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EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

2016-17
ANNUAL REPORT

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

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CONTENTS

CHAIR'S STATEMENT

EQC administers the world's leading national natural hazard insurance scheme. The last year has again required the Commission to respond to natural disasters across the country. We have worked closely with impacted communities and our key partners to deliver to our customers. This year has also seen the Commission take the first steps to rebuild the Natural Disaster Fund to ensure we continue to deliver value to New Zealand in the future.

The past year has been one of mixed results for EQC, with progress towards building a stronger, adaptable organisation, whilst managing the remaining claims in Canterbury and dealing with a new flow of claims from the Kaikoura earthquake in November 2016.

As we have reported previously, the Canterbury earthquake sequence was the biggest event ever handled by EQC. Our work programme to deal with Canterbury was daunting, and challenging, but also ambitious. The Board acknowledges that whilst much has been achieved in Canterbury, things didn't always go as well as they should have, and more work remains to be done. We are committed to seeing the programme through.

EQC is well advanced in adapting its structure, capability and systems to be more effective at handling major events in future, including through stronger partnerships with communities and other agencies.

Three key events over the past year highlight EQC's progress towards becoming a stronger and more effective organisation for New Zealand.

The first was the Kaikoura earthquake on 14 November 2016, which saw EQC, for the first time, enter a pilot arrangement with eight private insurers to handle claims on behalf of the Commission. This is a new approach to settling claims from a natural disaster event and builds on what we have learnt from our customers, communities, contractors and the other recovery groups in responding to the Canterbury event.

Once the Kaikoura claims are settled, the Board will assess this new arrangement to determine how effective it was, and whether it might be used in future to deliver on the Commission's goal of managing claims in a fair, transparent and timely manner.

The second event was the Government's announcement of the proposed reforms to the Earthquake Commission Act 1993. EQC, which has its origins in the Earthquake and War Damage Commission established in 1945, was the result of a far-sighted commitment to protect the public good by helping New Zealanders recover more quickly after natural disasters. The proposed changes announced by the Government maintain EQC's core role and contribution to New Zealand as providing secure, affordable disaster insurance arrangements for customers so that, following a natural disaster, they have a level of cover that will assist in rebuilding their lives. The review proposes some changes to insurance cover, and EQC will be ready to implement the changes should they be agreed to by Parliament.

The third event was the Edgecumbe flood in April 2017, in response to which EQC was directed by the Minister to support the clean-up of silt damaged properties – both insured and non-insured – in collaboration with the Whakatane District Council. This new approach demonstrates the Commission's adaptability and the developing nature of our value to New Zealand.

Canterbury

The focus for the Commission in Canterbury over the past year has been settlement of outstanding claims, including remedial repair claims, and some claims that had been left until later phases of the response, including, for example, drainage damage, and residential red zone land damage. The decision to leave some claim settlement activity of this type until later on enabled resources to be concentrated on assisting those most in need to get back into their properties.

EQC's work in Canterbury has been one of the largest and most complicated disaster insurance claims management and settlement programmes ever undertaken by a single insurer worldwide. To put it in context, the Kaikoura earthquake has generated the third largest claims volume in EQC's history, with about 40,000 claims. This represents less than 10% of the number of claims received from the Canterbury earthquake sequence.

From the outset, it was understood that there would be some rework required on repairs undertaken through the Canterbury Home Repair Programme established by the Commission in 2010. In all, about 68,000 houses have been repaired by EQC through insurance funding, which is unprecedented for a disaster such as this.
The Board is disappointed that remedial issues continue to emerge, and is committed to resolving them all. We are disappointed, too, that the Commission didn't meet its targets for settling Canterbury claims, particularly remedial repair claims, over the past year. These claims proved more complex and numerous than anticipated. The

organisation was also affected by the influx of claims from the Kaikoura earthquake. This meant some Canterbury remedial repair claims were unable to be managed in the year. Steady progress is, however, being made to manage the backlog and to meet customer expectations. Over the year, EQC settled 2,000 remedial repair claims.

The Commission also settled over 21,000 land claims in Canterbury in the year to 30 June 2017, with 700 to be resolved. While slower than initially expected, EQC's deliberate and measured approach to settling these types of complex Green Zone land claims underscores the importance of improved engagement with our customers even when some of the technical concepts are highly challenging to communicate.

Risk Financing and Research

EQC's financial resilience and ability to settle claims is underpinned by reinsurance contracts with international reinsurers. These contracts were successfully renegotiated once again during the year and continue to provide cover for EQC's exposure at affordable premiums. Reinsurer confidence in EQC is due in no small part to the strong reputation EQC has internationally for its science and research, and operational performance. EQC's research programme contributes to further understanding of New Zealand's vulnerability to natural disaster events which is highly valued by our reinsurer partners.

This year the Government agreed on a pathway for rebuilding the Natural Disaster Fund so that EQC is able to sustainably cover claim costs below the point where reinsurance payments are provided. In its 2017 Budget in May, the Government announced that the EQC premium would increase from 15 to 20 cents per $100 of cover, starting on 1 November 2017, to fund the rebuild of the Natural Disaster Fund.

During 2016-17, EQC continued to support research into natural hazards and maintained key partnerships, with for example, GNS Science. During the year, the 15th anniversary of GeoNet was celebrated by both agencies. GeoNet is one of the world's leading seismic monitoring systems and the partnership has yielded direct benefits which neither organisation could have achieved alone. The year also saw the EQC Board begin discussions with counterparts at GNS Science around the most appropriate governance arrangements to maximise the value of GeoNet in the future.

Leadership

In early 2017, the Board appointed Sid Miller as its new chief executive to replace Ian Simpson, who is now chief executive at GNS Science.

Ian led EQC for six years during the most testing period in its history, when it grew from 22 staff to around 1,800 to respond to the devastating Canterbury earthquakes. On behalf of the Board, I offer Ian warm thanks and gratitude for his leadership, dedication, and commitment.

The Board also welcomes Sid who was most recently Chief Customer Officer at ACC. Sid is focused on delivering the organisation's strategic goals and preparing EQC for the future.

For all those who have worked for, or with, EQC these past 12 months – staff, contractors, suppliers, and partners – the Board extends its gratitude.

