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EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

ANNUAL REPORT 2015/16

"LEARNING FROM THE PAST, BUILDING FOR THE FUTURE"

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 Earthquake Commission (EQC) provides homeowners with a base level of insurance cover against a range of natural disasters for a standard price nationwide. A priority for EQC is to support keeping natural disaster insurance premiums affordable, and thereby keep insurance penetration rates among homeowners at high levels.

The damage generated by the Canterbury earthquakes presented EQC with the largest insurance claims event in New Zealand's history and one of the largest ever globally. Six years on, the resolution of contents, dwelling and land claims has been substantially achieved, with the majority of the remainder expected to be completed by the end of 2016.

The experiences of the past six years have provided indispensable lessons to inform our decisions and actions. EQC is well-placed to increase our value to New Zealanders and add to the national expertise on managing natural disaster risk.

As we work towards transitioning to an organisation prepared for the challenges ahead we will not forget the contributions of our committed staff, and the valuable lessons we have learnt through our interactions with our customers and stakeholders.

OPENING STATEMENT FROM THE CHAIR

Over the past six years, New Zealand's natural disaster insurance scheme has been put to the test many times. The destructive earthquakes that started shaking Canterbury in September 2010, including the fatal 2011 quake, placed enormous pressure on local residents and communities, and heavy responsibilities on the Earthquake Commission (EQC).

The scale and duration of the seismic sequence drove EQC into uncharted territory as it set out to support Cantabrians on their difficult recovery journey.

Our role in Canterbury is now drawing to a close. We are on track to substantially complete our work by the end of 2016. We will be seeking to complete any remaining work and outstanding claims during 2017.

The focus of the Board and management is increasingly turning to what sort of organisation is needed after EQC's Canterbury work is completed – how many staff, what capabilities, what systems, and so on.

As we enter this final phase we have an opportunity to reflect on what we have been through as an organisation and what we have achieved through our contributions and experiences in Canterbury's recovery.

In leading the largest and most complex disaster insurance claims management and settlement programme ever undertaken by a single insurer worldwide, EQC has built up a wealth of experience and capability. Much of what we have learned has come from our customers, communities, contractors and the other recovery groups with whom we have collaborated. We have the opportunity and responsibility to draw lessons and value from those interactions to build a stronger and more effective EQC better able to deal with another major event in future.

Over the year to 30 June, EQC completed an additional 1369 substantive repairs to residential buildings. As at 30 June, there were less than 300 substantive repairs left to resolve. These were on track to be completed by the end of the year.

Good progress has also been made over the past 12 months in commencing settlement of complex land claims – including for Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV) land damage. These types of land damage have never before been recognised as insured damage anywhere in the world.

EQC's unique cover of land damage required careful analysis of what damage had occurred to land in Canterbury, and whether, and to what extent, it might be covered by the Earthquake Commission Act 1993 (EQC Act). Eventually, EQC approached the High Court for a declaratory judgment to establish a firm legal foundation for our proposed approach to settling these IFV claims. The Court supported our proposal, which allowed us to commence engaging with customers who might qualify for settlement of IFV and/or ILV land damage.

During the past year, the Board signed off on the policy to settle ILV land claims, and settlements commenced for IFV and ILV land damage. Most of these claims are expected to be settled by the end of 2016.

Our deliberate and measured approach to settling these types of complex land claims underscored the importance of always talking to our customers, even when some of the technical concepts are highly challenging to communicate. It also underlined that in certain cases it can be helpful to seek a declaratory judgment from the Court to establish whether proposed policies or settlement approaches have a sound legal foundation.

More broadly, EQC has continued to give priority to ensuring there is a proper legal interpretation of our obligations under our governing legislation. As outlined in this report, the total number of litigation cases involving EQC in relation to the Canterbury events has been modest, given the huge number of claims lodged. Like any entity, EQC must always abide by the law. EQC has always sought to resolve legal challenges or disputes directly with customers, preferably without requiring Court proceedings. But where matters do end up in Court, EQC has stood its ground where appropriate, and abided by judges' rulings in all cases.

The importance of engaging with customers as fully as possible was evident in EQC's response to the Christchurch earthquakes that occurred in February 2016, which generated nearly 14,000 damage claims. The quake series that occurred on Valentine's Day and Leap Day was a significant event for EQC. While most damage was minor, the series allowed EQC to test a new service delivery model designed and implemented using lessons from the earlier Canterbury events, customer feedback and input. Some $4.7 million in claims had been paid out by the end of June 2016.

EQC's financial resilience and ability to settle claims is underpinned by reinsurance contracts with international reinsurers. This year we have again successfully negotiated reinsurance cover for our exposure, at affordable premiums. The reinsurers' ongoing confidence in and support for EQC reflects our strong international reputation for sound strategy and claims management and good science and research. Reinsurers provide ongoing, and essential, cover for New Zealand for another natural disaster. EQC's research programme reduces vulnerability to natural hazards which in turn attracts reinsurance support and keeps personal premiums affordable.

Good scientific research, however, does not happen in a vacuum. GeoNet, for example, is an effective, internationally recognised 15-year partnership between EQC and GNS Science that has yielded direct benefits to each organisation, and the nation, which neither organisation could have achieved alone. GNS Science and GeoNet have critical roles in expanding New Zealanders' understanding of earthquake and volcanic hazards and risks. EQC is keen to strengthen a similarly collaborative approach with other partners, including local government, to improve risk management to protect community assets and strengthen local resilience.

EQC has much experience and knowledge to share with other countries that are vulnerable to geological hazards, and we do share those insights. EQC, which had its origins in the Earthquake and War Damage Commission established in 1945, was the result of a far-sighted commitment at that time to protect the public good by helping New Zealanders recover more quickly after natural disasters. That mandate remains–to provide secure, affordable disaster insurance arrangements to homeowners so that, following a natural disaster, they have a level of cover that will assist in rebuilding their lives.

On behalf of the Board, I once again extend my gratitude to all staff and management at EQC, and to our many contractors and support partners, who have worked so hard to assist the people of Canterbury to recover and rebuild their communities and lives over the past six years. At this stage in the process, when so many staff can expect to be leaving the organisation in coming months, I wish to say: "Thank you for a job well done and for your commitment to Canterbury's recovery."

We all know that the past few years have been an enormous challenge for all of us, and that things have not gone as well as they might have at all times. Nevertheless, what we have achieved together is unique internationally, and has made a real difference to our community.

Maarten Wevers.

Sir Maarten Wevers, KNZM, Chair

CHIEF EXECUTIVE'S REPORT

At the beginning of 2016, the recovery work that followed the 2010/11 Canterbury earthquakes was well on the way to completion. When the shaking happened again on 14 and 29 February 2016, painful memories returned for Christchurch residents, and EQC's people were prepared for action.

The events of the previous 5½ years had honed their skills as they set about once more to respond to EQC customers' needs. Fortunately there was no loss of life, and damage was minor. Nevertheless, the February 2016 earthquakes and aftershocks generated nearly 14,000 claims.

Not wanting to delay repairs and settlements for some customers who had already been waiting since 2011, EQC took a new approach this year. We set up a separate February 2016 event response team and invited customers to help design a new claims management process.

We expect to complete all February 2016 claims through cash settlements by the end of this calendar year, and in the meantime we have been closely monitoring and evaluating the system to test its suitability as a model for future natural disaster events.

Processes are only one ingredient central to getting our response right. One of the benefits of our experience over the past six years is a keen awareness that processes and systems are only effective when they serve the best interests of our customers. The February 2016 event allowed us to take stock and ensure we apply what our customers have told us loud and clear – that they expect input, information, and ongoing communication as part of fair and transparent dealings with us.

EQC has acknowledged that in the past our actions have not always been sufficiently responsive or consistent. Inevitably, when an organisation of 22 people is faced with a disaster of the magnitude of the initial Canterbury quakes, it is bound to struggle to meet the expectations of customers on the ground. While we were expanding to approximately 1800 people the damaging aftershocks were also increasing. Sometimes it felt as if nature was deliberately pushing EQC on to the back foot every time we took a step forward to help customers back into their homes.

I am enormously grateful for what has been achieved in the Canterbury Home Repair Programme (CHRP), through the combined efforts of Fletcher EQR staff, building contractors, and the EQC team. Had EQC adhered rigidly to settling claims only in cash, and not taken on the repair job, cost push inflation would likely have occurred in the open market as demand outstripped supply. CHRP is drawing to a close without cost push inflation, and having improved the overall quality of homes by reinstating them to current building codes.

Substantive repairs to residential buildings are now coming to an end. As a result, we can focus on the remedial repairs still to be resolved. In addition, as at 30 June EQC had 3,118 drainage claims to resolve. This work will continue into 2017, with a contractor panel of registered drainlayers assessing damage on behalf of EQC as a basis for settling these claims. EQC takes the quality of its work seriously and is committed to ensuring customers receive their correct entitlements under the EQC Act.

We have been effectively managing the collection of CHRP excess payments, averaging about $370 per settled CHRP claim. In 2010/11 we prioritised getting people in the CHRP programme back into their homes, and sorting excess later. Collection began in April 2015, and as at the end of June 2016, nearly 29,000 CHRP excess payments had been received, totalling over $10 million.

In the meantime, The Treasury-led review of the EQC Act is addressing some of the difficulties with the legislation that we've encountered during our response to the Canterbury earthquakes, and draws on lessons learned since the Act was last amended in 1993. The review is forward-looking and will focus on future natural disaster events.

EQC is entering a period of transition. We are turning our attention to building a stronger organisation by making steady progress towards achieving the goals of ensuring New Zealanders continue to have access to natural hazard insurance and reinsurance; always managing claims fairly, transparently and in a timely manner; and reinforcing our position as a leader in natural hazard risk reduction that delivers improved national resilience.

The vital ingredient integral to EQC's effective response to natural disaster is the human factor. As the Canterbury work comes to an end we are moving to a different organisational structure. Many of the people who were brought into EQC to work on the recovery will leave the organisation, their work completed. They showed exceptional commitment and we will ensure they are well supported with the resources they need to move into other organisations and new roles.

It is with immense pride that I acknowledge the work of our Christchurch people, some of whom were also coping with their own damaged homes and distressed families. The compassion and empathy demonstrated by so many on the front line are an inspiration to us all. I appreciate the huge efforts of all our staff across New Zealand. I thank the members of my leadership team for their dedication, especially in working together to transition EQC to its next phase.

And I extend EQC's gratitude to the many individuals, scientists, local authorities and community organisations who work with us to build New Zealanders' risk awareness and provide skills and assistance whenever natural disasters may occur.

Ian Simpson
Chief Executive

WHAT WE ARE ABOUT

Our role

EQC has three core functions:

1. to provide natural disaster insurance for residential property (contents, dwellings and some coverage of land)
2. to administer the Natural Disaster Fund (the Fund), including its investments, and obtain reinsurance
3. to fund research and education on natural disasters and ways of reducing their impact

EQC insures against residential property damage from earthquakes, landslips, tsunamis, volcanic eruptions and hydrothermal activity; flood and storm damage to residential land; and fires resulting from these events. EQC also covers land damage to the limits set out in the EQC Act.

EQC is the only first-loss insurer in the world that provides cover for all of these natural hazards.

EQC insurance cover (EQCover)

By international standards, New Zealand homeowners carry high rates of natural disaster insurance. If a homeowner has home and contents insurance that includes fire insurance, they automatically have EQCover.

NEW ZEALAND HAS ONE OF THE HIGHEST RATES OF RESIDENTIAL INSURANCE COVER FOR NATURAL DISASTERS IN THE WORLD.

Under current EQC legislation, insurance companies are required to pay EQC a premium each time a home or contents is insured against physical loss or damage by fire: 15 cents (plus GST) per $100 of home and contents cover, up to $150 (plus GST) for home cover and up to $30 (plus GST) for contents cover.

In a natural disaster, EQC will usually pay the first $100,000 (plus GST) on a residential dwelling and up to $20,000 (plus GST) for contents (less excess). These levels of insurance are available for each event of natural disaster damage for which the customer has a valid insurance policy. Any damage over and above the upper limit that EQC pays may be covered by the customer's private insurance.

Our origins

EQC has its origins in the Earthquake and War Damage Commission (EWDC) which was established in 1945 as the government response to the Wairarapa earthquake of 1942, and predecessor earthquakes in Murchison in 1929 and Napier in 1931. The intention was to provide New Zealanders with affordable insurance for damage caused by war and earthquakes.

CURRENTLY, EQC PREMIUMS ARE A MAXIMUM OF $180 (PLUS GST) PER YEAR FOR UP TO $100,000 (PLUS GST) OF DWELLING COVER AND $20,000 (PLUS GST) OF CONTENTS COVER,

EWDC became EQC under the 1993 Earthquake Commission Act (EQC Act). EWDC assets became part of the Natural Disaster Fund to cover future EQC liabilities. Insurance cover for war damage ceased, and insurance for damage caused by other natural disasters was expanded.

As at 30 June 2016, EQC had paid out $9.4 billion in response to the 2010–2011 Canterbury earthquakes.

This money came from the Natural Disaster Fund and reinsurance.

Research and Education

EQC funds research that helps us to better understand natural hazard risk and improve its management in New Zealand. Building research capability in New Zealand and supporting academics to innovate new approaches to natural disaster management is part of this.

AS AT 30 JUNE 2016, EQC HAD PAID OUT
$9.4 BILLION
IN RESPONSE TO THE 2010–2011 CANTERBURY EARTHQUAKES.
THIS MONEY CAME FROM THE NATURAL DISASTER FUND AND REINSURANCE.

EQC's investment in research and sector education programmes is a long-term investment. The results accrue progressively over a number of years and are aimed at helping communities to increase their resilience and protect what they value from natural disasters.

Improving our understanding of natural disaster risks has also been integral in securing reinsurance for New Zealand in case of future large-scale events.

The Natural Disaster Fund

The Natural Disaster Fund (the Fund) is used to pay out on claims for natural disaster events. It provides a buffer for government when major natural disasters occur, like the Canterbury earthquakes. Premiums paid to EQC are invested to grow the size of the Fund.

EQC HAS COMMITTED TO A FURTHER
FIVE YEARS
OF FUNDING FOR NEW ZEALAND'S NATURAL HAZARDS MONITORING SYSTEM, GEONET.

If the Fund is fully exhausted, the Crown guarantee will be activated (s16 of the EQC Act). This provides assurance to customers that if EQC has a very large number of claims and cannot cover its obligations from the Fund, then the government will pay EQC an amount to cover the shortfall.

EQC also has a comprehensive catastrophe reinsurance programme in place, to help ensure it remains able to pay out on claims. This reinsurance programme is renegotiated annually. The most recent renegotiation took place in June 2016 when EQC secured reinsurance cover for an annual premium of $163.1 million. In the event of a major earthquake, EQC currently has access to $4.69 billion of reinsurance protection (less the deductible).

The Fund and reinsurance programme, in combination with the Crown guarantee, gives homeowners and industry confidence that EQC has the resources to meet its obligations.

Our performance at a glance

Research In 2015/16, EQC:

INCREASED FUNDING FOR GEONET TO

$11.5 million

to ensure GeoNet stays at the forefront of geological hazard monitoring and research.

RELEASED THE

Residential Ground Improvement Report,

covering ways of making residential land less vulnerable to liquefaction.

Partnered with the Ministry of Business, Innovation and Employment (MBIE) and Building Research Association of New Zealand (BRANZ) to deliver the

Built Environment Leaders Forum in September 2015.

This resulted in a draft plan of action for improved resilience.

AWARDED

$1 million

to 15 research projects under its Biennial Grants scheme. This is a contestable grants programme, and the 2016 grants attracted over 100 applications. Funding goes to experienced researchers.

INVESTED

$3.952 million

in additional research activities for the year.

Participated in the sharing of lessons learned from overseas events

(Chile tsunami, 2015; Taiwan earthquake, 2016) along with other New Zealand practitioners.

AWARDED A

2016 Fulbright-EQC scholarship

to a Graduate of the University of Washington studying the seismic performance of high-rise structural walls. The funding will go towards his PhD in Structural/Earthquake Engineering at the University of Auckland.

Education In 2015/16, EQC:

WITH CIVIL DEFENCE, PRODUCED PRESS ADVERTISEMENTS TO MARK THE

5th anniversary of the February 2011 earthquake in Canterbury

AND TO ENCOURAGE NEW ZEALANDERS TO MAKE THE EXPERIENCE COUNT BY SECURING THEIR PROPERTY.

COLLABORATED WITH THE MINISTRY OF CIVIL DEFENCE AND EMERGENCY MANAGEMENT ON A

virtual field trip

DURING "GET READY" WEEK.

LAUNCHED THE

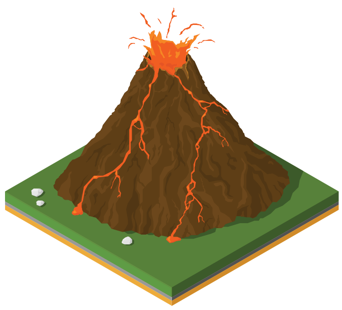
"Fix. Fasten. Don't Forget." public education advertising campaign

on television, the Internet and in the press during November, which ran throughout the financial year.

WITH CIVIL DEFENCE, SUCCESSFULLY RAN THE "SHAKE OUT" VIRTUAL FIELD TRIP IN OCTOBER.

Some 4700 students

FROM AROUND THE COUNTRY TOOK PART.



Continued support

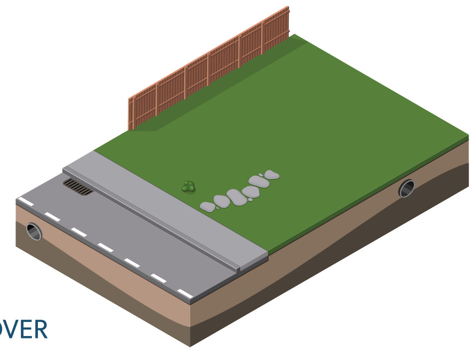
FOR THE "AWESOME FORCES" EXHIBITION AT TE PAPA, "VOLCANOES!" AT THE AUCKLAND WAR MEMORIAL MUSEUM, "QUAKE CITY" IN CHRISTCHURCH, AND THE VOLCANIC ACTIVITY CENTRE IN WAIRAKEI.

Customer Services In 2015/16, EQC:

RESPONDED TO OVER
43,000 INBOUND EMAILS, AND

**carried out over
20,000 outbound calls**

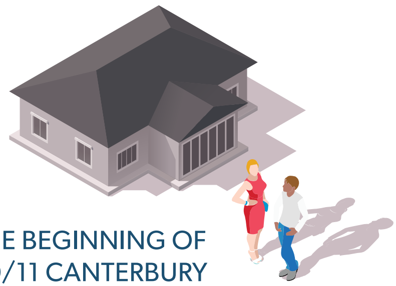
AS PART OF PROACTIVE CALLING CAMPAIGNS TO ENSURE THAT CUSTOMERS RECEIVED AND UNDERSTOOD LETTERS REGARDING SOME TECHNICAL OR COMPLEX ISSUES.



PAID OVER

**$54 million on
12,000 claims for
damage to land.**

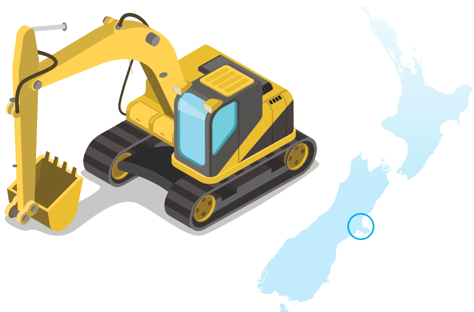
EQC resolved over 67% of claims for Increased Liquefaction Vulnerability (ILV) land damage.



SINCE THE BEGINNING OF THE 2010/11 CANTERBURY EARTHQUAKES, EQC HAS:

**Paid a total of
$9.4 billion
(excl gst)**

in response to the 2010/2011 Canterbury earthquakes (this includes Claims Handling Expense (CHE)).



THROUGH ITS CONTACT CENTRE,

**answered over
112,000 inbound calls**

in the past year, and 85% of these were answered within 20 seconds,

**surpassing their
overall target of 80%.**

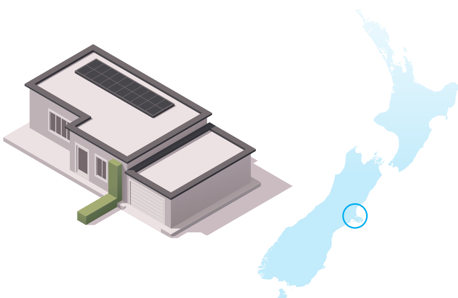
PARTICIPATED AT THE "IN THE KNOW INFORMATION HUB" FROM APRIL TO DECEMBER 2015 AT EASTGATE SHOPPING CENTRE, WHICH HAS

**helped 4,800
customers with their
residential repairs or
rebuilds.**

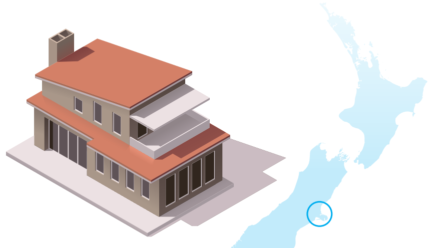
SINCE THE BEGINNING OF THE 2010/11 CANTERBURY EARTHQUAKES, EQC HAS:

**Received over 460,000
claims related to more
than 166,000 buildings**

with dwelling damage from the 2010/2011 earthquakes in Canterbury.



