain in their homes while protecting their key financial assets.

Our immediate focus is improving customer experience and, in particular, our customer claims process.

LESSONS LEARNED

EQC has adapted and continues to adapt as we work towards finalising the remaining Canterbury earthquake claims. Our emphasis is shifting from completing our response to the Canterbury earthquakes to applying hard-earned lessons from this event to deal with future natural disasters. This will help us to better prepare for what comes next.

From how we interact with customers to how we settle new forms of earthquake land damage, what we learned from Canterbury will forever influence how New Zealand responds to, and prepares for, natural disasters.

We have contributed to the Treasury-led review of the EQC Act by providing information on the practical application of the Act in responding to the Canterbury earthquakes. We have looked at what worked and what could be improved. These contributions related to legislative interpretation issues, practical application challenges and policy issues identified from the Canterbury response.

There is however no one-size-fits-all approach. Our experience from the Canterbury, Cook Strait and Eketahuna earthquakes has taught us that each event and region is different and requires a specific response. It is important to work closely with local government and insurers to swiftly collate the facts and set up a system where claims are triaged on a priority basis to address the most vulnerable customers and most damaged properties first. This is integral to ensuring people can return to their homes as soon as possible. It is also essential to work alongside the media and community stakeholders to get information out to customers and, where needed, set up temporary offices and community drop-in centres to provide support.

ORGANISATIONAL IMPROVEMENTS

Our immediate focus is improving customer experience and, in particular, our customer claims process. We acknowledge there are significant opportunities for refinements in how we handle and process claims. At the heart of these refinements is how we provide a process that is transparent, fair and timely. Staff have undergone refresher privacy training through our online learning system to ensure our customers' private information is kept safe. We also provide our staff with technical skill-based training, onsite mentoring and coaching, and offer development courses on customer service, communication and leadership.

I am immensely proud of EQC staff in how they are helping improve operations and performance by identifying better ways of working. This has included giving all staff the opportunity to identify ways of making EQC a success and a place where they want to work. EQC's values capture the feedback and sentiments from staff working at EQC.

- we make a difference for people
- we're always learning
- we do the right thing
- we're better together

These values are an essential part of delivering on our proposed strategic direction. They are being modelled by senior leadership and implemented across EQC as integral to individual behaviour, organisational culture and performance.

> EQC's overall experience in the past five years allows us to maximise our contribution to New Zealand's resilience to natural disasters and be well positioned to meet the performance challenges across all aspects of our statutory roles.

EQC is also asking wider questions about its future role, and how we might best achieve our objectives. This includes considering what the optimal approach is for managing and investing the financial resources EQC controls, and defining the leadership role EQC might play in the whole-of-Government approach to the reduction and management of natural disaster risk in New Zealand. The organisation will respond to these questions in a revised Statement of Intent later this year.

EQC's overall experience in the past five years allows us to maximise our contribution to New Zealand's resilience to natural disasters and be well positioned to meet the performance challenges across all aspects of our statutory roles. Much has changed and will continue to change in the way that insurers and reinsurers adapt to domestic and global financial constraints and the advent of new technologies. EQC is working to ensure it is at the forefront of these changes in order to remain a world-leading national natural disaster insurance scheme.

ACKNOWLEDGEMENT

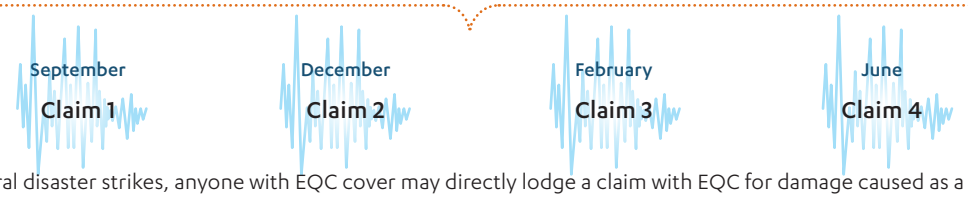
I remain enormously grateful for the huge efforts of staff across New Zealand, especially in Christchurch, who continue delivering support to the people of Canterbury when many of them faced their own challenges after the earthquakes. I would also like to acknowledge the very hard work of all of EQC's staff, in Wellington, Hamilton and in the field. I especially want to thank those members of my leadership team who left the organisation during the year for their sterling work over the years with EQC.

Ian Simpson
Chief Executive

HOW DOES THE **CLAIMS SETTLEMENT PROCESS** WORK FOR CUSTOMERS?

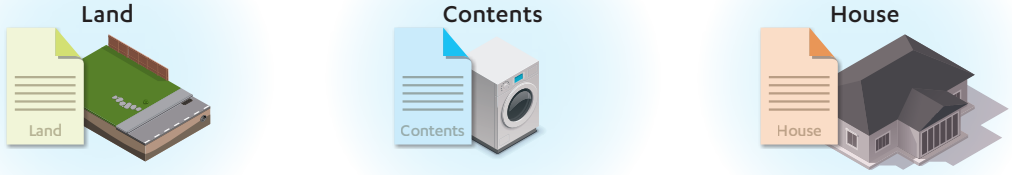
EQC insures residential property (buildings, land and contents) for damage caused by natural disasters i.e. earthquakes, landslips, tsunami, volcanic eruptions and hydrothermal activity; flood and storm damage to residential land; and fires resulting from these events.

People who have a residential building (or contents) fire insurance policy with a private insurer will generally have EQC cover. People may have fire insurance policies for one or more properties within either single or multi-unit buildings.



If a natural disaster strikes, anyone with EQC cover may directly lodge a claim with EQC for damage caused as a result of that natural disaster. A claim should be lodged for each separate natural disaster where damage has occurred. For example, earthquakes in Canterbury in September and December 2010, and February and June 2011, resulted in many homeowners lodging separate claims for each of the earthquakes.

A claim can be lodged for damage to buildings, land, and/or contents. Each one of these components is referred to as an **exposure.** A single claim can contain all three exposures (for example, where your section has subsided, your roof has collapsed, and your glassware has smashed).



Each exposure is assessed by EQC to identify how much damage was the direct result of the natural disaster.

The detailed assessment of the damage is used to finalise a settlement. The customer is advised of the settlement amount of the exposures, or that one or more exposures has been declined, and why. Typically, for example, an exposure would be declined if the damage was assessed to be not the direct result of the natural disaster.

EQC AT A GLANCE

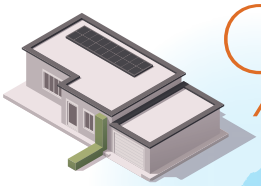
AS AT 30 JUNE 2015

99%

EQC has resolved over 99 percent of the **5,243 claims** from the Eketahuna earthquake

99%

EQC has resolved 99 percent of the **12,268 claims** from the Cook Strait earthquake



96%

EQC has completed 96 percent of all dwelling repairs under the Canterbury Home Repair Programme resulting from the **Canterbury** earthquakes

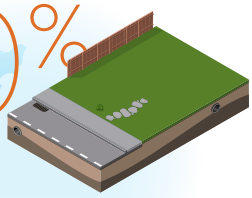
96%

EQC has resolved 96 percent of cash settlement dwellings exposures from the **Canterbury** earthquakes

99%

EQC has resolved 99 percent of contents exposures from the **Canterbury** earthquakes

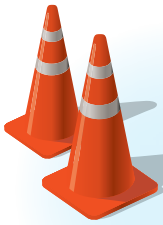
80%



EQC has resolved 80 percent of land exposures from the **Canterbury** earthquakes

84%

During the 2014/15 financial year, 84 percent of surveyed customers reported being satisfied or very satisfied with the quality of work that was completed on their property as part of the Canterbury Home Repair Programme



$3.6m

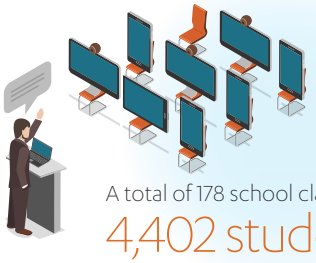
EQC has committed a total of $3.6 million in funding across **74 natural disaster research projects** over the life of these initiatives, including biennial research grants, university post-graduate grants, and the application and translation of science to practice grants

22m

There were over 22.4 million hits on the Geonet.org.nz website in the last year. GeoNet is supported through EQC funding

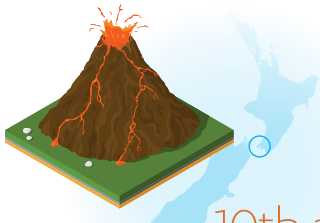
1

EQC has awarded one Fulbright-EQC Graduate Award in Natural Disaster Research for a New Zealand graduate student to undertake postgraduate study or research at a United States university in the area of natural disasters



178

A total of 178 school classes, representing 4,402 students, registered to participate in the **virtual field trips programme**

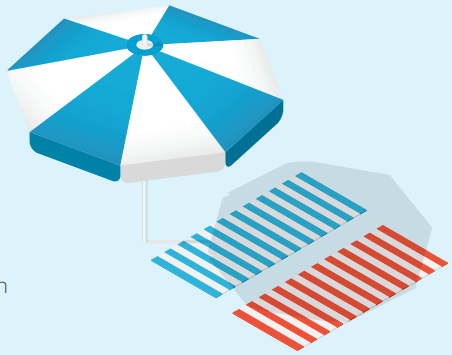


6k

EQC marked the 10th anniversary of its Te Papa schools fund, which has given more than 6,000 students the opportunity to take part in the museum's **Awesome Forces-based learning programmes**

FINANCIAL HIGHLIGHTS[1]

OUR FUNDING SOURCES IN 2014/15 (EXCLUDING GST)



PREMIUMS

$280.8m

The premium for a one-year period of insurance is 15c (plus GST) per $100 of insured property value up to a maximum of $100,000 (plus GST) per dwelling for residential building cover and $20,000 (plus GST) for contents cover. Premiums go into the Natural Disaster Fund.

REINSURANCE AND OTHER RECOVERIES CLAIMS

$215m CASH RECEIVED

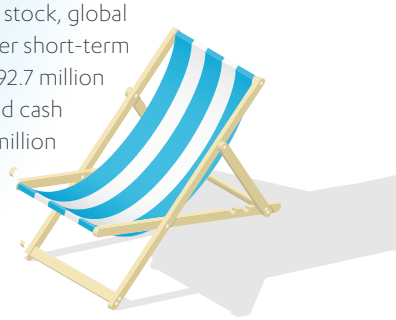
We partially offset the risk from large events with reinsurance from international reinsurers.

INTEREST AND INVESTMENT INCOME

$112.5m

We invest the funds in the Natural Disaster Fund (NDF) in investment products that will maximise return without undue risk to the fund as a whole. In 2015 we received revenue for:

- NZ Government stock, global equities and other short-term investments – $92.7 million
- On-call funds and cash interest – $19.8 million



EQC'S FINANCIAL POSITION AT 30 JUNE 2015

ASSETS $2.6b INCLUDING:

- Outstanding reinsurance and other recoveries $966m
- Cash $479m
- Investments $986m
- Other assets $139m

LIABILITIES $3.0b INCLUDING:

- Outstanding claims liability $2.769m
- Unearned premium liability $142m
- Unexpired risk liability $52m
- Other liabilities $30m

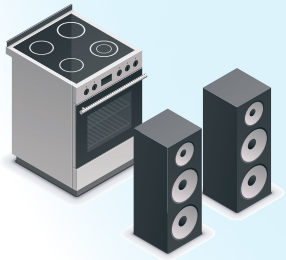
1 The financial information in this section can be found on pages 52-55 of the financial statements

WHAT WE HAVE SPENT IN 2014/15 (EXCLUDING GST)

CANTERBURY EVENT SPEND (FINALISED CLAIMS COSTS ONLY, EXCLUDING CLAIMS HANDLING EXPENSES) – AROUND

$1.0b

- We made cash settlements for, and carried out managed repairs to, damaged residential buildings – $975 million
- We made cash settlements for damage to residential land – $27 million
- We made cash settlements for contents that were damaged – $30 million



CROWN GUARANTEE

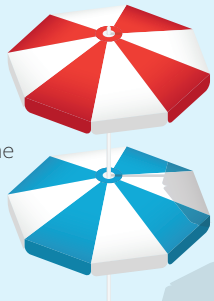
$10m

We made this payment to the Crown in return for its legislative guarantee to meet claim costs that EQC is not otherwise able to pay.[2]

OUTWARD REINSURANCE PREMIUM EXPENSES

$151m

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



RESEARCH AND EDUCATION

$18.6m

- Funding provided to GeoNet for improved monitoring of earthquakes and volcanoes – $10.1 million
- Research – $7.3 million
- Public education – $1.2 million

2 Legislative guarantee obligations under Section 16 of the EQC Act are explained in the Financial Statements

Deloitte.

INDEPENDENT **AUDITOR'S REPORT**

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2015

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 the performance information of the Commission on her behalf.

OPINION ON THE FINANCIAL STATEMENTS AND THE STATEMENT OF PERFORMANCE

We have audited:

» the financial statements of the Commission on pages 51 to 89, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and

» the performance information of the Commission on pages 19 to 50.

In our opinion:

» the financial statements of the Commission:
  – present fairly, in all material respects:
    – its financial position as at 30 June 2015; and
    – its financial performance and cash flows for the year then ended; and
  – comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Tier 1 PBE Standards.

» the performance information:
  – presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2015, including for each class of reportable outputs:
    – its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    – its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  – complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 9 October 2015. 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 explain our independence.

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 Notes 1 and 10 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.

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 the statement of performance 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 the statement of performance. 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 the statement of performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the statement of performance, 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 statement of performance 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 performance information within the Commission's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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 performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Commission's financial position, financial performance and cash flows; and
- present fairly the Commission's performance.

The Board of Commissioners responsibilities arise from the Crown Entities Act 2004.

The Board of Commissioners is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

RESPONSIBILITIES OF THE AUDITOR

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

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.

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 EQC's financial statements and statement of performance, and for the judgements made in them.

The Board is responsible for any end-of-year performance information provided by EQC under Section 19A of the Public Finance Act 1989.

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 performance for the financial year ended 30 June 2015 fairly reflect the financial position and operations of EQC.

Signed on behalf of the Board:

Sir Maarten Wevers KNZM
Chair
9 October 2015

Gordon Smith
Commissioner
9 October 2015

STATEMENT OF **PERFORMANCE**

BACKGROUND

This statement of performance contains the:

» output classes as defined in the 2014/15 statement of performance expectations;

» standards of delivery performance achieved by EQC, as compared with the forecast standards (target) in the statement of performance expectations for 2014/15; and

» actual revenue and expenditure for 2014/15, as compared with the expected revenue and expenditure in the statement of performance expectations.

The performance information includes details on:

» what we delivered during the year (under our key operating activities);

» relevant measure definitions, data exclusions and explanations on the data for performance measures; and

» explanations for actual variances that were outside the expected target range by more than five percent.

The performance measures and targets reflect the operating priorities in EQC's 2014-18 Statement of Intent and EQC's statutory functions in Section 5 of the Earthquake Commission Act 1993 (EQC Act). The measures and targets are grouped into four output classes:

» administration (administration of the EQC Act, Insurance Scheme and Natural Disaster Fund);

» customer services;

» research; and

» education.

While this statement of performance 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 1) is supported by Output 2 – transparency in claims settlement and insurers/reinsurers being able to assess their liability.

HOW WE ARE REPORTING ON OUR PERFORMANCE

The operation of the EQC Act means that there are a number of aspects to our claims settlement work, and a number of possible ways in which our performance in regard to this work could be measured.

Each claim that is accepted by EQC can be made up of a number of individual components, covering damage to buildings, land and/or contents. EQC refers to these components as exposures. EQC reports at both the claim level and the exposure level.

Reporting at the claim level is important from the customers' perspective, as it is having their total claim resolved that is important. A Canterbury claim may for example include a cash settlement of land and/or contents exposures and building repairs. EQC reports both claims that have been resolved and those remaining to be resolved as at 30 June 2015. A claim is defined and reported as 'resolved' when, for example:

» the customer has received a full cash payment[3] from EQC for all valid building (in the case where the building exposure is cash-settled), contents or land exposures; or

» there is administrative closure of the building, land or contents exposure; or

» in the case where the building exposure is settled by managed repair, the building repair managed is complete[4] (i.e. where the repair work is practically complete and, where relevant, the site has passed back to the owner), and the customer has received a full cash payment from EQC for all contents and land exposures; or

» the claim is declined.

3 EQC records that a "full cash payment" has been made when the amount paid to the customer is equal to or greater than 95% of EQC's estimated total liability for the claim. This threshold is used for reporting purposes only – as anything above 95% is highly likely to be fully paid; anything below 95% is highly unlikely to be fully paid.

4 This relates to the primary substantive repair and does not include remedial repairs and/or additional outstanding secondary repairs yet to be completed e.g. repairs to a garage vs family home.

Remedial work is counted and monitored separately to claims that have already been recorded as resolved. Remedial work can include damage not included in the original scope of works (SOW) where it is later found that it should have been included; damage from earthquakes subsequent to repairs being completed, failure of materials or a repair solution for a building, or the failure of workmanship to reach the standard required under the EQC Act.

Reporting at the exposure level is important from an EQC perspective – as it is the best overall measure of the workload that EQC faces. When reporting on damage to buildings, land and/or contents throughout the statement of performance, EQC will report on exposures closed and exposures open. Land exposures can be reported as single exposures or can be grouped under the property on which the damage occurred and reported at the property level. Building exposures can be similarly grouped together under the same dwelling they relate to. EQC reports primarily at the dwelling level for building exposures – as some buildings (such as apartment blocks) contain multiple dwellings. Contents exposures are not grouped up per event, and are reported at the exposure level.

HOW OUR OUTPUTS ARE LINKED TO OUR STRATEGIC OBJECTIVES

EQC's performance measures are guided by three strategic objectives and operating priorities in our Statement of Intent 2014-18 (SOI). Table 1 shows how EQC's strategic objectives link to outputs.

TABLE 1: EQC STRATEGIC OBJECTIVES AND OUTPUTS

STRATEGIC OBJECTIVES	OUTPUT 1: ADMINISTRATION	OUTPUT 2: CUSTOMER SERVICES	OUTPUT 3: RESEARCH	OUTPUT 4: EDUCATION
The efficient management of EQC's assets and liabilities	✓	✓	✓	
Helping households and their communities recover from natural disasters	✓	✓	✓	✓
A greater understanding and better management of natural disaster hazards by households and communities which may impact on EQC's future liabilities			✓	✓

Supporting our strategic objectives are six operating priorities. These priorities are:

- completing Canterbury, applying what we learned;
- exemplary stakeholder relationships;
- fit-for-purpose organisational capability;
- effective, customer-centric service for claimants;
- competitive risk pricing and financing; and
- leadership in natural disaster risk management.

WHAT OUR OUTPUT REVENUE AND EXPENDITURE WAS

Table 2 shows actual revenue and expenditure for 2014/15, as compared with the expected revenue and expenditure in the statement of performance expectations.