I wish also to thank my fellow Commissioners for their dedication and counsel.

We look forward to strengthening EQC's ongoing role in helping New Zealanders to respond and recover from natural disasters, including through adapting the organisation to become stronger and more effective at handling major events in the future.

Sir Maarten Wevers, KNZM, Chair

"Three key events over the past year highlight EQC's progress towards becoming a stronger and more effective organisation for New Zealand."

CHIEF EXECUTIVE'S REPORT

Helping New Zealand communities respond and recover from several natural disasters – including thousands of land damage claims – was core to EQC's work during the year.

At the same time, the Commission continued to work on the outstanding claims associated with the 2010-11 Canterbury earthquakes – a work programme entering its final phase seven years after it began.

During the year, EQC also laid the foundations for how it would operate post-Canterbury and this is a key focus for the years ahead.

The 7.8 magnitude earthquake beneath North Canterbury and Marlborough on 14 November 2016, followed by flooding in Auckland, Coromandel, Wellington and the Bay of Plenty in 2017, tested EQC's ability to respond to the number of claims while managing its existing work load, mainly from Canterbury.

Performance review

EQC acknowledges that the way it measures its performance against the Statement of Intent and the Statement of Performance Expectations can be improved. Management is putting effort into developing a set of measurable targets in support of EQC's strategic intentions that can be clearly reported on. This will allow the public to clearly see the impact that achievements made by EQC have had at an outcome level.

In 2016-17, EQC made progress towards its strategic objectives and the targets set for Administration, Customer Service, Research and Education.

Understandably, the management team and staff were disappointed not to meet the organisation's stated goals for managing Canterbury claims. Management was, however, pleased with how EQC delivered its services to new claimants. Importantly, this was demonstrated in EQC's new way of operating in partnership with communities and private insurers – models that will set up the organisation for success in the future.

Though a number of targets were achieved, this was not the case for Customer Services measures, largely because of our performance in Canterbury. Performance was affected by the complexity and number of claims, the addition of 40,000 new claims from the Kaikoura earthquake, and reassignment of assessors and engineers to help respond to Kaikoura claims.

Staff have put plans in place to improve customer service, which is expected to result in better customer satisfaction in future.

In the area of Administration, EQC met the majority of its targets to administer the Natural Disaster Fund and maintain reinsurance cover.

Similarly, EQC met the majority of its targets in the area of Research and Education. A notable highlight was EQC's contribution to the New Zealand Geotechnical Database, which enables sharing of geotechnical information gathered by engineering consultants, government agencies and developers.

Our work in Canterbury

Good progress was made in Canterbury with 5,500 claims, including land, drainage and remedial repairs claims, settled from February to June 2017. The remaining 6,000[1] claims are scheduled for settlement in a similar timeframe. This number includes additional remedial requests that have continued to come into EQC during the year.

"The biggest tribute we can pay to those customers who have not had a good experience with us in the past is for EQC to improve the experience for current and future customers."

1 The 6,000 outstanding claims as of 30 June 2017 includes 2,800 in the IHRP, 1,000 in CEDAR, 700 in Land, 700 in drainage and the remainder with our customer resolution team.

When staff began tackling remedial repair claims it became clear that reorganisation was required to support the handling of the range and number of inquiries EQC was receiving.

EQC established the In House Repair Programme (IHRP), to resolve remedial repair claims in Canterbury. Remedial repairs generally fall into the following categories:

- work needed 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
- failure of workmanship to reach the standard required under the EQC Act.

Underfloor repairs (CEDAR)

EQC continued to make progress in its review of underfloor repairs project managed by Fletcher EQR through the Canterbury Home Repair Programme (CHRP).

As at 30 June 2017, approximately 1,000[2] underfloor repairs remained outstanding, with about half at the design, scope and costed stage or in the queue for production.

Partnerships

A key part of EQC's way of operating was its partnerships with communities and private insurers in 2016-17. Importantly, this partnering approach helps mitigate the risks associated with natural disasters.

In the 12 months to 30 June 2017, EQC visited seven regions, covering 27 councils to promote community-led response capability. Partnerships with local councils enable EQC to share information in a timely, effective way so customers know what to do and when in the event of a natural disaster. A good example was EQC's work with Whakatane District Council following the April storms and flooding event in Edgecumbe. The Council played a key role in distributing claim information to customers, and facilitated questions to EQC and other response agencies on behalf of the community.

Conclusion

In my early days as Chief Executive I've observed the dedication of EQC staff, suppliers and partners, who work hard to make a difference for New Zealanders in times of greatest need.

EQC is committed to adapting our response to the needs of our customers across New Zealand. We are learning from our past. The biggest tribute we can pay to those customers who have not had a good experience with us in the past is for EQC to improve the experience for current and future customers. We are working hard to do just that, using the feedback our customers have given us. I look forward to reporting on our progress.

Sid Miller, Chief Executive

2 This number is included in the 6000 outstanding claims as at 30 June, noted in the previous section.

THE 2016 KAIKOURA EARTHQUAKE

At 12.02 am on Monday 14 November 2016, a magnitude 7.8 earthquake was felt around much of New Zealand. It caused severe damage and disruption in the North Canterbury, Marlborough and Wellington regions.

With the release of 178 times the energy of the devastating Christchurch earthquake of 22 February, 2011 – which claimed 185 lives – an extraordinary 22 faults were ruptured during the Kaikoura earthquake, traversing coastal hill country and offshore seafloor 180 kilometres from its epicentre and taking two lives.

GeoNet's global positioning sensors showed that land had moved across New Zealand: in a matter of seconds the earthquake had shifted land at the top of the South Island by as much as two metres closer to the North Island.

The water level at the Kaikoura tide gauge dropped rapidly, indicating a tsunami; the largest water level rises of six to seven metres were seen on land at Goose Bay. Wave surges also hit Wellington City an hour later and Christchurch around two hours later.

EQC received its first claims later in the morning. The size of the earthquake resulted in claims being lodged from Whangarei to Invercargill. The majority of EQC claims were in the top half of the South Island. At 14 February, the deadline for claims lodgement, around 40,000 claims for building, contents and/or land damage had been received for this event, making it New Zealand's third largest claims event since EQC was established in 1945 (after the Christchurch Earthquake of 22 February, 2011 and the Darfield Earthquake of 4 September, 2010).