Customer Services
Canterbury earthquake series:

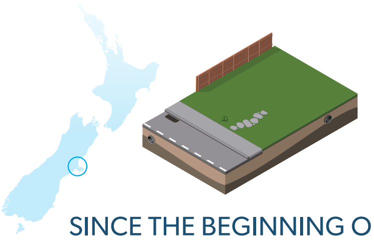


SINCE THE BEGINNING OF THE 2010/11 CANTERBURY EARTHQUAKES, EQC HAS:
Set up the Canterbury Home Repair Programme, which has

completed repairs on over 67,000 homes.

SINCE THE BEGINNING OF THE 2010/11 CANTERBURY EARTHQUAKES, EQC HAS:

Settled 187,000 claims for contents damage.



SINCE THE BEGINNING OF THE 2010/11 CANTERBURY EARTHQUAKES, EQC HAS:

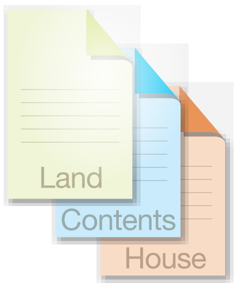
Completed claims for land damage to 66,000 properties in Canterbury.

Almost all land claims in the Port Hills and claims for visible land damage on the flat have now been resolved.

Administration
In 2015/16, EQC:

RECEIVED PREMIUM REVENUE OF

$280.2 million.



SECURED REINSURANCE FOR NEW ZEALAND WITHOUT ANY EROSION OF TERMS AND CONDITIONS.

EQC currently has access to $4.69 billion of reinsurance protection

(less the deductible).

HOW WE OPERATE

EQC is a Crown entity, established under the Earthquake Commission Act 1993 (EQC Act). As a Crown agent operating under the Crown Entities Act 2004, EQC must give effect to government policy that relates to its functions and objectives when specifically directed to by responsible Ministers.[1] The EQC Act and Regulations are administered by The Treasury, and implemented by EQC. EQC's statutory functions are set out in section 5 of the EQC Act.

EQC's functions under the EQC Act are to:

- Administer the insurance against natural disaster damage provided under the EQC Act.
- Collect premiums payable for the insurance provided under the EQC Act.
- Administer the Natural Disaster Fund (the Fund) and, so far is reasonably practicable, protect its value, including by the investment of money held in the Fund.
- Obtain reinsurance in respect of the whole or part of the insurance provided under the EQC Act.
- 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.

The EQC Act is currently being reviewed by The Treasury. The intention is to identify areas where the Act has not delivered on policy expectations and where change is needed. The review is expected to run throughout 2016.

1 See Ministerial Directions current as at 30 June 2016 in the section below entitled "Ministerial directions".

Customer Entitlement under the EQC Act

EQC's approach to addressing claims is to assess each claim on its own merit, ensuring every customer receives their correct entitlement under the EQC Act. EQC will also explore the possibility of using the judicial process to more effectively resolve a large number of challenges brought by homeowners who have similar legal issues.

From the first Canterbury earthquake, on 4 September 2010, through to 30 June 2016, EQC was served with 361 litigation proceedings. As at 30 June 2016, EQC had closed 65 per cent of these. Only two High Court claims involving EQC that were filed in the Canterbury Earthquake List[2] have proceeded to a hearing and had a judgment issued. Neither of these High Court judgments ruled substantively against EQC.

EQC also filed, and obtained, three High Court declaratory judgments to seek appropriate guidance from the High Court on matters where customers' entitlements under the EQC Act were unclear.

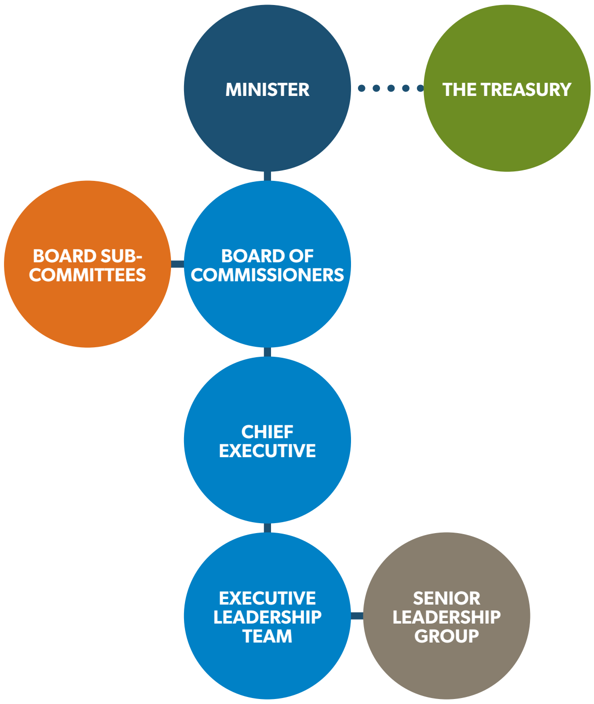
In November 2015, the EQC Action Group filed a declaratory judgment in Court in relation to the obligations of EQC under the EQC Act. After discussions, both parties determined there was no material disagreement between them. They published a "joint statement" on 29 April 2016 that reaffirmed EQC's stance with respect to its liability.

2 This is a special case management system designed to triage litigation resulting from the Canterbury earthquakes.

Governance roles and responsibilities

EQC is governed by a Board of Commissioners who are appointed by, and accountable to, the Minister Responsible for the Earthquake Commission. In accordance with the Crown Entities Act 2004, the Board has delegated the day-to-day management and leadership of EQC to the Chief Executive. The Chief Executive, Ian Simpson, is supported by an Executive Leadership Team (ELT) and Senior Leadership Group. Figure 1 below outlines the relationship between these parties.

Figure 1: EQC governance structure



The Minister

Hon. Gerry Brownlee is the Minister Responsible for the Earthquake Commission (the Minister).[3] EQC meets regularly with the Minister.

The Minister, along with the Minister of Finance, monitors EQC's performance against the organisation's strategic direction as set out in the Statement of Intent. The Ministers are supported in their monitoring role by EQC's monitoring department, which is The Treasury. For example, The Treasury provides the Ministers with information about EQC's performance (including measures in the Statement of Performance Expectations) and supports the appointment process for Board members.

Under the Crown Entities Act 2004, the Minister for the Earthquake Commission can direct EQC relating to its functions and objectives and to support a whole of government approach for specified purposes. Those Ministerial directions to EQC that remained current as at 30 June 2016 are listed at the end of this report.

3 The meaning of the term 'Minister' in the EQC Act is the Minister of Finance. In December 2011, the Minister of Finance delegated Ministerial powers and responsibilities under the EQC Act to the Minister Responsible for the Earthquake Commission.

Board of Commissioners

The EQC Board exercises the powers and performs the functions contained in the EQC Act and the Crown Entities Act 2004. All decisions relating to the operation of EQC must be made by, or under the authority of, the Board in accordance with these two Acts.

The EQC Act requires EQC to have a board of between five and nine members, including a chairperson. During 2015/16, the EQC Board had eight commissioners. The chair of the Board was Sir Maarten Wevers. A full list of commissioners and their short biographies (as at 30 June 2016) can be found in the corporate directory at the end of this document.

The role of the Board is:

- to set the strategic direction for EQC
- ensure resources and objectives are aligned
- monitor financial, organisational and management performance
- ensure that management has complied with the legal obligations of EQC.

The Board is also responsible for giving effect to government policy. In practice, this is effected through the Statement of Intent and the Statement of Performance Expectations under which the Minister and EQC agree on specific deliverables. The Board is also guided by an Enduring Letter of Expectations to Crown entities that set out expectations for all statutory Crown entities. This letter, from the Minister of Finance and the Minister of State Services to Crown entity Boards, expects Boards to adopt a "no surprises" approach with their responsible Ministers.[4]

A key responsibility of the Board is to articulate EQC's risk appetite, approve any risks outside the agreed risk appetite, and ensure risk treatments are in line with the agreed risk appetite. It also ensures actions taken are in alignment with delegated authority. On an annual basis, the Board reviews and approves EQC's Risk Management policy and Risk Management framework. The Audit and Risk Committee regularly reviews the effectiveness of the framework on behalf of the Board.

In addition to the Audit and Risk board Committee, the Board is supported by several other committees – the Health and Safety board Committee, the Performance and Review board Committee, and the Enterprise Business Technology board Committee. Three to five Board members participate in each committee, and each committee meets three to five times a year.

4 A "no surprises" approach ensures Ministers are kept informed of the implications of decisions and actions taken by the Board that may impact on wider government policy, may be discussed in the public arena, or are of strategic significance.

Executive Leadership Team

As at 30 June 2016, the Executive Leadership Team (ELT) comprised seven General Managers, providing the organisation with a people and capability business unit, operational capability, internal corporate and governance business units, a communications and public education unit, and research and strategy business units.

The role of the ELT is:

- to implement the strategic direction set by the EQC Board
- define organisational and business strategies and policies
- build organisational capability
- manage the organisation's performance and reputation.

The ELT is supported by a senior leadership group. In early 2016, EQC established a new senior leaders' group, Rōpū Kaihautū, to lead the changes during 2016. The group includes the Chief Executive and all members of the ELT, along with 23 other senior managers from the leadership teams of the business groups within EQC. Rōpū Kaihautū members were selected primarily because they were people leaders who could take important leadership and communication roles throughout EQC and could provide input to the design of EQC for 2017.

Estimating liability from the Canterbury earthquake series

Every six months since 2011, professional actuaries have produced information about EQC's liabilities arising from the Canterbury earthquakes. In 2011 there were a range of uncertainties that had to be factored into that information. For the actuaries' first actuarial review of the liability, which occurred post the 22 February 2011 earthquake, EQC had undertaken a large number of assessments. However, due to ongoing shaking few full repairs had been finalised. Further, at that stage EQC had not yet obtained important High Court declaratory judgments on the extent and nature of EQC's insurance cover. This meant that the information provided by the actuaries about liabilities had high margin of uncertainty. EQC subsequently obtained Declaratory Judgments on issues such as whether cover reinstated after each claim.

To help reduce that uncertainty, in 2011 EQC commissioned a statistical survey of the claims it had received (the Special Apportionments Sample) to help estimate its total liabilities and how those liabilities were distributed across the major earthquakes experienced at that time.

Over the intervening years, the information available to the actuaries has increased, with more homes repaired and more final cash settlements completed. As the claim settlement process progresses, the actuaries become better informed by actual data, and uncertainty in the amount of overall liability reduces.

In terms of land settlement, in December 2014, EQC obtained a declaratory Judgment that addressed a number of questions relating to settling Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV) land damage. As a result of the greater certainty provided by the declaratory Judgment, the actuaries have been able to refine the risk margin relating to land settlements. This is an example of the system working as you would expect: better data leading to better forecasting of risks.

Ultimately the final cost of the Canterbury earthquake series won't be known until the final claim is settled and closed. There has always been the possibility that the Canterbury liabilities may exceed EQC's assets. Because of this the Crown has confirmed, in writing to EQC, its intention to meet its obligation under section 16 of the EQC Act to ensure that the EQC can meet all its liabilities as they fall due.

Positioning EQC for the future

Over the past five years the focus for EQC has been almost entirely on responding to the Canterbury earthquake series. As we move into the final stages of our response to this, we are increasingly turning our attention to our role, responsibilities and shape post-Canterbury, so we can implement and follow through on the lessons we have learned from New Zealand's largest insured natural disaster. This has involved focusing on things we do well, the opportunities for improvement, and clarifying EQC's place in the wider natural hazard risk management framework.

Mission and Vision

In 2015 and early 2016, the Board adopted a refreshed mission for EQC "to reduce the impact on people and property when natural disasters occur", and an associated vision for EQC to be "the world's leading natural hazard insurance scheme".

Strategic Framework

At the end of 2015, the Board also endorsed a refreshed Strategic Framework. It is important to note that though the refreshed framework was put in place during 2015/16, this document reports against the strategic objectives outlined in the Statement of Intent 2014–2018 as at 30 June 2016. The objectives as at 30 June 2016 are outlined under the "Statement of Performance" section of this report. The following diagram shows EQC's refreshed functions, strategic objectives and priorities through to 2018, and their alignment to its stated mission and vision. EQC's values underpin everything it does.[5]

Our Strategic framework (2016–2018)

EQC has the Vision of being the world's leading natural hazard insurance scheme. Our research function enables a better understanding of New Zealand's natural hazards and supports both high levels of insurance among our communities and the construction of more resilient buildings. Our eduction programme helps individuals better prepare for and recover from natural disasters, and our insurance scheme enables them to have the financial means to do so.

OUR MISSION

TO REDUCE THE IMPACT ON PEOPLE AND PROPERTY WHEN NATURAL DISASTERS OCCUR

OUR FUNCTIONS

- Claims Management
- Research
- Risk Financing and Reinsurance
- Fund Management
- Education

OUR OBJECTIVES

- New Zealanders have access to natural hazard insurance and reinsurance
- Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely way.
- EQC is a leader in NZ on natural hazard risk reduction, delivering improved national resilience to natural hazards

OUR PRIORITIES

- Meet Canterbury completion targets
- Make EQC easy to do business with
- Enable EQC to be a leader for a risk aware NZ
- Ensure EQC underpins an efficient insurance market in NZ
- Our staff are engaged and our organisation is adaptive and well run
- EQC invests in the networks and partnerships that are integral to delivery of our outcomes

OUR VALUES

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

5 These are outlined below in the section on "Who we are".

Each of the six priorities identified through to 2018 has been articulated as a Key Result Area (KRA). The first four KRAs have been identified as stand-alone priorities for the organisation, with the remaining two seen as enablers across the entire business. The two enablers are: *"Our staff are engaged and our organisation is adaptive and well run"*, and, *"EQC invests in the networks and partnerships that are integral to delivery of our outcomes"*. These enablers will ensure we have the right skills, expertise and relationships to deliver our functions, objectives and priorities.

The four stand-alone priorities through to 2018 are briefly outlined here:

- **Canterbury completion targets have been met:** Focussed on the resolution of outstanding claims from the Canterbury Earthquake series, the establishment of systems for remedial repairs, and final costs determined and agreed with the Crown, insurers and reinsurers.
- **EQC is easy to do business with:** Strengthening our customer focus thereby improving the experience of anyone we interact with, including business partners and suppliers.
- **EQC is a leader for a risk aware New Zealand:** Building on our current strength, experience and capability to bring about increased risk awareness and higher levels of action in response.
- **EQC underpins an efficient insurance market in New Zealand:** Rebuilding EQC's financial resilience and the buffer we provide for the Crown and being a trusted advisor to the Crown in the area of risk financing for natural hazards.

Individual members of the EQC Executive Leadership Team (ELT) have taken a stewardship role in helping to shape and deliver the activities under one specific KRA. This ensures the ELT retains a focus on the achievement of the objectives under each KRA, and jointly allows the ELT to target resources to the highest priority areas. In 2015/16, the ELT prioritised its efforts on the first KRA – ensuring Canterbury completion targets have been met, and on ensuring that our staff are engaged and our organisation is adaptive and well-run.

WHO WE ARE

Our values and behaviours

EQC introduced a set of core values in March 2015. These have become a core aspect of our organisational behaviour:

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

We now embed these values in everything we do. Our focus has been to incorporate them into our performance framework and corporate policies so they underpin processes and practices right across our organisation. These values have become part of our everyday conversations, making it easy for our employees to recognise what is, and more importantly what isn't, acceptable when working at EQC.

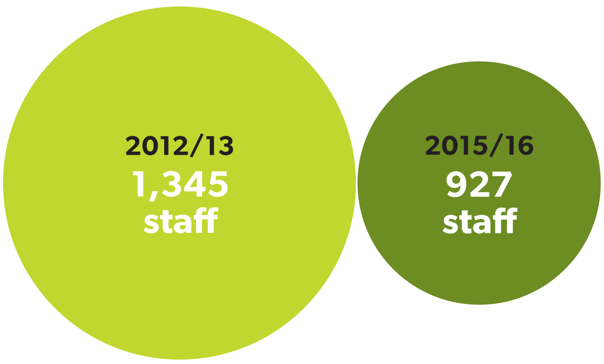
Our people

The people of EQC continue to be an essential part of our success; they have a passion and a commitment to helping others recover from natural disasters. As we move towards developing a fit-for-purpose organisation for the future, a significant amount of work has been done over the past year to understand our people more so we can continue to make this a great place to work.

Breakdown of workforce

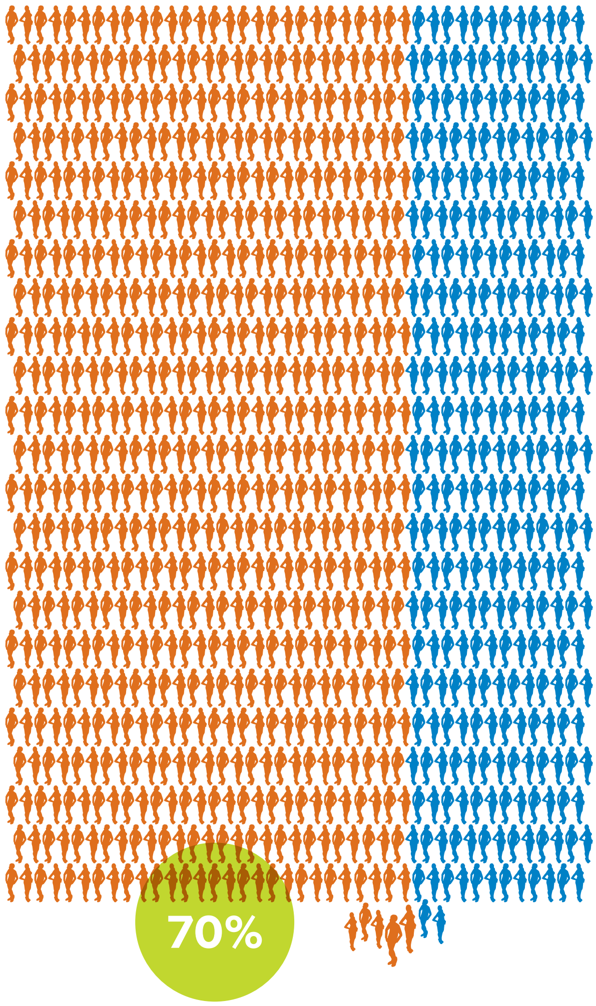
As work in Canterbury is being completed, staff numbers have reduced to reflect the remaining workload. As at 30 June 2016 there were 927 staff employed at EQC, working across Wellington, Hamilton and Christchurch.[6] This is in contrast to the 1345 staff employed as at 30 June 2013 – during one of our busiest periods resolving Canterbury earthquake series claims. At one point EQC had close to 1800 staff spread across the three sites.

Total EQC staff numbers at the end of the reporting period



While EQC's head count has reduced since 2012/13, staff turnover has remained relatively high. Over the past two years it has fluctuated between 34.5 per cent (2014/15) and 27.2 per cent (2015/16). EQC offered staff employment extensions in late 2015, through till December 2016, to enable the completion of Canterbury claims.

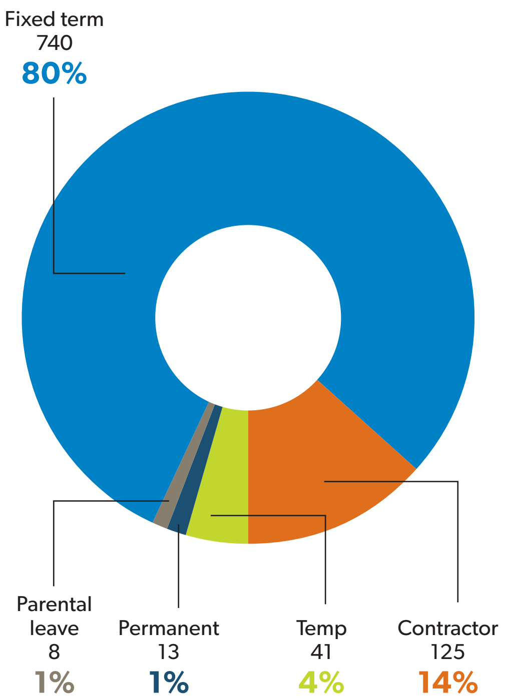
Percentage of EQC staff in C&C as at 30 June 2016



More than 70 per cent of the EQC's 927 staff were in the Customer and Claims (C&C) business unit, assisting primarily with claims from the Canterbury earthquakes. While the bulk of these staff were located in Christchurch, staff assisting with claims from the Canterbury earthquakes were represented across all sites.