TABLE 2: REVENUE AND EXPENDITURE BY OUTPUT CLASS

	REVENUE $ MILLIONS		EXPENDITURE $ MILLIONS		
OUTPUT CLASS	SPE BUDGET	ACTUAL	SPE BUDGET	ACTUAL	NOTES
1. Administration	$282.3m	$280.8m	$171.0 m	$161.5m	
2. Customer Services	–	–	$21.4m	$19.8m	No new natural disaster events impacted on the budget during the financial year
3. Research	–	–	$18.2m	$17.4m	Includes budgeted expenditure for GeoNet ($10.1m)
4. Education	–	–	$1.4m	$1.2m	

OUTPUT 1: **ADMINISTRATION**

This output involves administration of the Natural Disaster Fund, including collection of the premiums payable, protection of the Fund's value through the investment of money held in the Fund and obtaining 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. The EQC Board must manage the Fund on a prudent, commercial basis. Premium payers and reinsurers expect EQC to manage its business cost-effectively and with appropriate transparency.

The objectives for this output are to:

- administer the Fund by:
  - investing the Fund on a prudent commercial basis, in a manner consistent with best-practice portfolio management; and
  - maximising returns without undue risk to the Fund as a whole while avoiding prejudice to New Zealand's reputation as a responsible member of the world community;
- ensure that premiums payable under the EQC Act are collected in accordance with the EQC Act; and
- obtain sufficient reinsurance cover.

WHAT WE DID – KEY OPERATING ACTIVITIES

In the financial year EQC:

- was successful in securing its core reinsurance programme, which provides for nationwide coverage obtained for all perils covered under the EQC Act within the Budget set by the EQC Board; and
- collected premiums for insurance under the EQC Act. Premiums are paid to EQC by insurance companies. Key drivers of income derived from premiums include the amount of housing stock and insurance coverage.

WHAT WE ACHIEVED – PERFORMANCE MEASURES

Our actual performance for Output 1 against the measures in the 2014/15 statement of performance expectations was:

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
ACTIVITY: ADMINISTER THE NATURAL DISASTER FUND					
Annual investment portfolio performance in relation to 90 day bank bill rate		90 day bank bill rate less 25 basis points (per annum)	The average Natural Disaster Fund return for the year was 3.51%. The benchmark average return was 1.89%	Achieved	
Maintain a SIPSP that meets best practice	***SIPSP:*** Statement of Investment Policies, Standards and Procedures ***Best Practice:*** As assessed by an external review	Annual review confirms the SIPSP reflects best practice	At 30 June 2015 EQC was awaiting a Ministerial Direction to confirm the revised policies and objectives for investment. This has now been received and the SIPSP has been revised for 2015/16.	N/A	
No unauthorised variations from the SIPSP identified		Any variations duly authorised	There were no unauthorised variations during the year	Achieved	
ACTIVITY: PREMIUMS PAYABLE UNDER THE EQC ACT ARE COLLECTED IN ACCORDANCE WITH THE ACT					
Net premiums declared by insurers and brokers are collected in accordance with their obligations under the EQC Act		98% collected	99% collected	Achieved	
ACTIVITY: OBTAINING REINSURANCE					
Subject to market conditions – EQC obtains reinsurance consistent with the parameters set by the EQC Board	Parameters are: • Within the cost budget set by the board • Nationwide coverage obtained for all perils covered under the EQC Act	Cost of reinsurance programme is within the budget set by the Board Nationwide coverage obtained for all perils covered under the EQC Act	2014/15 renewal cost was consistent with the parameters set by the EQC Board with reinsurance for all perils covered under the EQC Act	Achieved	The reinsurance cost budget includes the reinsurance premium, broker fees and Reinstatement Premium Protection premiums

OUTPUT 2: **CUSTOMER SERVICES**

Both the efficiency of our claims handling systems and processes, coupled with the manner in which customer claims are handled by EQC, have a significant impact on customers' experience and perception of EQC and its service. EQC claimants expect a consistent, timely, accurate and customer-focused settlement. Premium payers and reinsurers expect us to manage our business cost-effectively and with appropriate transparency.

The objectives for this output are to:

» calculate and resolve claims correctly, and according to the EQC Act; and

» respond appropriately to customers and stakeholders.

This output has two categories of measures:

» catastrophe measures related to the 2010/11 Canterbury earthquake series; and

» non-catastrophe measures for all other events with fewer than 100,000 claims.

In addition, the objectives for supporting the recovery of Canterbury for this output are to:

» complete the settlement of the Canterbury earthquake series claims;

» meet the Canterbury Home Repair Programme (CHRP) objectives, targets, and budget;

» safely repair damaged residential properties; and

» provide timely and appropriate communication to customers and stakeholders.

Catastrophe measures – Canterbury Earthquake Series claims

While EQC can settle any claim by payment, replacement, or reinstatement, EQC has in the past mainly settled claims through cash settlement. The Canterbury earthquakes necessitated a more hands-on approach, including a significant programme for managing dwelling repairs (known as the Canterbury Home Repair Programme – CHRP) and facilitating emergency repairs to dwellings.

WHAT WE DID – KEY OPERATING ACTIVITIES (CATASTROPHE EVENTS)

EQC's operations in the financial year continued to be dominated by the processing of claims from the Canterbury earthquake series.

As a high-level overview, Table 3 contains a summary of dwellings with building damage resolved by EQC for the 2014/15 financial year. Each dwelling identified below has at least one building claim, but could have multiple claims from multiple events. Some of these dwellings will also have single claims in excess of $100,000. These claims will be cash-settled and then referred to private insurers (refer to the section on *Over-cap referrals to private insurers* for more information).

TABLE 3: TOTAL DWELLINGS WITH BUILDING DAMAGE RESOLVED BY EQC FOR THE 2014/15 FINANCIAL YEAR (BOTH CASH SETTLED AND MANAGED REPAIR)

	DAMAGE IN EXCESS OF $100,000[5]	DAMAGE UNDER $100,000 BUT IN EXCESS OF $15,000	DAMAGE UNDER $15,000	TOTALS
Total dwellings with damage	28,889[6]	78,050	60,566	167,505
To be resolved as at 30 June 2014	3,243	18,810	5,030	27,083
Less resolved during the financial year	1,880	14,702	4,146	20,728
To be resolved as at 30 June 2015	**1,363 (4.7%)**	**4,108 (5%)**	**884 (1.5%)**	**6,355 (3.8%)**

5 For each dwelling, damage may be as a result of one or more damage-causing events where a claim has been lodged.

6 This figure includes dwellings in the residential Red Zone.

Repairing dwellings – Canterbury Home Repair Programme (CHRP)

CHRP is EQC's managed repair programme for Canterbury homes generally with damage that will cost between $15,000 and $100,000 (plus GST) per claim to repair. Where the initial assessment[7] indicates damage in this range, the claim will be referred to the programme. Not all claims can be completed by way of repair. EQC may elect to settle by way of cash settlement.

A managed repair through CHRP, the claim will proceed through five main stages:

(e) repair scoping;

(f) repair quoting;

(g) issuing a work order for the repairs to commence;

(h) repairs underway; and

(i) physical repairs compete.

Customers have the option to manage their own repairs by choosing to 'opt out'. Opting out will allow the customer to:

» choose their own contractor to undertake repairs;

» control the time when their repairs will be undertaken; and

» renovate their home or undertake additional work (at their own cost) at the same time as having their earthquake damage repaired.

On behalf of EQC, Fletcher EQR operates the managed repair programme which includes managing the contracts between EQC and the individual contractors to carry out the repairs, and to ensure the contractor completes the work according to the required quality and schedule. In addition to managing the repair of properties, CHRP also facilitated emergency repairs immediately after the February 2011 earthquake, and delivered the chimney replacement and winter heat initiatives.

Fletcher EQR is contracted to manage the repair programme in a manner that ensures repairs are carried out safely, according to the required standards and regulations, and as far as possible, are completed in a timely manner.

Throughout 2014/15 a significant amount was achieved as CHRP moved closer to finishing the final Christchurch repairs. Below is a summary of the changes to the CHRP programme over 2014/15 and progress towards completing all repairs. Also reported is how we have engaged with our customers and stakeholders throughout the year and a summary of our workplace safety indicators.

Key changes to CHRP during the year

As CHRP approaches completion, it has been reshaped to ensure it retains the appropriate amount of resources necessary to repair the final customers' properties. From 1 June 2015, CHRP was closed to new customers unless they had a prior agreement with Fletcher EQR or EQC. In addition, previously cash-settled customers were no longer able to opt back into CHRP. The 1 June 2015 deadline did not apply to customers who confirmed a start date for repairs or whose properties might have increased flooding vulnerability. These claims are treated separately.

For properties repaired through CHRP, the excess is being collected from the property owner as a separate payment. EQC prioritised fixing homes over collecting excess up front, as it was important to begin repairs, and not wait for homeowners to pay the excess before starting work. EQC began sending out 'advance notice' letters to CHRP customers in mid-March 2015 which were followed by excess invoices a month later. To ensure customers were informed, invoicing was supported by print advertising and calls to vulnerable customers, and to customers with invoices over $600.

7 Assessments are undertaken for claims lodged under the EQC Act for damage as the direct result of a natural disaster. This information is used to determine the settlement amount of the claim.

CHRP progress during the year

Supporting vulnerable customers: In Canterbury, some people who are living in earthquake-damaged dwellings may have a heightened risk to their wellbeing, for example due to health conditions or their age. These customers are identified as vulnerable. In these circumstances customers may require increased support around managing their claim. EQC has worked to identify and support these people. Where possible, EQC works with community, advocacy and voluntary groups to bolster support for these customers.

In these cases, EQC offers individual case management and ongoing support, and will prioritise CHRP repairs or cash settlement in line with the customer's preference. Our focus is on ensuring repairs begin as quickly as possible for these customers. Prioritised repairs can include emergency repairs to resolve habitability and/or weather-tightness issues. Repairs are scoped and quoted as quickly as possible so a work order can be issued for work to commence. On average, CHRP work orders for repairs for this customer group were issued 30 percent faster, through CHRP, than for those customers identified as not vulnerable.

EQC also has a programme for proactively identifying and verifying customers potentially in need who do not come forward. Over the past five years, through to 30 June 2015, EQC has identified 30,053 customers who required special care and assistance. As a customer's health, age or family circumstances change so does the pool of potentially vulnerable customers and therefore prioritised repairs within CHRP.[8] EQC continues to proactively identify customers, prioritise their repairs as their circumstances change and provide individual case management where needed.

Table 4 contains a summary of CHRP repairs and EQC cash settlements for vulnerable customers, both within the financial year, and since the start of CHRP.

TABLE 4: CHRP DWELLING REPAIRS AND CASH SETTLEMENTS FOR VULNERABLE CUSTOMERS FOR THE 2014/15 FINANCIAL YEAR AS AT 30 JUNE 2015

DWELLING REPAIRS AND CASH SETTLEMENTS FOR VULNERABLE CUSTOMERS	VULNERABLE CUSTOMERS WITH REPAIRS AND CASH SETTLEMENTS COMPLETE AS AT 30 JUNE 2014	VULNERABLE CUSTOMERS WITH REPAIRS AND CASH SETTLEMENTS COMPLETED DURING THE 2014/15 FINANCIAL YEAR	CUMULATIVE TOTAL COMPLETED AS AT 30 JUNE 2015 (SINCE THE START OF CHRP)
CHRP dwelling repairs	9,365	3,074	12,439
Cash settlements	14,106	3,508	17,614
Totals	**23,471**	**6,582**	**30,053**

In addition to repairs completed, as at 30 June 2015, there were 647 CHRP dwelling repairs underway for vulnerable customers, or the defects liability period was yet to expire, and 1,191 cash settlements being progressed but not yet completed.

Dwelling repairs: In EQC's 2014/15 statement of performance expectations it was estimated that around 72,500 homes would be repaired through CHRP. The total number of dwelling repairs now expected to be completed through CHRP is 69,037. Table 5 contains a summary of cumulative CHRP progress as at 30 June 2015.[9] As well as the completed dwelling repairs, EQC has also completed 65,568 urgent repairs under CHRP.

TABLE 5: CHRP DWELLING REPAIRS COMPLETED FOR THE 2014/15 FINANCIAL YEAR AND TOTAL REPAIRS SINCE 2010/11.

DWELLING REPAIRS THROUGH CHRP	REPAIRS COMPLETED AS AT 30 JUNE 2014	REPAIRS COMPLETED DURING THE 2014/15 FINANCIAL YEAR	CUMULATIVE REPAIRS COMPLETED AS AT 30 JUNE 2015
Dwelling repairs	56,552	9,700	66,252

8 Some prioritised repairs may no longer be required and/or some prioritised vulnerable customers may choose to delay their repairs or opt for cash settlement of their claim.

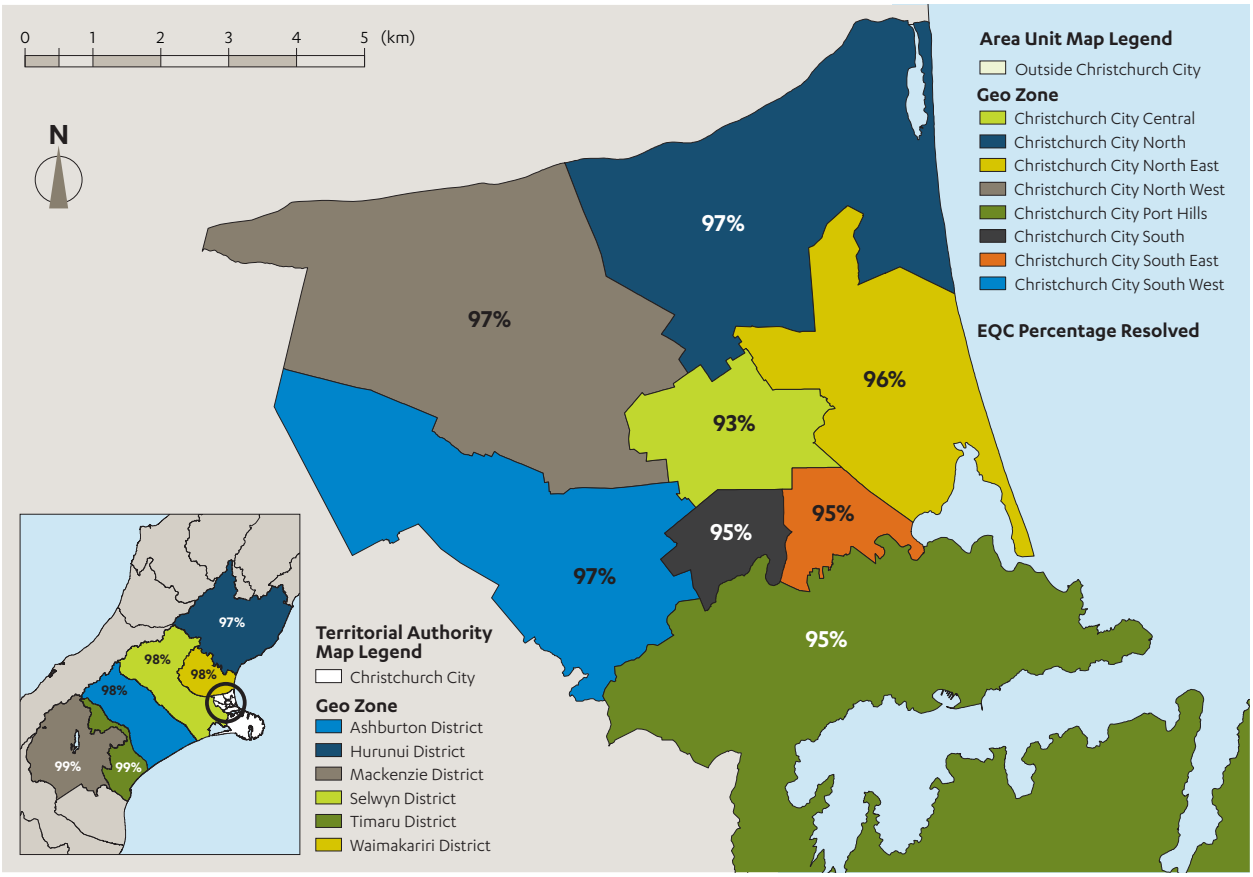
9 Table 5 excludes dwelling claims cash-settled.

As at 30 June 2015, 96 percent of all dwelling repairs under CHRP were complete (66,252), leaving 2,785 dwelling repairs remaining to be completed. Of these, 1,018 are in progress and 1,767 are awaiting a start date.

The repairs remaining under CHRP are generally of a more complex nature than those that have already been repaired. The complexity can relate to assessing earthquake versus non-earthquake damage or involve complex engineering and repair solutions. The number of CHRP repairs remaining may continue to change as a result of customers opting out of CHRP and customers leaving CHRP as a result of being cash-settled.[10]

Figure 1 contains the percentage of building damage claims resolved by geographic zone as at 30 June 2015.

FIGURE 1: PERCENTAGE OF DWELLINGS WITH BUILDING DAMAGE EXPOSURES RESOLVED BY GEOGRAPHIC ZONE AS AT 30 JUNE 2015



10 During 2014/15 993 customers opted out of CHRP.

Repair quality and remediation: It is important to our customers, EQC, and Fletcher EQR that the repairs to customers' properties are undertaken to the appropriate quality standard. To ensure this happens, CHRP actively monitors the quality of repairs and continuous improvement of quality assurance (QA) processes. EQC has a Quality Assurance inspection programme in place to provide additional oversight. The quality of CHRP repairs has also been the subject of external scrutiny during the period by the Office of the Auditor-General (OAG)[11] and the Ministry of Business, Innovation and Employment (MBIE).[12]

The MBIE report identified that some work carried out did not meet the Building Code but that most of the shortcomings were "relatively minor and easy to fix" and "there are no concerns for the safety of occupants". The report followed an independent survey of 101 homes selected from more than 2,700 addresses provided by Housing New Zealand, insurers and EQC. The survey focused on homes where exempt structural repairs were carried out, including floor re-levelling using the 'jack and pack' repair method. It is expected that the properties that MBIE reviewed, and identified that a repair is needed, will repaired by the end of October 2015.

11 A follow-up performance audit to the 2012/13 OAG report on CHRP that was underway as at 30 June 2015.

12 Canterbury Earthquake Defect and Repair (CEDAR) review that was underway as at 30 June 2015.

The overall CHRP QA programme has multiple points in the repair process where quality assurance over repairs occurs. The actions used by Fletcher EQR and EQC to manage the quality of CHRP repairs include:

» contractor accreditation and performance management processes, procedures and training;

» repair contract monitoring and supervision including quality assurance inspections and post-completion audits; and

» where defects are identified, remediation by the responsible contractor.[13]

EQC's quality assurance inspections programme provides additional oversight in the identification and resolution of repair quality issues. During the year EQC completed 3,921 quality assurance inspections and 255 post-completion investigations. EQC also monitors customer satisfaction with repairs completed through its survey of CHRP customer satisfaction (see page 35 for overall customer satisfaction with CHRP repairs for the financial year). This provides an additional layer of monitoring of repair quality, contractor performance and relationships between contractors and customers.

Quality assurance through remediation is a standard practice in the building industry. Current volumes of remediation completed or underway indicate approximately 8-10% of the homes repaired within the CHRP have required some aspect to be remedied. Approximately 756 remedial repairs were completed during the year.[14] As at 30 June 2015, an estimated 2,923 remedial repairs had been identified requiring further investigation. There is no directly comparable repair programme of similar size and scale with which to compare these remediation rates.

Remedial repairs have had a lower priority than first-time repairs, as the focus is on getting displaced people back into their houses. EQC is committed to ensuring all customers' repairs are completed to the standard required under the EQC Act and will ensure remediation work can be undertaken for customers where this has not been met.

During the year, some customers have raised issues following the expiry of the Defects Liability period. The issues often relate to outstanding scope questions, damage from aftershocks, and various forms of repair failure. EQC will continue to ensure that these issues are resolved where further work is required and has established dedicated teams to attend to these matters in the coming year.