The expanse of the damage and the sheer number of claims it generated made the Kaikoura earthquake the most geographically widespread event in EQC's history. This meant the response had to be adapted to reflect both.

EQC's response to the event centred on a new approach being piloted, with insurers acting as EQC agents. EQC concentrated on simplifying the assessment and settlement process for those affected, starting with the areas that had the highest concentrations of the worst damage.

One tool that allowed EQC to do that quickly was the Kaikoura Earthquake Viewer (KEV). It pulled data from numerous sources, including New Zealand Transport Agency, Land Information New Zealand, the Ministry of Defence, field mapping data, and even satellite data from USA and China, into an online geospatial viewer. Quick access to this data enabled the emergency response to quantify where efforts could be best located. As insurance claim data became available, the KEV has enabled EQC and insurers to concentrate on the worst affected areas, which allowed everyone to better plan assessments and ultimately improve the customer experience.

EQC's research team mobilised to collaborate with the broader research community and with Tonkin + Taylor, EQC's engineers, to begin mapping damage. By quickly pinpointing the worst affected areas, EQC could then target resources to them. Doing so early in an event provides valuable data which can be used by all of the emergency response organisations to inform ongoing planning. Later, the data captured by researchers and engineers from the outset enabled the creation of a real time information portal. This portal brought together geospatial and other data from a range of sources which has been used widely to coordinate the insurance response (recovery).

Efforts to provide insurance support to residents on the ground in Kaikoura, lower Marlborough and Hurunui were initially hampered by the impact of the extensive damage to infrastructure. Transportation to and from the area was prioritised for the use of emergency responders. Insurers and EQC followed as soon as they could. However, it was weeks before roads were reopened and this affected when substantive work could begin.

As soon as it could, a small EQC team went to Kaikoura to be available for customers. It began working with the local communities, including government organisations and others like The Salvation Army and the local Takahanga Marae, to help customers lodge claims. Three teams worked on a rotation basis alongside other government responders in Recovery Assistance Centres supporting the Kaikoura, Waiau and Ward communities. A key aim was to support the locally led, regionally coordinated and nationally supported response.

At the same time, work was underway with private insurers to plan a customer-focused insurance response. The solution needed to allow the worst affected customers to be dealt with first and to support the agreed community led response. It also needed to reduce double handling of claims (by insurers and EQC) to make it easier for customers and speed up settlement.

It was also important to best use the finite construction, engineering, loss adjusting and other specialist resources, which were already under pressure but would be needed to help with insurance recovery. Insurers competed for new specialist resources and the immediate need for engineering resources rapidly created even higher demand. Construction and insurance workers who still needed to support the Canterbury recovery easily found new work in the top of the South Island.

Given the proximity of the earthquake to summer holidays, it was important to establish the best insurance approach for this particular event before Christmas, so that families knew what to expect from EQC and their private insurer.

Eight private insurers agreed to pilot a new approach in which they would act as EQC's agents to receive, assess and settle home and contents claims for earthquake damage. This culminated in a Memorandum of Understanding between signatories in early December to work together in good faith to more closely streamline the approach to manage customer claims.

Once agreement was reached on how EQC and private insurers would work together, time was invested to align processes and train insurers on how the EQC Act is applied. Claims handling was prioritised by the most severely affected regions, with work beginning in lower Marlborough, Hurunui and Kaikoura.

As of 30 June 2017, for claims being managed by EQC and the insurers, 51% of all residential building claims had their assessment completed and 28% of all claims had been settled. The rate of assessment and settlement is continuing to increase, with agreed performance measures with insurers targeting over 90% of assessments and 75% of settlements to be complete by 31 December 2017.

With private insurers acting as EQC's agents, this left EQC to concentrate mostly on land-only claims and those claims relating to properties that already had an open claim from a previous event. Together this has totalled around 5,400 residential claims.

As at 30 June 2017, EQC had assessed 90% of land claims (around 3,000) and had settled 65% (around 2,000) of land claims.

EDGECUMBE FLOODS

Normally, EQC's response to flooding is to provide a cash settlement to cover damage to residential land only (within certain limits) for insured customers so they can undertake their own remediation. The Edgecumbe flooding in April 2017, however, was a unique situation. There were several hundred houses in a relatively small area which were seriously affected by large amounts of silt and debris left on the properties after the flood waters receded. This silt and debris needed to be removed before insurers could fully assess the damage to the houses. The Government directed EQC to support the clean-up process for all affected homeowners whether covered by EQC or not. EQC engaged with five local contractors and coordinated the clean-up project on behalf of customers.

In total, 272 EQC land claims were made by customers following the Edgecumbe floods. As of 30 June 2017, 144 properties were cleared of silt and debris inundation, both around the property and under the house.

It was clear from the outset that insurance and the insurance process was a key concern for Edgecumbe residents. EQC worked closely with the Whakatane District Council to provide information about the process, and an EQC team was on the ground within two days. They collaborated with Council, planning clean-up logistics and coordinated their work with the volunteer army so both could operate, often on the same street, without affecting the other.

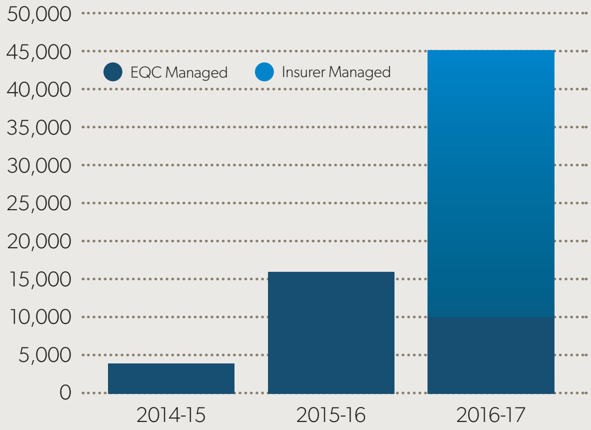
To support ongoing communications about progress, EQC provided regular updates to the Whakatane District Council which were included in its regular recovery newsletter. EQC staff managing the Edgecumbe claims continue to be in contact with property owners.