6 This includes approximately 100 staff recruited to resolve claims from the 14 and 29 February 2016 earthquakes.

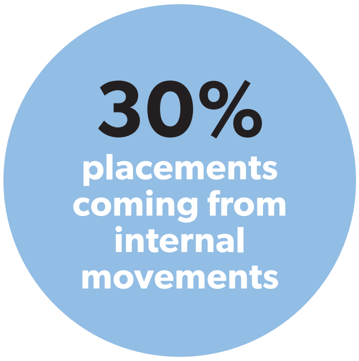
EQC staff breakdown as at 30 June 2016



As at the end of June 2016, 80 per cent of staff were on fixed-term agreements (740 staff). The majority of these expire at the end of December 2016. This date corresponds with our focus on completing Canterbury.

EQC engaged contractors from the beginning of the Canterbury response to work on short-term projects to enable our permanent and fixed-term staff to complete their roles. These contractors have been invaluable in providing short-term resourcing solutions. As at the end of June 2016, there were 125 contractors in the organisation. EQC has begun looking at what contract resource will be required in 2017.

EQC internal mobility during 2015/16



EQC's commitment to helping our staff develop in their roles is reflected in the number who have been placed into new roles within EQC over the past few years. We showed high internal mobility in 2015/16, with 120 out of the 406 placements during the year coming from internal movements. This highlights our ability to promote from within and 'upskill' our staff.

Age & Gender

In 2015/16, for the first time EQC employed more females than males (50.3 per cent vs. 49.7 per cent). This was in part due to EQC hiring more women (63 per cent) than men (36 per cent) during 2015/16–the first time this had occurred since 2012/13.

Keeping our staff informed and supported through change

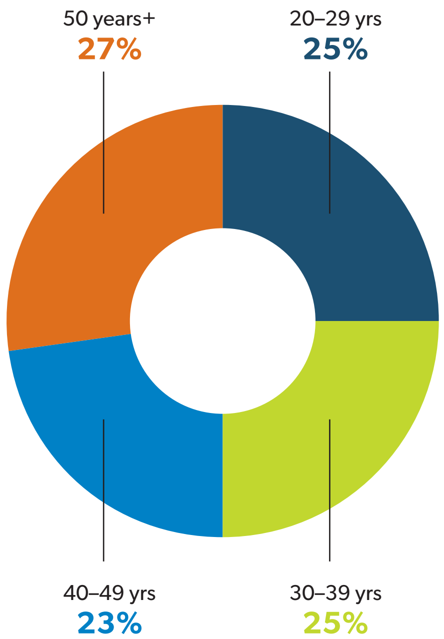
Since the start of 2016, EQC has been focussed on change. This has been driven by the organisations goal of substantially completing our Canterbury activities by 30 December, and EQC subsequently needing to reorganise itself for a future that is not dominated by the Canterbury response.

During this period of significant change, staff were included in discussions around the goal to achieve Canterbury targets by 30 December and the resultant changes in staffing levels in 2017 to manage the tail of remaining work. Staff were kept informed via Straight Up sessions, where the Chief Executive talked about what would be happening and where to find information. EQC's intranet site has links dedicated to the change, where staff could ask questions and receive responses. Monthly surveys were also used to gauge how staff were feeling about the changes and what they wanted more information on. The results of the surveys enabled changes to be made that addressed staff concerns.

Staff were also supported through workshops providing career support, wellbeing, and financial advice and were able to access learning and development tools online. Staff continued to access the Professional Development Fund while they were employed at EQC. And in addition, the Learning and Development team implemented a comprehensive career planning tool called Fuel50. This helped employees identify potential career interests.

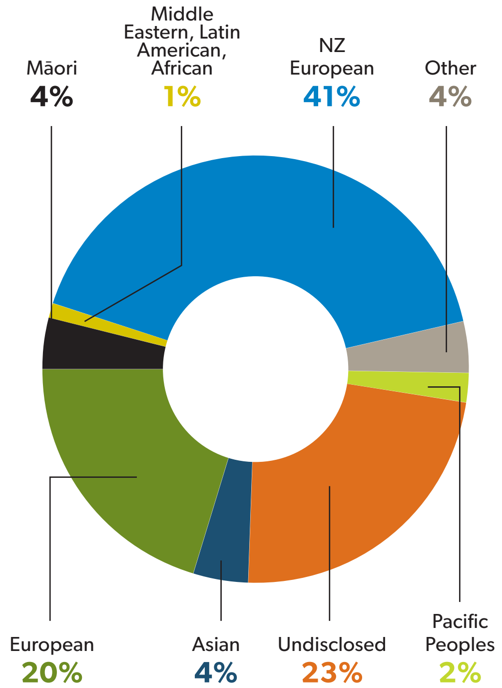
EQC age breakdown as at 30 June 2016

One quarter (229) of EQC's staff were under the age of 29 as at 30 June 2016. EQC had a relatively young workforce, with approximately half of its staff under the age of 40 as at 30 June 2016. The number of staff under the age of 40 increases to 56 per cent for females (compared to 43 per cent of males).



Ethnicity

Primary ethnicity of EQC staff as at 30 June 2016



The diversity of our staff reflects the nature of our work and the interest across the community to be part of the good work EQC does. We provide staff with the opportunity to voluntarily identify their ethnicity as part of their profile. As at 30 June, 77 per cent of staff had provided us with their ethnicity information. This compares with 58 per cent at the same time last year.

SEVEN ELEMENTS OF BEING A GOOD EMPLOYER

The Human Rights Commission rated EQC first equal out of 93 Crown entities in a 2015 review of annual reports, giving it a compliance rating of 100 per cent for its 'good employer' reporting.[7] Our activities against the seven key elements of being a good employer for the current reporting period are summarised below:

1 LEADERSHIP, ACCOUNTABILITY AND CULTURE

EQC delivered targeted leadership initiatives such as the Foundations for Leaders programme and Leading through Change workshops to provide practical tools and strategies for application.

Established the Rōpū Kaihautū leadership group in early 2016 (an evolution of the Senior Leaders Group).

The ELT signed off on a new governance and accountability framework in February 2016.

Two-way communication with staff is an important aspect of building our culture. EQC's quarterly 'Straight Up' sessions have provided an opportunity for senior leaders to talk directly with staff, listen to what they have to say and respond to their questions and concerns.

EQC conducted two engagement surveys during 2015/16 to measure the pulse of the organisation. The ELT has subsequently focused on improving in three areas: communication and collaboration, performance and delivery, and increasing confidence in senior leadership.

2 EMPLOYEE DEVELOPMENT, PROMOTION AND EXIT

EQC has invested in developing and supporting our people leaders to provide them with tools and resources to do their job and successfully manage their people.

EQC expects all employees to have an annual development plan which identifies specific learning and development needs and opportunities, through on-the-job or more formalised training.

EQC supports employees' career ambitions by promoting secondment and development opportunities.

There has been positive uptake of employees accessing the Professional Development Fund to enhance capabilities and support future careers.

An increasing range of learning initiatives was developed in support of organisational goals, including privacy, health and safety, and information security.

7 The full review can be found at the following web address http://good-employer.hrc.co.nz/#2015/report/entity-18

3 RECRUITMENT, SELECTION AND INDUCTION

Approximately 100 additional staff were recruited to resolve claims from the 14 and 29 February 2016 earthquakes. Most have been hired as Claims Advisors.

Orientation and inductions were held for all staff. The processes are reviewed often to ensure applicability and relevance.

EQC had robust recruitment and selection processes in place supported by the Snaphire recruitment tool.

4 REMUNERATION, RECOGNITION AND CONDITIONS

Job evaluation practices ensure ongoing transparency, equitability and gender neutrality.

Benchmarking of remuneration against third party New Zealand data is carried out each year to ensure we are up to date with current market trends.

Our remuneration policy framework is reviewed every two years to ensure its applicability for our people.

A new remuneration tool was implemented this year to streamline the process for managers.

5 FLEXIBILITY AND WORK DESIGN

Position descriptions are designed to capture EQC's values, accountabilities of the role, skills, and competencies.

All roles are sized using general market data to ensure the pay bands are up to date with the rest of the market from which we draw our staff.

Approximately 45 staff work part-time and others have flexible work hours. This enables them to have a work/life balance.

IT systems facilitated remote working.

EQC Standards of Integrity and Conduct and relevant policies are available online.

EQC's policies are reviewed on a regular basis to ensure applicability and that they reflect current legislation and changes in EQC's practices.

6 HARASSMENT AND BULLYING PREVENTION

EQC values continue to be embedded within the policies as they are reviewed, and in the principles that apply to the processes and practices across the organisation.

A Diversity and Inclusion Policy was introduced to reinforce EQC's culture of diversity, inclusiveness, equal opportunities approach and fairness for staff.

This year we improved guidelines for performance and discipline. As part of that, a guide was created which outlined what employees could expect from this process.

The Health and Safety team transitioned in response to the enactment of the Health and Safety at Work Act 2015, with workshops provided both internally and externally for our staff in areas of significant change.

EQC launched an online interactive training programme to help staff refresh their health and safety responsibilities. It is based on the top five identified office-based hazards, especially ergonomic comfort.

7 SAFE AND HEALTHY ENVIRONMENT

Wellness initiatives and health topics have supported personal resilience, including winter wellness with free influenza inoculations and a healthy heart programme presented to the business.

Safe6 targets the risks and incidence of unsafe practices most likely to contribute to injury or fatalities. This is a collaborative initiative that was developed with our Christchurch Home Repair Programme partner and was again acknowledged at the NZ Safeguard Awards.

EQC retained the tertiary-level standard in ACC's Workplace Safety Management Practices programme and will be audited again in March 2017.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2016

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 the Commission on pages 58 to 102, that comprise the statement of financial position as at 30 June 2016, 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 31 to 55.

In our opinion:

- the financial statements of the Commission:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2016; 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 Public Benefit Entity Reporting Standards.
- the performance information:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2016, 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;
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 7th October 2016. 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 of 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.

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 judgments 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 2016 fairly reflect the financial position and operations of EQC.

Signed on behalf of the Board:

Sir Maarten Wevers, KNZM
Chair
7 October 2016

Mary Jane Daly
Commissioner
7 October 2016

STATEMENT OF PERFORMANCE

The Statement of Intent (SOI) sets out the strategic objectives that the Earthquake Commission (EQC) intends to achieve or contribute to during the period 1 July 2014 – 30 June 2018. Through pursuing these objectives, EQC is seeking to contribute to national efforts to build New Zealand's resilience to natural disasters covered by the EQC Act. During this reporting period, EQC's three strategic objectives were:[8]

Contributing to a greater understanding and better management of natural disaster hazards by households and communities that may impact on EQC's future liabilities (i.e. hazard and risk reduction)

- A key focus for this objective is contributing to an improvement in New Zealand's resilience to natural hazards. The impacts contribute to improved pricing of New Zealand's reinsurance risk and better community preparedness.

Helping households and their communities recover from natural disasters

- A key focus for this objective is improving the customer experience with EQC and overall operational performance. The impacts contributed to include: improved trust and confidence in EQC, the efficient delivery of EQC's claim settlement services, growth of the Natural Disaster Fund, and New Zealanders taking action to reduce natural disaster risk in the home in response to EQC's natural disaster risk reduction public education.

Contributing to efficient management of EQC's assets and liabilities

- A key focus for this objective is growing EQC's financial resilience which contributes to a reduced Crown balance sheet risk and reinsurer confidence in EQC and New Zealand.

EQC's specific performance measures and targets for its outputs are set out in the Statement of Performance Expectations (SPE) and cover the four R's of international emergency management practice:

Reduction (of risk) – identifying and analysing long-term risks to residential property from natural hazards, and taking steps to eliminate them or reduce the magnitude of their impact if they occur.

Readiness (for an event) – developing operational systems and capabilities before a disaster happens.

Response (when an event occurs) – taking action immediately before, during or directly after an emergency has occurred.

Recovery (post event) – coordinated efforts and processes to bring about the immediate, medium-term, and long-term holistic regeneration of a community following an emergency.

Actual performance against EQC's measures and targets is reported in this section of the Annual Report. It is important to note that the performance of one output is often linked to the performance of another. For example, obtaining sufficient reinsurance cover, under the Administration output, is supported by calculating and resolving claims correctly, and according to the EQC Act under the Customer Services output.

Reporting on Claims and Exposures

EQC provides cover under the EQC Act for damage to residential buildings, residential land and contents. Each claim for damage due to a natural disaster event may include one or more of these components of damage. EQC refers to each of these components as an "exposure". For example, a customer's claim arising from the September 2010 Canterbury earthquake might have a residential building exposure, a residential land exposure, and a contents exposure.

Settling each exposure separately is important for determining how much EQC, insurers and reinsurers will pay in total for each claim. EQC reports on the number of exposures it has closed for building, land or contents, to demonstrate EQC's progress in settling all of its liabilities.

In contrast, from the customers' perspective, EQC is fundamentally about settling the total claim for all components of damage. Within this document, EQC primarily reports on the number of claims it has 'resolved'.[9]

8 Note: these will differ from the objectives outlined in the July 2016 amended 2014–18 SOI that is published on the EQC website. The strategic objectives as at 30 June 2015 on can be found in the 2015/16 Statement of Performance Expectations.

9 A definition of resolved can be found in the glossary.

Office of the Auditor-General

The Office of the Auditor-General (OAG) conducts independent assurance around organisational performance under section 16 of the Public Audit Act 2001. In October 2013, the OAG produced a report on how EQC has performed in managing the Canterbury Home Repair Programme. In December 2015, the OAG completed a follow up report that looked at EQC's progress in addressing the recommendations made in the 2013 report.

The follow up report found that "EQC has continued to manage repair costs well. The increase in repair costs since February 2011 is below the Canterbury inflation rate for new houses in Canterbury. The rates ceiling approach used within the programme to control actual repair costs has continued to be effective." This is significant because international experience with earthquakes is that the recovery can fuel high inflation in the construction sector.

The report also found that it was difficult to assess EQC's overall performance in managing repair quality. EQC had, however, made improvements to all of the areas of programme activity that recommendations were made for, including introducing an initiative to give customers more certainty about repair time-frames, rationalising repair hubs to support more consistent repair processes and practices, and introducing more consistent and complete performance indicators.

The report noted that despite the improvements made, the programme took longer than planned, the customer experience was mixed in terms of satisfaction, and there was still some repair work to be completed at the time of the review. The report also noted that the lessons learnt included that a long and complex process to resolve claims had caused distress to homeowners, and that this had been compounded by dissatisfaction with the quality of EQC's communications.

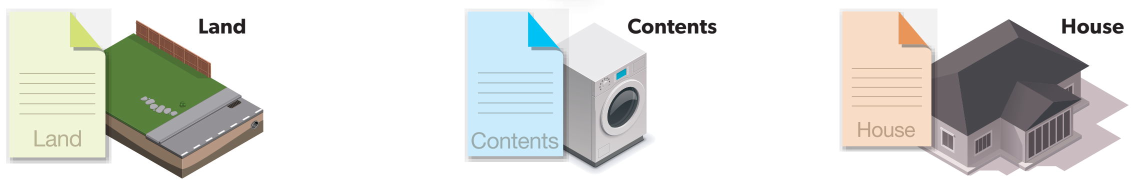
HOW DOES THE CLAIM SETTLEMENT PROCESS WORK FOR CUSTOMERS?

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 if the damage was assessed to be not the direct result of the natural disaster.

Research, Sector Education and Natural Hazard Risk Management Practice

The importance of research

EQC funds research that helps it better understand natural hazard risk and its management in New Zealand. Its research programmes contribute to New Zealand's risk management decisions at many levels – homeowners, local authorities, planners and engineers. This research helps to reduce uncertainty, thereby increasing the confidence and trust of the international reinsurance markets. A tangible benefit of improving understanding of the natural disaster risks has been EQC securing reinsurance for New Zealand throughout the Canterbury earthquake series without any erosion of terms and conditions. We have recovered $3.8 billion of reinsurance since 2010 which has contributed to the settling of all Canterbury claims.

A key long-term impact is to enable an integrated approach to hazard risk management policy and significant positive impact on practices within New Zealand. This is achieved by targeting, for example, *risk avoidance* through land-use planning, *risk control* through engineering design, and *risk transfer* through insurance and other risk financing. This, in turn, helps communities to increase their resilience in times of natural disasters and to protect what they value.

EQC wants the research it funds to be applied in practical ways for the good of New Zealand. One of the principles of its funding is that the results and data must be shared and freely available. This has far-reaching benefits. The open data attracts some of the best brains to focus on New Zealand's natural hazards, providing the country with a boost to local research and enabling stronger networks among experts throughout the world. EQC's facilitation of research, and investment in education, is one important way that New Zealand can maintain an efficient insurance market and improve the basis for enterprise risk management.

Encouraging the growth and improvement of New Zealand's research capability is also important to ensure experienced academics are supported to innovate and explore new approaches to natural hazard research through initiatives such as the EQC Biennial Grants; and to encourage young New Zealanders to pursue careers in physical and social sciences, technology, and engineering, so they become inspired to become the problem-solvers of the future.

The results of EQC's Research and Education programmes are tracked annually through achievement against measures and targets in the Statement of Performance Expectations and longer-term through targeted evaluation activity.

What we want to achieve

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
- fund world-class research.

These objectives support EQC's strategic objectives of "Helping households and their communities recover from natural disasters", "Contributing to the efficient management of EQC's assets and liabilities" and "Contributing to greater understanding and better management of natural disaster hazards by households and communities which may impact on EQC's future liabilities."

KEY TARGET MET TARGET NOT MET

How We Performed – Measures and Targets

OUTPUT OBJECTIVE: CONTRIBUTE TO GREATER COORDINATION IN NATURAL HAZARD RISK MANAGEMENT (HRM)

MEASURE: Use of EQC's expertise or resources in national or regional HRM policy, planning or coordinating forums etc.

2016

2015/16 Target: Evidence of increased use.

Achieved

Note: the proxy for increased use is evidence of participation, advocacy or facilitation.

Evidence of participation, advocacy or facilitation during the year includes:

- Supported (at establishment and advisory board levels) Local Government NZ in developing the business case to establish a Local Government Risk Agency.
- Partnered with the Ministry of Business, Innovation and Employment (MBIE) and the Building Research Association of New Zealand (BRANZ) to facilitate the Built Environment Leaders Forum in September 2015.
- Collaborated with GNS Science and others to improve New Zealand's natural hazard modelling capability (included improving EQC's understanding of liquefaction and lateral spread risk by incorporating Canterbury lessons into EQC's loss modelling tool, Minerva).

OUTPUT OBJECTIVE: IMPROVE CAPACITY BY WORKING WITH STAKEHOLDERS AND CONTRIBUTING EXPERT ADVICE (TURNING SCIENCE INTO PRACTICE) AND CAPABILITY

MEASURE: Industry partnership programmes for engineers, planners and for national hazard information management; meet contracted objectives within expected times.

2016

2015

2015/16 Target: 99% of contracted objectives met

Achieved: 100%

Note: contracted objectives can span financial years. EQC reports those objectives due for completion in the year.

In 2015/16, contracted programmes included:

- New Zealand Society of Earthquake Engineering, the NZ Engineering Lifelines Council and other research projects focused on the link between building damage and land.
- UC Quake Centre for engineer professional development.
- MBIE in the development of the New Zealand Geotechnical Database.
- Technical development of a rating system to express the seismic resilience of buildings

"Respondents suggested that EQC's programme compared very favourably with other government funders, with its long-term focus on building trust and collaborative relationships."

NZIER EQC Research & Education Strategy Impact and Allocation Evaluation, Dec. 2015

OUTPUT OBJECTIVE: IMPROVE CAPACITY BY WORKING WITH STAKEHOLDERS AND CONTRIBUTING EXPERT ADVICE (TURNING SCIENCE INTO PRACTICE) AND CAPABILITY *CONTINUED*

MEASURE: Evidence of the direct and indirect uses of GeoNet and its information.

2016 ✓ 2015 ✓

2015/16 Target: Evidence of increasing direct and indirect uses.

Achieved: Evidence of direct and indirect uses is shown in the quarterly GeoNet website activity reports.

Note: The public and researchers can access GeoNet information through the GeoNet web site. The category of direct use was added for the 2015/16 year.

For the 2015/16 year there were:

- Indirect uses: data downloads as indicated by the website bandwidth – 7,116 GB for the year (2014/15 year was 5,391 GB).
- Direct uses (new data for 2015/16 year): 2,337,527 unique web site visits out of a total of 7,991,469 visits for the year. 54,124,634 pages accessed for the year.

MEASURE: Funded reports are published/ presented in sector print media and/or presented at conferences or stakeholder workshops.

2016 ✓ 2015 ✓

2015/16 Target: All expected[10] reports published/ presented.[11]

Achieved: 100%

EQC published all 56 reports received in 2015/16. Report areas included disaster recovery, volcanoes, evaluation planning, seismology and behavioural sciences.

Published topics included:

- Internal structure and volcanic hazard potential of Mt Tongariro.
- Slip rate on the Wellington Fault (NZ).
- Assessing displays for supporting strategic emergency management.
- Soil profile characterisation of Christchurch Central Business District.

"The spinoffs from the EQC-funded data that has been gathered by GeoNet have benefited all of New Zealand, not just EQC."

'GeoNet Governance review – Making the most of a national gem', May 2016

10 "Expected reports" are reports that, according to their production timeline, were to be available for publication in the financial year – includes extended reports.