Repairing dwellings contained in multi-unit buildings (MUB): Multi-unit buildings that can be repaired through CHRP include semi-detached and terraced dwelling units; apartment buildings, mixed commercial and residential buildings; and rest homes and retirement village complexes (multiple buildings containing mixed commercial and residential properties).

MUBs are classified by EQC as 'independent' (i.e. they are able to be settled exactly the same way a non-MUB claim would be), or 'dependent'(i.e. where repairs cannot be completed without impacting other dwellings, as they share damage elements or have a mix of over cap/under cap repair ownership). As at 30 June 2015, EQC had resolved 3,642 dependent MUB claims, with 335 (9%) remaining; and 11,801 independent MUB claims, with 709 (6%) remaining.

MUB claims add a level of complexity to the claims management process. There are often different owners (with varying forms of title and decision rights) with individual units often being separately insured and often not with the same insurer. Some buildings also involve units with a mixture of under and over-cap claims. MUB have shared structures such as foundations and external walls. In many cases therefore, repairs may require agreement between all owners and insurers. These complexities mean that MUB claims are often not recorded as resolved until all settlements (repairs or cash payments) are completed for all the damaged dwellings in each building or complex.

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

14 This number includes work that was undertaken following completion of the primary substantive repair. It does not include remedial repairs dealt with directly between claimant and contractor, as these are not recorded by EQC or EQR.

Damage to land and contents

Tables 6a and 6b contain a summary of contents and land exposures closed between 4 September 2010 and 30 June 2015 for the Canterbury earthquakes – 80% of land exposures and 99% of contents exposures have now been closed.

TABLE 6A: CONTENTS EXPOSURES CLOSED RESOLVED FOR THE CANTERBURY EARTHQUAKES – 2010 TO 2015 (30 JUNE)

Lodged since 2010	**187,060**
Less resolved before 30 June 2014	184,113
Open as at 1 July 2014	**2,947**
Plus opened during the financial year[15]	517
Sub-total	**3,464**
Less resolved during the financial year	3,020
To be resolved as at 30 June 2015	**444 (<1%)**
Amount paid during the year	$30m
Cumulative amount paid to date (excluding CHE; GST exclusive)	$464m

TABLE 6B: LAND EXPOSURES CLOSED FOR THE CANTERBURY EARTHQUAKES – 2010 TO 2015 (30 JUNE)

Lodged since 2010	**150,319**
Less closed before 30 June 2014	99,981
Open as at 1 July 2014	**50,338**
Plus opened during the financial year	4,888
Sub-total	**55,226**
Less closed during the financial year	24,852
Open as at 30 June 2015	**30,374 (20%)**
Amount paid during the year$27m	
Cumulative amount paid to date (excluding CHE; GST exclusive)	$211m

The Canterbury earthquake series caused several types of land damage. Some types of damage are easily seen by looking at the land, such as cracking and undulation. These types of damage are known as 'visible' land damage.

Some land damage claims are more complex to resolve, as they can include damage to retaining walls, bridges and culverts, or because the ownership of the land is shared (e.g. under cross-leases).

Other types of land damage are more complex because they cannot easily be seen. These types of damage are Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV). It is the first time anywhere in the world that IFV and ILV types of land damage have been recognised as insured damage.

On 10 December 2014, the High Court issued its Declaratory Judgement on the policies and approach used to identify and settle IFV land damage claims. The judgement confirmed (among other things) that EQC could recognise IFV and ILV as forms of land damage. As at 30 June 2015, the Commission has approximately 12,100 IFV and 10,500 ILV properties left to settle.

Land damage claims for Increased Flooding Vulnerability (IFV)

Extensive flood modelling and aerial ground scanning, supplemented by thousands of site assessments, is being used to confirm the IFV status of each property in Canterbury. In March 2015 EQC began communicating to customers whether they qualify for an IFV settlement payment. The customers previously contacted as having a potential IFV claim in October and November 2014 are now being sent settlement packs (including an engineering report and, in some cases, a valuation report). EQC has also conducted follow-up calls to each customer to resolve any questions. EQC has begun settling claims which include IFV land damage and expects to have the majority of these settlements completed by the end of 2015 or early 2016. Customers may request a review of the settlement decision at any time, and can provide additional information to support the review.

Land damage claims for Increased Liquefaction Vulnerability (ILV)

EQC is continuing to work on finalising its approach to settling ILV land damage claims. In October and November of 2014, EQC contacted customers who may have a potential ILV claim and also provided information to community groups. These settlements are expected to be made throughout 2016.

15 This includes claims that have been re-opened.

Potentially contaminated land

This covers residential land identified on the Hazardous Activities and Industries List (HAIL) site on the Environmental Canterbury (ECan) Listed Land Use Register. In May 2014, ECan did a mail-out to the owners of about 11,000 Christchurch properties that may have soil contaminated by chemicals or hazardous substances remaining in the ground from a previous use of the land, such as an orchard, market garden or landfill. EQC will fund the HAIL-related costs associated with the EQC land repair. EQC is not responsible for addressing the effects of the site itself (e.g. the contamination).

In practice, where an EQC-funded land repair triggers the National Environmental Standard (NES) soil disturbance thresholds, EQC will pay for:

- soil testing in order to produce a Detailed Site Investigation (DSI);
- a consent application in order to undertake the works if the DSI indicates contamination above background levels; and
- reasonable consenting-related costs associated with undertaking the repair (e.g. writing a site management plan, or similar compliance documentation, and removal/safe disposal of contaminated soil and replacement with clean soil if required).

Over-cap referrals to private insurers

The EQC Act places a limit (or cap) on how much EQC can pay for building, land and/or contents damage.[16] The maximum amount EQC will pay for a dwelling is generally $100,000 plus GST per event. This also applies to how much EQC will contribute to the managed repair of a property. Once the cap is reached, the private insurer may cover the balance of the damage (depending on the terms of the customer's policy). If this happens EQC is generally no longer responsible for the management of the customer's repair. It is, therefore, important to identify as soon as possible those customers whose claims are over the EQC cap.

The cumulative total for the number of customer claims that have been assessed as over the dwelling damage cap, and have been sent to private insurers for the insurer to manage the claim for the customer, was 24,527 as at 30 June 2015. During the past year, 1,865 dwellings had claims that were over-cap and subsequently were sent to private insurers. Table 7 shows the volume of over-cap claims sent to private insurers by EQC over the year.

16 The High Court ruled in September 2011 that, under the EQC Act, cover reinstates for each event as long as the property remains insured.

TABLE 7: TOTAL OVER-CAP DWELLING EXPOSURES SENT TO PRIVATE INSURERS BY EQC AS AT 30 JUNE 2015

	SENT AS AT 30 JUNE 2014	SENT Q1 JUL-SEP 2014	SENT Q2 OCT-DEC 2014	SENT Q3 JAN-MAR 2015	SENT Q4 APR-JUN 2015	TOTAL SENT FOR THE FINANCIAL YEAR	CUMULATIVE SENT AS AT 30 JUNE 2015
Over-cap dwelling exposures sent to private insurers by EQC	22,662	519	744	275	327	1,865	24,527

The most common factor that causes a dwelling to reach or exceed cap is the costs to repair the foundations being greater than expected. This occurs most often where customers have claims in respect of properties categorised as TC3[17] and those in the Port Hills. During the year EQC progressed three operational initiatives for proactively identifying properties that may reach cap. These initiatives further improved EQC's:

» ability to identify the factors that influence a dwelling reaching over-cap status;

» forecasting of which properties are likely to be over-cap; and

» process of notifying customers and insurers of over-cap claims.

Engaging with customers and stakeholders

People's lives can be significantly disrupted by natural disaster damage to their property. During the financial year, EQC has continued its focus on working with customers and stakeholders, providing information on how EQC will settle claims, progressing updates on existing claims, and resolving issues.

Communications and engagement with customers and stakeholders has included:

» multi-channel media campaigns initiated by EQC;

» responding to customers and stakeholders who approach us with information requests;

» working with customers to resolve complaints and issues; and

» collaborating with community, health and advocacy organisations to reach customers with specific needs or issues.

Contacting and informing customers

During the year, EQC communicated extensively with its customers about the status of their claim and how EQC will settle claims. To reach as many customers as possible, direct contact from our call centre was used in conjunction with direct mail programmes to inform customers that their property potentially had IFV and/or ILV land damage, to provide them with IFV settlement packs, and CHRP excess information and invoice packs. Multi-channel media campaigns (online,[18] press, radio, social media and seminars) were also run throughout the year.

In addition, where EQC was implementing new claims policy or activities (e.g. the collection of CHRP excess payments), EQC engaged in advance with Canterbury customers, community and expert groups to obtain advice on (for example) the design, timing and information provided to customers. EQC organised Customer Advocacy Group meetings with representatives from community services that work with Canterbury rebuild customers, and set up an *In the Know* information hub in Christchurch in collaboration with community advocacy groups to provide regular and reliable access to full information on the Canterbury rebuild.

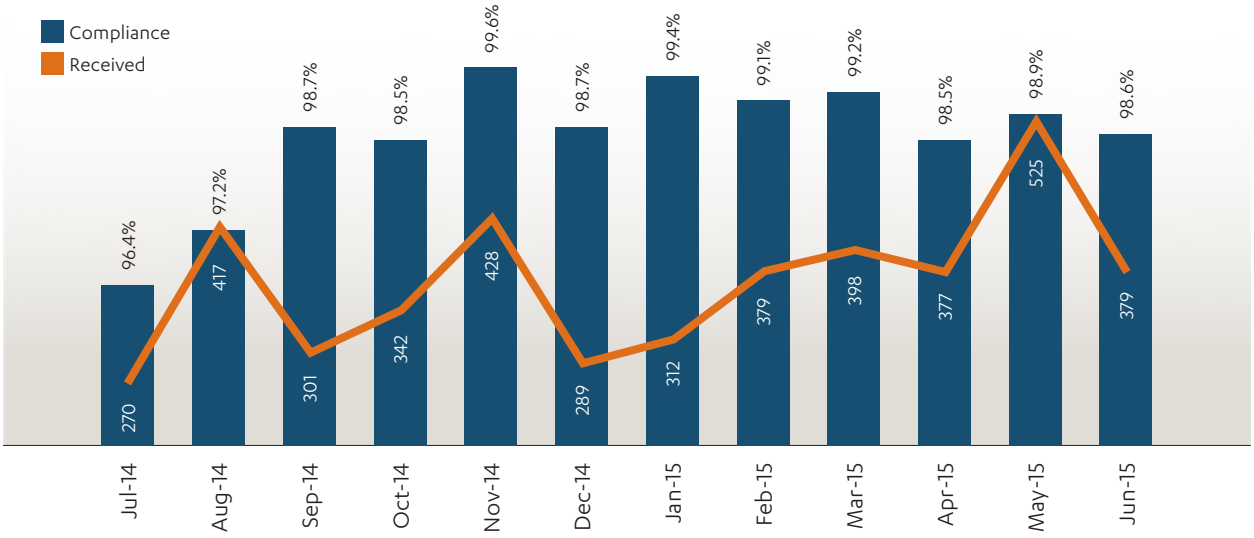
17 These technical categories (TC1, TC2 and TC3) reflect the potential risk of damage from liquefaction in future earthquakes and the variability of Canterbury soils. The categories were established by the Department of Building and Housing (now part of the Ministry of Business, Innovation and Employment).

18 There were 115,000 Canterbury subscribers to EQC Connects e-newsletters in 2014/15.

Responding to information requests

During the year, EQC's customers continued to use the Official Information Act (OIA) and Privacy Act to obtain additional information about their claims. During the financial year, EQC responded to 4,417 OIA requests. Across the 2014/15 financial year, an average 98 percent of these requests were met within the 20 day statutory deadline.[19] Figure 2 contains data on the number of OIA requests received and the processing of those requests in compliance with meeting statutory deadlines to respond. Figure 2 shows that most information requests were responded to within statutory deadlines.

FIGURE 2: OIA PROCESSING STATUTORY COMPLIANCE FOR THE 2014/15 FINANCIAL YEAR



In 2014/15, EQC also continued to implement the recommendations of the December 2013 joint report by the Ombudsman and Privacy Commissioner (the report).[20] By the end of the year EQC had addressed all but three of the recommendations from the report and was anticipating that the final recommendations would be addressed early in the 2015/16 financial year.

19 EQC records all information requests as OIA requests.

20 *'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'.*

Responding to complaints

EQC resolved 3,475 complaints[21] during the 2014/15 financial year, whilst in the same period 14 cases were accepted for mediation.

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.

While EQC's preference is to resolve issues without court involvement, customers have the right to take their issues before the courts. In the context of EQC's total Canterbury programme, these cases are small in number. Court action can take considerable time to conclude and a decision in one case can result in other cases being withdrawn. Table 8 shows the number of litigation cases opened and closed during 2014/15.

TABLE 8: LITIGATION CASES BETWEEN 1 JULY 2014 AND 30 JUNE 2015

	TOTAL OPEN CASES AS AT 30 JUNE 2014	CASES OPENED DURING THE 2014/15 FINANCIAL YEAR	CASES CLOSED DURING THE 2014/15 FINANCIAL YEAR	TOTAL OPEN CASES AS AT 30 JUNE 2015
As at 1 July 2014	158	76	79	155

In comparison to 2013/14, EQC received half as many new cases in 2014/15 as it did in 2013/14 (147 in 2013/14), and closed nearly four times as many cases in 2014/15 than it did in 2013/14 (20 in 2013/14). EQC also closed more cases than it received in a single financial year for the first time in 2014/15.

Customer satisfaction

EQC monitors customer satisfaction from two perspectives:

- the quality of repairs carried out under CHRP (monthly survey by EQC); and
- satisfaction with the overall claims handling process (externally-run quarterly telephone survey conducted by UMR research on behalf of EQC[22]).

Customer satisfaction with the quality of CHRP repairs

Since July 2013, EQC has conducted an on-going CHRP customer repair satisfaction survey to establish satisfaction with the repairs completed.

Customer opinions sought in the survey include:

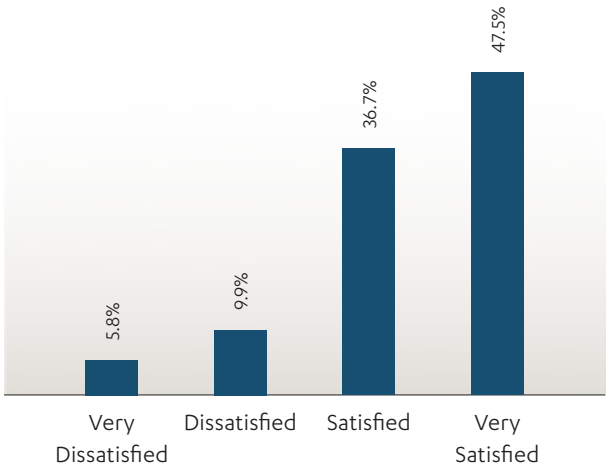
- the quality of the work;
- resolution of any issues that arose during the repair;
- the quality of communication with the homeowner; and
- contractor behaviour and on-site safety.

During the 2014/15 financial year, 5,708 customers were surveyed. Figure 3 shows that an average of 84 percent of surveyed customers reported being satisfied or very satisfied with the quality of work that was completed on their property as part of CHRP. EQC follow-ups with those customers who were not satisfied to work through areas of dissatisfaction on a case-by-case basis.

21 Complaints are recorded in EQC's Claims Management 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).

22 Customers are asked to rate their satisfaction with the overall quality of service delivery.

FIGURE 3: CUSTOMER SATISFACTION WITH THE QUALITY OF WORK COMPLETED FOR THE 2014/15 FINANCIAL YEAR



Customer satisfaction with EQC's claims handling process

For the six month period from 1 July to 31 December 2014,[23] an average of 43 percent of customers expressed satisfaction with with EQC's claims handling process. The survey findings covered 2,102 customers whose claims had been accepted or declined for all disaster events (Canterbury and non-Canterbury) including earthquake, landslips, and storm and flood damage. It excluded customers whose claims were to be resolved through CHRP.

The average satisfaction results were 38 and 51 percent respectively for Canterbury and non-Canterbury customers. Anecdotally we attribute some of the higher customer satisfaction ratings for non-Canterbury events to EQC converting the lessons learned from Canterbury into incremental improvements in claims handling and the overall customer experience, as well as the shorter timeframes for claim resolution.

In addition, the survey asked customers how well they were kept informed, whether they received sufficient notification about when repairs were to begin, the amount of information they received regarding their repairs, and how promptly their questions were answered. The results from these questions indicate that EQC has some work to do around keeping customers better informed and providing information around the timing and nature of the repairs. EQC is working on improving the overall customer experience.

Improving the customer experience

EQC continues to make significant changes and improvements to its systems and processes to accommodate changing claims settlement requirements, for example for complex land damage claims.[24] Improvements over time can positively impact customer experience.

In August 2014, EQC appointed LSI Consulting to undertake a review of its customer interactions. The review focused on how EQC can deliver an improved and sustainable operating model for managing all aspects of customer interactions and responding to customer enquiries, OIA requests, and complaints. EQC has begun implementing initiatives in response to the review as well as commencing work on longer-term improvements. The detailed scope of the review is described on the EQC website – http://www.eqc.govt.nz/news/eqc-reviews-customer-interactions.

23 Data for the Jan-March and April-June quarters for 2015 was still being collated and verified at the time this report was produced.

24 To meet the requirements of the December 2014 High Court Declaratory Judgement.

Workplace safety

Our key health and safety objective is "zero harm", which is driven by:

» leadership at all levels of EQC to ensure that a safe workplace is experienced by all employees, contractors and visitors; and

» processes and tools that guide how people work safely on the job.

A key objective for CHRP is the safe repair of properties and ensuring that employees are not harmed as a result of unsafe working practices. Through the Safe6 programme, both EQC and Fletcher EQR promote, educate and monitor staff and contractors, safety performance on the job.

Figure 4 shows the number of reported incidents for EQC personnel i.e. office staff and field staff for 2013, 2014 and 2015. Figure 5 demonstrates our ongoing commitment to site monitoring activity. During the year, EQC conducted 830 monitoring visits, across 660 CHRP sites, for Safe6 fatal risk.[25] In addition, 168 health and safety training programmes were conducted.