HERE FOR ALL OF NEW ZEALAND

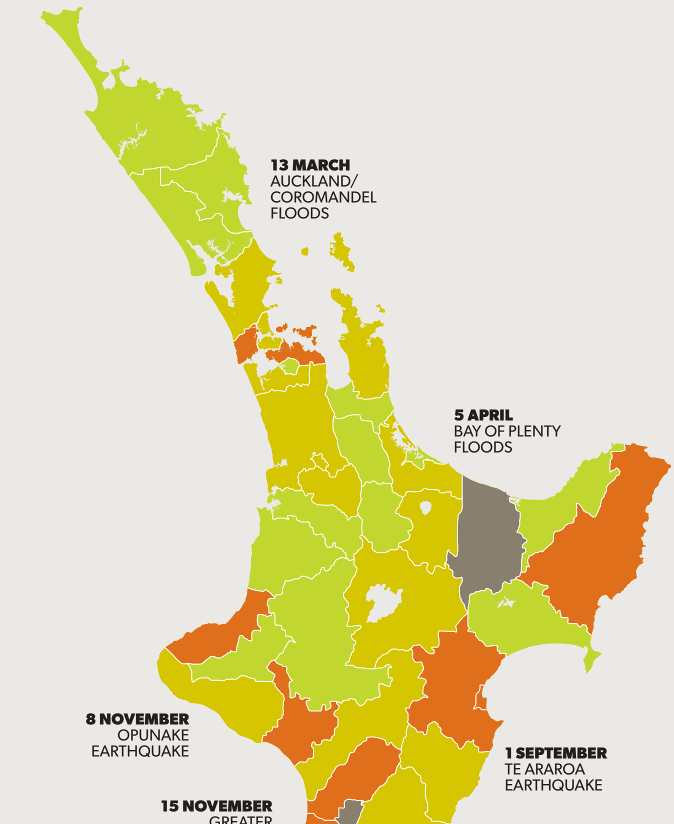
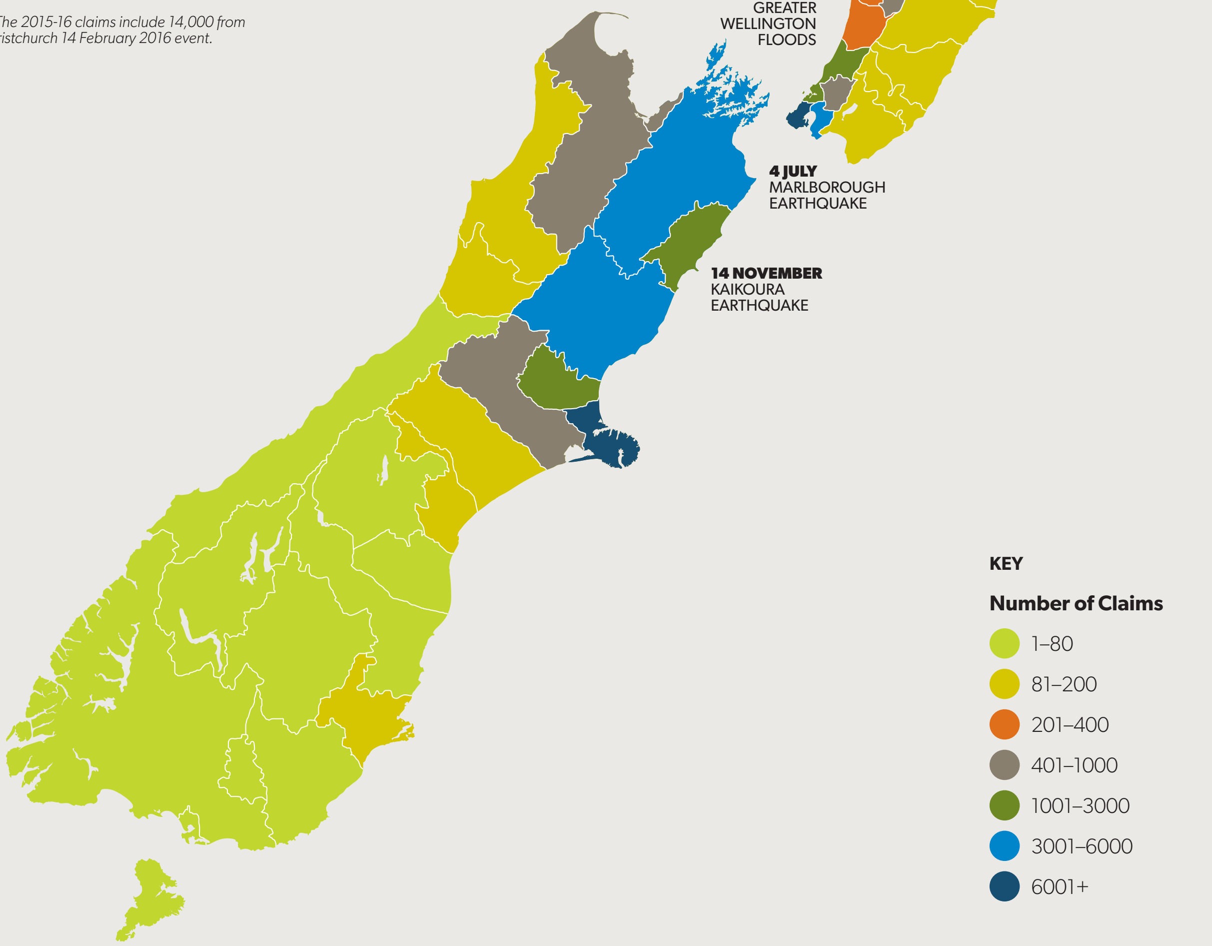
This map shows the spread of about 45,000 claims that were lodged with EQC from 1 July 2016 – 30 June 2017, organised by Territorial Local Authority

Claims for natural disaster damage have spanned the length of the country.

New Claims Received



Note: The 2015-16 claims include 14,000 from the Christchurch 14 February 2016 event.