11 "Published" means contained in relevant journal, bulletin, on-line site, or produced as part of workshop and conference proceedings where the report can be accessed by others. Also includes reports arising from basic and applied research produced through grants-in-aid, as well as commissioned projects targeting particular issues, and workshop and seminar proceedings convened or sponsored by EQC.

OUTPUT OBJECTIVE: FUND WORLD CLASS RESEARCH

MEASURE: Biennial grants, university grants and post-graduate student awards and research and capability grants meeting their objectives.

2016 ✓ 2015 ✓

2015/16 Target: Objectives met or on track to be met.[12]

Achieved: 100% of objectives met or on track to be met.

In 2015/16 EQC:

- Completed 23 research projects (15 biennial projects and eight post-research graduate projects).
- Renewed its research capability agreements with Victoria University and Massey University.
- Announced $1 million worth of funding to 15 new research programmes as part of the Biennial Grants.
- Funded regional projects in Wellington ("It's Our Fault") and Auckland (DEVORA – Determining Volcanic Risk in Auckland).
- Awarded the 2016 Fulbright-EQC Graduate Award in Natural Disaster Research for PhD research.

MEASURE: Percentage of completed research projects receiving at least one peer-review, academic paper or report within one year of completion.

2016 ✓ 2015 ✓

2015/16 Target: 90%.

Achieved: 100%.

23 projects completed[13] this financial year had at least one peer review, academic paper or report within one year of completion.

"The Ground Improvement Programme included science trials and a pilot project, involving homeowners, insurers, local authorities, engineers and contractors. The research involved world leading experts on liquefaction and has been recognised internationally"

MEASURE: GeoNet achieves all contracted objectives.

2016 ✓ 2015 ✓

2015/16 Target: Objectives met or on track to be met.

Achieved: 100% of objectives met.

Contracted objectives are those in the GeoNet Project specifically the supporting measures and requirements (or targets) as identified in the "Agreement for the Supply, Maintenance and Management of a Modern Geological Hazard Monitoring system, 23 December 2009".

During 2015/16 EQC increased funding to GeoNet to:

- Upgrade anddevelop systems to meet increased public expectations of the service following the Canterbury earthquakes.
- Ensure GeoNet stays at the forefront of geological hazard monitoring and research, while future-proofing at the same time.

"For every $1 of premiums received we spend 8c on funding GeoNet and other research and education to help better prepare New Zealanders for future events."

12 "Objectives met" means the delivery of the award or research grant funded output e.g. completed research paper in the financial year, or a progress report confirming that objectives are on schedule to be met as proposed.

13 For the purposes of this output, completed means the final report/academic paper, together with abstract, has been received.

Public Education

Increasing understanding and preparedness

The Canterbury earthquake experience has increased public interest in natural hazards and their impact on people and communities. This provided an opportunity for EQC to increase the level of awareness of the importance of natural disaster risk reduction.

The responsibility for being prepared for natural disasters lies with homeowners. However, homeowners often indicate that they need information and guidance on how to reduce the risk of damage and physical harm. Therefore, EQC's nationwide and regional education initiatives[14] focus on increasing the awareness of New Zealanders of what to do to reduce the risk of natural disaster damage to their home. This supports the strategic objective "… contributing to greater understanding and better management of natural disaster hazards by households and communities which may impact on EQC's future liabilities".

Almost everyone can contribute to New Zealand's resilience, and subsequently EQC's education initiatives are wide-ranging. In 2015/16 they included:

- Facilitating a television, online and press campaign designed to show that it is easy and worth it to prepare homes and families for earthquakes. This advertising encouraged people to think about practical household earthquake mitigation actions.
- Collaborating with the Ministry of Civil Defence and Emergency Management on a virtual field trip during "Get Ready" week.
- Leveraging the popularity of museums with both children and adults to provide information and educate about natural hazards and what people can do to mitigate their effects e.g. continued support for the exhibitions at Te Papa ('Awesome Forces'), the Auckland War Memorial Museum ('Volcanoes!'), in Christchurch ('Quake City') and at the Volcanic Activity Centre in Wairakei.
- Sponsoring an East Coast LAB (Life at the Boundary) interactive education space at the national aquarium in Napier, a multi-agency project designed to educate about the natural hazards associated with the Hikurangi Trough.

The public education challenge is to develop public awareness that turns intention into actual risk reduction action in the home. Media campaigns and targeted education activities are the key means by which EQC enables a reduction in the barriers to New Zealanders taking action to reduce risks in the home.

14 EQC's legislation does not permit it to carry out mitigation activities for homeowners.

The barriers include the perceptions that:

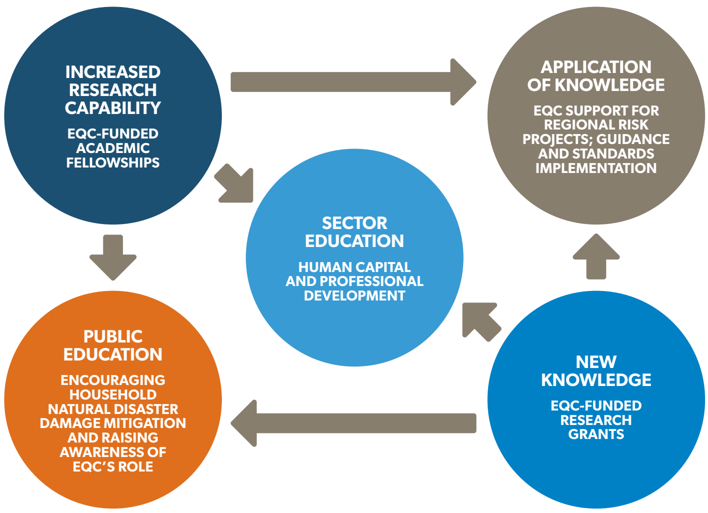
- there is no need to consider the impact of natural disasters on them
- the problem is insurmountable
- New Zealanders have a lack of competence and or resources to act.

The result of reducing these barriers is an increasing preparedness of people and properties and a decrease in the foreseeable risk of harm or damage. This contributes to the strategic objective "helping households and communities recover from natural disasters". In aiming to achieve this, EQC recognises that a change in behaviour often takes time, with the results accruing over a number of years. EQC's investment in education programmes is, therefore, a long-term investment.

Linking public education and research programmes

Figure 2 below shows how the interconnection of the education and research programmes strengthens our work. EQC's research programmes fund academic fellowships and grants for research. These provide additional support to our public education programmes through the application of new knowledge or learning through fellowships. Further value is provided through linking sector and public education activities where possible, and sharing this knowledge with communities throughout New Zealand.

Figure 2: Linking Education and Research



What we want to achieve

The objectives for this output are to increase:

- public awareness of earthquake safety and natural hazard mitigation measures
- homeowners' understanding of EQC's role should they experience natural disaster damage.

These objectives support EQC's strategic objectives of "Helping households and their communities recover from natural disasters" and "Contributing to greater understanding and better management of natural disaster hazards by households and communities which may impact on EQC's future liabilities".

The measures below are based on survey data from the Nielsen quarterly survey "Monitoring the effectiveness of the Earthquake Commission's Communication Programme". This is an online survey of 1000 New Zealanders aged 15 years or older. It is designed to track movements in public perceptions and attitudes towards EQC, and provide an assessment of any campaigns running that are intended to prompt action and behaviour change, for example, the "Fix, Fasten and Don't Forget" television campaign.

KEY TARGET MET TARGET NOT MET

How We Performed – Measures and Targets

OBJECTIVE: INCREASE HOMEOWNERS' UNDERSTANDING OF EQC'S ROLES SHOULD THEY EXPERIENCE NATURAL DISASTER DAMAGE

MEASURE: New Zealanders are able to correctly identify EQC's roles should they experience a natural disaster.

2016 2015

2015/16 Target: Increasing percentage of New Zealanders surveyed are able to correctly identify EQC's roles – from a 2014/15 base of 68%.

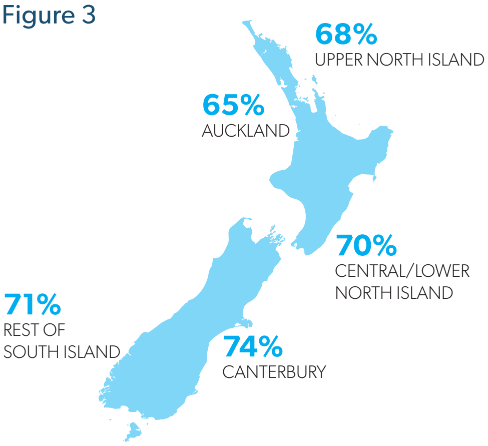
Not achieved: 68% of respondents were able to correctly identify EQC's roles.

Data for this measure is from the Nielsen quarterly survey.

There is a lag between programmes to increase knowledge of what is available from EQC's web site, and changes in New Zealanders' knowledge.

Figure 3 shows the percentage, by region, of survey respondents correctly identifying EQC's roles.

Figure 3



MEASURE: Use of EQC as a source of information (including EQC's web-site) to obtain information about how to prepare homes or families for damage from a natural disaster.

2016

2015/16 Target: Year-on-year increase use from a 2014/15 year base of 21%.

Achieved: 23%.

Data for this measure is from the Nielsen quarterly survey. The percentage reported reflects the number of respondents who use EQC sources to obtain information about how to prepare their home and family for a damage-causing earthquake.

There is a lag between programmes to increase knowledge of what is available from EQC's website, and changes in New Zealanders' knowledge.

Figure 4 illustrates the commonly mentioned sources of information identified by respondents in the survey. This indicates that New Zealanders use multiple sources to obtain information on how to prepare homes.

Figure 4: Commonly mentioned sources of information

Every year thousands of New Zealanders learn about geo-hazards from EQC-supported education experiences at Auckland Museum's 'Volcanoes' exhibition, Te Papa's 'Awesome Forces', and the 'Quake City' exhibition in Christchurch.

OBJECTIVE: INCREASE PUBLIC AWARENESS OF EARTHQUAKE SAFETY AND NATURAL HAZARD MITIGATION MEASURES

MEASURE: Percentage of New Zealanders knowledgeable about methods of reducing or preventing natural disaster damage in the home.

2015/16 Target: Year-on-year increase from a 2014/15 year base of 47%.

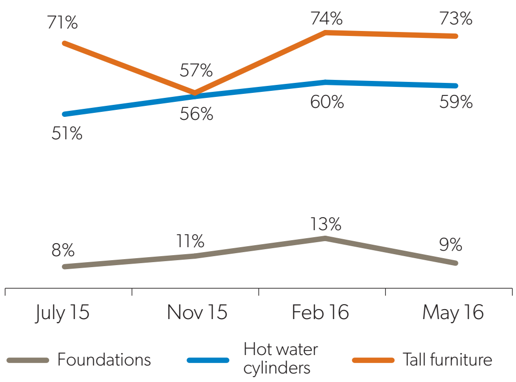
Not achieved: 47%.

Data for this measure is from the Nielsen quarterly survey. Respondents are asked whether they are aware of how to secure furniture, hot water cylinders and foundations. The percentage reported is the average of the three scores and is designed to reflect trends over time.

There is a lag between programmes to increase knowledge of what is available from EQC's web site, and changes in New Zealanders' knowledge.

Figure 5 contains the quarterly survey results for the year. Knowledge of how to secure often hidden foundations in the home is unsurprisingly low when compared to the more visible and accessible tall furniture and hot water cylinders.

Figure 5



Customer Services

The efficiency of EQC's claims-handling systems and processes, coupled with the manner in which customer claims are handled, has a significant impact on customer experience and the perception of EQC and its service. Customers expect a consistent, timely, accurate and customer-focused claim settlement. Premium payers and reinsurers expect EQC to manage its business cost-effectively and with appropriate transparency.

Given the significant emphasis EQC has had on resolving claims from the devastating 2010 and 2011 earthquakes in Canterbury, we report our performance separately for this earthquake series under the category of "catastrophe measures". We report against all other events (including the 14 and 29 February Canterbury earthquakes) in the customer services output under "non-catastrophe measures".

Completing our response to the 2010 and 2011 Canterbury earthquakes and learning from that experience was a key priority for this output for 2015/16.

What we want to achieve

The objectives for this output are to:

- calculate and resolve claims correctly, and according to the EQC Act
- complete EQC's response to the Canterbury earthquake series
- respond appropriately to customers and stakeholders.

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 EQC's home repair targets and budget
- safely repair or rebuild damaged residential properties
- provide timely and appropriate communication to customers and stakeholders.

These objectives support EQC's strategic objectives of "Contributing to efficient management of EQC's assets and liabilities' and "Helping households and their communities recover from natural disasters".

Key Operating Activities – Canterbury earthquake series (catastrophe measures)

Canterbury progress

EQC's operations in the financial year continued to be dominated by the processing of claims from the Canterbury earthquake series. Since September 2010, EQC has received over 460,000 claims, related to more than 166,000 buildings, from the 2010 and 2011 earthquakes in Canterbury.

Table 1 below shows EQC's progress in resolving all claims for dwellings with building damage from the Canterbury earthquakes, and the number of resolved dwelling claims in 2015/16. This includes claims that were both cash settled and had a managed repair. Each dwelling identified in the table had at least one building claim, but could have had multiple claims from multiple events. As can be seen from Table 1, as at 30 June 2016 there were less than 600 dwellings with substantive building damage to be resolved from the earthquakes in Canterbury.

Table 1: Total dwellings with building damage resolved by EQC for the 2015/16 financial year (both cash settled and managed repair)

	DAMAGE IN EXCESS OF $100,000	DAMAGE LESS THAN $100,000 BUT IN EXCESS OF $15,000	DAMAGE UNDER $15,000	TOTALS
Total dwellings with damage	34,114[15]	72,498	60,363	166,975[16]
To be resolved as at 30 June 2015	1,363	4,108	884	6,355
Less resolved during the financial year	1,201	3,873	817	5,801
To be resolved as at 30 June 2016	162	325	67	554

15 This figure includes dwellings with multiple claims from multiple events that total to more than $100,000, as well as dwellings with a single claim in excess of $100,000. Those single claims over $100,000 will be cash-settled and then referred to private insurers as "over-cap referrals".

16 This figure includes dwellings in the residential Red Zone.

While the bulk of EQC's Canterbury work will be substantially complete by the end of December 2016, the remaining tail of work left in 2017 will require some new approaches or bespoke solutions to resolve some of the difficult issues.

The remaining work to resolve all claims (across all exposures) includes resolving remedial requests for building claims[17], resolving drainage damage issues, remaining land settlements, and collecting excess payments from customers who were in the Canterbury Home Repair Programme (CHRP) programme. Work in each of these areas is already well under way.

Remedial requests

EQC has taken the approach of prioritising substantive repairs of homes ahead of remedial repairs, unless they impacted on customers' safety, security, or sanitary requirements. The aim was to get Canterbury people back into their homes as soon as possible. Now that the substantive repairs are nearly completed, resources are being reallocated to complete remedial repairs.

Remedial repairs include work to rectify damage not included in the original scope of works (SOW) where it is later found that it should have been included; damage that was included on the original SOW but not repaired, 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. Remedial work is counted and monitored separately to claims that have already been recorded as resolved.

As at 30 June 2016 EQC had received approximately 10,500 remedial requests over the lifetime of the Remedial Programme, with around one third having been resolved. Not all remedial requests result in a remedial repair.

17 Requests arise from concerns identified by customers following the completion of their substantive repairs managed under the Canterbury Home Repair Programme (CHRP).

Completion of remedial repairs will continue into 2017. To ensure repairs are resolved as quickly as possible, EQC has introduced new processes. These provide customers with choice on how their remedial repair will be resolved, with customers either providing relevant information to EQC for resolution, and stating a preference for cash settlement, or stating that they would prefer to have an EQC managed remedial repair.

Canterbury Home Repair Programme Underfloor Review

In August 2015 the Ministry of Business, Innovation and Employment (MBIE) released the 'Earthquake Repairs to Canterbury Homes Home Inspection Survey Report' (MBIE Report). The MBIE Report investigated the Building Code compliance of earthquake repairs to 101 Canterbury homes. The MBIE report found that some floor re-levelling and perimeter concrete foundation repairs carried out in the Canterbury rebuild did not meet the Building Code. MBIE describes most of the shortcomings as "relatively minor and easy to fix."

MBIE found no compliance issues in the "more technically complex repair methods," of crack repairs to concrete slabs; floor re-levelling by grout injection; floor re-levelling by floor levelling compound; and replacement of portion of concrete slab.

In response to the recommendations contained in the MBIE Report, EQC and Fletcher EQR are carrying out a review of repairs carried out as part of the CHRP which involved 'jack and pack' repairs, and where floor re-levelling was required across the entire house and required engineering or other specialist technical input (the properties).

During the review programme, the properties are first inspected by Fletcher EQR technical staff who collect video footage and then review the footage along with the background of the repair. This review identifies properties which are compliant to the building standard or have minor issues that can be easily fixed without an engineer's guidance.

Where there is any doubt, the footage is reviewed by an experienced engineer for a second opinion and, if required, a further site visit.

The review group comprises of 2,325 properties. As at 30 June 2016, 2,154 inspections have been completed, with the remaining homeowners being currently uncontactable. Of these inspections, 1,393 are still awaiting final review to determine whether the completed work meets Building Code or if remedial work is required.

Having now completed most inspections, the focus for the new financial year is to complete a triaging process to ascertain whether any repair issues are minor, or require engineering review. It is expected that all review group properties will be fully triaged by 31 October 2016. Any repair work necessary will be carried out throughout 2016, with some of the more complex repairs likely to flow into 2017.

Drainage claims

EQC began addressing asymptomatic drainage claims[18] in 2016. EQC had prioritised substantive home repairs over resolving drainage claims. As at 30 June 2016, EQC had 3,118 drainage damage claims to settle. In order to ensure customers received a timely settlement of these claims, EQC has bolstered its assessment processes and formed a panel of licensed drain-layers.

This panel carries out assessments using document templates provided by EQC. On settlement, customers get a detailed assessment of the earthquake damage, a documented repair strategy, and the costing – including any reinstatement required – to undertake the repair.

EQC expects this assessment work to be completed in 2016. However, any new drainage claims received between July and December 2016, are unlikely to be completed before 2017.

18 Refer to the glossary for a definition of asymptomatic drainage claims.

Land and contents settlements

EQC had land claims on over 80,000 properties as a result of the Canterbury earthquake series in 2010 and 2011. These included 20,000 properties with types of land damage that have never before been recognised as insured damage anywhere in the world – Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV).

Almost all land claims in the Port Hills and claims for visible land damage on the flat are now resolved. In addition, over 67 per cent of the total 9,000 IFV land damage claims were also resolved during 2015/16. These settlements are unprecedented and have been paid using a Diminution of Value approach. Customers received detailed settlement packs supported by phone calls, community meetings, information on the EQC website, and media releases. As at 30 June 2016, less than 1 per cent of customers had challenged their IFV land damage settlements, which is very low compared to visible land damage settlements.

In addition, in June 2016, EQC achieved another global first when it started settling damage claims for land with ILV land damage. Settling claims for ILV land damage has taken time because EQC wanted to develop a fair and transparent process (as with IFV land damage claims) for assessing each individual parcel of land.

Tables 3a and 3b contain a summary of contents and land exposures closed between 4 September 2010 and 30 June 2016 for the Canterbury earthquake series.[19] Of significance is the very small number of contents exposures still to be resolved as at 30 June 2016, and the significant number of land exposures resolved during the financial year. As at 30 June 2016 there were around 15 per cent of land exposures left to resolve and less than 1 per cent of contents exposures.

Table 3a: Contents exposures resolved for the Canterbury earthquakes – 2010 to 2016

Lodged from 2010 to 30 June 2015	**187,060**
Less resolved before 30 June 2015	186,616
Open as at 1 July 2015	**444**
Plus opened during the financial year	**222[20]**
Sub-total	**666**
Less resolved during the financial year	540
To be resolved as at 30 June 2016	**126**

Table 3b: Land exposures resolved for the Canterbury earthquakes – 2010 to 2016[21]

Lodged from 2010 to 30 June 2015	**150,319**
Less resolved before 30 June 2015	119,945
Open as at 1 July 2015	**30,374**
Plus opened during the financial year	**4,489[22]**
Sub-total	**34,863**
Less resolved during the financial year	12,048
To be resolved as at 30 June 2016	**22,815**

19 This does not include the February 14 and 29 Canterbury earthquakes as these are captured under non-catastrophe reporting.

20 Exposures can be opened or reopened during the year following the receipt of new information from customers in relation to contents exposures that had been resolved, most often upon advice that the dwelling has been deemed a total loss by the private insurer, thereby giving rise to a new exposure.

21 Includes properties in the Red Zone.

22 Primarily reopened claims to allow the secondary payment for non-viable land damage (IFV and ILV).

Excess payments

Under the EQC Act, every claim lodged with EQC is subject to an excess payment–the amount a customer contributes towards a claim that is accepted. When EQC pays a cash settlement the excess is automatically deducted from the final settlement payment. For customers who had properties in the CHRP, EQC made the decision not to seek excess payments before beginning repairs. The primary focus was to get people back into their homes rather than delay the repair of thousands of homes while EQC built a system to calculate the excess amounts.