FIGURE 4: HEALTH AND SAFETY INCIDENTS REPORTED

Health and Safety Incidents Reported 2013-2015

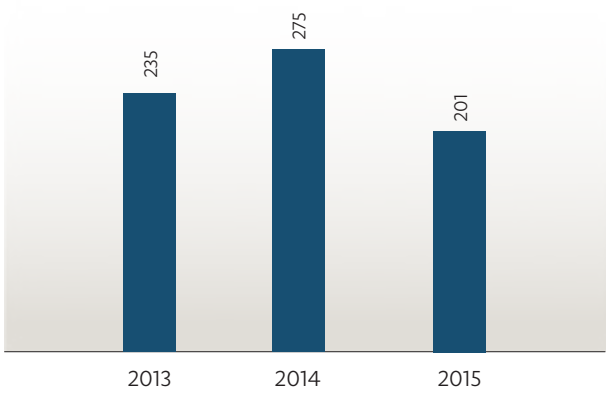
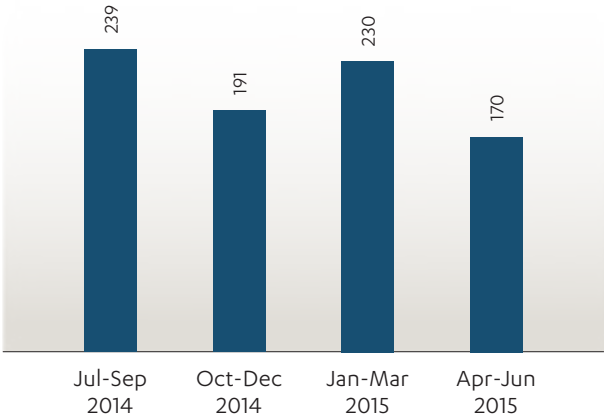


FIGURE 5: CHRP FATAL RISK SITE MONITORING VISITS

Safe6 Fatal Risk CHRP Site Monitoring Visits



An overall indicator of the impact of safety initiatives is the total reportable injury frequency rate (TRIFR),an accepted measure in the building industry. TRIFR is reported per month, and is injuries per million hours worked. As at 30 June 2015, the EQC TRIFR was 3.9 and for Fletcher EQR it was 3.5 injuries per million hours worked.[26]

EQC have implemented *OfficeSafe*, a health and safety initiative to help keep staff safe in the office. The *OfficeSafe* initiative aims to increase awareness of potential discomfort, pain and injury, the impact of everyday work stress, and the importance of clearing away clutter to avoid slips, trips and falls in the office. It also highlights the importance of personal security and safety while working in EQC buildings (such as ensuring all visitors and contractors report to reception upon arrival), and commuter safety when staff travel to and from work. Other initiatives can be found in the *Ensuring organisational health and capability* section.

EQC's overall safety status as an organisation is also reflected in our Accident Compensation Corporation (ACC) rating. During the financial year, ACC accredited EQC at tertiary level, which recognises "best practice and a commitment to continuous improvement in workplace health and safety". EQC received a reduction in its ACC levy as a result.

25 Some sites received more than one visit during the year.

26 These figures are based on a 12-month rolling average.

Asbestos management

Like the housing stock for other parts of New Zealand, the age of some of the Canterbury houses means that they contain asbestos-containing materials.

EQC manages asbestos in accordance with the New Zealand Guidelines for the Management of Asbestos (March 2011) and the Health and Safety in Employment (Asbestos) Regulations 1998. During the year, EQC's and Fletcher EQR's asbestos management practices were investigated by WorkSafe New Zealand. WorkSafe found in its investigation into asbestos management in the CHRP that, the level of asbestos likely to have been released was very low, as was the risk to workers. The risk to residents is likely to have been even lower. In response to the WorkSafe investigation, Fletcher EQR commissioned an independent science-based review[27] of the risk associated with asbestos. The report provided a firm basis for EQC and Fletcher EQR being able to confirm that the risk of actual harm was very low. This expert evidence also provided the basis for EQC's communication to customers,[28] stakeholders and the media. The findings of the report are consistent with those released by the Office of the Prime Minister's Chief Science Adviser and the Royal Society of New Zealand in their report, *Asbestos Exposure in New Zealand: Review of the Scientific Evidence of Non-occupational Risks*.[29]

27 *Investigation of Airborne Asbestos Exposure Related to Removal of Textured Coatings, Three Residential Properties, CHRP New Zealand*, Noel Arnold & Associates, July 2014. http://www.eqc.govt.nz/sites/public_files/Asbestos%20-%20Greencap%20part%201.pdf.

28 See http://www.eqc.govt.nz/canterbury-earthquakes/home-repair-process/asbestos for EQC's communications to customers.

29 See http://www.royalsociety.org.nz/media/2015/04/Asbestos-exposure-in-New-Zealand-April-2015.pdf.

WHAT WE ACHIEVED – PERFORMANCE MEASURES (CATASTROPHE EVENTS)

Our actual performance for Output 2 against the measures in the 2014/15 statement of performance expectations was:

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
ACTIVITY: COMPLETE THE SETTLEMENT OF CANTERBURY EARTHQUAKE SERIES CLAIMS					
Proportion of dwelling claims from the Canterbury Earthquake Series resolved by cash payment and through the managed repair programme	Refer to the section on *How we are reporting on our performance* for a definition of "resolved".	95% by December 2014	94% as at 31 December 2014 96% as at 30 June 2015	Not Achieved	This measure reports on dwelling exposures and is reported as cumulative for the event.
Proportion of land claims resolved from the Canterbury earthquake series	Refer to the section on *How we are reporting on our performance* for a definition of "resolved".	75% by December 2014	67% as at 31 December 2014 69% as at 30 June 2015	Not Achieved	This measures the number of properties with land exposures that have been resolved. A single property may have more than one land exposure (from multiple events). These results cover mainly flat land claims, but include other more complex land exposures like IFV.
Land damage claims from the Canterbury Earthquake Series (in aggregate) – the average variance between EQC's estimated cost of settling and the actual final cost of settling claims	N/A	Less than 20%	N/A	N/A	EQC is unable to accurately report on this measure with sufficient detail. However, EQC no longer considers that this measure is material in measuring its performance anyway.
Cash settled dwelling claims – the average variance between EQC's estimated cost of settling and the actual final cost of settling claims	N/A	Less than 20%	N/A	N/A	EQC is unable to accurately report on this measure with sufficient detail. However, EQC no longer considers that this measure is material in measuring its performance anyway.
Recorded complaints from Canterbury Earthquake Series customers resolved prior to third-party mediation and litigation (2014: 99%)	Complaints are recorded in EQC's Claims Management System.	97% by 30 June 2015	99% as at June 30 2015	Achieved	During the financial year 3,475 complaints were resolved by EQC. During the same period, 14 cases were mediated.
Canterbury claims handling expenses (CHE) within the Board-approved budget		Within 10% of the approved budget ($213.6m)	Canterbury CHE for the year ending 30 June 2015 was $203m	Achieved	In December 2014, the Board approved additional Canterbury CHE budget in relation to an extension of the Canterbury Home Repair Programme (CHRP), additional geotechnical engineering expenses and the costs of calculating / invoicing of CHRP excesses. These increases resulted in a 2015 full-year budget of $213.6m.

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
Cumulative customer complaints as a percentage of total claims from the Canterbury Earthquake Series	This measure is calculated using total customer complaints from the Canterbury Earthquake Series. Prior to May 2012 there was not a clear process for recording complaints, resulting in inconsistency in recording information queries as complaints, and double counting. Due to this, there is some uncertainty underlying the data pre-May 2012 which could affect the % result recorded.	Less than 10% of total claims as at 30 June 2015	5.0%	Achieved	Total cumulative claims for the Canterbury events are 470,561. EQC counts each individual complaint made by a customer as one complaint. Reported as at the end of the financial year.
ACTIVITY: MEET THE CANTERBURY HOME REPAIR PROGRAMME (CHRP) OBJECTIVES, TARGETS, AND BUDGET					
Proportion of qualifying properties with repairs completed through CHRP (from the total estimated qualifying repairs of 72,500)	Qualifying properties means that the dwelling claim is within CHRP range over $15,000 (plus GST) and less than the $100,000 (plus GST) EQC cap, and that the customer is in the repair programme. Excludes properties that: • are not in the Canterbury earthquake event series, • are being cash-settled; or • have been closed and paid nil.	99% by 30 June 2015	96% as at 30 June 2015	Not achieved	The total number of dwelling repairs now expected to be completed through CHRP is 69,037 as a result of customers opting out of CHRP programme, being cash-settled, and properties going over the EQC building damage cap ($100,000). 66,252 had been completed as at 30 June 2015. The measure is reported as cumulative for the event.
Customer satisfaction with the quality of repairs completed by Fletcher EQR (annual average rating of customers satisfied or very satisfied with the quality of repairs).	EQC conducts weekly surveys of 100 CHRP customers to gauge their satisfaction with the quality of repairs completed.	No less than 85%	84%	Not achieved	This measures the response to the question: Thinking about the quality of the work that was completed on your property, how would you rate the quality? During the year 5,708 customers were surveyed.
Dwelling claims settled by managed repair – the average variance between EQC's estimated cost of settling and the actual final cost of settling claims	Estimated cost of settling is the latest complete assessment that precedes the contractor's review of the scope and price of the repair. Excludes properties that: • have been closed, paid nil, and multi-unit buildings where the primary repair is not resolved; or • properties where there is no useable SOW recorded.	Less than 20%	16% as at 30 June 2015	Achieved	Excluded properties where there is no useable SOW account for 8,662 dwelling claims; 50,810 properties were assessed in the final figures. Reported as cumulative for the event.

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
Repair-cost inflation within CHRP less than relevant Canterbury indices	For this measure, changes in EQC's CHRP rates ceiling for a typical CHRP dwelling repair is the primary indicator of changes in costs within CHRP programme	Repair-cost inflation less than the movement in Statistics NZ's Canterbury CPI (Housing) Index	There have been no changes in the CHRP rates ceiling during the year and therefore no material change in the cost of a typical CHRP dwelling repair For new houses built in Canterbury during the 2014/15 year, Statistics New Zealand reported a net cost increase of 3.96%	Achieved	EQC reviews its rates ceiling quarterly. Since revised rates were implemented in April 2014, there has been no change to the underlying labour rates. During 2014/15 financial year, the reported national cost increase for property maintenance was 0.5%.
ACTIVITY: SAFE REPAIR OR REBUILD OF PROPERTIES (CANTERBURY HOME REPAIR PROGRAMME SAFE6 INITIATIVE)					
Total recorded injury frequency rate (TRIFR)	TRIFR records the average rate of recordable injuries per million hours worked for CHRP (managed by Fletcher EQR) and EQC for the 2014/15 financial year	No more than five injuries per million hours worked	Fletcher EQR: An average of 3.5 injuries per million hours worked EQC: An average of 3.9 injuries per million hours worked	Achieved	The TRIFR is calculated using a rolling 1 month average.
Safety standards – the number of CHRP sites audited per month		No fewer than 200 sites audited per month	Average of 440 sites audited per month for the financial year	Achieved	
ACTIVITY: TIMELY AND APPROPRIATELY COMMUNICATE TO CUSTOMERS AND STAKEHOLDERS					
Privacy Act 1993 and Official Information Act 1982 requests met within statutory deadlines	Calculated using the average across the whole year.	98%	98%	Achieved	This measure covers all EQC natural disaster events.
Customer satisfaction with EQC's claims handling process (Canterbury events)	Measure is for satisfaction with overall quality of service delivery, for Canterbury earthquake event claims that were cash-settled, excludes those in CHRP.	Year-on-year improvement	38% for the period 1 July to 31 December 2014	Achieved	Customer satisfaction for the 2013/14 year was 30%.
Answering calls to EQC's Call Centre	Measure is for the whole of EQC – all events.	80% within 20 seconds	92% within 20 seconds	Achieved	The remaining 8% of calls include abandoned calls and those answered after 20 seconds.
Customers who open monthly "EQConnects" newsletter as a percentage of those receiving it (2014: 32%)	Measure is for the whole of EQC – all events.	40% per cent of recipients opening each newsletter	765,126 electronic newsletters sent, for which 40% were opened	Achieved	Includes all newsletters that could be sent to a valid email address.

Non-catastrophe events – Cook Strait, Eketahuna earthquakes and other events

WHAT WE DID – KEY OPERATING ACTIVITIES (NON-CATASTROPHE EVENTS)

Settling claims – overview of progress

The 2013 Cook Strait and 2014 Eketahuna earthquakes resulted in a large number of claims despite there being considerably less damage than the Canterbury earthquakes. EQC's approach has been to cash-settle individual exposures for these events. Table 9 contains a summary of exposures resolved for the Cook Strait and Eketahuna events.[30]

TABLE 9: EXPOSURES RESOLVED FOR THE COOK STRAIT AND EKETAHUNA EARTHQUAKES

	TO BE RESOLVED (OPEN) AS AT 30 JUNE 2014	PLUS OPENED DURING THE 2014/15 FINANCIAL YEAR	LESS RESOLVED DURING THE 2014/15 FINANCIAL YEAR	REMAINING TO BE RESOLVED AT THE END OF THE 2014/15 FINANCIAL YEAR	$M PAID DURING THE 2014/15 FINANCIAL YEAR (EXCLUDING CHE; GST EXCLUSIVE)
COOK STRAIT EARTHQUAKES					
Content Exposures	497	53	536	14	$0.4m
Land Exposures	523	18	539	2	$0.1m
Dwelling Exposures	4,461	334	4,748	47	$6.7m
Total Exposures	**5,481**	**405**	**5,823**	**63**	**$7.2m**
EKETAHUNA EARTHQUAKES					
Content Exposures	773	44	793	24	$0.6m
Land Exposures	311	6	315	2	–
Dwelling Exposures	3,590	88	3,632	46	$4.4m
Total Exposures	**4,674**	**138**	**4,740**	**72**	**$5.0m**

WHAT WE ACHIEVED – PERFORMANCE MEASURES (NON-CATASTROPHE EVENTS)

Our actual performance for Output 2 against the measures in the 2014/15 statement of performance expectations was:

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
ACTIVITY: ACCURATELY CALCULATE AND RESOLVE ENTITLEMENTS CORRECTLY, ON TIME AND ACCORDING TO THE ACT					
Event claims are paid within one year of the final assessment of damage	The proportion of claims that received their final payment within 1 year of their assessment. Excludes claims that: • are in the Canterbury Event Series (Sept 2010 – 23 Dec 2011) • have not been assessed (or where the SOW is not in a useable format) • have been declined	95%	75% as at 30 June 2015	Not Achieved	The total number of claims excluded where the SOW was not in a useable format for the purpose of this measurement was 39,392; 10,910 claims were assessed in the final figures. This exclusion of claims with no usable SOW was primarily as a result of no start date being recorded to allow measurement of the time between assessment and payment to be calculated. The measure is reported as cumulative for the event.

30 Other events that may have occurred during 2014/15 will not be recorded here as the lodgement period for claims was still open into the 2015/16 financial year. An example of this is the Whanganui floods in June 2015.

MEASURE	DEFINITIONS OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
Damage assessed (for events with fewer than 10,000 claims) no later than 90 days following the close of the claim lodgement period	Applies to the 2014 Eketahuna earthquakes. Excludes claims that: • have not been assessed (or where the SOW is not in a useable format); or • where the assessment is after the end of the reporting period.	95%	99% as at 30 June 2015	Achieved	The total number of claims excluded where the SOW was not in a useable format for the purpose of this measurement was 463; 4,298 claims were assessed in the final figures. The measure is reported as cumulative for the event.
Damage assessed (for events with 10,000 to 100,000 claims) not later than 270 days following the close of the claim lodgement period	Applies to the 2013 Cook Strait (Seddon) earthquake. Excludes claims that are: • not in the Cook Strait earthquake series • have not been assessed (or where the SOW is not in a useable format); or • where the assessment is after the end of the reporting period	95%	99% as at 30 June 2015	Achieved	The total number of claims excluded where the SOW was not in a useable format was 1,290, leaving 10,058 that were assessed in the final figures. The measure is reported as cumulative for the event.
Claims handling expenses within Board-approved (annual) budget	Applies to the Cook Strait (16 August; 21 October 2013) and Eketahuna (20 January 2014) events	Within 10% of Board-approved annual budget as at June 30 2015	Actual for the financial year was $1.4m – 41% of the approved budget	Not Achieved	Board-approved budget was $3.2m.
ACTIVITY: RESPOND APPROPRIATELY TO CUSTOMERS AND STAKEHOLDERS (EQC-WIDE)					
Privacy Act 1993 and Official Information Act 1982 requests met within statutory deadlines			N/A	N/A	Covered under the Catastrophe section.
Customer satisfaction with EQC's claims handling process	Measure is for satisfaction with overall quality of service delivery, for non-Canterbury earthquake event plus landslips, floods and storm damage	Year-on-year improvement	51% for the period 1 July to 31 December 2014	Achieved	Data for period 1 Jan to 30 Jun 2015 was still being compiled at the time this report was developed. Customer satisfaction for the 2013/14 year was 49%.
Abandonment of calls to EQC's Call Centre	Calls that are abandoned are calls where the customer hangs up prior to EQC answering – irrespective of the call duration	Less than 5%	1.4%	Achieved	
Answering of calls to EQC's Call Centre			N/A	N/A	Covered under the Catastrophe section.
Customers who open monthly 'EQConnects" newsletter as a percentage of those receiving it			N/A	N/A	Covered under the Catastrophe section.

OUTPUT 3: **RESEARCH**

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

- matters relevant to natural disaster damage;
- methods of reducing or preventing natural disaster damage; and
- the insurance provided under the EQC Act.

By taking an active role in national natural hazard risk management, we can contribute towards the minimisation of impacts associated with natural disasters and help build resilience in communities. In addition, EQC has a contribution to make to international hazard and risk reduction knowledge and practice. Therefore, a key operating priority for this output is "EQC becoming a valued leader in natural disaster risk management nationally and internationally". 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 that 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 and local authorities by supporting the translation of science into practice, including educating and building capability.

The objectives for this output are to:

- facilitate greater coordination in natural hazard risk management;
- improve capacity by working with stakeholders and contributing expert advice (turning science into practice) and capability; and
- fund world-class research.

EQC'S RESEARCH STRATEGY

Efficient and effective hazard risk management (HRM) requires a comprehensive and coordinated approach that addresses all the conditions that influence New Zealand's disaster vulnerability. In particular, coordination is required between disciplines, professions, across Government, public and private sector organisations and communities at all levels – internationally, nationally and locally. Although the need for HRM is widely recognised, there are still significant gaps between theory and practice, levels of awareness, understanding and sustained action by agencies, professional groups and communities.