STRATEGIC FRAMEWORK

EQC reduces the impact on residential buildings, contents and residential land and the people who use them when natural disasters occur. Under the Earthquake Commission Act 1993 (the EQC Act), those 'natural disasters' are earthquakes, landslips, tsunami, volcanic eruptions and hydrothermal activity; storm and flood damage to land; and fires resulting from these events.

In addition to insurance against natural disaster damage, EQC invests in research and public education to help communities understand the impact of natural disasters and how to become more resilient to the impacts of them.

EQC works with the wider scientific community to increase the body of knowledge about the natural disaster risks New Zealand faces and the types of impact these may have. What cannot be known, however, is when a natural disaster event will occur. As a result, EQC invests in readiness and in understanding how to respond to the natural disasters that may occur.

EQC's vision is to be the world's leading national natural hazard insurance scheme. To do this, EQC focuses on the following three objectives:

New Zealanders have access to natural hazard insurance and reinsurance

To help communities protect what they value from the threat of natural disaster damage, EQC works to ensure access to natural hazard insurance cover at affordable premiums. EQC does this through effectively managing the Natural Disaster Fund and procuring an adequate level of reinsurance (as well as maintaining the confidence of international disaster financing markets).[3]

EQC also plays a significant role in managing the Crown's financial exposure to natural disasters. The Crown, through the EQC Act, has guaranteed a level of cover to levy payers for natural disaster damage. Natural disasters create a significant financial liability for the Crown as a whole, both with respect to claims under the EQC scheme and other associated recovery costs.

The costs of the Canterbury and Kaikoura earthquakes are forecast to substantially deplete the Natural Disaster Fund. Rebuilding EQC's financial resilience and the buffer it provides for the Crown will take time as the current operating funds are used to cover the costs of claims and other operations. During this period, the government guarantee ensures that the costs of any future claims can be met.

Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely way

EQC continues to focus on improving our organisational performance so that we can better meet the expectations of our customers. This means ensuring that the significant lessons learned from EQC's response to the unprecedented events in Canterbury are reflected in future event response.

EQC's focus is on helping individual customers and their communities recover from future natural disasters, by:

- understanding customers' individual needs and their expectations of EQC
- consistently making claim settlements that are timely, accurate and reflect customers' entitlements
- interacting early with community organisations to support customers
- operating in a way that is scalable, responsive and efficient.

EQC is also taking steps to increase public understanding of the insurance cover it provides and what owners of insured residential property and contents can expect if they need to make a claim.

EQC is a leader in New Zealand on natural hazard risk reduction, delivering improved national resilience to natural hazards

EQC undertakes research and provides information about natural disaster hazards and risks and avoidance and reduction techniques so that communities can plan and act to reduce vulnerabilities. EQC also assists with ensuring that the right systems and tools are available nationally for effective natural hazard risk management. Examples of these include EQC's funding of GeoNet and the Canterbury geotech database.

In assuming a leadership role in risk reduction activities, EQC contributes to improving the state of knowledge about New Zealand's natural hazards, facilitates a greater awareness of actual risks among stakeholders and decision makers at both national and local levels, and encourages and supports actions to increase resilience.

3 EQC is subject to Ministerial powers of direction, including in relation to the mix of Natural Disaster Fund investments and reinsurance. Under section 12 of the EQC Act, the Minister may take account of the Crown's wider financial position and risk management settings in directing EQC.

BOARD

L-R: Paul Kiesanowski, Roger Bell, Gordon Smith, Dr Alison O'Connell, Sir Maarten Wevers (Chair), Mary-Jane Daly (Deputy Chair) and Tim Hurdle.

The role of the Board is to govern EQC. In doing so the 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 the year, the EQC Board had seven commissioners, including the chair, Sir Maarten Wevers.

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 also gives effect to Government policy 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 and State Sector conventions, such as the "no surprises" approach with responsible Ministers.[4]

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 two other committees – the Health and Safety board Committee and the Performance and Remuneration board Committee. Three to five Board members participate in each committee, and each committee meets three to five times a year. In addition, members of the Board are involved in advisory sub groups as needed to support key strategic initiatives.

The Chief Executive is accountable to the Board and reports to the Board Chair.

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

Sir Maarten Wevers – Chair and Commissioner

Sir Maarten Wevers 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, the National Army Museum and the Victoria University Foundation, a member of the Ministry of Primary Industries Investment Advisory Panel for the Primary Growth Partnership, and the Registrar of Pecuniary and other Specified Interests of Members of Parliament.

Roger Bell – Commissioner

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 that assists New Zealand organisations to achieve world class levels of performance as measured by the demanding global Baldrige Criteria. Vero Insurance achieved the highest award of 'Gold-World Class' under his leadership. He is a Fellow (by examination) of the Australia & New Zealand Institute of Insurance & Finance and has completed the Executive Program at the University of Michigan Business School. Roger is also a strong advocate for animal welfare as a Director, and Vice Chairman, of SPCA Auckland.

Mary-Jane Daly – Deputy Chair and Commissioner

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. Mary-Jane is Chair of the New Zealand Green Building Council, Deputy Chair of Airways Corporation of New Zealand, a Director of Cigna Life Insurance New Zealand Limited, Auckland Transport and Kiwi Property Group Limited.

Tim Hurdle – Commissioner

Tim Hurdle is the General Manager Strategy at Downer New Zealand Limited. He worked as Senior Ministerial Adviser to the Minister for Canterbury Earthquake Recovery from 2010 – 2013. Tim has previously worked for IAG New Zealand on insurance public policy issues and regulatory reforms. He is currently the Chair of the Partnership Board of Wellington ICT Graduate School and is a previous Chair of the Regulatory Committee of the Insurance Council of New Zealand.

Paul Kiesanowski – Commissioner

Paul 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 and is currently Acting CFO for City Care Limited. He is also Chairman of the Red Bus Company Limited, a Director of New Zealand Red Cross and Apex Environmental Limited, and a Trustee of the Red Cross Foundation.