With most of the repair work complete, and the cost of the repairs for each property known, EQC commenced invoicing customers for the outstanding excess amounts. These invoices are sent to each customer with an information pack detailing how the excess has been calculated. The packs provide customers with a contact number should they have any questions around the calculation of their excess. Customers who require more time to pay can contact EQC to discuss a payment plan. These packs have been sent out in staggered tranches, beginning in April 2015, and they will continue until the last repair is complete in 2017.

In dealing with late payments, EQC's focus has been on working with individual customers to arrange the most suitable payment mechanisms for each of them and to identify their ability to pay. This has included putting customers in touch with independent budget advisors.

As at 30 June 2016, around 50 per cent of customers who had been invoiced had paid before the due date and this increased significantly, to about 90 per cent, once reminder notices were sent. As of 30 June 2016, EQC had issued nearly 44,600 excess invoices to CHRP customers. The average excess is about $370 per settled claim.

KEY ✓ TARGET MET ✗ TARGET NOT MET

How We Performed – Canterbury (catastrophe) Measures and Targets

OBJECTIVE: COMPLETE THE SETTLEMENT OF CLAIMS FROM THE CANTERBURY EARTHQUAKE SERIES

MEASURE: Proportion of customer claims for dwelling damage from the Canterbury earthquake series resolved by cash payment and through managed repair.

✗ 2016

2015/16 Target: Of a total of 167,600[23] claims for dwelling damage, 99.5% will be resolved by 31 December 2015.

Not Achieved: 98.8% as at 31 December 2015.

Note: This measure is reported as cumulative life-to-date. As at 30 June 2016 there were less than 600 dwellings with building damage to be resolved.

MEASURE: Proportion of customer claims for land damage paid or closed[24] (excluding land claims for increased liquefaction vulnerability and red zone).

✓ 2016

2015/16 (amended) Target: 99% of claims for land damage (excluding land claims for increased liquefaction vulnerability and Red Zone) are paid or closed by 31 December 2016.

This target is still in progress: as at 30 June 2016, 95.1% of claims for land damage had been paid or closed.[25]

In December 2015 approval was sought and obtained from the EQC Board and the Minister to amend the target date for this measure from 31 December 2015 to 31 December 2016. This was the result of the resolution of complex land settlement policy and key legal issues delaying the resolution of land claims during the 2015 year.

Note: This measure is reported as cumulative life-to-date.

16,000 ILV and IFV land damage settlement and qualification packs sent to customers, with requests for reviews from less than 1 per cent of them, as at 30 June 2016.

23 This figure was estimated at the beginning of the reporting period, 1 July 2015.

24 Including paid zero.

25 Due to the exclusions identified above, this figure will differ to the percentage of land exposures left to resolve reported on the previous page.

OBJECTIVE: COMPLETE THE SETTLEMENT OF CLAIMS FROM THE CANTERBURY EARTHQUAKE SERIES

MEASURE: Cumulative customer claims for dwelling damage that are settled by cash – the average variance between EQC's estimated cost of settling and the actual final cost of settling claims.

2015/16 Target: Less than 20% (life-to-date measure).

Achievement: Not reported, measure discontinued.

Because of the data exclusions for this measure, the Board agreed this measure should not be reported and should be discontinued. To reflect this, in December 2015 approval was sought and obtained from the EQC Board and the Minister to amend the 2015/16 Statement of Performance Expectations by deleting this measure.

MEASURE: Canterbury claims handling expenses within the Board-approved budget.

2016
2015

2015/16 Target: Within 10% of the approved budget for the event.

Achieved

The Board budget for 2015/16 was $163.4 million. The actual spend was $148 million.

MEASURE: Recorded customer complaints from Canterbury earthquake series customers resolved prior to third-party mediation and litigation.

2016
2015

2015/16 Target: 98% by 30 June 2016.

Achieved: 99.3%

This measure provides a means of monitoring the effectiveness of EQC's internal disputes resolution. Customer complaints and mediation are related in that a complaint could lead to mediation. However, complaints and litigation are not necessarily related as litigation can occur irrespective of whether a complaint has been made or not.

OBJECTIVE: MEET THE DWELLING REPAIR OBJECTIVES, TARGETS, AND BUDGET

MEASURE: Customers with dwelling repairs that are managed to completion of the physical repair by EQC's Canterbury Home Repair Programme (CHRP).

2016
2015

2015/16 Target: Of the remaining 3,336 dwelling repairs in the CHRP, 100% are completed by 31 March 2016 (excluding properties subject to litigation, shared properties, or complex land).

Not achieved: 77.8% as at 31 March 2016.

Note: this includes managed repairs and cash settlements (where EQC and the customer have since agreed to cash settle). For managed repairs 'completed' means that a Practical Completion Certificate has been issued.

MEASURE: Repair cost inflation within CHRP less than relevant Canterbury indices.

2016
2015

2015/16 Target: Repair cost inflation less than the movement in Statistics NZ's Canterbury CPI (Housing) Index.

Achieved.

There were 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 year, Statistics NZ reported a cost increase of 5.6% for the financial year.

Note: EQC reviews its rates ceiling quarterly. The last revision was April 2015. There has been no change to the underlying labour rates. The reported national cost increase for the property maintenance index (between June quarter 2015 and the same quarter in 2016) was 2.9%.

As at 30 June 2016, EQC had less than 1% of CHRP home repairs to complete

OBJECTIVE: MEET THE DWELLING REPAIR OBJECTIVES, TARGETS, AND BUDGET *CONTINUED*

MEASURE: Overall customer satisfaction with the quality of repairs completed through the CHRP (annual average rating of customers satisfied or very satisfied with the quality of repairs in EQC's post-completion surveys).

2016 ✗ 2015 ✗

2015/16 Target: Not less than 85%.

Not achieved: 77.7%.

The small number of CHRP customers remaining means the number sampled in 2015/16 was 412. This is compared to 3,009 CHRP customers sampled in the preceding year.

MEASURE: Customer claims for dwelling damage settled by managed repair–the average variance between EQC's estimated cost of settling and the actual final cost of settling claims.

2016 ✓ 2015 ✓

2015/16 Target: Less than 20%.

Achieved: 15.9%.

This result reflects a data set of 57,000 CHRP records. It excludes approximately 10,000 records where a complete assessment record was not available. These exclusions do not materially impact on the result.

Note: The estimated cost of settling is the latest complete assessment that precedes the contractor's review of the scope and price of the repair.

OBJECTIVE: MONITORING REPAIR QUALITY AND REPAIR REMEDIATION

MEASURE: Quality assurance (QA) inspections of CHRP repairs using EQC's risk-based approach to quality assurance inspections.

2016 ✓

2015/16 Target: Completion of QA inspections of at least 60% of CHRP repair projects completed. Note: quality assurance inspections are in addition to normal contract supervision that includes quality supervision.

Achieved: 71%

Measure applies to substantive repairs and is an indicative (or proxy) measure for the monitoring of repair quality and repair remediation.

Quality inspections are means of reinforcing repair standards and checking on safety and repair contract supervision. Inspections by EQC's QA team are means of obtaining early warning and addressing repair quality issues. EQC does not inspect all repairs but has a target of inspecting 60% of CHRP repair project completions. EQC samples repairs for inspection based on a risk assessment of the repair project, which includes the complexity of the repair and the history of the suppliers.

MEASURE: Percent of CHRP repairs that require remedial action as a result of the customer successfully using the repair warranty provisions in the Building Act 2004 – outside 90-day defect liability period.

2015/16 Target: Less than 8% of customers using the repair warranty provisions in the Building Act 2004.

Achievement: Not reported.

The focus of this measure is the quality and durability of repair by the contractor and excludes complaints relating to EQC's obligations under the EQC Act that do not reflect a warranty issue. The measure is based on completed and resolved enquiries because until the matter is resolved it is not possible to ascertain whether the matter arises under the EQC Act or the Building Act. In addition, customer remedial action requests made under the Building Act 2004 can be made within 10 years from the completion of the repair.

In the Know Information Hub

The In the Know Information Hub (the Hub) enabled EQC, Christchurch City Council, Canterbury Earthquake Recovery Authority, CanCERN, Earthquake Support Coordinators service, Canterbury Earthquake Temporary Accommodation Service, Residential Advisory Service, and insurers to work together to assist homeowners with insurance claims. This approach made a marked difference in EQC's customer approach and stakeholder relationships – providing a much valued sounding board that puts customers at the centre of EQC work. It did this by:

- hosting more than 20 seminars, with all agencies taking turns to present on subjects ranging from complex land and managed repairs, to insurance and cash settlement
- being available to the public on YouTube via the In The Know website video recordings of the seminars
- acting as a one-stop-shop for Canterbury homeowners with insurance claims to talk to any agency, depending on their needs.

Visitor numbers declined towards the end of 2015, and the agencies decided to close the Hub but continue face-to-face customer care within their own organisations. EQC continues meeting the remaining groups on a monthly basis through a customer advocates group meeting, facilitated by EQC, to update them on its Canterbury work and receive input to customer communications.

OBJECTIVE: RESPOND APPROPRIATELY TO CUSTOMERS AND STAKEHOLDERS

MEASURE: Customer satisfaction with EQC's overall claims-handling experience for the Canterbury earthquake series.

2016 ✗

2015 ✓

2015/16 Target: Year-on-year improvement of customer satisfaction with the overall claims handling experience from a 30 September 2014 base of 44% and with a target of 50% or greater.

Not achieved: 34.5%

The result for this measure came from a monthly telephone survey of customers conducted by UMR Research on behalf of EQC. Every month, 350 customers were asked the question: "How satisfied were you with the overall quality of the service delivery from EQC"?

Note: only claims closed between January and June 2016 were included in the survey sample population. This is because surveying was suspended between July and December 2015 while EQC reviewed its surveying approach.

MEASURE: Canterbury customer rating (in aggregate) of the usefulness of guides obtained from EQC.

2016 ✓

2015 ✓

2015/16 Target: Year-on-year improvement from a 30 Sept 2014 base of 48%.

Achieved: 52.7%

The result for this measure came from a monthly telephone survey of customers conducted by UMR Research on behalf of EQC. Every month, 350 customers were asked whether they received a copy of the "Householders Guide to EQC Cover" or "Guide to Making a Claim with EQC", and how useful they were.

Note: only claims closed between January and June 2016 were included in the survey sample population. This is because surveying was suspended between July and December 2015 while EQC reviewed its surveying approach.

OBJECTIVE: SAFE REPAIR OR REBUILD OF PROPERTIES – SAFE6 INITIATIVE

MEASURE: EQC Total Recordable Injury Frequency Rate (TRIFR).

2016 ✓

2015 ✓

2015/16 Target: Less than six injuries per million hours worked.

Achieved: 2.8 injuries per million hours worked for the year.

This measure is provided by Fletcher EQR on the CHRP in relation to the safe rebuild or repair of properties under the Safe6 initiative. It is reported cumulatively as a 12-month rolling average as at 30 June 2016.

Resolving customer complaints

The Ombudsman can investigate complaints about EQC's administrative conduct under the Ombudsmen Act (OA). The Ombudsman will not normally investigate a complaint before it has been made to EQC. If a customer has been unable to resolve a complaint with EQC, they can make a complaint to the Ombudsman to assess whether they can help. The Ombudsman can investigate complaints including:

- decisions made on an EQC claim, such as whether to accept a claim for cover
- the standard of service provided by EQC
- delays by EQC in processing a claim.

EQC's relationship with the Ombudsman has continued to strengthen in response to a more proactive approach to managing and resolving customer complaints. We have established regular meetings to review complex issues, while supporting faster resolution, improved communication, and a greater awareness of the underlying issues. Open Ombudsman complaints reduced by 29 per cent during the 2015/16 year.

Since 2013, EQC has run a free independent mediation service for customers who have lodged certain types of complaints.

In addition, a comprehensive review of the complaints function by independent consultants LSI produced a number of recommendations that have been implemented during the past year. They include:

- The introduction of a bespoke case management framework, which has consistently increased the speed and frequency of customer contact throughout the complaint-handling process.
- Several initiatives to improve the standard of proactive formal communication with customers, which have been successfully implemented. These include the introduction of a style guide and writing conventions guide to support customer-centric communications, and a peer review process which allows the review and improvement of outbound letters and coaching feedback to the wider team.

Key Operating Activities – Non-Catastrophe Events

EQC has paid out nearly $25 million for non-catastrophe events during 2015/16. The number of claims for damage handled by EQC can vary each year from a few thousand to tens of thousands. In recent years, we have received around:

- 14,000 claims from the 2016 (14 and 29 February) Canterbury earthquakes and aftershocks
- 12,000 claims from the 2013 and 2014 Cook Strait earthquakes
- 5,000 claims from the 2014 Eketahuna earthquake
- 450 claims from the Whanganui floods in June 2015.

EQC focussed during 2015/16 on completing its work regarding the 2010/11 Canterbury earthquakes. We also responded to over 16,000 claims for all other natural disasters in New Zealand. The majority of these claims came from the 14 and 29 February 2016 earthquake and aftershocks in Canterbury.

> "While the Canterbury earthquakes have taken the lion's share of our work in recent years, we're still providing a service for the rest of New Zealand. This is business as usual for EQC, and reflects the ongoing seismic and general natural disaster activity we regularly experience in New Zealand."
>
> General Manager Customer and Claims, Trish Keith

What we have learnt

With relatively smaller numbers of Canterbury claims to deal with, EQC is increasingly developing bespoke solutions drawn from its Canterbury response, and all natural disaster responses since. The Whanganui floods, the Cook Strait, Eketahuna and Pongaroa earthquakes, and the February 2016 earthquakes in Christchurch all provided learnings that EQC is using to improve its work.

A valuable lesson for EQC in developing its land processes was how to keep customers and advocate groups up with the development of processes and customer communications to ensure they received full information and knew where to go for help. In particular, highly technical concepts were changed into everyday language and provided to customers through a variety of channels.

The development of a new approach to resolving remedial requests faster in Canterbury will provide options for managing any ongoing remedial repairs from smaller events. EQC now looks to provide customers with options on how their remedial claim is settled.

KEY TARGET MET TARGET NOT MET

How We Performed – non-catastrophe measures and targets

OBJECTIVE: ACCURATELY CALCULATE AND RESOLVE ENTITLEMENTS CORRECTLY, ON TIME AND ACCORDING TO THE EQC ACT

MEASURE: Customers are paid within one year of the final assessment of damage.

2016 ✗ 2015 ✗

2015/16 Target: 100%

Not achieved: 98.4%

The data for this result is based on claims paid and claims with a completed assessment and paid date, within the reporting period.

Note: all assessments made within the 2015/16 year are excluded because the one-year timeframe does not finish until outside the reporting period.

MEASURE: Damage assessed (for events with fewer than 10,000 claims) no later than 90 days following the close of the claim lodgement period.

2016 ✓ 2015 ✓

2015/16 Target: 95%

Achieved: 98.8%

The data for this result is based on claims that have an assessment completion date recorded in our Claims Management System.

The timely assessment of claims supports a positive customer experience. EQC assessed 98.8% of all claims (for events with fewer than 10,000 claims) in less than 90 days.

OBJECTIVE: EFFECTIVE MANAGEMENT OF CLAIMS HANDLING EXPENSES

MEASURE: Claims-handling expenses (CHE) within Board-approved budget for new events.

2016 ✓ 2015 ✗

2015/16 Target: Within the Board-approved range.

Achieved/Not achieved: The Board-approved budget was $59 million for 2015/16. Actual was $50 million.

February 2016 earthquake response

Outside of the 2010/11 Canterbury Earthquake series, the February 2016 Canterbury earthquakes resulted in the largest number of claims received by EQC in recent memory. EQC has taken some different approaches to finalising the 13,985 damage claims lodged by customers following the Canterbury earthquakes of 14 and 29 February 2016, and the aftershocks through March and June.

EQC reverted to settling claims with cash payments because there is no managed repair programme for the 14 and 29 February earthquakes. EQC aimed to complete assessments for these events sooner, where possible, using a new claims management approach. This was achieved by telephoning customers to get all the relevant information up front before conducting assessments. Where possible, damage assessment was done by telephone to enable customers to get on to repairs sooner.

This differs from EQC's approach to the 2010 and 2011 Canterbury claims, largely because earthquake damage incurred in 2016 was minor. As at 30 June 2016, $4.7 million had been paid to customers for 1,843 claims. Payments up until this time were averaging $1,000 to $5,000 per claim. Only two claims reached $50,000, and no claims had gone over their EQC residential building cap by 30 June 2016. Damage to residential buildings made up 84 per cent of claims, followed by damage to contents at 14 per cent and residential land at 2 per cent.

With each natural disaster, EQC has received more customer feedback, which has enabled it to improve how it works. The claims management approach used for these events was designed with the help of customer focus groups, and is an effective model for EQC to use in future events. For the February 2016 earthquakes, EQC emailed a survey to customers to complete two weeks after their claim resolution to gauge potential areas for improvement. To date, most customers have said their experience of the new EQC claims management process was positive or very positive.

EQC aims to resolve all claims for the February 2016 Christchurch events by the end of December 2016. EQC has put a lot of effort this past financial year into making the customer experience of its processes as easy as possible, reflecting the overall organisational focus of ensuring EQC is easy to do business with.

OBJECTIVE: RESPOND APPROPRIATELY TO CUSTOMERS AND STAKEHOLDERS

MEASURE: Customer rating (in aggregate) of the usefulness of information guides obtained by EQC.

2016

2015/16 Target: year-on-year improvement from Sept 2014 base of 50%.

Achieved: 54.3%.

The result for this measure came from a monthly telephone survey of customers conducted by UMR Research on behalf of EQC. Every month, 350 customers were asked whether they received a copy of the "Householders Guide to EQC Cover" or "Guide to Making a Claim with EQC", and how useful they were.

Note: only claims closed between January and June 2016 were included in the survey sample population. This is because surveying was suspended between July and December 2015 while EQC reviewed its surveying approach.

MEASURE: Customer satisfaction with the overall claims-handling experience.

2016

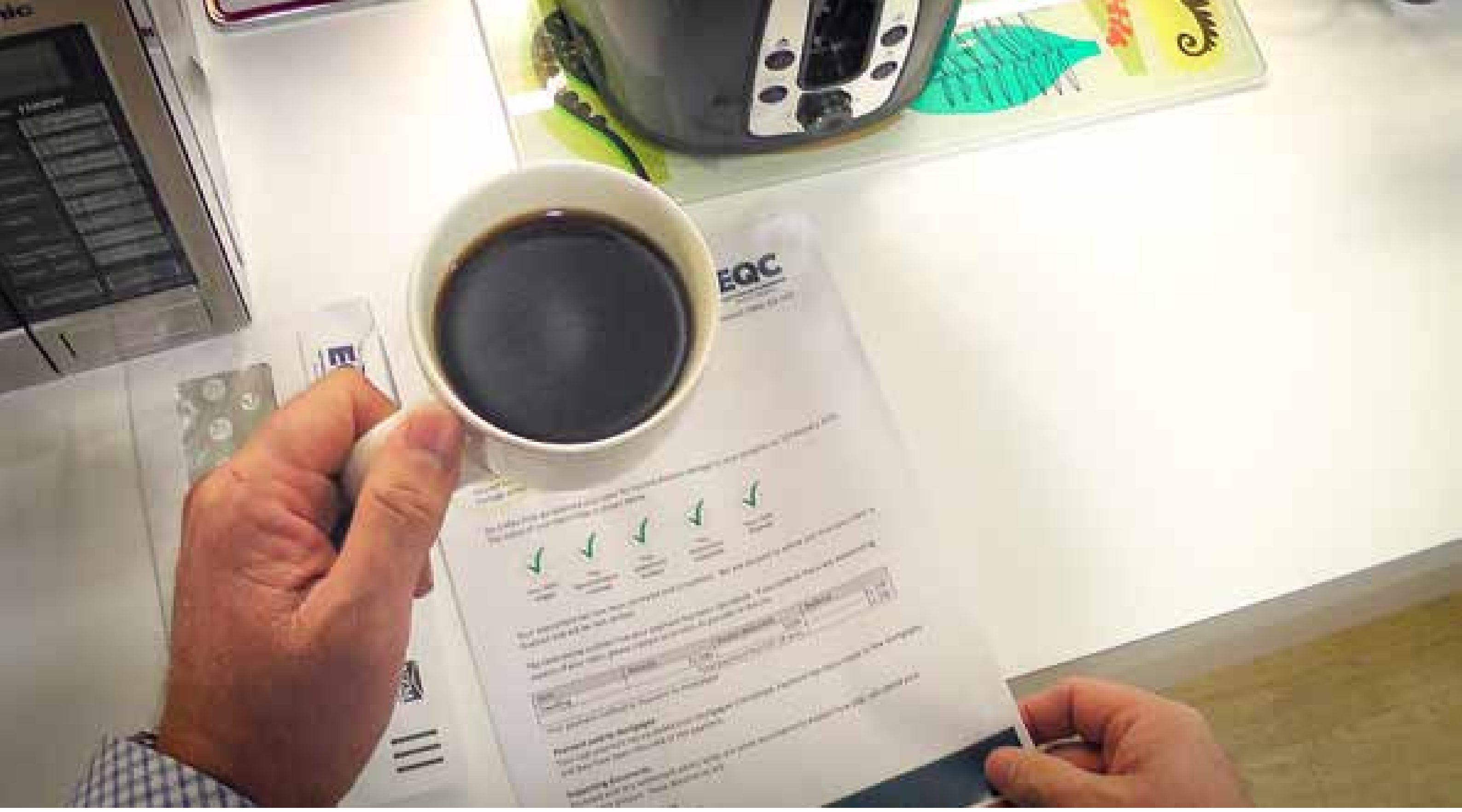
2015

2015/16 Target: Year-on-year improvement of customer satisfaction with the overall claims handling experience, with a target of 50% or greater for the 2015/16 year.