The aim of EQC'S research and education strategy is to:

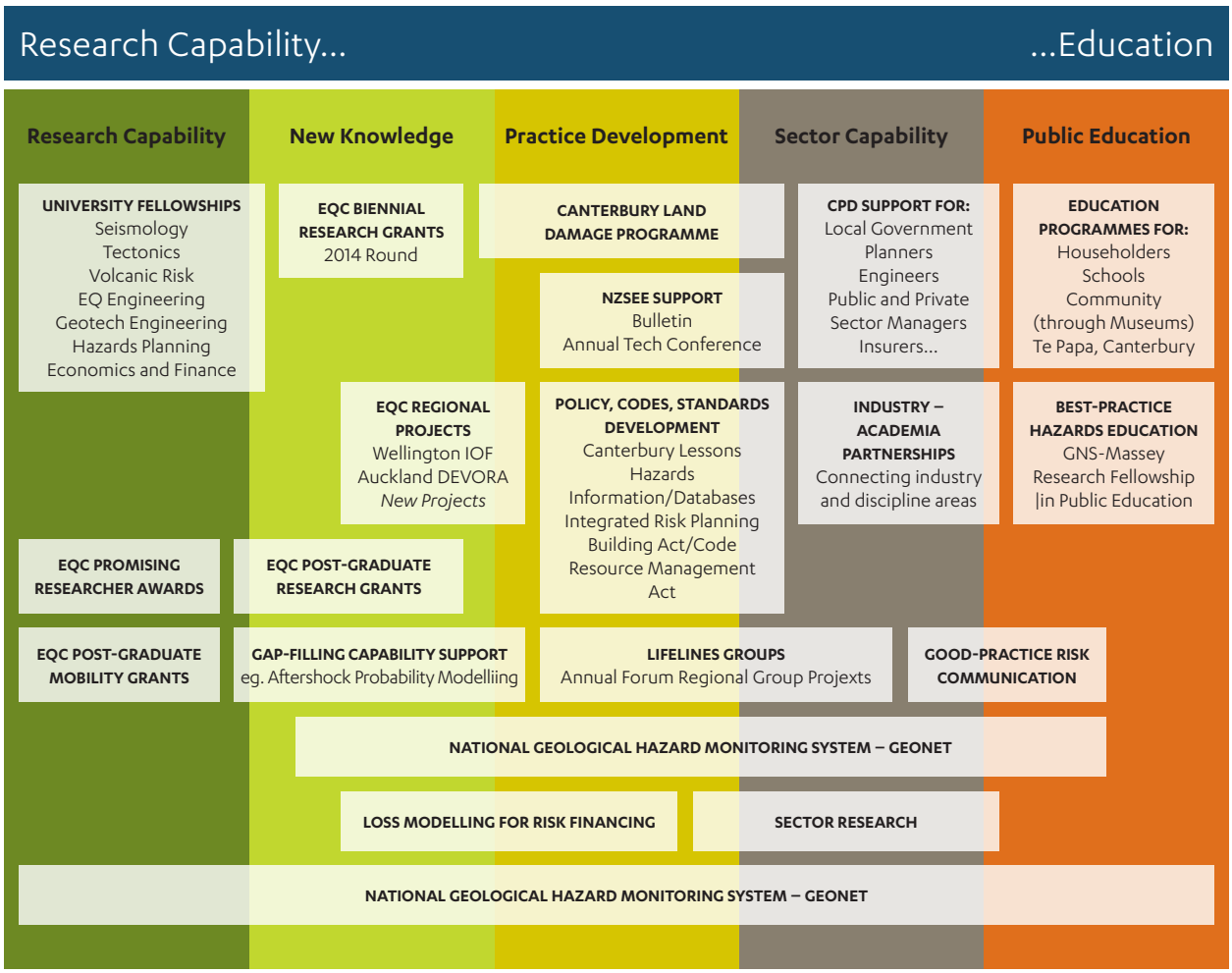
» improve HRM knowledge, capabilities and professional practices;

» make communities more resilient to natural disaster hazards; and

» reduce the Government's liabilities arising from natural hazard events.

The key programmes supporting this strategy emphasise converting HRM science to practice by linking HRM professionals, fostering HRM research, and educating and building HRM capability across relevant organisations and sectors. Figure 6 provides an overview of these programmes.

FIGURE 6: SCIENCE TO PRACTICE PROGRAMMES SUPPORTING EQC'S RESEARCH AND EDUCATION STRATEGY



WHAT WE DID – KEY OPERATING ACTIVITIES

During the 2014/15 financial year, EQC continued its support of GeoNet, industry partnership programmes, and EQC-related research and university grants. Of significance during the year was the ongoing work around the Ground Improvement Programme to inform methods for rebuilding on land vulnerable to liquefaction.

Ground Improvement Programme

In parts of Canterbury, liquefaction occurs when soil below the groundwater level temporarily loses strength when shaken. This can cause the soil to "liquefy", resulting in water, fine sand and silt ejecting to the surface. Many of the houses built in Canterbury are built on land that is vulnerable to liquefaction.

The Ground Improvement Programme is an EQC-led research programme to identify affordable and practical solutions to improve or strengthen residential land that has a vulnerability to liquefaction. The programme has two parts – the science trial and the pilot (which continued during the financial year). The science trial looked at the effectiveness of potential ground improvement solutions in a residential setting and the pilot tested the practicality of these solutions by applying them in real-world conditions in Canterbury. The application of the lessons learned would not have been possible without the trust and collaborative problem-solving of participating homeowners and their insurers, local authority consenting officers, engineers and contractors.

The Ground Improvement Programme is a world-first research project. In undertaking this research, EQC facilitated the involvement of some of the world's leading experts on liquefaction, and the collaborative efforts of many organisations, including the University of Canterbury, the Ministry of Business, Innovation and Employment, Housing New Zealand, the New Zealand Transport Agency, the University of Texas at Austin (USA), Oregon State University (Corvallis, USA), Brigham Young University (Provo, Utah, USA), the US National Science Foundation, and the US Network for Earthquake Engineering Simulation.

The programme will inform methods of mitigating the risks associated with building on residential land which is vulnerable to liquefaction. EQC hopes to build a national capability and strengthen communities by increasing liquefaction resilience throughout New Zealand.

GeoNet

GeoNet is New Zealand's geological hazard monitoring system (monitoring system) that includes a network of geophysical instruments, automated software and staff focused on earthquakes, volcanic activity, large landslides and tsunami. Last financial year, EQC provided GNS Science with $10.1m in funding for GeoNet.

The monitoring system is the result of a sustained collaboration between EQC and the wider community of researchers and users. provides the rapid delivery of data and information on events, alerts and, in certain circumstances warnings, for example alerting aviation organisations to the ash cloud dangers from volcanoes.

The use of GeoNet information can be gauged from periodic evaluations of the use of GeoNet information and the extent to which GeoNet information is being accessed online. Measures here include 22.4 million GeoNet website hits, 83.7 million pages accessed and data downloads as indicated by the website bandwidth used during the financial year.

The GeoNet contract was renewed with GNS Science in 2010 for a further 10 years, with explicit funding commitments confirmed for the first five years of the term. During the financial year, EQC, in partnership with GNS Science, carried out a strategic review of GeoNet to inform the EQC Board funding decision for the remaining five years of this decade. A final decision is expected in the 2015/16 financial year on the future level of investment in GeoNet by EQC.[31]

31 http://www.geonet.org.nz/

Industry partnership programmes for engineers, planners and for national hazard information management

DEVORA: The DEVORA (Determining Volcanic Risk in Auckland) research programme is a multi-agency study that aims to increase understanding of the Auckland volcanic field – leading to an improved assessment of volcanic hazard and risk in the Auckland metropolitan area and the development of policies and practices for managing volcanic risk. DEVORA is a collaborative project involving GNS Science, the University of Auckland and Massey University. Funding is provided by EQC, Auckland Council, and the Ministry of Business, Innovation and Employment (MBIE).

New Zealand Society for Earthquake Engineering: EQC has supported the New Zealand Society for Earthquake Engineering (NZSEE) since the early 1990s. NZSEE aims to advance the science and practice of earthquake engineering. Its membership is made up of engineers, scientists and other professionals who have an interest in earthquakes and their effects. Since 2004 we have made contributions towards:

- the NZSEE annual conference;
- printing and distribution of the quarterly NZSEE Technical Bulletin;
- funding an annual award, with a value of $10,000 – the EQC/NZSEE Ivan Skinner Award for the Advancement of Earthquake Engineering Research; and
- NZSEE-organised investigations of the impacts of local and overseas earthquakes, tsunami and volcanic eruptions.

'It's Our Fault': is a comprehensive multi-agency collaboration led by GNS Science in partnership with Massey University, the National Institute of Water and Atmospheric Research (NIWA), the University of Canterbury and Victoria University of Wellington to examine earthquake risk. The objective of the study is to position Wellington as a more resilient city. It looks at the likelihood of large Wellington earthquakes, the effects of such events, what their impacts may be on people and the built environment, and methods for managing those impacts. Negotiations to further extend the programme are underway, exploring the application of new understanding of risk to improved hazard planning practices and building resilience.

'It's Our Fault' is jointly funded by EQC, the Accident Compensation Corporation (ACC), Wellington City Council, the Wellington Region Emergency Management Group, and the Natural Hazards Research Platform.

Biennial contestable grants

Every two years, EQC carries out a contestable grants programme of public good research. Individuals or groups engaged in research that meets EQC's preferred criteria are invited to apply. Since 2006, approximately $800,000 has been invested for each biennial allocation. In 2014 the budget allocation was raised to $1 million. In the 2014/15 financial year EQC received 118 applications and of these, 46 were short-listed.

University grants

Faculty positions and discipline-related programmes at four New Zealand universities are supported to provide vision, leadership and research to address gaps in New Zealand's capability to assess and mitigate geological risk. Areas of support include:

» Victoria University – two Fellowships: Seismology and Fault Mechanics and the Chair in the Economics of Disasters (co-funded with the Ministry of Primary Industries);

» Canterbury University – active tectonics and geotechnical engineering;

» Auckland University – volcanic risk earthquake and geotechnical engineering; and

» Massey University – Chair in Natural Hazards Planning.

During 2014/15, EQC provided $1.2m funding through the university capability agreements.

WHAT WE ACHIEVED – PERFORMANCE MEASURES

Our actual performance for Output 3 against the measures in the 2014/15 statement of performance expectations was:

MEASURE	DEFINITION	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
ACTIVITY: FACILITATE GREATER COORDINATION IN NATURAL HAZARD RISK MANAGEMENT (HRM)					
Evidence of EQC's expertise being increasingly used in national or regional HRM policy, planning, co-ordinating forums etc	New measure for 2014/15 year	Evidence of increased use	EQC participated in 12 regional and national HRM forums during the year.	New measure for 2014/15 year	EQC member of Natural Hazards Research Platform strategic advisory group Participated in: • regional CDEM and related planning forums in Auckland, Waikato, Hawkes Bay, Wellington • Local Government New Zealand National Council discussions on hazard risk management • central government resilience policy forums
ACTIVITY: IMPROVE CAPABILITY					
Industry partnership programmes for engineers, planners and for national hazard information management meet contracted objectives within expected times		99% of contracted objectives met	100% of the contracted objectives for the year met and continuing work on track.	Achieved	Projects included: • Auckland Unitary Plan advice, Tonkin &Taylor – Defining Utility Resilience (co-funded with Greater Wellington) • Development of draft concepts for resilience planning professional development programme, in partnership with the NZ Planning Institute • Support to the Quake Centre for engineer professional development • Support to NZSEE seismic assessment guidance project, in partnership with MBIE • Support to NZ Geotechnical Society liquefaction assessment guidance project, in partnership with MBIE

MEASURE	DEFINITION	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
Partnership objectives met within contracted time frames		99% of contracted objectives met	100% of contracted objectives met	Achieved	
Evidence of the direct and indirect uses of GeoNet	Hazard information from GeoNet contributes to developing national hazard risk management capacity and capability. This measure focuses on the volume of data (in gigabytes) being accessed by users from the GeoNet website	Evidence of increasing direct and indirect uses of GeoNet information	2014/15: 5,391 GB (2013/14: 3,768 GB)	Achieved	Periodic evaluations of the use of GeoNet data also inform assessments of the use and contribution of GeoNet information to improving capability. The most recent evaluation was undertaken outside of the 2014/15 year in May 2014.
Funded reports are published/presented in sector print media and/or presented at conferences or stakeholder workshops		All expected reports published	All expected reports were published	Achieved	22 published papers received in the 2014/15 financial year. Report topics included disaster recovery, volcanoes, wastewater systems, evaluation planning and seismology.
Engineering Lifelines Programme: participation of utility providers and local government in the annual technical forum		Participation achieved	Participation achieved	Achieved	The Engineering Lifelines Forum was held on 5,6 November 2014.
Engineering Lifelines, NZSEE and regional hazard risk management projects contracted objectives met		All expected objectives met	All objectives achieved and on track for continuing work	Achieved	Projects advanced during the financial year were: • Tsunami risk facing New Zealand • Nelson Tasman Lifelines review • Utility resilience assessment.
ACTIVITY: FUND WORLD-CLASS RESEARCH					
Biennial grants and post-graduate student awards and research and capability grants meeting their objectives		Objectives met or on track to be met	Objectives met for year and on track for continuing projects	Achieved	A requirement of all grants is that regular progress reports are provided. If there are any problems with timeliness or meeting objectives, these are discussed by email or face-to-face meetings.
Percentage of completed research projects receiving at least one peer-review, academic paper or report within one year of completion		90%	100%	Achieved	Nine biennial and four post-graduate research projects were completed in the financial year, each with at least one peer-review, academic paper or report within one year of completion.
GeoNet achieves all contracted objectives		All contracted objectives met	All contracted objectives met	Achieved	Reports are submitted every quarter to monitor this output
Achievement of university grants objectives met for the year (Canterbury, Auckland, Victoria and Massey universities)		All contracted objectives met	All contracted objectives met	Achieved	Reports are received on a regular basis and the Manager Science & Education meets with the universities regularly.

OUTPUT 4: **EDUCATION**

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

» matters relevant to natural disaster damage;
» methods of reducing or preventing natural disaster damage; and
» the insurance provided under the Act.

The prime responsibility for being prepared for natural disasters lies with homeowners. However, they need information and guidance on the most effective and prudent measures to take to mitigate the risk of damage and physical harm, and on what to expect of EQC should they experience natural disaster damage. EQC's legislation does not permit EQC to carry out mitigation activities for home owners, so EQC cannot directly affect levels of disaster mitigation activity. Instead, EQC pursues nationwide and regional initiatives educating the New Zealand public on ways to reduce and prevent natural disaster damage.

The Canterbury earthquakes have provided an opportunity to learn for the future and take advantage of increased public interest in natural hazards.

The objectives for this output are to increase:

» public awareness of earthquake safety and natural hazard mitigation measures; and
» home owners' understanding of EQC's role should they experience natural disaster damage.

WHAT WE DID – KEY OPERATING ACTIVITIES

As in previous years, EQC's education initiatives during 2014/15 focused on improving New Zealanders' knowledge and understanding of natural disaster mitigation in their homes. Education initiatives in the financial year included:

(j) Increasing public awareness of earthquake safety and natural hazard mitigation:
  – support of the Awesome Forces exhibit at Te Papa and the Quake City exhibition at the Canterbury Museum;
  – virtual field trip to Marlborough and Nelson; and
  – ten-year anniversary of Te Papa school's fund.

(k) Increasing home owners' understanding of EQC's roles, should they experience natural disaster:
  – collaboration with the Ministry of Civil Defence and Emergency Management on a press advertising campaign for "Get Ready" week; and
  – home show collaboration with Neighbourhood Support and Civil Defence.

WHAT WE ACHIEVED – PERFORMANCE MEASURES

Our actual performance for Output 4 against the measures in the 2014/15 statement of performance expectations was:

MEASURE	DEFINITION OR EXCLUSIONS	2014/15 SPE TARGET	2014/15 ACTUAL	PERFORMANCE AGAINST TARGET	NOTES
ACTIVITY: INCREASE PUBLIC AWARENESS OF EARTHQUAKE SAFETY AND NATURAL HAZARD MITIGATION MEASURES					
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	A total of 178 classes, representing 4,402 students registered to participate	Achieved	
Student participation in EQC Schools Fund (Te Papa visits)		500	A total of 864 students participated in the EQC-Te Papa schools fund	Achieved	
Percentage of New Zealanders knowledgeable about natural hazard safety in the home	The 2014/15 statement of performance expectations specified the point of comparison for this measure is 46%.	Year-on-year increase	46% of New Zealanders knowledgeable about natural hazard safety in the home	Not Achieved	This is a long-term behavioural change programme. It is likely to take several years to see significant changes in results. The source for this data is: *Monitoring the effectiveness of the Earthquake Commission's Communication Programme: Nielsen Quarterly survey*, Nielsen New Zealand
ACTIVITY: INCREASE HOME OWNERS' UNDERSTANDING OF EQC'S ROLES SHOULD THEY EXPERIENCE NATURAL DISASTER DAMAGE					
Use of EQC's website to obtain information about how to prepare homes or families for a damage-causing natural disaster		Year-on-year increasing use	7% of people would go to EQC's website to obtain information about how to prepare homes or families for a damage-causing natural disaster	New measure for 2014/15 year	The source for this data is: *Monitoring the effectiveness of the Earthquake Commission's Communication Programme: Nielsen Quarterly survey*, Nielsen New Zealand
New Zealanders are able to correctly identify EQC's roles should they experience a natural disaster		Majority of New Zealanders surveyed are able to correctly identify EQC's roles	68% of New Zealanders are able to correctly identify EQC's roles	Achieved	The source for this data is: *Monitoring the effectiveness of the Earthquake Commission's Communication Programme: Nielsen Quarterly survey*, Nielsen New Zealand

FINANCIAL STATEMENTS

STATEMENT OF **COMPREHENSIVE REVENUE AND EXPENSE**

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
EARNED PREMIUMS				
Gross earned premiums	3	280,753	282,291	274,115
Outward reinsurance premium expense		(150,984)	(160,000)	(151,200)
NET EARNED PREMIUM REVENUE		**129,769**	**122,291**	**122,915**
UNDERWRITING MOVEMENTS				
Reinsurance and other (reductions)/recoveries	5	(44,067)	14,480	(123,183)
Claims reduction	6	490,298	124,420	271,521
Catastrophe response programme	7	(19,832)	(21,375)	(15,850)
Unexpired risk liability reduction/(increase)	18	17,799	1,434	(8,894)
TOTAL UNDERWRITING MOVEMENTS		**444,198**	**118,959**	**123,594**
SURPLUS / (DEFICIT) FROM INSURANCE ACTIVITIES		**573,967**	**241,250**	**246,509**
OTHER OPERATING REVENUE				
Other revenue	4	171	–	243
OTHER OPERATING EXPENSE				
Public education	7	(1,205)	(1,444)	(1,356)
Research (excluding GeoNet)	7	(7,333)	(9,002)	(7,092)
GeoNet programme	7	(10,068)	(9,221)	(9,494)
TOTAL OPERATING REVENUE AND EXPENSE		**(18,435)**	**(19,667)**	**(17,699)**
INVESTMENT ACTIVITIES				
Investment revenue	8	92,696	12,943	56,366
Investment costs	7	(503)	(1,040)	(1,087)
Interest on cash balances		19,791	–	14,764
REVENUE FROM INVESTMENT ACTIVITIES		**111,984**	**11,903**	**70,043**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE PERIOD		**657,516**	**223,486**	**288,853**

The accompanying notes form part of these financial statements.

STATEMENT OF **CHANGES IN EQUITY**

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July		(2,581,578)	(2,492,767)	(2,870,431)
Total comprehensive revenue and expense for the period		657,516	223,486	288,853
CLOSING BALANCE AT 30 JUNE		**(1,924,062)**	**(2,269,281)**	**(2,581,578)**
CLOSING BALANCE AS AT 30 JUNE		**(424,062)**	**(769,281)**	**(1,081,578)**

The accompanying notes form part of these financial statements.