Gordon Smith – Commissioner

Gordon Smith is a former Chief Executive Officer of Farmers' Mutual Group and has considerable experience in banking, finance and insurance. He is currently Managing Director of Bureau Specialised Insurance Agency Limited. He is Chair of Vo2 Hawkes Bay Limited, Vo2 Manawatu Limited, Manfield Park Trust, RFL Limited, MALO Limited and Porters Boutique Hotel. He is also Advisory Board Chair of Cole Murray Group Limited in Hastings.

Dr Alison O'Connell – Commissioner

Dr Alison O'Connell is an actuary and research consultant. She is a Fellow of the New Zealand Society of Actuaries and the Institute of Actuaries in the UK and has held senior positions at Swiss Re, Mercer, and McKinsey & Co. She was founding Director of the Pensions Policy Institute in London. Alison lives in Christchurch and was an advisor at the Canterbury Earthquake Recovery Authority. She is also a Director at the Education Benevolent Society and the Government Superannuation Fund Authority.

EXECUTIVE LEADERSHIP TEAM

L-R Suzanne Carter, Bryan Dunne, Sid Miller (Chief Executive), Gillian Dudgeon, Dr Hugh Cowan and Trish Keith.

The role of the Executive Leadership Team (ELT) is to manage EQC's operations and lead EQC's staff. The ELT:

- provides advice to the Board to assist them in exercising their duties.
- implements the strategic direction set by the EQC Board
- defines organisational and business strategies and policies
- builds organisational capability
- manages the organisation's performance.

As of 30 June, 2017, the Executive Leadership Team comprised:

- Chief Executive Sid Miller
- Customer and Claims General Manager Trish Keith
- Reinsurance, Research and Education General Manager Hugh Cowan
- Internal Partners General Manager Gillian Dudgeon
- Strategy and Policy General Manager Bryan Dunne
- Communications and Public Education General Manager Suzanne Carter.

OUR PEOPLE

The people of the Earthquake Commission (EQC) are the heart of the organisation, and their commitment and effort has helped ensure that thousands of claims for the people of New Zealand have been settled this year.

As the number of Canterbury claims that are settled increases there will be a natural downsizing of the number of staff required in the organisation. Change is always unsettling, and EQC are managing through this with its staff. Their commitment and resilience in this environment is a testament to the passion and drive they have for the people of Canterbury.

In the context of the Kaikoura earthquake, hundreds of claims from 2016-17 storms and a declining number of claims from the 2010-11 Canterbury earthquakes, EQC continues to evolve to ensure we have the right mix of capabilities within our core workforce, while being able to scale up in response to a major event if needed.

EQC remains committed to being a Good Employer and providing equal employment opportunities.

Health and Safety

The health and safety of all employees and contractors is a top priority. The focus for the past year was on the completion of Canterbury and Kaikoura claims, and ensuring staff on the ground had the tools and resources they needed to do their job in a safe and effective manner.

We continue to work with staff and contract partners to ensure they are actively engaged with health and safety. This includes 'toolbox talks', site assessments, and OfficeSafe – our initiative designed to keep staff safe in the office.

Our priorities will now be on embedding a sustainable safety culture as the organisation moves to its new operating model, and ensuring that the tools and resources are in place to support the organisation's continued journey of zero harm.

EQC Good Employer initiatives

1 LEADERSHIP, ACCOUNTABILITY AND CULTURE

EQC policies are published on InSite (intranet) and are reviewed or renewed every two years.

EQC has a Diversity and Inclusion Policy that provides a framework designed to support a culture that enables people to thrive, ensures people are treated impartially and strives to instil inclusiveness in how we work.

Our Senior Leadership Team meets quarterly, allowing opportunities for collaboration and consultation.

2 EMPLOYEE DEVELOPMENT, PROMOTION AND EXIT

EQC has a professional development fund that is well used across the organisation.

3 RECRUITMENT, SELECTION AND INDUCTION

EQC has a robust recruitment process in place supported by the Snaphire recruitment tool.

All new staff attend an orientation day led by an Executive Leadership Team member, and complete online training modules in health and safety and privacy.

An induction booklet is provided to all new staff and their manager to jointly go through.

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.

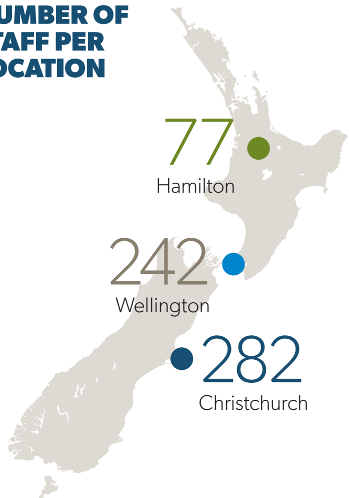
Total number of staff as at 30 June, 2017

601

AGE RANGE – YEARS

30%	40%	27%	2%	1%
20-34	35-49	50-64	65+	Unknown

NUMBER OF STAFF PER LOCATION



GENDER MAKE-UP

312	289
Female	Male

Leadership Team

Female	Male
3	3

People Managers

Female	Male
42	46

- Asian **5%**
- European **20%**
- Maori **5%**
- Middle Eastern/Latin American/African **1%**
- NZ European **46%**
- Pacific Peoples **2%**
- Other **4%**
- Undisclosed **17%**

All numbers as at 30 June, 2017

5

HARASSMENT AND BULLYING PREVENTION

EQC has a zero tolerance approach to any form of harassment or bullying.

EQC Standards of Integrity and Conduct and relevant policies are available online, regularly updated, and are included in all new staff welcome packs.

EQC is refreshing its protected disclosures policy to ensure it aligns with the guidance recently released by the State Services Commission.

6

SAFE AND HEALTHY ENVIRONMENT

EQC uses an online interactive training programme to help staff refresh their health and safety responsibilities.

Safe6 targets the risks and incidence of unsafe practices most likely to contribute to injury or fatalities.

Wellness initiatives have supported personal resilience, with free influenza inoculations and annual health checks.

7

FLEXIBILITY AND WORK DESIGN

IT systems support remote working.

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

EQC continues to support flexible work hours, such as a nine-day fortnight.

EQC provides support for parents returning from parental leave with flexible working arrangements.

EQC ensures that all staff have the tools to do their job, including standing desks, ergonomic chairs and other tools as required to ensure they are equally able to participate in the workplace.