Achieved: 67.6%.

The result for this measure came from a monthly telephone survey of customers conducted by UMR Research on behalf of EQC. Every month, 350 customers were asked the question: "How satisfied were you with the overall quality of the service delivery from EQC"?

Note: only claims closed between January and June 2016 were included in the survey sample population. This is because surveying was suspended between July and December 2015 while EQC reviewed its surveying approach.



Administration

Investing for the future

This output involves administration of the Natural Disaster Fund (the Fund), including collection of the premiums payable, protection of the Fund's value through the investment of money held in it, 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 Fund includes premiums and reinsurance recoveries paid to EQC. The assets in the Fund from time to time are invested and help meet future natural disaster insurance liabilities. The EQC Board must manage the Fund on a prudent commercial basis, in a manner consistent with best-practice portfolio management. The Board has duties to manage its business efficiently and effectively.

Obtaining Reinsurance

One of the options for managing risk is to transfer some of the cost associated with a potential loss from a natural hazard event. We do this through purchasing reinsurance.

With a small population concentrated in a handful of main centres, the risk posed to New Zealand's economy by a major event is significant. For this reason, EQC buys its reinsurance overseas. This is renewed each year. The premiums EQC pays are based on an understanding of the potential frequency or severity of an event, plus a loading that reflects uncertainty. Fortunately, EQC's investment in research and good-quality data about natural hazards reduces the guesswork associated with calculating risk, thereby reducing the prices it might otherwise pay.

In 2015/16, EQC continued to negotiate consistent reinsurance coverage with no erosion of terms or conditions, despite the impact of the Canterbury earthquake series.

What we want to achieve

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
  - 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
- obtain sufficient reinsurance cover.

These objectives support the strategic objective "Contributing to efficient management of EQC's assets and liabilities" and "Helping households and their communities recover from natural disasters".

KEY TARGET MET TARGET NOT MET

How We Performed – Measures and Targets

OBJECTIVE: INVEST THE FUND

MEASURE: Annual investment portfolio performance in relation to 90-day bank bill rate.

2016 2015

2015/16 Target: 90-day bank bill rate less 25 basis points per annum.

Achieved: The average return for the Fund on a full financial year basis was 5.54%. The benchmark average return was 2.64%. To account for return volatility within a period, all Fund and benchmark returns are reported as an average for the quarter.

OBJECTIVE: ADMINISTER THE FUND

MEASURE: Good practice governance of EQC's investments.

2016 2015

2015/16 Targets:

- Annual review confirms the Statement of Investment Policies (SIPSP) reflects best practice.
- 100% of SIPSP objectives are met.
- 100% of SIPSP variations are duly authorised.

Achieved: All targets achieved.

- Annual review of SIPSP conducted in June 2016 by market specialist and recommendations incorporated into updated SIPSP. Target achieved as SIPSP now reflects best practice (as applicable to investment activity of EQC).
- All relevant SIPSP objectives were met.
- There were no unauthorised variations to the SIPSP.

For every $1 of premiums received EQC spends 54 cents on obtaining reinsurance to protect NZ against future significant natural disasters

OBJECTIVE: OBTAINING REINSURANCE

MEASURE: Subject to market conditions EQC obtains reinsurance consistent with the budget and policy set by the Board.

2016 2015

2015/16 Targets:

- Cost of reinsurance programme is within the budget range and policy set by the Board.
- Nationwide coverage obtained for all perils covered under the EQC Act.

Achieved: 2016/17 reinsurance renewal was obtained for all perils covered under the EQC Act and within Board-approved budget, terms and conditions.

FINANCIAL SUMMARY

EQC's financial position at 30 June 2016

ASSETS OF
$2.1 billion
including:

- Outstanding reinsurance and other recoveries – $535 million
- Cash – $549 million
- Investments – $859 million
- Other assets – $117 million

LIABILITIES OF
$2.5 billion
including:

- Outstanding claims liability – $2.268 billion
- Unearned premium liability – $146 million
- Unexpired risk liability – $71 million
- Other liabilities – $31 million

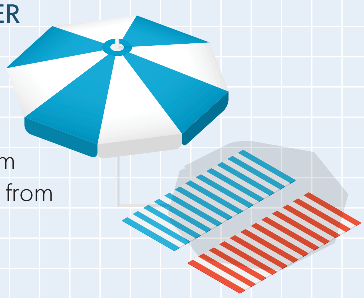
Our funding sources in 2015/16 (excluding GST)

PREMIUMS
$280.2 million

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
$444 million
cash received

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



INTEREST AND INVESTMENT INCOME
$71.7 million

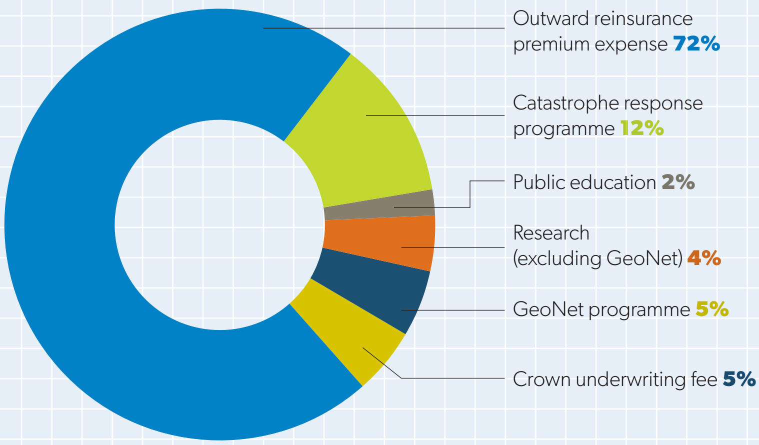
We invest the funds in the Natural Disaster Fund (the Fund) in investment products that will maximise return without undue risk to the fund as a whole. In 2016 we received revenue for:

- NZ Government stock and other short-term investments – $60.0 million
- On-call funds and cash interest – $11.7 million

What we have spent in 2015/16 (excluding GST)

In the 2016 financial year, EQC spent $210 million on expenses, excluding claims payment and the claims handling expenses for Canterbury. Graph 1 below shows the breakdown of this expenditure, excluding direct claims expenses. This represents approximately 75% of the revenue received from EQC premiums. The most significant proportion of this is used to pay for the reinsurance programme put in place to help mitigate the financial damage another major national disaster could cause. This now requires a larger proportion of spend than pre the 2010/11 Canterbury earthquake series.

Graph 1: EQC spend excluding direct claims expense[26]



26 Expenditure on reinsurance premiums equates to 54% of total expenditure (72% of the 75% of the revenue received from EQC premiums).

CROWN UNDERWRITING FEE (CROWN GUARANTEE)

$10 million

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.[27]

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

OUTWARD REINSURANCE PREMIUM EXPENSES

$150 million

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

CATASTROPHE RESPONSE PROGRAMME

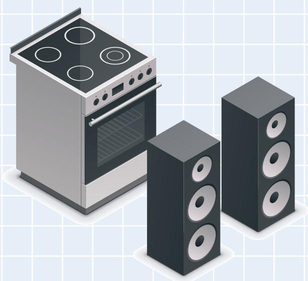
$26.5 million

Ongoing costs that allow EQC to respond to natural disaster events.

RESEARCH AND EDUCATION

$22.9 million

- Increased funding provided to GeoNet for improved monitoring of earthquakes and volcanoes – $11.5 million
- Research – $8.0 million
- Public education – $3.5 million



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

around $495 million

- We made cash settlements for, and carried out managed repairs to, damaged residential buildings – $441 million
- We made cash settlements for damage to residential land – $46 million
- We paid out $8 million for contents claims

FINANCIAL STATEMENTS

Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
EARNED PREMIUMS				
Gross earned premiums	3	280,194	280,611	280,753
Outward reinsurance premium expense		(150,402)	(165,000)	(150,984)
NET EARNED PREMIUM REVENUE		**129,792**	**115,611**	**129,769**
UNDERWRITING MOVEMENTS				
Reinsurance and other recoveries/(reductions)	5	11,949	5,406	(44,067)
Claims (expense)/reduction	6	(167,459)	100,237	490,298
Catastrophe response programme	7	(26,537)	(25,689)	(19,832)
Unexpired risk liability (increase)/reduction	18	(18,908)	8,248	17,799
TOTAL UNDERWRITING MOVEMENTS		**(200,955)**	**88,202**	**444,198**
(DEFICIT)/SURPLUS FROM INSURANCE ACTIVITIES		**(71,163)**	**203,813**	**573,967**
OTHER OPERATING REVENUE				
Other revenue	4	–	–	171
OTHER OPERATING EXPENSE				
Public education	7	(3,530)	(1,247)	(1,205)
Research (excluding GeoNet)	7	(7,964)	(7,992)	(7,333)
GeoNet programme	7	(11,451)	(9,446)	(10,068)
TOTAL OPERATING REVENUE AND EXPENSE		**(22,945)**	**(18,685)**	**(18,435)**
INVESTMENT ACTIVITIES				
Investment revenue/(expense)	8	59,992	(2,007)	92,696
Investment costs	7	(135)	(51)	(503)
Interest on cash balances		11,724	1,890	19,791
REVENUE/(EXPENSE) FROM INVESTMENT ACTIVITIES		**71,581**	**(168)**	**111,984**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
TOTAL COMPREHENSIVE REVENUE AND (EXPENSE) FOR THE PERIOD		**(32,527)**	**174,960**	**657,516**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July		(1,924,062)	(2,176,571)	(2,581,578)
Total comprehensive revenue and (expense) for the period		(32,527)	174,960	657,516
CLOSING BALANCE AT 30 JUNE		**(1,956,589)**	**(2,001,611)**	**(1,924,062)**
CLOSING BALANCE AS AT 30 JUNE		**(456,589)**	**(501,611)**	**(424,062)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2016

	NOTE	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	10	1,500,000	1,500,000	1,500,000
Retained earnings	10	(1,956,589)	(2,001,611)	(1,924,062)
TOTAL EQUITY	**10**	**(456,589)**	**(501,611)**	**(424,062)**
ASSETS				
Bank		548,916	–	479,133
Premiums receivable		53,466	49,670	53,503
Outstanding reinsurance and other recoveries	5	534,545	19,239	966,455
Other receivables	11	7,917	9,655	33,049
Prepayments		28,996	27,244	26,173
Investments	12	859,063	–	986,386
Property, plant and equipment	13	15,963	15,463	17,188
Intangible assets	14	10,542	21,816	8,642
TOTAL ASSETS		**2,059,408**	**143,087**	**2,570,529**
LIABILITIES				
Bank		–	(367,446)	–
Trade and other payables	15	(30,577)	(15,156)	(28,425)
Provisions	16	(594)	(357)	(1,372)
Outstanding claims liability	2	(2,268,466)	(61,047)	(2,769,199)
Unearned premium liability	17	(145,595)	(134,699)	(143,738)
Unexpired risk liability	18	(70,765)	(65,993)	(51,857)
TOTAL LIABILITIES		**(2,515,997)**	**(644,698)**	**(2,994,591)**
NET LIABILITIES*		**(456,589)**	**(501,611)**	**(424,062)**

* The Crown has confirmed, in writing to the Commission, its intention to meet its obligation under Section 16 of the Earthquake Commission Act 1993 (EQC 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 2016

	NOTE	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Interest		11,724	1,890	19,791
Premiums		282,090	279,637	280,592
Reinsurance and other recoveries		443,859	652,600	214,976
Net GST		25,132	15,000	14,601
Cash was applied to:				
Outward reinsurance		(152,748)	(165,000)	(150,523)
Crown underwriting fee		(10,000)	(10,000)	(10,000)
Claims settlements and handling costs		(662,621)	(1,928,855)	(1,282,541)
Employees and other operating expenses		(32,693)	(27,649)	(22,599)
GeoNet operating expenses		(8,843)	(6,521)	(6,217)
Research grants		(4,105)	(4,832)	(3,254)
Net tax on reinsurance		(127)	(150)	(146)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**24**	**(108,332)**	**(1,193,880)**	**(945,320)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of investments		139,472	300,134	626,549
Interest on investments		47,843	2,637	69,304
Sale of property, plant and equipment		822	–	170
Cash was applied to:				
Purchase of property, plant and equipment		(4,746)	(3,477)	(2,838)
Purchase of intangibles		(5,276)	(10,579)	(3,427)
NET CASH INFLOW FROM INVESTING ACTIVITIES		**178,115**	**288,715**	**689,758**
NET INCREASE/(DECREASE) IN CASH		**69,783**	**(905,165)**	**(255,562)**
Add opening cash brought forward		479,133	537,719	734,695
ENDING CASH CARRIED FORWARD		**548,916**	**(367,446)**	**479,133**

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 (EQC Act). 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 EQC 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 2016. These accounts were approved by the Board on 7 October 2016.

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 EQC 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.

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 Recoveries/(Reductions)

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

Reinsurance and other recoveries/(reductions) 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 (Expense)/Reduction

Claims expenditure 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.

Unexpired Risk Liability (Increase)/Reduction

At balance date, the Commission assesses the adequacy of the unearned premium liability by applying the liability adequacy test as specified by 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 EQC 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.

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 then 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 is recorded at cost less accumulated depreciation and accumulated impairment losses.

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are recognised in the Statement of Comprehensive 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.

GeoNet Assets

GNS Science administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under an 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	0–12.2 years
Computer hardware	3 years
Canterbury event furniture and equipment	1–11.8 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.

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 nine years. Any additions 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 then the obligation is recognised as a provision.

Employee Entitlements

Employee entitlements include salaries and wages, annual leave, long service leave and other similar benefits that 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.

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.

Budgets

The budget figures are derived from the Statement of Performance Expectations 2015 to 2016 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.

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 2016 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 2016. 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 2015, 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 2016. 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, dwelling claims or contents claims.

Uncertainties Arising from the 2010/11 Canterbury earthquake sequence

The 2010/11 Canterbury earthquake sequence resulted in a higher than usual level of uncertainty associated with the actuarial valuation of the Commission's liability. Some of the key sources of uncertainty have been:

- the impact of multiple events on EQC coverage and reinsurance coverage;
- the potential for construction cost inflation to exceed expectations; and
- severe damage resulting from liquefaction and a complex land claims environment from engineering, valuation and legal perspectives.

Specific sources of uncertainty regarding the estimation of EQC's land liabilities include:

  - the extent to which properties have valid claims;
  - the assumed market value cap for a number of properties in Canterbury;
  - the implementation of the Increased Flooding Vulnerability (IFV) and Increased Liquidity Vulnerability (ILV) settlement methodologies;
  - the possible impact of demand surge due to labour shortages; and
  - legal, valuation and engineering challenge and complex interpretation issues related to the land cover provision in the EQC Act.

The Commission has now resolved the majority of claims in relation to the 2010/11 Canterbury earthquake sequence; however, there still remains a higher-than-usual level of uncertainty associated with the valuation of the outstanding claims liability, reinsurance recoveries and unexpired risk liability. The sources of this remaining uncertainty include:

- ILV land damage payments have only recently begun in small numbers, limiting actual data on which to base the outstanding liability;
- the level of remedial activity required on repairs completed under the Canterbury Home Repair Programme; and
- the need to reach an agreed financial settlement position with insurers and reinsurers as the Commission seeks to finalise its liability.

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 contents and $100,000 for dwellings plus GST per event. Claims in relation to residential land are subject to a variable monetary limit and are therefore subject to greater uncertainty.

2016 Financial Year Claims Expense

The Commission recorded a claims expense of $167 million in the 2016 financial year. The major driver of this expense is $120 million of cost incurred for events within the 2016 financial year, including the February 2016 Christchurch earthquakes for which total costs have been estimated at $76 million (excluding risk margin). The remaining expense of $47 million relates to the 2010/11 Canterbury earthquake sequence and includes a small increase in the anticipated costs of the 2010/11 Canterbury earthquake sequence of $30 million (dwellings +$319m; land -$300m; contents/CHE +$10m) as well as changes to the associated risk margin and discount numbers.

While the overall 2010/11 Canterbury earthquake sequence liability has remained broadly flat there have been some significant movements within the different components of the valuation which are explained in more detail below.

Land Outstanding Claims Liability

The net ultimate claims liability (i.e. once reinsurance payments have been deducted) in respect to land has reduced by approximately $230 million in the year ($300m on a gross basis). This reduction is discussed further below, but is primarily due to:

- greater certainty around the underlying data (e.g. number of eligible claims);
- the confirmation of the policy and Diminution of Value (DOV) factors for ILV settlements that have been incorporated into the calculations and modelling; and
- offset by an increase in relation to the finalisation of the apportionment approach.

The reduction of $230 million to the net ultimate claims liability comprises:

- a reduction of approximately $98 million due to updated land assumptions (see below) and other small changes;
- a decrease of approximately $202 million due to the overall net impact of the ILV changes (explained in greater detail below); and
- a $71 million increase as a result of the Commission confirming the event apportionment approach for land claims (2015 annual report indicated this could be up to $100m).

Updated Land Assumptions

The processes of assessing and settling land claims has continued through the 2016 financial year and have resulted in more robust data being available to assist the actuaries and the Commission in determining appropriate assumptions for the liability calculation. The most significant changes include:

- a reduction in the estimated number of qualifying properties for ILV compared to June 2015;
- the number of properties estimated to qualify for IFV reducing compared to June 2015;
- updated repair information provided by the geotechnical engineers;
- revised apportionment information based on geotechnical information; and
- removal of properties, not covered by EQC at the time of the earthquakes, from the modelling.

Increased Liquefaction Vulnerability (ILV) Claims

During the 2016 financial year the Commission's Board confirmed the policy for settling land claims subject to ILV and has finalised the DOV results for all ILV properties where the house remains in-situ after the earthquakes. The DOV measures the reduction of market value which has been caused by ILV land damage.

When EQC cash settles ILV land damage on a property, it assesses the customer's loss in one of two ways – either:

- solely on the basis of DOV, or
- on a combination of:
  - the amount it would cost the customer to repair the ILV damage to the land area sufficient to provide a building platform for the house (the repair cost); and
  - the reduction in market value (if any) of the rest of the insured land as a result of ILV land damage.

EQC's general preference is to settle ILV land damage claims based on the repair cost (together with any DOV of any ILV that is not remediated by the ground improvement methodology). But the nature of ILV means that a repair methodology may not be technically feasible or able to be lawfully undertaken given the high costs and practicality of undertaking the repairs. In circumstances where the repair is not going to be undertaken, the claimant's true loss is best reflected in the DOV of the entire insured property.

All settlement amounts are subject to the land cap set out in section 19 of the Earthquake Commission Act 1993. The EQC land cover cap is generally the value of the area of damaged land or the value of a parcel of land that is the minimum lot size under the relevant District Plan, whichever is smaller.

A key component in calculating the ILV outstanding claims liability is the DOV be applied to the ILV properties:

- the DOV rates have been determined by EQC's valuers, working closely with EQC's engineers;
- a standardised approach was developed to assess the reduction of a property's market value due to ILV land damage. This approach is designed to ensure that DOV is assessed in a consistent way for properties with ILV land damage; and
- the methodology for determining DOV has been peer reviewed and approved by a panel of valuers, nominated by the major New Zealand professional valuation associations.

As at 30 June 2016 the payment of ILV claims had begun with a small number of payments made, however, the Commission has up to approximately 9,951 ILV (2015: 10,500) properties left to settle. These properties (which include Red Zone properties and those with both IFV and ILV claims) are expected to be resolved in the 2017 financial year.

The uniqueness of ILV damage in Canterbury and the limited number of payments made to date presents significant uncertainty around the eventual settlement outcome for individual properties. The actuarial valuation is based on the following assumptions as at 30 June 2016:

- all properties with vacant land are assumed to settle via a repair methodology;
- where EQC intends to settle by DOV (house in-situ) it is assumed there is a 50% chance EQC will settle that property by DOV and a 50% chance EQC will settle by repair costs; and
- there are estimated to be approximately 4,300 properties with both ILV and IFV damage. As the policy for these properties is yet to be determined, the damage relating to ILV and IFV has been modelled independently of each other for the purposes of the valuation.