STATEMENT OF **FINANCIAL POSITION**

AS AT 30 JUNE 2015

	NOTE	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
Retained earnings	10	(1,924,062)	(2,269,281)	(2,581,578)
TOTAL EQUITY	**10**	**(424,062)**	**(769,281)**	**(1,081,578)**
ASSETS				
Bank		479,133	–	734,695
Premiums receivable		53,503	53,038	55,522
Outstanding reinsurance and other recoveries	5	966,455	49,815	1,225,498
Other receivables	11	33,049	39,083	47,650
Prepayments		26,173	28,302	27,200
Investments	12	986,386	–	1,589,543
Property, plant and equipment	13	17,188	22,241	19,598
Intangible assets	14	8,642	15,358	7,625
TOTAL ASSETS		**2,570,529**	**207,837**	**3,707,331**
LIABILITIES				
Bank		–	(601,133)	–
Trade and other payables	15	(28,425)	(10,946)	(39,743)
Provisions	16	(1,372)	(1,212)	(1,873)
Outstanding claims liability	2	(2,769,199)	(150,178)	(4,531,720)
Unearned premium liability	17	(143,738)	(145,008)	(145,917)
Unexpired risk liability	18	(51,857)	(68,641)	(69,656)
TOTAL LIABILITIES		**(2,994,591)**	**(977,118)**	**(4,788,909)**
NET LIABILITIES*		**(424,062)**	**(769,281)**	**(1,081,578)**

** 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 2015

	NOTE	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Interest		19,791	–	14,764
Premiums		280,592	281,765	273,354
Reinsurance and other recoveries		214,976	1,126,260	1,278,662
Other revenue		–	–	243
Net GST		14,601	27,000	1,548
Net tax on reinsurance		–	–	603
Cash was applied to:				
Outward reinsurance		(150,523)	(160,630)	(151,186)
Crown underwriting fee		(10,000)	(10,000)	(10,000)
Claims settlements and handling costs		(1,282,541)	(3,847,886)	(1,868,399)
Employees and other operating expenses		(22,599)	(25,336)	(17,579)
GeoNet operating expenses		(6,217)	(5,891)	(5,855)
Research grants		(3,254)	(5,341)	(3,977)
Net tax on reinsurance		(146)	(1,250)	–
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**24**	**(945,320)**	**(2,621,309)**	**(487,822)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of investments		626,549	1,672,145	2,651,199
Interest on investments		69,304	35,520	103,203
Sale of property, plant and equipment		170	–	63
Cash was applied to:				
Purchase of investments		–	–	(1,950,000)
Purchase of property, plant and equipment		(2,838)	(5,058)	(5,837)
Purchase of intangibles		(3,427)	(10,379)	(3,629)
NET CASH INFLOW FROM INVESTING ACTIVITIES		**689,758**	**1,692,228**	**794,999**
NET (DECREASE)/INCREASE IN CASH		**(255,562)**	**(929,081)**	**307,177**
Add opening cash brought forward		734,695	327,948	427,518
ENDING CASH CARRIED FORWARD		**479,133**	**(601,133)**	**734,695**

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 and operates in New Zealand. The relevant legislation governing the Commission's operations includes the Crown Entities Act 2004 and the Earthquake Commission Act 1993. 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.

The Commission has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The reporting period covered by these financial statements is the year ended 30 June 2015. These accounts were approved by the Board on 9 October 2015.

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 surplus or deficit, 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

The financial statements of the Commission have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 PBE accounting standards.

These financial statements comply with PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There were no material adjustments or reclassifications arising on transition to the new PBE accounting standards.

1. Accounting Policies (continued)

Accounting Judgements and Major Sources of Estimation

The preparation of financial statements in conformity with Tier 1 PBE accounting standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue 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).

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. This is 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 Revenue and Expense 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 Revenue and Expense. 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 PBE 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.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

UNEXPIRED RISK LIABILITYREDUCTION/(INCREASE)

At balance date, the Commission assesses the adequacy of the unearned premium liability by applying the liability adequacy test as specified by PBE 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 Revenue and Expense and recorded in the Statement of Financial Position as an unexpired risk liability.

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 Revenue and Expense.

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.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

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.

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.

INVESTMENTS

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

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 are 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 are 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 Revenue and Expense, 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 Revenue and Expense in the period in which the transaction occurs.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

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 Revenue and Expense in the period in which the transaction occurs.

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 Revenue and Expense 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 Revenue and Expense when incurred.

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

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

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 Revenue and Expense 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.

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 Revenue and Expense.

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 Revenue and Expense 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.

1. Accounting Policies (continued)

Significant Accounting Policies (continued)

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.

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 is 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 following changes have been made to the 30 June 2014 comparatives:

» In 2014 the Demand surge percentage in note 2 Insurance Liabilities was incorrectly disclosed as 16% rather than 15%;

» Make good costs have been reclassified from other costs to office rental within note 6 Claims Reduction; and

» Accrued annual leave has been reclassified from note 16 Provisions to note 15 Trade and Other Payables for the 30 June 2014 comparative.

Budgets

The budget figures are derived from the 2014-2018 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 GAAP, 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 is 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 Revenue and Expense 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

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The Commission has applied these standards in preparing the 30 June 2015 financial statements.

2. INSURANCE LIABILITIES

The Commission covers the following types of hazard: earthquakes, natural landslip, volcanic eruption, hydrothermal activity and tsunami; flood and storm damage to residential land; and fires resulting from these events. 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 2015 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 2015. 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 2014, 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 2015. An aggregate 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' claims. 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. Whilst considerable progress has been made in resolving claims, some of the key remaining sources of uncertainty are:

» a complex land claims environment as policy, engineering and legal difficulties are worked through; and

» complexity of the remaining dwelling claims and the expectation that some claims will need to be reopened to rectify outstanding issues.

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 eventuate.

The EQC Act requires 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 which generally apply of $20,000 for personal property and $100,000 for dwellings plus GST. Claims in relation to residential land are not subject to a single monetary limit and are therefore subject to greater uncertainty.

Movements in the cost of the Canterbury Earthquakes

The estimated cost of the Canterbury earthquakes has reduced by $455 million (refer to note 6) in the 2015 financial year. This drives an overall claims reduction expense in the Statement of Comprehensive Revenue and Expense of $490 million, with the variance relating to lower actual claims costs than provided for at 30 June 2014 for the Cook Strait and Eketahuna earthquakes.

The significant components within the actuarial valuation which have contributed to this reduction are identified in the following sections.

2. Insurance Liabilities (continued)

Actuarial Assumptions and Methods (continued)

Land Outstanding Claims Liability

The net land outstanding claims liability has reduced by approximately $300 million in the year due to assumption changes driven by an increased understanding of land damage and settlement pathways.

As highlighted in the 2014 financial statements, there are two significant categories of land claims outstanding. These are referred to as IFV (Increased Flooding Vulnerability) and ILV (Increased Liquefaction Vulnerability). As at 30 June 2015, the Commission has up to approximately 12,100 IFV and 10,500 ILV properties left to settle.

During the 2015 financial year, a declaratory judgement requested by the Commission was heard and the outcome of this clarified several issues relevant for the development of the ILV policy and finalisation of the IFV policy. This has enabled the Commission to confirm the claim settlement methodology in regards to IFV and provided guidance on determining the policy for settlement of ILV claims. This has subsequently helped to clarify the assumptions used to derive the outstanding claims liability and reduces the risks and sensitivities associated with the calculation.

One of the key determinations from the Declaratory Judgement was that Diminution of Value (DOV) is a permitted settlement method for IFV and ILV where it best reflects the loss in appropriate situations.

The calculation of the outstanding claims liability at 30 June 2015 was modelled on the following approach:

For IFV claims, the policy and associated DOV factors for IFV settlements have been confirmed and are now being used to settle these land claims. This information has now been incorporated into the calculations and has resulted in a net outstanding claims liability reduction of circa $65 million.

For ILV claims, the Commission's Board agreed in principle that the ILV land policy would be based on a combination of the cost of repairing the ILV damage to the land or DOV. The key inputs into the calculations as at 30 June 2015 are:

- increased certainty during the last period on the properties eligible for ILV;
- EQC's general preference is to settle claims based on cost of land repair where this is practical and a customer has carried or will carry out a land repair. Otherwise, EQC will settle based on DOV; and
- the repair methods identified by EQC's Ground Improvement Programme have been used as a basis for determining cost of repairing land where appropriate (these have been updated since the last valuation was undertaken).

The updated methodology for the calculation of the 30 June 2015 outstanding claims liability for ILV claims land (based on a combination of the cost of repairing the ILV damage to the land or DOV) resulted in a net outstanding claims liability reduction of approximately $200 million.

The remaining key assumptions around land which could materially impact the total Canterbury land liability in the next financial year are as follows:

ILV Diminution of Value Factors

In calculating the ILV outstanding claims liability, the actuarial model currently applies DOV factor distributions for each of the land zone technical categories TC2, TC3 and Red Zone. For the purposes of the model, these factors are intended to be indicative of the estimated loss in the value of the land as a result of the ILV damage. The DOV land damage factors applied in the model have a significant impact and are also still subject to considerable uncertainty as the engineering and valuation assessment process required to determine them is complex and not yet finalised. The central estimate of the DOV factors has been calculated based on discussions with geotechnical experts and the Commission's management.

Given the current level of uncertainty of final DOV factors for ILV, the actual results are likely to deviate from modelled rates.

As an example, if the underlying DOV factors were changed by +/-15% (i.e. 15% is added/subtracted to the central estimate DOV factor % rates), then the impact on the net outstanding claims liability figures including risk margin would be +124m/-$118m. The +15% scenario broadly represents a mid-point between the current central estimate and the Commission's maximum liability if ILV land claims were to reach the Commission's cap.

2. Insurance Liabilities (continued)

Actuarial Assumptions and Methods (continued)

Land Apportionment Methodology

Until the Commission has approved its final ILV policy, it is not possible to confirm both the policy for properties which are impacted by both ILV and IFV and the event apportionment approach for the remaining land claims.

Upon finalisation of the ILV policy, the confirmed approach taken could result in up to a $100 million increase or decrease in the net outstanding claims liability including risk margin.

Buildings Outstanding Claims Liability

The Commission has now resolved the majority of building claims in relation to the Canterbury earthquakes, with the remaining open claims largely involving higher levels of complexity and/or difficulty. In deriving the 30 June 2015 buildings outstanding claims liability, consideration has been made to the costs for settlements recognising this greater complexity and also for those costs which may arise if a claim needs to be reopened in the future. Situations where this would arise include building warranty remediations, the customer dispute process and finalisation of costings across the different events with insurers.

If the current assumptions in the actuarial model are changed by +/-50% for claims which may be reopened in the future or the financial severity of those claims, the impact on the net outstanding claims liability figures including risk margin would be +/-$20 million.

The consideration of these future costs combined with changes in the building model methodology (reflecting the majority of building claims having now been settled and the availability of a greater volume of data) has resulted in a circa $400 million reduction in the net outstanding claims liability in the financial year.

Claims Handling Expenses (CHE)

As the high level of complexity of the remaining claims has become clearer and the full scope of 'Completing Canterbury' has emerged, it has been necessary for the Commission to retain headcount at levels higher than previously anticipated and require additional external expertise. This has resulted in increased future CHE costs and increased the net outstanding claims liability by $126 million.

During the 2015 financial year, improvements in the allocation of CHE costs to individual events has also meant that an increased proportion of future CHE is assumed to relate to the February 2011 earthquake, for which the Commission has already fully claimed reinsurance. As the cost is no longer reclaimable from reinsurers, this has resulted in a $57 million increase in the net outstanding claims liability.

Other Outstanding Claims Liability Assumptions

The following are the other key modelling assumptions that have been used in determining the outstanding claims liability:

	2015	2014
Weighted average term to settlement	1.00 years	0.45 years
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	2.9% to 3.0%	3.7% to 4.4%
Claims handling expense ratio	10.0%	7.3%
Demand surge*	15.0%	15.0%

**In 2014 the Demand surge percentage was incorrectly disclosed as 16% rather than 15%.*

2. Insurance Liabilities (continued)

Actuarial Assumptions and Methods (continued)

Sensitivity of Other Outstanding Liability 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 $22 million.

		IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
VARIABLE	MOVEMENTS IN VARIABLE	2015 $(000)	2014 $(000)
Weighted average term to settlement	+0.5 years	+22,000	+62,000
	-0.5 years	+9,000	-8,000
Claims inflation rate	+1.0%	+3,000	+6,000
	-1.0%	-10,000	-9,000
Discount rate	+1.0%	-20,000	-13,000
	-1.0%	+21,000	+13,000
Claims handling expense ratio	+1.0%	+13,000	+24,000
	-1.0%	-19,000	-25,000
Demand surge: probability of surge event	x1.5	+5,000	+11,000
Demand surge: surge severity	x1.5	+16,000	+77,000

These sensitivities within the actuarial valuation are in addition to the specific sensitivities around land and buildings that are discussed above.

The risk margin on the net outstanding claims liability for 2015 is 18.8%, up from 9.2% in 2014. The risk margin in 2015 continues to be determined based on an 85% (2014: 85%) probability of adequacy given the uncertainty, scale and financial impact of the Canterbury earthquakes.

The 2015 risk margin is $341 million (2014: $292 million) and is higher in gross and percentage terms than in 2014, reflecting the high levels of complexity and uncertainty in the Commission's outstanding Canterbury liability. The two material drivers of this are:

» Previous ILV land policy assumptions meant that a significant proportion of claims were calculated to be at the Commission's maximum liability level ("cap") in the central estimate, meaning that the Commission had no further fiscal risks from these claims. The update policy assumptions around DOV have reduced the number of claims that reach this cap. This has resulted in a lower central estimate, but an increased risk margin. This increase reflects the current uncertainty around the final value of the ILV claims.

» The claims settled over the past year had low levels of variability built into the model's risk margin as they related to claims with clear settlement pathways (i.e. less complex). This meant that the level of associated risk margin was low. Payment of these claims did therefore not flow through to a significant reduction in the risk margin.

2. Insurance Liabilities (continued)

Actuarial Assumptions and Methods (continued)

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 2015, 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 2015 and 30 June 2014.

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.

These processes used to determine assumptions within the actuarial valuation are in addition to the specific land, dwelling and claims handling expenses assumptions which are discussed earlier in the note.

OUTSTANDING CLAIMS LIABILITY	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
Central estimate of outstanding claims liability	(2,254,205)	(4,059,573)
Claims handling expenses	(243,787)	(241,889)
Risk margin	(341,094)	(292,290)
GROSS OUTSTANDING CLAIMS LIABILITY	**(2,839,086)**	**(4,593,752)**
Discount	69,887	62,032
DISCOUNTED OUTSTANDING CLAIMS LIABILITY	**(2,769,199)**	**(4,531,720)**
OUTSTANDING CLAIMS LIABILITY	**(2,769,199)**	**(4,531,720)**
Current	(1,668,201)	(4,382,932)
Non-current	(1,100,998)	(148,788)
	(2,769,199)	**(4,531,720)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY		
Outstanding claims liability at 1 July	(4,531,720)	(6,665,830)
Claims reduction	490,298	271,521
Non-cash items in claims expense	2,515	4,307
Claims payments during the year	1,282,541	1,868,399
Claims handling expense in trade and other payables	(12,833)	(10,117)
OUTSTANDING CLAIMS LIABILITY AT 30 JUNE	**(2,769,199)**	**(4,531,720)**

The change in the discount rates used within the valuation results in a $18,312,000 increase in the outstanding claims liability. This is a component of the Claims reduction.

2. Insurance Liabilities (continued)

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.

2015

	ACTUAL 2015 ($000)	ACTUAL 2014 ($000)	ACTUAL 2013 ($000)	ACTUAL 2012 ($000)	ACTUAL 2011 ($000)	ACTUAL TOTAL ($000)
CANTERBURY						
ULTIMATE CLAIMS EXPENSE ESTIMATE						
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	–	–	–	(442,947)	(10,965,420)	n/a
Four years later	–	–	–	n/a	(10,805,614)	n/a
CURRENT ESTIMATE OF ULTIMATE CLAIMS EXPENSE	**–**	**–**	**–**	**(442,947)**	**(10,805,614)**	**(11,248,561)**
Cumulative payments	–	–	–	345,616	8,428,742	8,774,358
OUTSTANDING CLAIMS LIABILITY (UNDISCOUNTED)	**–**	**–**	**–**	**(97,331)**	**(2,376,872)**	**(2,474,203)**
Discount to present value	–	–	–	2,186	67,419	69,605
OUTSTANDING CLAIMS LIABILITY (DISCOUNTED)	**–**	**–**	**–**	**(95,145)**	**(2,309,453)**	**(2,404,598)**
Canterbury event risk margin						(336,677)
NON-CANTERBURY						
Other claims (expected to be settled within a year)						(23,507)
Other risk margin						(4,417)
OUTSTANDING CLAIMS LIABILITY (85% PROBABILITY OF ADEQUACY, DISCOUNTED)						**(2,769,199)**

2. Insurance Liabilities (continued)

Development of claims for events (continued)

2014

	ACTUAL 2014 ($000)	ACTUAL 2013 ($000)	ACTUAL 2012 ($000)	ACTUAL 2011 ($000)	ACTUAL TOTAL ($000)
CANTERBURY					
ULTIMATE CLAIMS EXPENSE ESTIMATE					
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)	(11,121,973)	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)**

3. GROSS EARNED PREMIUMS

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Gross earned premiums	285,686	290,999	284,887
Less rebate to insurers	(7,112)	(7,275)	(7,086)
	278,574	**283,724**	**277,801**
Unearned premium opening	145,917	143,575	142,231
Unearned premium closing	(143,738)	(145,008)	(145,917)
	2,179	**(1,433)**	**(3,686)**
GROSS EARNED PREMIUMS	**280,753**	**282,291**	**274,115**

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.

4. OTHER REVENUE

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Claims related income	171	–	243
OTHER REVENUE	**171**	**–**	**243**

5. REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Gross reinsurance recoveries	(42,989)	–	(146,018)
Movement in discount	(1,078)	14,480	22,835
TOTAL DISCOUNTED REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES	**(44,067)**	**14,480**	**(123,183)**

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Gross reinsurance receivable	969,971	50,420	1,225,047
Discount	(17,356)	(770)	(16,278)
DISCOUNTED REINSURANCE RECEIVABLE	**952,615**	**49,650**	**1,208,769**
Other recoveries			
Sundry receivables	4,010	165	301
Aon Benfield	9,830	–	16,428
TOTAL OTHER RECOVERIES	**13,840**	**165**	**16,729**
TOTAL OUTSTANDING REINSURANCE AND OTHER RECOVERIES	**966,455**	**49,815**	**1,225,498**
Current	724,865	46,372	1,170,840
Non-current	241,590	3,443	54,658
	966,455	**49,815**	**1,225,498**

RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES			
Outstanding reinsurance and other recoveries at 1 July	1,225,498	1,161,595	2,627,343
Reinsurance and other (reductions)/recoveries	(44,067)	14,480	(123,183)
Reinsurance and other recoveries received during the year	(214,976)	(1,126,260)	(1,278,662)
OUTSTANDING REINSURANCE AND OTHER RECOVERIES AT 30 JUNE	**966,455**	**49,815**	**1,225,498**

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 2015 the total actuarial valuation of reinsurance recoveries was reduced by $42,989,000 to $4,298,525,000. This reduction was passed through the Reinsurance and other (reductions)/recoveries category within the Statement of Comprehensive Revenue and Expense.

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 2015, the discount for the outstanding reinsurance recoveries was increased by $1,078,000 to $17,356,000. This adjustment reduced the discounted reinsurance recoveries for the current financial year.

Aon Benfield recoveries relate to work which was performed in June 2015 for which the Commission has requested a reinsurance recovery. As at 30 June 2015 payment had not been received.

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

6. CLAIMS REDUCTION

SUMMARY	2015 CURRENT YEAR $(000)	2015 PRIOR YEARS $(000)	2015 TOTAL $(000)	2014 CURRENT YEAR $(000)	2014 PRIOR YEARS $(000)	2014 TOTAL $(000)
Gross claims expense – undiscounted	(35,825)	518,269	482,444	(111,874)	446,589	334,715
Discount – on total outstanding claims	282	7,572	7,854	1,661	(64,855)	(63,194)
GROSS CLAIMS EXPENSE – DISCOUNTED	**(35,543)**	**525,841**	**490,298**	**(110,213)**	**381,734**	**271,521**

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 further non-Canterbury claims incurred for which the paid and payable value is $35,543,000.