EQC

INDEPENDENT AUDITOR'S REPORT

EY Building a better working world

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of The Earthquake Commission (the Commission). The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements and the performance information of the Commission on his behalf.

Opinion

We have audited:

- the financial statements of the Commission on pages 28 to 80, that comprise the statement of financial position as at 30 June 2017, 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 including a summary of significant accounting policies; and
- the performance information of the Commission on pages 21 to 27.

In our opinion:

- the financial statements of the Commission on pages 28 to 80:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- the performance information on pages 21 to 27:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2017, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 31 October 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Commissioners and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY

Building a better working world

Material uncertainty related to going concern and uncertainties associated with the outstanding claims liability

We draw attention to note 1 and note 11 of the financial statements which indicates that at 30 June 2017, the Commission's total liabilities exceed its total 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 also draw attention to note 2 of the financial statements which describes how the Canterbury and Kaikoura 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.

Our opinion is not modified in respect of these matters.

Responsibilities of the Board of Commissioners for the financial statements and the performance information

The Board of Commissioners is responsible on behalf of the Commission for preparing financial statements and performance information that are fairly presented and comply with generally accepted accounting practice in New Zealand. The Board of Commissioners is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Commissioners is responsible on behalf of the Commission for assessing the Commission's ability to continue as a going concern. The Board of Commissioners is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Commission, or there is no realistic alternative but to do so.

The Board of Commissioner's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Commission's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Commissioners.
- We evaluate the appropriateness of the reported performance information within the Commission's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Commissioners and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Commissioners regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Commissioners is responsible for the other information. The other information comprises the information included on pages 1 to 15, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Commission in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out an engagement in the areas of an arithmetical review of a settlement model, which is compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Commission.

B Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF RESPONSIBILITY

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

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

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

In the opinion of the Board and management, the annual financial statements and the statement of performance for the financial year ended 30 June 2017 fairly reflect the financial position and operations of EQC.

Signed on behalf of the Board:

Sir Maarten Wevers KNZM
Board Chair
31 October 2017

Mary-Jane Daly
Deputy Chair
31 October 2017

STATEMENT OF PERFORMANCE

EQC's Statement of Intent sets out the strategic objectives EQC intends to achieve or contribute to during the period 1 July 2014 – 30 June 2018.

The associated Statement of Performance Expectations sets out measures and targets that outline the level of service expected to be delivered as well as the funds expected to be spent (or revenue collected) by EQC in 2016-17. For EQC these measures are divided into the four Output Classes through which EQC delivers its services:

1. Administration
2. Customer Services
3. Research
4. Education

Progress against these measures is outlined in the Output Class Results.

OUTPUT CLASS RESULTS

Output Class One: Administration

In the past year, EQC administered the Natural Disaster Fund by investing funds on a prudent, commercial basis and maximised returns without undue risk. Investing was balanced with the need to have funds on hand to cover payments to claimants and suppliers.

During 2016-17, EQC sold all its government stock within the fund as the return lowered to a level below that available from New Zealand bank deposits. All funds at the end of 2016-17 were held in deposits and cash.

During the year EQC also obtained sufficient reinsurance cover from international providers. EQC collected revenue through the premiums payable under the EQC Act (which are collected by private insurers and remitted to EQC).

As at 30 June 2017, EQC had $1.2 billion of assets, of which $0.8 billion was invested, $0.2 billion owed from reinsurers, and $0.2 billion of other assets. This was offset by liabilities of $1.9 billion, primarily relating to claims from the Canterbury and Kaikoura earthquakes.

Administer the Natural Disaster Fund, collect premiums and obtain reinsurance

MEASURE ***TARGET***	**ACTUAL 2015-16**	**ACTUAL 2016-17**
Annual investment portfolio performance in relation to 90 day bank bill rate. *90 day rate less 25 basis points (per annum)*[1].	5.54%	1.36%
Good practice governance of EQC's investments. *Annual review confirms the SIPSP reflects best practice*[2].	100%	N/A[3]
Good practice governance of EQC's investments. *100% of SIPSP objectives are met.*	100%	100%
Good practice governance of EQC's investments. *100% of SIPSP variations are duly authorised*[4].	N/A	N/A
Subject to market conditions, EQC obtains reinsurance consistent with the budget policy and range set by the Board. *Cost of reinsurance programme is within the budget policy and range set by the Board.*	Achieved	Achieved
Subject to market conditions, EQC obtains reinsurance consistent with the budget policy and range set by the Board. *Nationwide coverage obtained for all perils covered under the EQC Act.*	Achieved	Achieved

COSTS ASSOCIATED WITH OUTPUT CLASS 1	**ACTUAL REVENUE**	**ACTUAL EXPENDITURE**	**BUDGET REVENUE**	**BUDGET EXPENDITURE**
Administration of the EQC Act, insurance scheme and Natural Disaster Fund	$283.2 million	$173.6 million[5]	$289.6 million	$165.0 million

[1] The 2016-17 target measure is 1.71% (which is the 90 day bill rate less 25 basis points).
[2] Best practice for the Statement of Investment Policies, Standards and Procedures (SIPSP) has previously been determined by engaging an external investment expert to provide an opinion on the document.
[3] In 2016-17 the SIPSP was reviewed by the Audit & Risk Committee, who determined that the current document was appropriate to the Commission's financial position and the expected settlement of its liabilities, hence no external review was required.
[4] There were no variations requested or needed in 2016-17.
[5] Expenditure was above the budget published in the 2016-17 SoPE, due to a decision to retain reinsurance capacity in line with previous years. As a result of this the Board approved a revised reinsurance budget.

Output Class Two: Customer Services

In 2016-17, EQC worked to ensure customer claims were settled in a fair, transparent and timely manner by calculating and resolving claims, and responding to customers and stakeholders' needs.

EQC did not advance its objective of completing outstanding claims from the Canterbury earthquakes as far as expected for two main reasons:

First, EQC initially underestimated the level of work needed to complete the remaining claims in Canterbury. For example, when targets were set EQC had not yet had the opportunity to assess all of the remedial claims on hand to determine the likely level of effort needed to settle them. Once 2016-17 work was underway, more extensive effort was needed to resolve customer issues which ultimately took longer than forecast. Settling these claims also required the use of scarce technical resource in more cases than initially expected, which impacted timeframes. More time was also invested in setting up processes to handle the emerging profile of claims (e.g. ways to accelerate payments and repairs for smaller less complex work).