To help in understanding the sensitivities associated with ILV claims:

- if the number of settlements paying DOV rather than repair strategy was to increase/decrease by 25% (to 75%/25%) this would result in a net outstanding claims liability (including risk margin)* movement of -$90 million/+$55 million;
- if DOV rates were to be changed by +/-10% (i.e. 10% is added/subtracted to the central estimate DOV rates†) then the impact on the net outstanding claims liability figures (including risk margin) would be +$81 million/ -$47 million; and
- as the Commission confirms the policy for properties with both ILV and IFV damage in the 2017 financial year it may be possible that there is variation in the actual cost of settlement compared to that modelled as at 30 June 2016. For example if the combined cost of settling properties with both ILV and IFV damage was to increase/ decrease by 25% then this would result in a +$63 million/-$50 million impact on the net outstanding claims liability figures (including risk margin).

Buildings Outstanding Claims Liability

The Commission has resolved over 99% (2015: 97%) of substantive dwelling claims as at 30 June 2016, with the remaining open claims involving high levels of complexity and/or difficulty. During the 2016 financial year, the Commission has experienced higher settlement costs in relation to resolving this tail of claims, and this trend has been incorporated in deriving the outstanding claims liability for the remaining outstanding claims. The higher settlement costs have been a material driver behind a $225 million increase in the net ultimate claims dwelling liability ($319m on a gross basis), together with an increased allowance for drainage repairs and remedial work.

Activity in 2016 has focussed on designing and beginning settlement processes for remedial claims (this covers missed scope, material failure and workmanship issues) on repaired properties and drainage repairs, as well as confirming over-cap properties with the insurance companies. As more information has become available the following assumptions have needed to be refined within the valuation:

For remedial claims: there is now greater visibility on the frequency and severity of remediation work, and as at 30 June 2016 the related liability is based on an estimate that there will be around 10,000 remedial cases in total. This number is an increase on the level assumed within the 30 June 2015 valuation and has resulted in a $30 million increase in the net ultimate claims liability. Customers are still able to lodge remedial claims, and a further 10% increase would result in a further net outstanding liability increase of $6 million.

For drainage claims: during the 2016 financial year greater clarity has been achieved in regards to understanding the Commission's liability in regards to drainage claims. As at 30 June 2016 it is assumed that there will be approximately 6,000 drainage claims in total. A pilot of 50 properties has occurred and the results from this have been used to inform an increase of $42 million in the net ultimate claims liability. As the Commission settles a greater proportion of these claims the total liability will become more certain. However, as at 30 June 2016 a 10% increase/ decrease in either the frequency or severity of claims would result in a $5 million increase/decrease in the net outstanding claims liability.

* The net outstanding claims liability (including risk margin movement) represents the potential impact on the Commission's reported surplus/ (deficit) within the Statement of Comprehensive Revenue and Expenses from the change in assumption after the impact on any reinsurance receivable and risk margin have been considered. It assumes that all other assumptions remain unchanged.

† If for example, the initial average DOV rate was 8%, the sensitivity scenario increases this to an average DOV rate of 18%.

For insurer finalisation: the Commission continues to work with private insurers in relation to Canterbury claims, and progress has been made towards determining final liabilities. Following this work, the estimate of the net ultimate claims liability has been increased by $18 million. Discussions with the private insurers will continue in the 2017 financial year and there remains considerable uncertainty as to the final outcome of these.

Other Outstanding Claims Liability Assumptions

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

	2016	2015
Weighted average term to settlement	0.48 years	1.00 years
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	2.1% to 2.0%	2.9% to 3.0%
Claims handling expense ratio	5.0%	10.0%
Demand surge	15.0%	15.0%

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 $4 million.

		IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
VARIABLE	MOVEMENTS IN VARIABLE	2016 $(000)	2015 $(000)
Weighted average term to settlement	+0.5 years	+4,000	+22,000
	-0.5 years	+8,000	+9,000
Claims inflation rate	+1.0%	+3,000	+3,000
	-1.0%	-8,000	-10,000
Discount rate	+1.0%	-8,000	-20,000
	-1.0%	+9,000	+21,000
Claims handling expense ratio	+1.0%	+6,000	+13,000
	-1.0%	-10,000	-19,000
Demand surge: probability of surge event	x1.5	+4,000	+5,000
Demand surge: surge severity	x1.5	+13,000	+16,000

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 2016 is 19.7%, up from 18.8% in 2015. The risk margin in 2016 continues to be determined based on an 85% (2015: 85%) probability of adequacy given the uncertainty, scale and financial impact of the Canterbury earthquakes.

The 2016 risk margin is $297 million (2015: $341m). While lower on an absolute basis than the prior year, it is marginally higher on a percentage basis, reflecting that a higher proportion of the outstanding claims liability now relates to complex land (ILV and IFV) payments. The finalisation of some ILV DOV rates and the modelling of ILV DOV (explained earlier in the note) means there is now a greater variance between the central estimate for these claims and the Commission's maximum liability level ('cap'). This uncertainty will remain until a significantly higher proportion of ILV claims have been settled.

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 The Treasury's published CPI assumptions as at 30 June 2016, with some allowance for higher levels of claims inflation for the dwelling 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 The Treasury's published discount rates as at 30 June 2016 and 30 June 2015.

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 claim handling expense ratio is expressed as a percentage of the gross undiscounted outstanding claim liability.

Demand surge: demand surge percentage is based on 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 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Central estimate of outstanding claims liability	(1,894,385)	(44,417)	(2,254,205)
Claims handling expenses	(98,124)	(15,105)	(243,787)
Risk margin	(296,622)	(2,624)	(341,094)
Gross outstanding claims liability	**(2,289,131)**	**(62,146)**	**(2,839,086)**
Discount	20,665	1,099	69,887
Discounted outstanding claims liability	**(2,268,466)**	**(61,047)**	**(2,769,199)**
Outstanding claims liability	**(2,268,466)**	**(61,047)**	**(2,769,199)**
Current	(2,240,069)	(25,678)	(1,668,201)
Non-current	(28,397)	(35,369)	(1,100,998)
	(2,268,466)	**(61,047)**	**(2,769,199)**

RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY

Outstanding claims liability at 1 July	(2,769,199)	(2,287,969)	(4,531,720)
Claims (expense)/reduction	(167,459)	100,237	490,298
Non-cash items in claims expense	1,560	6,840	2,515
Claims payments during the year	662,621	1,928,855	1,282,541
Claims handling expense in trade and other payables	4,011	190,990	(12,833)
Outstanding claims liability at 30 June	**(2,268,466)**	**(61,047)**	**(2,769,199)**

The change in the discount rates used within the valuation results in a $7,193,000 increase in the outstanding claims liability. This is a component of the claims (expense)/reduction.

DEVELOPMENT OF CLAIMS FOR EVENTS

The following table shows the accumulation of the outstanding claims liability relative to the current estimate of ultimate claims expense relating to 2010/11 Canterbury earthquake sequence occurring since 4 September 2010, in addition to the business-as-usual costs incurred.

	2016						
	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL ($000)
2010/11 CANTERBURY EARTHQUAKE SEQUENCE							
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	–	–	–	–	(455,293)	(10,805,614)	n/a
Five years later	–	–	–	–	n/a	(10,823,437)	n/a
Current estimate of ultimate claims expense	**–**	**–**	**–**	**–**	**(455,293)**	**(10,823,437)**	**(11,278,730)**
Cumulative payments	–	–	–	–	411,355	8,967,922	9,379,277
Outstanding claims liability (undiscounted)	**–**	**–**	**–**	**–**	**(43,938)**	**(1,855,515)**	**(1,899,453)**
Discount to present value	–	–	–	–	429	19,384	19,813
Outstanding claims liability (discounted)	**–**	**–**	**–**	**–**	**(43,509)**	**(1,836,131)**	**(1,879,640)**
2010/11 Canterbury event risk margin							(278,441)
OTHER EVENTS							
Other claims (expected to be settled within a year)*							(92,204)
Other risk margin							(18,181)
Outstanding claims liability (85% probability of adequacy, discounted)							**(2,268,466)**

* The February 2016 Earthquakes are included within Other Events.

	2015					
	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL ($000)
2010/11 CANTERBURY EARTHQUAKE SEQUENCE						

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)**
2010/11 Canterbury event risk margin						(336,677)

OTHER EVENTS

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)**

3. GROSS EARNED PREMIUMS

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Gross earned premiums	289,464	296,266	285,686
Less rebate to insurers	(7,413)	(7,407)	(7,112)
	282,051	**288,859**	**278,574**
Unearned premium opening	143,738	126,451	145,917
Unearned premium closing	(145,595)	(134,699)	(143,738)
	(1,857)	**(8,248)**	**2,179**
Gross earned premiums	**280,194**	**280,611**	**280,753**

Premium income represents premiums collected and paid to the Commission by insurance companies and brokers. In accordance with Section 24 (2) of the EQC 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 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Claims related income	–	–	171
Other Revenue	**–**	**–**	**171**

5. REINSURANCE AND OTHER RECOVERIES/(REDUCTIONS)

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Movement in gross reinsurance recoveries	(369)	–	(42,989)
Movement in discount	12,318	5,406	(1,078)
Total discounted reinsurance and other recoveries/(reductions)	**11,949**	**5,406**	**(44,067)**

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Gross reinsurance receivable	506,418	17,584	969,971
Discount	(5,038)	(345)	(17,356)
Discounted reinsurance receivable	**501,380**	**17,239**	**952,615**
Other recoveries			
Sundry receivables*	20,013	2,000	4,010
Aon Benfield	13,152	–	9,830
Total other recoveries	**33,165**	**2,000**	**13,840**
Total outstanding reinsurance and other recoveries	**534,545**	**19,239**	**966,455**
Current	529,498	13,815	724,865
Non-current	5,047	5,424	241,590
	534,545	**19,239**	**966,455**

RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES

Outstanding reinsurance and other recoveries at 1 July	966,455	666,433	1,225,498
Reinsurance and other recoveries/(reductions)	11,949	5,406	(44,067)
Reinsurance and other recoveries received during the year	(443,859)	(652,600)	(214,976)
Outstanding reinsurance and other recoveries at 30 June	**534,545**	**19,239**	**966,455**

The Commission anticipates that a significant proportion of the cost of damage relating to the 2010/11 Canterbury earthquake sequence will be recovered from reinsurers. At 30 June 2016 the total actuarial valuation of reinsurance recoveries was reduced by $369,000 to $4,298,156,000. This reduction was passed through the reinsurance and other recoveries/(reductions) 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 2016, the discount for the outstanding reinsurance recoveries was reduced by $12,318,000 to $5,038,000. This adjustment increased the discounted reinsurance recoveries for the current financial year.

Aon Benfield recoveries relate to work performed in June 2016 for which the Commission has requested a reinsurance recovery. As at 30 June 2016, payment had not been received.

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

* Majority of Sundry Receivables relate to invoices for Canterbury Home Repair Programme excesses.

6. CLAIMS (EXPENSE)/REDUCTION

SUMMARY	2016 CURRENT YEAR $(000)	2016 PRIOR YEARS $(000)	2016 TOTAL $(000)	2015 CURRENT YEAR $(000)	2015 PRIOR YEARS $(000)	2015 TOTAL $(000)
Gross claims expense – undiscounted	(110,853)	(7,384)	(118,237)	(35,825)	518,269	482,444
Discount – on total outstanding claims	851	(50,073)	(49,222)	282	7,572	7,854
Gross claims expense – discounted	**(110,002)**	**(57,457)**	**(167,459)**	**(35,543)**	**525,841**	**490,298**

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 $110,002,000.

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
2010/11 CANTERBURY EARTHQUAKE SEQUENCE CLAIMS EXPENSE		
Advertising and publicity	(455)	(207)
Amortisation of intangibles	(698)	(832)
Fees paid to the auditor		
Audit of the financial statements	(188)	(216)
Bad debts (i)	(117)	(20)
Call centres and claims management – third party	(1,159)	(1,361)
Claims assessment fees	(1,357)	(4,025)
Claims administrators and contractors	(8,313)	(4,879)
Depreciation	(745)	(1,663)
Employee remuneration and benefits	(51,762)	(61,698)
Engineers and consultants	(32,406)	(36,674)
Interest expense	(51)	–
Loss on sale of property, plant and equipment (ii)	(852)	(68)
Office rental	(3,445)	(3,179)
Other costs	(10,912)	(12,013)
Project management and infrastructure – rebuilding programme (iii)	(31,594)	(70,314)
Superannuation contribution costs	(1,370)	(1,608)
Travel and accommodation	(2,761)	(4,326)
Canterbury claims handling expenses incurred	**(148,185)**	**(203,083)**

(i) Bad debts relate to the Commission's Canterbury Home Repair Programme excess invoicing.
(ii) Relates to losses on disposals of assets purchased to support the Canterbury Home Repair Programme.
(iii) The scale of the Canterbury Home Repair Programme was significantly reduced during the 2016 financial year as the majority of repairs had been completed.

BREAKDOWN OF TOTAL CLAIMS EXPENSE

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
2010/11 CANTERBURY EARTHQUAKE SEQUENCE		
Movement in claims handling expenses (undiscounted)	(852)	(216,860)
Movement in claim settlement provision (undiscounted)	2,811	662,776
Discount	(49,791)	9,522
Total	**(47,832)**	**455,438**
OTHER CLAIMS		
Other claims expenses (i)	(116,736)	36,323
Other claim handling costs	(2,891)	(1,463)
Total	**(119,627)**	**34,860**
Claims (expense)/reduction	**(167,459)**	**490,298**

(i) 2016 Other Claims Expense includes $76 million of estimated costs for the February 2016 Christchurch earthquakes and a $18 million risk margin (up $14m on prior year due to the Christchurch earthquake).

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

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
COSTS GROUPED BY FUNCTION*			
Catastrophe response programme	(26,537)	(25,689)	(19,832)
Public education	(3,530)	(1,247)	(1,205)
Research (excluding GeoNet)	(7,964)	(7,992)	(7,333)
GeoNet programme	(11,451)	(9,446)	(10,068)
Investment costs	(135)	(51)	(503)
Total expenditure by function excluding claims expense	**(49,617)**	**(44,425)**	**(38,941)**
COSTS GROUPED BY EXPENSE TYPE			
Advertising and publicity	(1,707)	(2,189)	(1,558)
Amortisation of intangibles	(2,677)	(788)	(1,578)
Fees paid to the auditor			
Audit of the financial statements	(139)	(170)	(151)
Commissioners' fees	(333)	(361)	(333)
Consultants and contractors (i)	(9,942)	(3,603)	(4,434)
Consultant assurance services	(35)	–	(31)
Depreciation	(3,477)	(6,054)	(3,303)
Employee remuneration and benefits	(8,409)	(9,657)	(7,446)
Grants for earthquake research	(4,104)	(4,976)	(3,586)
GeoNet operating costs	(8,100)	(6,521)	(6,802)
Investment and custodial expenses – third party	(101)	(51)	(125)
Loss on property, plant and equipment	(75)	–	(45)
Office rental	(495)	(454)	(496)
Sponsorships	(348)	(450)	(320)
Superannuation contribution costs	(268)	(170)	(254)
Technology costs	(7,354)	(6,752)	(6,799)
Other administration costs	(2,053)	(2,229)	(1,680)
Total operating costs (excluding claims expense and claims handling expense)	**(49,617)**	**(44,425)**	**(38,941)**

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

(i) 2016 costs include retainers paid to assessors and loss adjustors.

8. INVESTMENT INCOME

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
GLOBAL EQUITIES			
Class actions and tax reclaims	158	–	180
Foreign exchange losses	–	–	3
	158	**–**	**183**
NZ GOVERNMENT STOCK			
Interest and discount income	47,070	877	66,587
Realised and unrealised gains/(losses)	12,764	(2,884)	25,845
	59,834	**(2,007)**	**92,432**
OTHER SHORT-TERM INVESTMENTS			
Interest income	–	–	81
Total investment income	**59,992**	**(2,007)**	**92,696**

9. MAJOR BUDGET VARIANCES

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Claims (expense)/ reduction

Claims (expense)/reduction is $268 million adverse to budget driven by a lower decrease in the risk margin occurring $129 million and an estimated $76 million for claims arising from the February 2016 Christchurch earthquakes.

Unexpired risk liability

The unexpired risk liability includes an $11 million increase for the projected costs of future claims arising from the 2010/11 Canterbury earthquake sequence as a result of slightly increased probabilities of seismic activity as reported by GeoNet.

Investment activities

Revenue from investment activities has exceeded budgeted levels by $72 million. The Commission has held higher balances than anticipated through the year and has benefitted from revaluations of its Government stock compared to budget.

STATEMENT OF FINANCIAL POSITION

The 2016 budget had assumed that materially all 2010/11 Canterbury earthquake sequence claims would have been settled by the 30 June 2016. However, due to the complexity of the remaining claims this has not occurred. The majority of the liability associated with complex land claims (IFV and ILV) remains outstanding, along with a tail of dwelling and remedial claims.

The impact of this is that the Commission has a higher outstanding claims liability at 30 June 2016 and has not been able to reclaim as much from reinsurers resulting in a higher reinsurance and other recoveries balance. As the Commission has not paid out as much as anticipated in the budget it has not been required to sell all its investments and has a higher bank balance.

STATEMENT OF CASH FLOWS

Reinsurance and other recoveries

Cash provided from reinsurance and other recoveries is $209 million lower than budget reflecting the claims settlement profile. The Commission, has therefore, not been able to claim as much reinsurance as expected.

Claim settlements and handling costs

Claim settlements and handling costs is $1.27 billion below budgeted levels due to the majority of complex land claims and a small proportion of dwelling claims being outstanding as at 30 June 2016. These will be paid in the 2017 financial year.

Sale of investments and interest on investments

As a result of lower claims payments the Commission has not needed to liquidate as many investments as anticipated. This has meant higher balances from which the Commission has derived revenue.

10. NATURAL DISASTER FUND

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
CAPITALISED RESERVES	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS			
Balance as at 1 July	(1,924,062)	(2,176,571)	(2,581,578)
Net surplus and total comprehensive revenue and (expense)	(32,527)	174,960	657,516
Balance as at 30 June	**(1,956,589)**	**(2,001,611)**	**(1,924,062)**
Closing balance of the Natural Disaster Fund	**(456,589)**	**(501,611)**	**(424,062)**

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, while 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 EQC 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 its investments and cash will be materially depleted during the 30 June 2017 financial year, but the final timing may be dependent on factors outside of the Commission's immediate control.

11. OTHER RECEIVABLES

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Goods and Services Tax	7,917	9,655	33,049
Total receivables	**7,917**	**9,655**	**33,049**

12. FINANCIAL INSTRUMENTS

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE* THROUGH SURPLUS OR DEFICIT			
NZ Government securities	859,063	–	986,386
	859,063	**–**	**986,386**
LOANS AND RECEIVABLES			
Bank	548,916	–	479,133
Premiums receivable	53,466	49,670	53,503
Outstanding reinsurance and other recoveries	534,545	19,239	966,455
Other receivables	7,917	9,655	33,049
	1,144,844	**78,564**	**1,532,140**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST			
Bank	–	(367,446)	–
Trade and other payables	(30,577)	(15,156)	(28,425)
Provisions	(594)	(357)	(1,372)
	(31,171)	**(382,959)**	**(29,797)**
Outstanding claims liability	**(2,268,466)**	**(61,047)**	**(2,769,199)**

* *Fair value*

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

- level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

INVESTMENTS

In December 2011, the Rt Hon Prime Minister, under section 7 of the Constitution Act 1986, gave the Minister Responsible for the Earthquake Commission authority to exercise any of the Minister of Finance's functions, duties or powers under the EQC Act.

The Minister Responsible for the Earthquake Commission signed a new ministerial direction in regards to investments on 27 July 2015. This direction replaced previous directions and reflected the continuing utilisation of the fund to settle Canterbury claims.

The direction permitted investments to be held in New Zealand Government securities or New Zealand bank securities. All investments in New Zealand Government securities are only tradeable with the New Zealand Debt Management Office (NZDMO).

At 30 June 2016, the fair values and concentrations of the Commission's investments were as follows:

	2016	2016	2015	2015
	FAIR VALUE $(000)	% OF TOTAL INVESTMENT	FAIR VALUE $(000)	% OF TOTAL INVESTMENT
NZ Government stock	859,063	100.0	846,619	85.8
NZ Government inflation-indexed	–	–	139,767	14.2
Total Government securities	**859,063**	**100.0**	**986,386**	**100.0**
Current*	–	–	139,767	14.2
Non-current*	859,063	100.0	846,619	85.8
	859,063	**100.0**	**986,386**	**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:

	2016		2015	
	YIELD	DURATION	YIELD	DURATION
NZ Government stock	2.02%	3.54 yrs	3.04%	4.31 yrs
NZ Government inflation	–	–	2.85%	0.61 yrs
Short term deposits	2.77%	28 days	–	–
On-call funds	2.35%	n/a	3.41%	n/a

Interest Rate Risk Sensitivity

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

The fair value is arrived at by discounting the cash flows arising from a financial instrument at the market yield and recognising the change in the Statement of Comprehensive 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 $14,872,845 (2015: $18,168,028). A 50 basis point decrease would decrease the deficit by $15,227,641 (2015: $18,652,441).

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. $285,531,701 was held on-call and $169,898,309 held on short-term deposits (2015: on-call: $451,687,967).