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	CUMULATIVE TOTAL* $(000)
CANTERBURY CLAIMS EXPENSE			
Advertising and publicity	(207)	(596)	(6,732)
Amortisation of intangibles	(832)	(695)	(1,656)
Fees paid to the auditor			
Audit of the financial statements	(216)	(209)	(821)
Data Analytics	–	–	(58)
Bad debts	(20)	–	(20)
Call centres and claims management – third party	(1,361)	(2,748)	(69,747)
Claims assessment fees (i)	(4,025)	(12,047)	(191,601)
Commissioners' fees	–	–	(90)
Consultant assurance services	–	(86)	(1,042)
Claims administrators and contractors	(4,879)	(5,201)	(57,033)
Depreciation	(1,663)	(3,216)	(15,889)
Employee remuneration and benefits (ii)	(61,698)	(70,566)	(218,856)
Engineers and consultants (iii)	(36,674)	(30,554)	(180,669)
Impairment loss	–	(396)	(396)
Loss on sale of property, plant and equipment	(68)	(99)	(191)
Office rental	(3,179)	(4,602)	(16,495)
Other costs	(12,013)	(15,841)	(69,076)
Project management and infrastructure – rebuilding programme (iv)	(70,314)	(89,653)	(332,417)
Restructuring costs	–	(25)	(54)
Superannuation contribution costs	(1,608)	(1,727)	(4,821)
Travel and accommodation	(4,326)	(5,313)	(68,308)
CANTERBURY CLAIMS HANDLING EXPENSES INCURRED	**(203,083)**	**(243,574)**	**(1,235,972)**
Provision for future claims handling expenses (undiscounted)	(13,777)	218,225	(244,266)
Claims settlements (undiscounted) (v)	662,776	457,849	(10,105,000)
Discount	9,522	(64,855)	69,605
CANTERBURY ESTIMATED COST OF EARTHQUAKES	**455,438**	**367,645**	**(11,515,633)**

6. Claims Reduction (continued)

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	CUMULATIVE TOTAL* $(000)
OTHER (NON-CANTERBURY) CLAIMS			
Other claims expenses	36,323	(85,784)	
Other claims handling costs	(1,463)	(10,340)	
CLAIMS REDUCTION	**490,298**	**271,521**	

(i) Claim assessment fees have reduced compared to prior year reflecting the later stages of the programme.
(ii) The number of employees has reduced in the year by approximately 28%.
(iii) Engineers and consultancy costs have increased in the year due to higher legal costs and engineering expertise required in relation to land claims.
(iv) Project management and infrastructure costs have reduced on the prior year as the repair programme reduces in scale.
(v) Includes actuarial changes to the gross claims liability and risk margin.

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

In 2015, $343,000 of make good costs which were disclosed in 2014 in other costs has been reclassified to office rental.

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

COSTS GROUPED BY FUNCTION *	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Catastrophe response programme	(19,832)	(21,375)	(15,850)
Public education	(1,205)	(1,444)	(1,356)
Research (excluding GeoNet)	(7,333)	(9,002)	(7,092)
GeoNet programme	(10,068)	(9,221)	(9,494)
Investment costs	(503)	(1,040)	(1,087)
TOTAL EXPENDITURE BY FUNCTION EXCLUDING CLAIMS EXPENSE	**(38,941)**	**(42,082)**	**(34,879)**
COSTS GROUPED BY EXPENSE TYPE			
Advertising and publicity	(1,558)	(2,188)	(2,877)
Amortisation of intangibles	(1,578)	(2,397)	(1,003)
Fees paid to the auditor			
Audit of the financial statements	(151)	(128)	(169)
Commissioners' fees	(333)	(220)	(284)
Consultants and contractors	(4,434)	(4,700)	(2,670)
Consultant assurance services	(31)	(165)	(71)
Depreciation	(3,303)	(4,067)	(3,261)
Employee remuneration and benefits	(7,446)	(7,951)	(6,394)
Grants for earthquake research	(3,586)	(4,299)	(2,753)
GeoNet operating costs	(6,802)	(5,891)	(6,355)
Investment and custodial expenses – third party	(125)	(50)	(142)
Loss on property, plant and equipment	(45)	–	(32)
Office rental	(496)	(454)	(385)
Sponsorships	(320)	(450)	(380)
Superannuation contribution costs	(254)	(97)	(216)
Technology costs	(6,799)	(6,722)	(6,133)
Other administration costs	(1,680)	(2,303)	(1,754)
TOTAL OPERATING COSTS (EXCLUDING CLAIMS EXPENSE AND CLAIMS HANDLING EXPENSE)	**(38,941)**	**(42,082)**	**(34,879)**

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

8. INVESTMENT INCOME

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
GLOBAL EQUITIES			
Equity gains	180	–	231
Foreign exchange losses	3	–	(2)
	183	**–**	**229**
NZ GOVERNMENT STOCK			
Interest and discount income	66,587	19,456	74,174
Price revaluation (losses)	(61,044)	(73,172)	(42,598)
Realised gains on disposal	86,889	66,659	–
	92,432	**12,943**	**31,576**
OTHER SHORT-TERM INVESTMENTS			
Interest income	81	–	24,561
TOTAL INVESTMENT INCOME	**92,696**	**12,943**	**56,366**

The Global equities income is in relation to class actions and tax reclaims linked to previously held Global equities.

9. MAJOR BUDGET VARIANCES

The total reinsurance recoverable from the Canterbury events has been reassessed in the June 2015 actuarial valuation and is $43 million lower than at June 2014. This reduction is recognised through the Statement of Comprehensive Revenue and Expenses and drives a variance to budget.

Statement of Comprehensive Revenue and Expense

REINSURANCE AND OTHER (REDUCTIONS)/RECOVERIES

The total reinsurance recoverable from the Canterbury events has been reassessed in the June 2015 actuarial valuation and is $43 million lower than at June 2014. This reduction is recognised through the Statement of Comprehensive Revenue and Expenses drives a variance to budget.

CLAIMS REDUCTION

Claims are $366 million favourable to budget driven by a significant reduction in the Ultimate Claims Liability for Canterbury as a result of increased claims settlement data and additional clarification on land settlement policies.

INVESTMENT ACTIVITIES

Revenue earnt from investments has exceeded budget by $100 million. This is because balances have been above budgeted levels throughout the financial year.

Statement of Financial Position

OUTSTANDING REINSURANCE AND OTHER RECOVERIES

The total reinsurance recoverable is $917 million higher than budget, reflecting claims payments being lower than the budgeted rate due to the high level of complexity of the remaining claims.

INVESTMENTS

Balances are higher than anticipated, as fewer investments have been required to be liquidated to meet cash requirements.

OUTSTANDING CLAIMS LIABILITY

Continuing delays caused by the complexity of the remaining Canterbury claims has meant that claim settlements have not occurred at the rate budgeted.

9. Major Budget Variances (continued)

Statement of Cash Flows

CLAIMS SETTLEMENTS AND HANDLING COSTS; REINSURANCE AND OTHER RECOVERIES

Slower than anticipated claims settlements due to legal, policy and operational complexities have resulted in monies received from reinsurers being significantly lower than budgeted.

SALE OF INVESTMENTS

As a result of lower cash requirements, the Commission has not been required to sell as many assets as it anticipated. These investments will be liquidated in future financial years.

10. NATURAL DISASTER FUND

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
CAPITALISED RESERVES	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS			
Balance as at 1 July	(2,581,578)	(2,492,767)	(2,870,431)
Net surplus and total comprehensive revenue and expense	657,516	223,486	288,853
BALANCE AS AT 30 JUNE	**(1,924,062)**	**(2,269,281)**	**(2,581,578)**
CLOSING BALANCE OF THE NATURAL DISASTER FUND	**(424,062)**	**(769,281)**	**(1,081,578)**

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 the Natural Disaster Fund may be depleted during the 30 June 2016 financial year, but the final timing may be dependent on factors outside of the Commission's immediate control.

11. OTHER RECEIVABLES

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Goods and Services Tax	33,049	39,083	47,650
TOTAL RECEIVABLES	**33,049**	**39,083**	**47,650**

12. FINANCIAL INSTRUMENTS

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE* THROUGH SURPLUS OR DEFICIT			
NZ Government securities	986,386	–	1,448,115
Term deposits	–	–	141,428
	986,386	**–**	**1,589,543**
LOANS AND RECEIVABLES			
Bank	479,133	–	734,695
Premiums receivable	53,503	53,038	55,522
Outstanding reinsurance and other recoveries	966,455	49,815	1,225,498
Other receivables	33,049	39,083	47,650
	1,532,140	**141,936**	**2,063,365**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST			
Bank	–	(601,133)	–
Trade and other payables	(28,425)	(10,946)	(39,743)
Provisions	(1,372)	(1,212)	(1,873)
	(29,797)	**(613,291)**	**(41,616)**
OUTSTANDING CLAIMS LIABILITY	**(2,769,199)**	**(150,178)**	**(4,531,720)**

* 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.

12. Financial Instruments (continued)

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. The 2011 direction was extended by direction dated 11 September 2014.

At 30 June 2015, the fair values and concentrations of the Commission's investments were as follows:

	2015 FAIR VALUE $(000)	2015 % OF TOTAL INVESTMENT	2014 FAIR VALUE $(000)	2014 % OF TOTAL INVESTMENT
NZ Government stock	846,619	85.8	1,093,517	68.8
NZ Government inflation-indexed	139,767	14.2	354,598	22.3
TOTAL GOVERNMENT SECURITIES	**986,386**	**100.0**	**1,448,115**	**91.1**
Term deposits	–	–	141,428	8.9
TOTAL INVESTMENTS	**986,386**	**100.0**	**1,589,543**	**100.0**
Current*	139,767	14.2	329,080	20.7
Non-current*	846,619	85.8	1,260,463	79.3
	986,386	**100.0**	**1,589,543**	**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:

	2015 YIELD	2015 DURATION	2014 YIELD	2014 DURATION
NZ Government stock	3.04%	4.31 yrs	4.08%	4.36 yrs
NZ Government inflation	2.85%	0.61 yrs	2.07%	1.56 yrs
Long and short term deposits	–	–	3.70%	22 days
On-call funds	3.41%	n/a	3.51%	n/a

12. Financial Instruments (continued)

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 Revenue and Expense. 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 $18,168,058 (2014: $25,723,341). A 50 basis point decrease would decrease the deficit by $18,652,441 (2014: $26,466,886).

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. $451,687,967 was held on-call (2014 on-call: $399,074,549, term deposits: $432,656,740).

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 counter-parties 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.

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 counter-party default rates:

CREDIT RATINGS – FINANCIAL INSTRUMENTS	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Bank		
AA-	333,750	770,780
A+	40,108	105,343
A	105,275	–
TOTAL	**479,133**	**876,123**
Reinsurance recoveries		
AA	47,634	57,903
AA-	326,090	394,220
A+	413,388	528,628
A	131,300	163,431
A-	44,033	81,015

12. Financial Instruments (continued)

CREDIT RATINGS – FINANCIAL INSTRUMENTS	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
	962,445	**1,225,197**
GST receivable		
AA+	**33,049**	**47,650**
Premiums receivable		
AA-	28,466	19,611
A+	17,934	13,521
A	3,205	3,557
A-	3,379	18,772
Other	519	61
	53,503	**55,522**
Counter-parties without credit ratings		
SUNDRY RECEIVABLES	**4,010**	**301**

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 licence 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 (2014: 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

2015

	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)	WORK IN PROGRESS $(000)	TOTAL $(000)
At 1 July 2014	73	151	–	738	8,443	10	6,587	1,230	753	2,132	33,778	–	**53,895**
Additions	–	–	–	4	8	–	9	–	–	437	1,926	456	**2,840**
Disposals	(39)	(5)	–	(305)	(772)	–	(1,136)	–	–	(357)	(2,896)	–	**(5,510)**
AT 30 JUNE 2015	**34**	**146**	**–**	**437**	**7,679**	**10**	**5,460**	**1,230**	**753**	**2,212**	**32,808**	**456**	**51,225**
ACCUMULATED DEPRECIATION													
At 1 July 2014	(56)	(79)	–	(655)	(4,226)	(6)	(6,123)	(396)	(302)	(1,692)	(20,762)	–	**(34,297)**
Depreciation charge	(3)	(20)	–	(51)	(1,286)	(3)	(374)	–	(29)	(420)	(2,780)	–	**(4,966)**
Disposals	33	5	–	305	544	–	1,123	–	–	356	2,860	–	**5,226**
AT 30 JUNE 2015	**(26)**	**(94)**	**–**	**(401)**	**(4,968)**	**(9)**	**(5,374)**	**(396)**	**(331)**	**(1,756)**	**(20,682)**	**–**	**(34,037)**
CARRYING AMOUNTS AT 30 JUNE 2015	**8**	**52**	**–**	**36**	**2,711**	**1**	**86**	**834**	**422**	**456**	**12,126**	**456**	**17,188**

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)	WORK IN PROGRESS $(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**

14. INTANGIBLE ASSETS

2015

	NON-CANTERBURY		CANTERBURY			
COST	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
At 1 July 2014	1,241	5,505	2,242	8,988	3,436	**12,424**
Additions	1,949	–	–	1,949	1,552	**3,501**
Transfer	1,597	–	408	2,005	(2,079)	**(74)**
Disposals	(79)	–	(109)	(188)	–	**(188)**
AT 30 JUNE 2015	**4,708**	**5,505**	**2,541**	**12,754**	**2,909**	**15,663**
ACCUMULATED AMORTISATION						
At 1 July 2014	(445)	(3,447)	(907)	(4,799)	–	**(4,799)**
Amortisation charge	(792)	(787)	(831)	(2,410)	–	**(2,410)**
Disposals	79	–	109	188	–	**188**
AT 30 JUNE 2015	**(1,158)**	**(4,234)**	**(1,629)**	**(7,021)**	**–**	**(7,021)**
CARRYING AMOUNTS AT 30 JUNE 2015	**3,550**	**1,271**	**912**	**5,733**	**2,909**	**8,642**

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)**
Transfer	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**

15. TRADE AND OTHER PAYABLES

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Trade payables and accruals	(23,533)	(9,696)	(34,705)
Tax on reinsurance	(4,892)	(1,250)	(5,038)
	(28,425)	**(10,946)**	**(39,743)**

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 2015, an accrual for annual leave of $24,000 from 2014 has been reclassified from Provisions to Trade and Other Payables.

16. PROVISIONS

	MAKE GOOD $(000)	EMPLOYEE BENEFITS $(000)	TOTAL $(000)
BALANCE AT 1 JULY 2013	**–**	**(19)**	**(19)**
Additional provisions	(347)	(1,512)	(1,859)
Provisions released	–	5	5
Amount used	–	–	–
BALANCE AT 30 JUNE 2014	**(347)**	**(1,526)**	**(1,873)**
ADDITIONAL PROVISIONS	**(178)**	**(574)**	**(752)**
Provisions released	332	100	432
Amount used	–	821	821
BALANCE AT 30 JUNE 2015	**(193)**	**(1,179)**	**(1,372)**
Current	–	(1,162)	(1,162)
Non-current	(193)	(17)	(210)
TOTAL PROVISION	**(193)**	**(1,179)**	**(1,372)**

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 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
Unearned premium liability at 1 July	(145,917)	(143,575)	(142,231)
Deferral of premiums on contracts written in the period	(143,738)	(145,008)	(145,917)
Earning of premiums written in previous periods	145,917	143,575	142,231
UNEARNED PREMIUM LIABILITY AT 30 JUNE	**(143,738)**	**(145,008)**	**(145,917)**

18. UNEXPIRED RISK LIABILITY REDUCTION/(INCREASE)

The unexpired risk liability was determined as follows:

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
CALCULATION OF DEFICIENCY			
Cost of future claims from unexpected risks, undiscounted – central estimate	123,621	141,476	143,561
Administration and reinsurance costs for unexpired risks	90,929	89,621	89,724
Reinsurance recoveries, undiscounted	(15,402)	(13,955)	(16,087)
NET PREMIUM LIABILITIES, UNDISCOUNTED – CENTRAL ESTIMATE	**199,148**	**217,142**	**217,198**
Discounting	(3,553)	(4,463)	(5,061)
NET PREMIUM LIABILITIES, DISCOUNTED – CENTRAL ESTIMATE	**195,595**	**212,679**	**212,137**
Risk margin	–	970	3,436
NET PREMIUM LIABILITIES	**195,595**	**213,649**	**215,573**
Unearned premium liability	(143,738)	(145,008)	(145,917)
NET DEFICIENCY	**51,857**	**68,641**	**69,656**

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
UNEXPIRED RISK LIABILITY			
Unexpired risk liability balance at 1 July	(69,656)	(70,075)	(60,762)
Movement for the year	17,799	1,434	(8,894)
UNEXPIRED RISK LIABILITY AT 30 JUNE	**(51,857)**	**(68,641)**	**(69,656)**

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.

The risk margin on premium liabilities for 2015 is 0%, down from 1% in 2014. The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin is $0 at 30 June 2015 because the distribution of potential claims is heavily skewed and, as a consequence, the central estimate (mean) outcome is greater than the 75th percentile.

18. Unexpired Risk Liability Reduction/(Increase) (continued)

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	2015 $(000)	2014 $(000)
Discount rate	+1.0%	-1,200	-1,400
	-1.0%	+1,200	+1,300
Base inflation	+1.0%	+2,200	+2,400
	-1.0%	-2,200	-2,400
Future claims handling expense ratio	+1.0%	+1,300	+1,400
	-1.0%	-1,300	-1,400
Average term to settlement	+0.5 years	-1,400	-1,500
	-0.5 years	+1,000	+1,200

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 2015 (2014: $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 470,561 claims from the Canterbury earthquakes, of which some disputes and the possibility of litigation is inevitable. As at 30 June 2015, EQC had 155 open litigation cases before the courts relating to claims under the EQC Act.

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 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	3,465	3,267
Later than one year but not later than two years	2,303	3,250
Later than two years but not later than five years	–	2,160
TOTAL CLAIMCENTER COMMITMENT	**5,768**	**8,677**

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 the Commission.

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	3,003	2,893
Later than one year but not later than two years	1,445	2,058
Later than two years but not later than five years	–	1,159
TOTAL CLAIMCENTER COMMITMENT	**4,448**	**6,110**

REINSURANCE CONTRACTS

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

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	126,596	127,948
Later than one year but not later than two years	27,523	27,500
TOTAL REINSURANCE COMMITMENTS	**154,119**	**155,448**

21. Commitments (continued)

MUSEUMS

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

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	300	350
Later than one year but not later than two years	–	300
TOTAL MUSEUM COMMITMENTS	**300**	**650**

RESEARCH GRANTS

Future research grants which have been approved by the Board.

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	2,635	1,499
Later than one year but not later than two years	1,620	892
Later than two years but not later than five years	2,257	1,253
TOTAL RESEARCH GRANT COMMITMENTS	**6,512**	**3,644**

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. The funding is agreed at the beginning of the term and reviewed after 5 years.

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
CAPITAL COMMITMENT		
Not later than one year	4,137	3,274
Later than one year but not later than two years	3,385	–
Later than two years but not later than five years	6,770	–
OPERATING COMMITMENT		
Not later than one year	7,863	5,890
Later than one year but not later than two years	6,615	–
Later than two years but not later than five years	13,230	–
TOTAL GNS SCIENCE COMMITMENTS	**42,000**	**9,164**

21. Commitments (continued)

BUILDING LEASES

The Commission has various leases on premises in Wellington, Christchurch and Hamilton based on the Commission's anticipated requirements.

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
OPERATING COMMITMENT		
Not later than one year	2,610	2,021
Later than one year but not later than two years	1,986	1,675
Later than two years but not later than five years	1,461	1,723
TOTAL BUILDING LEASE COMMITMENT	**6,057**	**5,419**

OTHER COMMITMENTS

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

22. RELATED PARTY TRANSACTIONS

The 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 for the 2015 year included all Commissioners, the Chief Executive and twelve senior managers (2014: all Commissioners, the Chief Executive and ten senior managers).

KEY MANAGEMENT PERSONNEL COMPENSATION

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)
Salaries and other employee benefits	2,862	2,629

The related party transactions below are within the Commission's normal course of business and are GST exclusive apart from the claims lodged which are GST-inclusive.

The Commission purchased insurance of $35,126 from Southern Cross Medical Care Society, an organisation of which KB Taylor is a director (2014: $38,781).

In the 2015 financial year, the Commission purchased services of $759,593 from Kiwi Income Property Trust, a company of which M Daly is a director. The services purchased related to office rental. In 2014, Kiwi Income Property Trust was not a related party.

In the 2015 financial year the Commission received levies of $94,383,812 (2014: $96,298,193) from IAG New Zealand Limited, a former employer of M Daly. M Daly had an entitlement to executive performance rights with respect to IAG share-based remuneration in the event that certain conditions were met.

In the 2015 financial year, the Commission received levies from insurance companies within the Suncorp Group of $64,722,610 (2014: $63,792,279), a company of which R Bell is a shareholder.

In the 2014 financial year, the Commission purchased services of $111,934 from City Care Limited, an organisation of which P Kiesanowski was the Acting Chief Financial Officer. The services purchased were for the supply of steel plates and concrete blocks for use in testing. In the 2015 financial year, no services were purchased from City Care Limited.

The Commission purchased services of $2,570 (2014: $6,510) from New Zealand Red Cross, an organisation of which P Kiesanowski is a director. The services purchased related to first aid courses.

The Commission purchased services of $1,240 (2014: $1,739) from Red Bus Limited, an organisation of which P Kiesanowski is a director. The services purchased related to the hiring of buses.

During the 2015 financial year, the Commission paid $428 (2014: $185,000) in relation to claims lodged by Board members, key management personnel and their close family members. As at 30 June 2015, two (2014: three) members of the senior management team have lodged claims but no payments have been made as at 30 June 2015.

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 2015, one employee (2014: two employees) fell into this category.

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

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	
M Wevers	72	69	Appointed 12 June 2013, Chairman from 1 August 2013
MC Wintringham	–	4	Appointed Deputy Chairman 1 June 2004, as Chairman 26 July 2006. Term concluded 31 July 2013
KB Taylor	45	45	Appointed 18 August 2006, as Deputy Chairman 1 May 2009
D Bovaird	–	1	Appointed 1 January 2012. Term concluded 31 July 2013
R Black	36	36	Appointed 1 December 2010
T Burt	–	12	Appointed 1 December 2010. Term concluded 31 December 2013
G Smith	36	36	Appointed 1 October 2011
A O'Connell	36	30	Appointed 1 September 2013
R Bell	36	31	Appointed 1 August 2013
M Daly	36	10	Appointed 14 March 2014
P Kiesanowski	36	10	Appointed 14 March 2014
TOTAL	**333**	**284**	

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 number 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 2015	ACTUAL 2014
100-110	20	32
110-120	74	89
120-130	47	45
130-140	25	16
140-150	13	14
150-160	15	7
160-170	4	9
170-180	6	5
180-190	3	8
190-200	5	–
200-210	–	–
210-220	4	–
220-230	1	2
230-240	2	3
240-250	–	–
250-260	–	1
260-270	1	2
270-280	–	–
280-290	2	1
290-300	1	1
310-320	–	1
320-330	–	–
350-360	1	–
360-370	–	–
420-430	–	1
440-450	1	–
	225	**237**

The above remuneration includes amounts that have vested to current employees based on the achievement of service milestones.

In addition to the above, and in accordance with confidential contractual agreements, 23 payments totalling $787,547 were made during the year (2014: $247,510).

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

	ACTUAL 2015 $(000)	BUDGET 2015 $(000)	ACTUAL 2014 $(000)
NET SURPLUS	**657,516**	**223,486**	**288,853**
Add non-cash items:			
Depreciation and amortisation	7,376	6,464	8,175
Impairment of land	–	–	396
TOTAL NON-CASH ITEMS	**7,376**	**6,464**	**8,571**
LESS ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Discount income and investment price revaluations	(92,697)	(12,942)	(56,366)
Loss/(gain) on disposal of property, plant and equipment	113	–	131
TOTAL ITEMS CLASSIFIED AS INVESTING ACTIVITIES	**(92,584)**	**(12,942)**	**(56,235)**
ADD/(LESS) MOVEMENTS IN STATEMENT OF FINANCIAL POSITION ITEMS:			
Premiums receivable	2,019	(525)	(761)
Outstanding reinsurance and other recoveries	259,043	1,111,780	1,401,845
Other receivables	14,601	27,000	1,548
Prepayments	1,027	682	(316)
Trade and other payables	(11,318)	(32,250)	(11,675)
Provisions	(501)	(950)	1,878
Outstanding claims liability	(1,762,521)	(3,944,054)	(2,134,110)
Unearned premium liability	(2,179)	1,434	3,686
Unexpired risk liability	(17,799)	(1,434)	8,894
NET MOVEMENTS IN WORKING CAPITAL ITEMS	**(1,517,628)**	**(2,838,317)**	**(729,011)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**(945,320)**	**(2,621,309)**	**(487,822)**

25. EVENTS AFTER BALANCE DATE

There were no significant events after balance sheet date.

26. ADJUSTMENTS ARISING ON TRANSITION TO THE NEW PBE ACCOUNTING STANDARDS

Reclassification adjustments: There have been no reclassifications on the face of the financial statements in adopting the new PBE accounting standards.

Recognition and measurement adjustments: No recognition and measurement adjustments were required to the 30 June 2014 comparative information resulting from the transition to the new PBE accounting standards.

ENSURING ORGANISATIONAL **HEALTH AND 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 continue to support a number of key initiatives that encourage staff interaction and engagement.

This year we established a set of EQC values identifying ways of making EQC a success and a place where staff want to work. Our values were developed through a series of workshops with EQC staff. This involvement has created a strong sense of ownership and we have many examples of staff and managers embodying those values in their day-to-day work, interactions with other teams, and our customers.

Our values support the performance of our people and our policies. Our values are:

- we're always learning;
- we do the right thing;
- we're better together; and
- we make a difference for people.

We have continued to support our staff through our well-being programme with a key focus on building personal resilience. We are an employer of diverse cultures, which helps us align us to our customers. Our Equal Employment Opportunity (EEO) initiatives have included identifying our ethnic diversity, which we report on for the first time this year. We support staff with reported disabilities and a disability register is held in case of emergency. Other EEO initiatives continue to support EQC's diversity, our talent and providing learning and development opportunities for all staff. Our focus continues to be on attracting, supporting, developing and retaining our people, consistent with being a good employer in terms of the Crown Entities Act 2004.

Below is how EQC has responded to the seven key elements of being a good employer as set down by the Human Rights Commission. These elements are:

- leadership, accountability and culture;
- recruitment, selection and induction;
- employee development, promotion and exit;
- flexibility and work design;
- remuneration, recognition and conditions;
- harassment and bullying prevention; and
- safe and healthy environment.

SEVEN ELEMENTS OF BEING A GOOD EMPLOYER

ELEMENTS	INITIATIVES
Leadership, accountability and culture	• Held one-day sessions for the Senior Leaders Group each quarter. • Introduced Leadership Bites sessions over breakfast with external and internal speakers to gain insights into leadership practice. • The Foundations for Leaders programme for frontline leaders has been rolled out for those new to leadership roles. • Leaders have also been supported with tools and strategies such as the *Leading through Change* workshop.
Recruitment, selection and induction	• Initiatives 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 and selection decisions on competencies, skills and experience, and support new staff with a comprehensive orientation and induction programme which often includes technical skill-based training.
Employee development, promotion and exit	• We develop our staff capability through technical skill-based training, onsite mentoring and coaching, and internal and external secondments. • The implementation of our online learning system enabled us to deliver refresher privacy training to over 50% of our staff – further strengthening our commitment to keeping our customers' information safe. • Staff are offered development courses including customer service, communication and leadership, and access to our Professional Development Fund, which enables staff to identify interventions to support their current and future careers. • We have worked on identifying opportunities for current staff to be transferred or promoted into new positions, with the number of existing staff being promoted into new positions increasing from 29 percent to 49.5 percent. • We conduct exit interviews. The information is used to determine what we can do to improve our work experience.
Flexibility and work design	• We provide flexible working arrangements and encourage a healthy work/life balance. • All roles have a clear position description that outlines the key result areas, skills and competencies required to be successful in the role. These position descriptions are updated regularly.
Remuneration, recognition and conditions	• Our remuneration strategy and policy is reviewed annually and we balance the need to recognise and reward individual contributions with business objectives, affordability, fairness, market factors, recruitment and retention.
Harassment and bullying prevention	• Our policies dealing with conduct, harassment and discrimination, and disciplinary matters focus on expected behaviours. • We review our EEO polices on an annual basis. This year we added anti-bullying tools and guides to support staff and managers. • Our new values reinforce our expectations of all EQC staff. These are being included in all policies as they come up for review.
Safe and healthy work environment	• This year we gained tertiary level accreditation following the ACC Workplace Safety Management Practices Programme Audit. This recognises the effort we have made to ensure Health and Safety is a key priority within EQC. • Health and Safety induction programmes and on-going training and education. • Health topics such as Sleep Smarter and Energise to support personal resilience. • Building on our Wellness initiatives, including promoting Tracksuit Inc, an interactive web-based health and wellbeing monitoring programme, providing free influenza inoculations and inviting staff to participate in our Healthy Heart programme. • Embedding our OfficeSafe priorities into daily working activities by providing interactive information based on the top five identified office based hazards – especially ergonomic comfort. • In addition the Safe6 fatal risk initiative has been a major focus throughout the duration of CHRP. Safe6 targets the risks and incidence of unsafe practices most likely to contribute to injury (e.g. medical treated injury and/or lost time injuries) or fatalities. This is a collaborative initiative that was developed with our CHRP partner and was recently recognised as a finalist in the Leadership Category of the NZ Safeguard Awards.

PROFILE OF OUR PEOPLE

Our headcount has continued to decrease over the past three years. Staffing levels, which rose to more than 1800 after the earthquakes, are now down to just under 900, and will decrease in the coming 12-18 months as our remaining tasks in Canterbury draw to a close. This was always to be expected and has been achieved through attrition and ensuring our teams are the right size for the remaining work. Every effort is being made to assist departing staff find new employment.

As fixed-term contracts come to an end, staff are naturally looking for opportunities outside of EQC. This is reflected in an increase in our turnover rates over the last three years. While our average length of service is 2.3 years, just over 60 percent of our staff have been with EQC for three years or more.

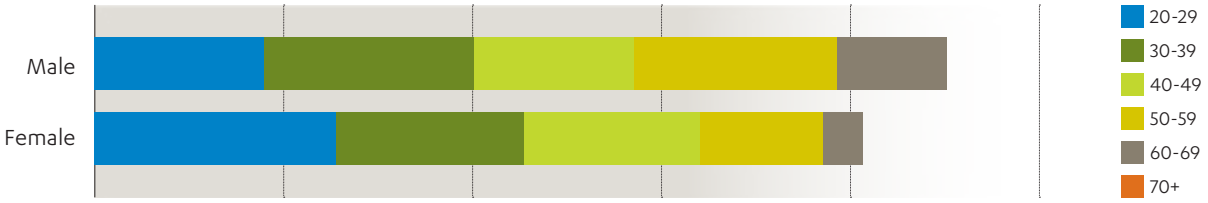
PROFILE OF OUR PEOPLE	2012/13	2013/14	2014/15
Headcount	1,345	1,161	885
Male	56%	52%	52%
Female	44%	48%	48%
Staff turnover*	29.3%	28.3%	34.5%
High achievers**	18%	24%	19.4%
High achiever turnover	N/A	10%	29.1%
Average number years of service	1.34	1.7	2.3

**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.*

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

A breakdown of our gender balance shows the wide age range of individuals who work for EQC across both male and female staff.

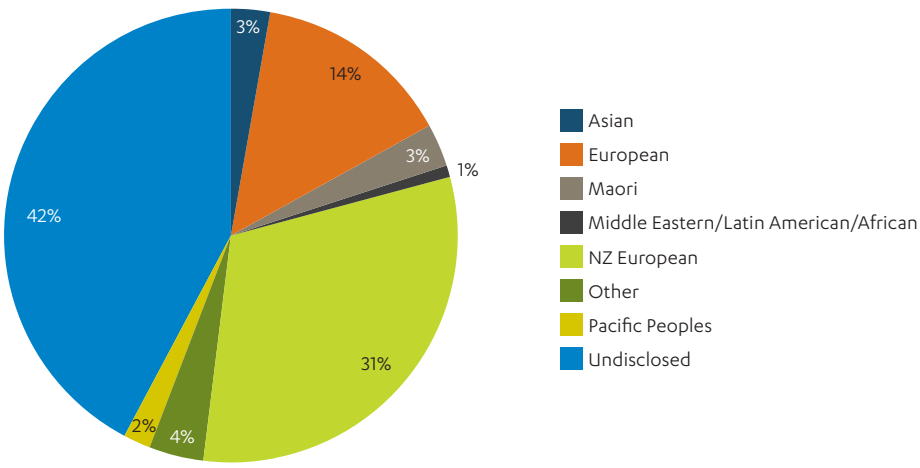
AGE RANGE BY GENDER



EQC is made up of a diverse range of people, from the Middle East, Latin America, Africa,Europe, Asia and the Pacific. This year for the first time we have provided an optional opportunity for existing staff to update their personal details with their ethnicity information. This helps us to better understand our ethnic diversity. As at 30 June 2015, 58% of staff had provided us with this information (shown below).

The People and Capability team have refreshed their processes to capture this information at the point of induction with the aim of having a more complete picture over time.

ETHNICITY



OTHER **DISCLOSURES**

ULTRA VIRES TRANSACTIONS

EQC has identified 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. In these cases, EQC will rectify the situation if the customer has not received their full entitlement under the EQC Act.

MINISTERIAL **DIRECTIONS**

In summary, directions to EQC that remained current as at 30 June 2015 were:

- **Effective 1 November 2001** – a direction setting out requirements for how EQC should invest and manage the Natural Disaster Fund, and when EQC should consult with the Minister of Finance. This direction allowed EQC to diversify the investment of the Fund to include (up to certain limits) New Zealand Government securities, global equities and New Zealand bank bills. This direction has now been revoked and replaced by a direction dated 27 July 2015, which came into effect that day. However the Statement of Investment Policies, Standards, and Procedures prepared under the 2001 direction continues and is amended subject to the 2015 direction.
- **Effective 14 December 2010** – a direction 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** – a direction 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** – a direction amending the direction effective 1 November 2001 (now replaced – see above). This direction set out requirements for how EQC should invest and manage the Natural Disaster Fund, and when EQC should consult with the Minister of Finance.
- **Effective 11 September 2014** – a direction extending the direction above.
- **Effective 20 December 2012** – a direction allowing EQC to pay out on damage apportioned to unclaimed events.
- **Effective 2 December 2013** – a direction amending 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 relating to functional leadership requirements for ICT, property and procurement.

DIRECTORY

MINISTER RESPONSIBLE FOR THE EARTHQUAKE COMMISSION – THE HON GERRY BROWNLEE

The EQC Act requires EQC to have a board of between five and nine members, including a chairperson. Board members are appointed by the Minister Responsible for the Earthquake Commission. The Board members and their term expiry dates are outlined in the table below. The current EQC Board has eight Commissioners. No Commissioners have terms expiring in 2015.

SIR MAARTEN WEVERS

CHAIR – KNZM, BSC, BA(HONS), CMINSTD, FANZSOG

Sir Maarten Wevers was appointed Chair of the EQC Board in August 2013. Sir Maarten served as Chief Executive of the Department of the Prime Minister and Cabinet from 2004 until 2012. He was formerly Ambassador to Japan and High Commissioner to Papua New Guinea. Sir Maarten is a member of the Audit Committee of the Ministry of Social Development; a trustee of the Fred Hollows Foundation and the National Army Museum; a member of the Ministry of Primary Industries Investment Advisory Panel for the Primary Growth Partnership, and the Registrar of Pecuniary and other Specified Interests of Members of Parliament.

Term ends: 31 May 2016

KEITH TAYLOR

DEPUTY CHAIR – CFINSTD, BSC, BCA, FIA (LONDON), FIAA

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, 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

PAUL KIESANOWSKI –

COMMISSIONER – BCOM, CA ANZICA

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

Term ends: 28 February 2017

DR ALISON O'CONNELL

COMMISSIONER – MA, MSC, PHD, FIA (LONDON), FNZSA

Dr Alison O'Connell was appointed to the EQC Board in September 2013. She is an actuary and research consultant who has held senior positions at Swiss Re, Mercer, and McKinsey & Co. She was founding Director of the Pensions Policy Institute in London. Dr O'Connell lives in Christchurch, and was an advisor at the Canterbury Earthquake Recovery Authority. She is also a Director at the Education Benevolent Society.

Term ends: 30 June 2018

ROGER BELL

COMMISSIONER – FINZ, MINSTD, CIP

Roger Bell was appointed to the EQC Board in August 2013. As past Chief Executive of Vero Insurance, Roger has a passion for organisational excellence. He is a past Director, and long-term Chairman, of the New Zealand Business Excellence Foundation, a not-for-profit body which assists New Zealand organisations to achieve world-class performance and results as measured by the global Baldrige Criteria across a number of disciplines. 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 a strong advocate for animal welfare as a Director and Deputy Chairman of SPCA Auckland.

Term ends: 30 June 2018

RUSSELL BLACK

COMMISSIONER – BE (CIVIL) (HONS), FRENG (UK), FHKAES, FIPENZ, FHKIE

Russell Black was appointed to the EQC Board in December 2010. Before that he spent 34 years managing major infrastructure projects in Hong Kong, Singapore, England and China. He was Projects Director for Hong Kong's rail operator, MTR Corporation Ltd, for 18 years. Russell served on the Hong Kong government's Vocational Training Council from 1998 to 2002, the Construction Advisory Board from 1993 to 1999, and Provisional Construction Industry Coordination Board (and subsequently the Construction Industry Council) from 2001 to 2010. He is a Director of Northpower Ltd and the NSW Government's Sydney Metro 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, GAIDC, CM INST D

Mary-Jane 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. Mary-Jane has a strong background in banking and finance with extensive experience in a variety of roles both in New Zealand and the UK. Mary-Jane is an Independent Director of the New Zealand Green Building Council, Airways Corporation of New Zealand and Kiwi Property Group Limited.

Term ends: 28 February 2017

EXECUTIVE LEADERSHIP TEAM

I Simpson – Chief Executive
G Kettle – GM Customer & Claims
B P Dunne – GM Strategy and Transformation
J Galt – GM Governance
H A Cowan – GM Reinsurance, Research & Education
S Carter – GM Communications & Public Education
L Jelbert – GM People & Capability
G Dudgeon – GM Shared Services

AUDITORS

Deloitte (On behalf of the Auditor-General)

BANKER

ANZ Bank New Zealand Limited, Wellington

SOLICITORS

Chapman Tripp, Wellington

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New Zealand Government