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 2016 $(000)	ACTUAL 2015 $(000)
Counterparties with credit ratings		
Bank		
AA-	374,418	333,750
A+	60,252	40,108
A	114,246	105,275
Total	**548,916**	**479,133**
Reinsurance recoveries		
AA	34,731	47,634
AA-	155,803	326,090
A+	221,380	413,388
A	78,821	131,300
A-	23,797	44,033
Total	**514,532**	**962,445**
GST receivable		
AA+	**7,917**	**33,049**
Premiums receivable		
AA-	28,352	28,466
A+	15,815	17,934
A	3,519	3,205
A-	5,755	3,379
Other	25	519
Total	**53,466**	**53,503**
Counterparties without credit ratings		
Sundry receivables	**20,013**	**4,010**

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 (2015: 12 months). The majority of outstanding claims are expected to be settled within the 2017 financial year.

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 retains a high proportion of highly liquid assets that can be sold in a relatively short time-frame to meet any operational requirements. Following the 2010/11 Canterbury earthquake sequence, cash at bank has been held at higher levels to provide for claims expenses and settlements.

13. PROPERTY, PLANT AND EQUIPMENT

2016	NON-CANTERBURY			CANTERBURY			
COST	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	LAND $(000)
At 1 July 2015	34	146	437	7,679	10	5,460	1,230
Additions	41	858	–	2	–	22	–
Transfer	–	456	–	–	–	–	–
Disposals	(1)	(130)	(88)	(5,275)	(10)	(1,127)	–
At 30 June 2016	**74**	**1,330**	**349**	**2,406**	**–**	**4,355**	**1,230**
Accumulated depreciation							
At 1 July 2015	(26)	(94)	(401)	(4,968)	(9)	(5,374)	(396)
Depreciation charge	(6)	(162)	(15)	(672)	–	(72)	–
Disposals	1	106	88	3,567	9	1,091	–
At 30 June 2016	**(31)**	**(150)**	**(328)**	**(2,073)**	**–**	**(4,355)**	**(396)**
Carrying amounts at 30 June 2016	**43**	**1,180**	**21**	**333**	**–**	**–**	**834**

During the 2016 financial year a small number of GeoNet assets were reclassified to a more appropriate asset class.

2015	NON-CANTERBURY			CANTERBURY			
COST	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)	MOTOR VEHICLES $(000)	COMPUTER HARDWARE $(000)	LAND $(000)
At 1 July 2014	73	151	738	8,443	10	6,587	1,230
Additions	–	–	4	8	–	9	–
Disposals	(39)	(5)	(305)	(772)	–	(1,136)	–
At 30 June 2015	**34**	**146**	**437**	**7,679**	**10**	**5,460**	**1,230**
Accumulated depreciation							
At 1 July 2014	(56)	(79)	(655)	(4,226)	(6)	(6,123)	(396)
Depreciation charge	(3)	(20)	(51)	(1,286)	(3)	(374)	–
Disposals	33	5	305	544	–	1,123	–
At 30 June 2015	**(26)**	**(94)**	**(401)**	**(4,968)**	**(9)**	**(5,374)**	**(396)**
Carrying amounts at 30 June 2015	**8**	**52**	**36**	**2,711**	**1**	**86**	**834**

	GEONET					
	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
	753	2,212	32,808	50,769	456	**51,225**
	–	429	3,471	4,823	–	**4,823**
	(25)	172	(147)	456	(456)	**–**
	–	(83)	(593)	(7,307)	–	**(7,307)**
	728	**2,730**	**35,539**	**48,741**	**–**	**48,741**
	(331)	(1,756)	(20,682)	(34,037)	–	**(34,037)**
	(29)	(395)	(2,871)	(4,222)	–	**(4,222)**
	–	83	536	5,481	–	**5,481**
	(360)	**(2,068)**	**(23,017)**	**(32,778)**	**–**	**(32,778)**
	368	**662**	**12,522**	**15,963**	**–**	**15,963**

	GEONET					
	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
	753	2,132	33,778	53,895	–	**53,895**
	–	437	1,926	2,384	456	**2,840**
	–	(357)	(2,896)	(5,510)	–	**(5,510)**
	753	**2,212**	**32,808**	**50,769**	**456**	**51,225**
	(302)	(1,692)	(20,762)	(34,297)	–	**(34,297)**
	(29)	(420)	(2,780)	(4,966)	–	**(4,966)**
	–	356	2,860	5,226	–	**5,226**
	(331)	**(1,756)**	**(20,682)**	**(34,037)**	**–**	**(34,037)**
	422	**456**	**12,126**	**16,732**	**456**	**17,188**

14. INTANGIBLE ASSETS

2016	NON-CANTERBURY		CANTERBURY			
COST	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
At 1 July 2015	4,708	5,505	2,541	12,754	2,909	**15,663**
Additions	622	–	–	622	4,774	**5,396**
Transfer	1,054	–	–	1,054	(1,175)	**(121)**
Disposals	(116)	–	–	(116)	–	**(116)**
At 30 June 2016	**6,268**	**5,505**	**2,541**	**14,314**	**6,508**	**20,822**
Accumulated amortisation						
At 1 July 2015	(1,158)	(4,234)	(1,629)	(7,021)	–	**(7,021)**
Amortisation charge	(1,891)	(786)	(698)	(3,375)	–	**(3,375)**
Disposals	116	–	–	116	–	**116**
At 30 June 2016	**(2,933)**	**(5,020)**	**(2,327)**	**(10,280)**	**–**	**(10,280)**
Carrying amounts at 30 June 2016	**3,335**	**485**	**214**	**4,034**	**6,508**	**10,542**

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**

15. TRADE AND OTHER PAYABLES

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Trade payables and accruals	(25,813)	(10,651)	(23,533)
Tax on reinsurance	(4,764)	(4,505)	(4,892)
	(30,577)	**(15,156)**	**(28,425)**

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.

16. PROVISIONS

	MAKE GOOD $(000)	EMPLOYEE BENEFITS $(000)	TOTAL $(000)
Balance at 1 July 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)**
Additional provisions	(295)	(47)	(342)
Provisions released	22	11	33
Amount used	–	1,087	1,087
Balance at 30 June 2016	**(466)**	**(128)**	**(594)**
Current	(362)	(103)	(465)
Non-current	(104)	(25)	(129)
Total Provision	**(466)**	**(128)**	**(594)**

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 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Unearned premium liability at 1 July	(143,738)	(126,451)	(145,917)
Deferral of premiums on contracts written in the period	(145,595)	(134,699)	(143,738)
Earning of premiums written in previous periods	143,738	126,451	145,917
Unearned premium liability at 30 June	**(145,595)**	**(134,699)**	**(143,738)**

18. UNEXPIRED RISK LIABILITY REDUCTION/(INCREASE)

The unexpired risk liability was determined as follows:

CALCULATION OF DEFICIENCY	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Cost of future claims from unexpected risks, undiscounted – central estimate	139,301	130,568	123,621
Administration and reinsurance costs for unexpired risks	95,103	88,852	90,929
Reinsurance recoveries, undiscounted	(15,212)	(14,439)	(15,402)
Net premium liabilities, undiscounted – central estimate	**219,192**	**204,981**	**199,148**
Discounting	(2,832)	(4,289)	(3,553)
Net premium liabilities, discounted – central estimate	**216,360**	**200,692**	**195,595**
Risk margin	–	–	–
Net premium liabilities	**216,360**	**200,692**	**195,595**
Unearned premium liability	(145,595)	(134,699)	(143,738)
Net deficiency	**70,765**	**65,993**	**51,857**

UNEXPIRED RISK LIABILITY	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Unexpired risk liability balance at 1 July	(51,857)	(74,241)	(69,656)
Movement for the year	(18,908)	8,248	17,799
Unexpired risk liability at 30 June	**(70,765)**	**(65,993)**	**(51,857)**

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 2016 is 0% (2015: 0%). The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin is $0 at 30 June 2016 because the distribution of potential claims is heavily skewed and, as a consequence, the central estimate (mean) outcome is greater than the 75th percentile.

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	2016 $(000)	2015 $(000)
Discount rate	+1.0%	-1,400	-1,200
	-1.0%	+1,300	+1,200
Base inflation	+1.0%	+2,400	+2,200
	-1.0%	-2,400	-2,200
Future claims handling expense ratio	+1.0%	+1,400	+1,300
	-1.0%	-1,400	-1,300
Average term to settlement	+0.5 years	-1,500	-1,400
	-0.5 years	+1,200	+1,000

19. INSURANCE RISKS

The Commission must accept exposure to claims for the natural disasters as specified in the EQC 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 Amendment Regulations 2011 and was increased effective from 1 February 2012 from 5 cents for every $100 of sum insured to 15 cents for every $100 of sum insured.

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 among 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 that 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 EQC Act (refer notes 1 and 10). The Minister of Finance determined that $10 million be paid for the year ended 30 June 2016 (2015: $10m).

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 461,867 claims from the 2010/11 Canterbury earthquakes sequence, of which some disputes and the possibility of litigation is inevitable. As at 30 June 2016, EQC had 125 open litigation cases before the Courts relating to claims under the EQC Act.

The expectation of costs from disputes and litigation has been considered by the actuaries in deriving the outstanding claims liability as at 30 June 2016.

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 2016 $(000)	ACTUAL 2015 $(000)
Operating Commitment		
Not later than one year	2,303	3,465
Later than one year but not later than two years	–	2,303
Later than two years but not later than five years	–	–
Total ClaimCenter commitment	**2,303**	**5,768**

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 2016 $(000)	ACTUAL 2015 $(000)
Operating Commitment		
Not later than one year	1,632	3,003
Later than one year but not later than two years	–	1,445
Later than two years but not later than five years	–	–
Total ClaimCenter commitment	**1,632**	**4,448**

REINSURANCE CONTRACTS

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

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Operating commitment		
Not later than one year	139,458	126,596
Later than one year but not later than two years	45,000	27,523
Later than two years but not later than five years	41,250	–
Total reinsurance commitments	**225,708**	**154,119**

MUSEUMS

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

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Operating commitment		
Not later than one year	–	300
Later than one year but not later than two years	–	–
Total museum commitments	**–**	**300**

RESEARCH GRANTS

Future research grants that have been approved by the Board.

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Operating commitment		
Not later than one year	2,845	2,635
Later than one year but not later than two years	1,550	1,620
Later than two years but not later than five years	1,450	2,257
Total research grant commitments	**5,845**	**6,512**

GNS SCIENCE

The Commission has a contract with GNS Science for the development and implementation of a seismic monitoring and reporting network (GeoNet). Funding has been agreed until 30 June 2021.

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Capital commitment		
Not later than one year	2,720	4,137
Later than one year but not later than two years	3,225	3,385
Later than two years but not later than five years	10,593	6,770
Operating commitment		
Not later than one year	8,933	7,863
Later than one year but not later than two years	9,043	6,615
Later than two years but not later than five years	28,301	13,230
Total GNS Science commitments	**62,815**	**42,000**

BUILDING LEASES

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

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Operating commitment		
Not later than one year	3,048	2,610
Later than one year but not later than two years	1,599	1,986
Later than two years but not later than five years	650	1,461
Total building lease commitment	**5,297**	**6,057**

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 EQC Act 1993 or Section 103 of the Crown Entities Act 2004.

Key management personnel for the 2016 year included all Commissioners, the Chief Executive and eight senior managers (2015: all Commissioners, the Chief Executive and 12 senior managers).

KEY MANAGEMENT PERSONNEL COMPENSATION

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)
Salaries and other employee benefits	2,541	2,862

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 $39,822 from Southern Cross Medical Care Society, an organisation of which KB Taylor is a director (2015: $35,126).

In the 2016 financial year, the Commission purchased services of $656,404 (2015: $759,593) from Kiwi Income Property Trust, a company of which M Daly is a director. The services purchased related to office rental.

In the 2015 financial year the Commission received levies of $94,383,812 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 2016 financial year IAG New Zealand Limited was no longer a related party.

In the 2016 financial year, the Commission received levies from insurance companies within the Suncorp Group of $72,353,271 (2015: $64,722,610), a company of which R Bell is a shareholder.

The Commission purchased services of $1,374 (2015: $2,570) 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 in the 2015 financial year from Red Bus Limited, an organisation of which P Kiesanowski is a director. The services purchased related to the hiring of buses. In the 2016 financial year no services were purchased from Red Bus Limited.

During the 2016 financial year some of the Commission's Board members, key management personnel and their close family members have lodged claims and have either received payments or are waiting payments from the Commission.

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 was no relationship to key management personnel. During 2016 one employee (2015: one employee) fell into this category.

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

	ACTUAL 2016 $(000)	ACTUAL 2015 $(000)	
M Wevers	72	72	Appointed 12 June 2013, Chairman from 1 August 2013
KB Taylor	45	45	Appointed 18 August 2006, as Deputy Chairman 1 May 2009. Term concludes 30 June 2016
R Black	36	36	Appointed 1 December 2010. Term concludes 30 June 2016
G Smith	36	36	Appointed 1 October 2011
A O'Connell	36	36	Appointed 1 September 2013
R Bell	36	36	Appointed 1 August 2013
M Daly	36	36	Appointed 14 March 2014
P Kiesanowski	36	36	Appointed 14 March 2014
Total	**333**	**333**	

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 2016	ACTUAL 2015
100–110	16	20
110–120	47	74
120–130	49	47
130–140	24	25
140–150	11	13
150–160	12	15
160–170	11	4
170–180	4	6
180–190	4	3
190–200	5	5
200–210	1	–
210–220	1	4
220–230	1	1
230–240	1	2
240–250	1	–
250–260	1	–
260–270	2	1
270–280	–	–
280–290	–	2
290–300	2	1
310–320	1	–
320–330	–	–
350–360	–	1
360–370	–	–
420–430	–	–
440–450	1	1
	195	**225**

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, 9 (2015: 23) payments totalling $329,629 (2015: $787,547) were made during the year.

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

	ACTUAL 2016 $(000)	BUDGET 2016 $(000)	ACTUAL 2015 $(000)
Net surplus	**(32,527)**	**174,960**	**657,516**
ADD NON-CASH ITEMS:			
Depreciation and amortisation	7,597	6,842	7,376
Total non-cash items	**7,597**	**6,842**	**7,376**
LESS ITEMS CLASSIFIED AS INVESTING ACTIVITIES			
Discount income and investment price revaluations	(59,991)	2,007	(92,697)
Loss/(gain) on disposal of property, plant and equipment	927	–	113
Total items classified as investing activities	**(59,064)**	**2,007**	**(92,584)**
ADD/(LESS) MOVEMENTS IN STATEMENT OF FINANCIAL POSITION ITEMS:			
Premiums receivable	37	(974)	2,019
Outstanding reinsurance and other recoveries	431,910	647,194	259,043
Other receivables	25,132	15,000	14,601
Prepayments	(2,823)	1,736	1,027
Trade and other payables	2,152	(11,415)	(11,318)
Provisions	(778)	(3,000)	(501)
Outstanding claims liability	(500,733)	(2,026,230)	(1,762,521)
Unearned premium liability	1,857	8,248	(2,179)
Unexpired risk liability	18,908	(8,248)	(17,799)
Net movements in working capital items	**(24,338)**	**(1,377,689)**	**(1,517,628)**
Net cash flow from operating activities	**(108,332)**	**(1,193,880)**	**(945,320)**

25. EVENTS AFTER BALANCE DATE

There were no significant events after balance sheet date.

Ministerial directions

Ministerial directions to EQC that remained current as at 30 June 2016 were:

- **Effective 14 December 2010** – a direction giving EQC additional functions in relation to additional land remediation activities to certain parts of the 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 20 December 2012** – a direction allowing EQC to pay out on building 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.
- **Effective 27 July 2015** – a direction to ensure EQC invests the Natural Disaster Fund conservatively and maintains its liquidity to meet claims in the aftermath of the Canterbury earthquake series.
- **Effective 20 October 2015** – a direction allowing EQC to pay out on land damage apportioned to unclaimed events.

DIRECTIONS TO SUPPORT A WHOLE OF GOVERNMENT APPROACH

- **Effective 10 May 2016** – a direction from the Minister of State Services and the Minister of Finance that sets out requirements for agencies to implement the New Zealand Business Number (NZBN). EQC has now met the requirements of the Ministerial Direction, recognising the NZBN within our finance system since 2 March 2015. EQC's Finance team manually adds the NZBN when setting up new vendors in our finance system as one of the steps in validating a company. EQC is now also able to search on the NZBN register to find a vendor.[28]

EQC is also subject to whole of government directions relating to functional leadership requirements for ICT, property and procurement.

28 This has been included to provide the required update on EQCs implementation of the NZBN.

Glossary of terms

Asymptomatic drainage claims: claims that relate to sewer and storm water pipes suspected of having earthquake damage, but that are still able to be used.

Christchurch Home Repair Programme (CHRP): is EQC's managed repair programme for Canterbury homes with damage between $15,000 (+GST) and $100,000 (+GST) per claim. The programme is project managed by Fletcher EQR, on behalf of EQC.

Claims Handling Expense (CHE): incurred by EQC in processing and administering claims. Attributed to the event for which the claim has been made and as defined in EQC's chart of accounts.

Complex land claims: includes claims for land damage that cannot easily be seen, such as Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV), and those land damage claims that 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).

Diminution of Value approach: measures the reduction in a property's market value which has been caused by Increased Flooding Vulnerability and/or Increased Liquefaction Vulnerability land damage.

Excess payment: the amount a customer contributes towards a claim that is accepted.

Fletcher EQR: is a business unit of Fletcher Construction Company Limited established in October 2010 to manage home repairs on behalf of EQC. This work is carried out under the Canterbury Home Repair Programme.

Increased Flooding Vulnerability (IFV): is a type of land damage recognised by EQC. The damage occurs where subsidence to the insured land as a direct result of an earthquake has caused the land to become more vulnerable to flooding damage from future earthquakes. Certain engineering and valuation criteria apply.

Increased Liquefaction Vulnerability (ILV): is a type of land damage recognised by EQC. The damage occurs where an earthquake causes residential land to subside, causing the non-liquefying crust of the land to become thinner. This thinner non-liquefying crust means that in future earthquakes the land may be more vulnerable to liquefaction damage than it was before the earthquake. Where this increase in vulnerability will have a material impact on the property, the land has ILV land damage. Certain engineering and valuation criteria apply.

Managed repair: residential buildings with earthquake damage from the Canterbury earthquake series, that are part of the Canterbury Home Repair Programme, will have the necessary repairs managed by Fletcher EQR (on behalf of EQC).

Natural (disaster) hazards: these are earthquakes, landslips, tsunamis, volcanic eruptions, hydrothermal activity, and (in the case of residential land) flood and storm, and fires resulting from these events.

Remedial repairs: remedial repairs include work to rectify damage not included in the original scope of works (SOW) where it is later found that it should have been included; damage that was included on the original SOW but not repaired, 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. Remedial work is counted and monitored separately to claims that have already been recorded as resolved.

Resolved: for exposures settled by cash payment, the valid building, contents or land exposure is recorded as resolved when the claimant has been paid for that exposure. In the case where the building exposure is settled by managed repair, building exposures are only recorded as resolved when all planned repairs are complete (but the 90-day defect liability and warranty period may not have expired) and the customer has received a full cash payment from EQC for all contents and land exposures. Exposures are also considered resolved if the exposure has not been accepted and the customer informed.

Secondary repairs: secondary repairs are when most of the repair is done but a discrete part (usually a chimney or garage) has been deferred to later (perhaps, because specialist input is required). Unlike remedial repairs, secondary repairs are planned and the need to return to site is known.

Substantive repairs: are repairs carried out in the CHRP that are not secondary repairs or remedial repairs. Substantive repairs are sometimes also referred to as "first-time repairs".

Board directory

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 for 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 2019

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 Authority, Chair of Gough Holdings Limited, Deputy Chair of the Reserve Bank of New Zealand, and Director/Trustee of the Southern Cross Healthcare Group.

Terms ends: 30 June 2016

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–FIA (London), FNZSA, CMInstD

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 a Director of the Education Benevolent Society Inc. and a Chartered Member of the Institute of Directors.

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 Assurance 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, CMInstD*

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 Chair of the New Zealand Green Building Council, Deputy Chair of Airways Corporation of New Zealand, and a Director of Kiwi Property Group Limited and Cigna Life Insurance New Zealand Limited.

Term ends: 28 February 2017

Corporate directory

EXECUTIVE OFFICERS

The executive officers are the:

- Chief Executive
- General Manager, Strategy and Transformation
- General Manager, Shared Services
- General Manager, Reinsurance, Research and Education
- General Manager, Governance
- General Manager, People and Capability
- General Manager, Communications and Public Education
- General Manager, Customer and Claims.

EARTHQUAKE COMMISSION

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Telephone: +64 4 978 6400
Facsimile: +64 4 978 6431
Free phone: 0800 326 243
Website: www.eqc.govt.nz
Contact: info@eqc.govt.nz

AUDITORS

Deloitte (On behalf of the Auditor-General)

BANKER

ANZ Bank New Zealand Limited, Wellington

SOLICITORS

Chapman Tripp

EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

New Zealand Government