Second, the Kaikoura earthquake had two main impacts on our Canterbury targets:

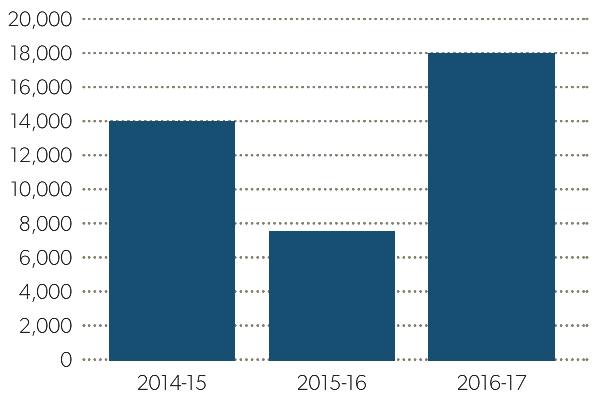
a. Responding to the Kaikoura earthquake required EQC to reprioritise some of its work during the reporting period away from initiatives in Canterbury.

b. Resources needed to settle complex claims, such as engineers and highly skilled assessors were in even higher demand from private insurers and the general construction industry[2] in response to the Kaikoura earthquake. An inability to access the required specialist resources when required meant that claim settlement in Canterbury was slower than expected when targets were set.

For the first five months of the reporting period, EQC was focused on the processing of existing claims. In November 2016, staff were then deployed to respond to the Kaikoura earthquake[1], and several major floods across the country in the following months. Consequently, the scope and volume of work affected EQC's performance against its stated targets for the year.

The chart (below) highlights the volume of non-Canterbury related claim settlements that EQC completed during the year and the significant increase in claim settlement activity from the previous year.

Claims Closed in Year



MEASURE ***TARGET***			**ACTUAL 2015-16**	**ACTUAL 2016-17**
Customers are paid within one year of the final assessment of damage in accordance with the Act[2]. *100%.*			98%	99%
Damage assessed no later than 90 days following the close of the claim lodgement period[3]. *95%.*			99%	92%
For new events requiring a Claims Handling Expenses (CHE) Budget, the number of open events (in the financial year) where CHE is operating stays within 10% of the Board approved budget. *100% of new event budgets operating within 10% of the Board approved budget.*			New Measure	1 of 2 events[4]
COSTS ASSOCIATED WITH OUTPUT CLASS 2	**ACTUAL REVENUE**	**ACTUAL EXPENDITURE**	**BUDGET REVENUE**	**BUDGET EXPENDITURE**
Claims handling and the catastrophe response programme (Customer Services)	Nil	$29.8 million	Nil	$36.9 million

[1] Under the EQC Act, the closing date for claims from the Kaikoura Earthquake was February 14 2017.
[2] The Canterbury earthquake series sequence and Kaikoura earthquake are not included. Details on progress against other specific targets in relation to Canterbury claims can be found on pages 24 -25, with Kaikoura progress discussed on page 7.
[3] The Kaikoura earthquake is not included. Details on the percentage of residential building claims assessed within the Kaikoura response can be found on page 7.
[4] The two events are the Wellington Floods and the Kaikoura earthquake, with Wellington within the 10% figure, and Kaikoura outside the 10%. These natural disasters are treated as one event under the EQC Act, as they occurred wihin a 48 hour window, for the purposes of 'cap' and excess. However, they are also accounted for individually for reinsurance purposes.

Customer engagement

EQC continues to be committed to resolving outstanding Canterbury claims. However, it acknowledges it did not achieve the targets set at the beginning of the year for customer satisfaction. Planning is underway to improve customer service, including communication to customers, which is expected to result in better customer satisfaction.

MEASURE ***TARGET***	**ACTUAL 2015-16**	**ACTUAL 2016-17**
Customer satisfaction with the overall quality of service from EQC. *60% of customers report satisfaction with the overall quality of service from EQC.*	New Measure	55%
Customers who report they were kept well informed throughout the claim settlement process. *75% of customers consider that they were kept well informed throughout the claim settlement process.*	New Measure	47%

Remedial requests

EQC did not complete the numbers of remedial requests it expected to within the timeframes it set itself (see table below). By 30 June 2017, EQC had completed 76% of the remedial requests on hand at 1 July 2016, as well as 63% of remedial repair claims received from July up to 31 December 2016.

EQC continued to make progress in its review of underfloor repairs done by Fletcher Construction through the Canterbury Home Repair Programme (CHRP). The reviews were prompted by a Ministry of Business, Innovation and Employment report that found that some underfloor repairs had shortcomings.

As at 30 June 2017, approximately 1,000 underfloor repairs remained outstanding, with about half at the design, scope and costed stage or in the queue for production.

Drainage claims

During 2016-17, EQC worked on claims for earthquake-related damage to functioning drainage systems, often called asymptomatic drainage claims.

By 30 June 2017, EQC had resolved over 4,500 drainage claims received before 31 December 2016. The overall level of claims assessed was higher than anticipated. In some cases, this was because new claims were being received as assessments and repairs were made – mostly as a result of shared drains.

Land

During 2016-17, EQC settled most of Green Zone claims with Increased Liquefaction Vulnerability (ILV) land damage. Attention went into communications with land customers to ensure they had as much information as possible about the technical information that went into deciding the settlement approach for land claims. Community meetings were held regularly during the year to support customer information needs. EQC did not meet its complex land damage target of 99% settled by 31 December with 89% of land claims actually settled by that date. By 30 June 2017, however, 97% of complex land damage claims had been settled, with around 700 Green Zone claims remaining.

MEASURE TARGET	ACTUAL 2015-16	ACTUAL 2016-17
Completion of remedial requests lodged by 30 June 2016. *75% of lodged remedial requests are completed by 31 December 2016.*	New Measure	60%
Completion of remedial requests received between 1 July 2016 and 31 December 2016. *50% are completed by 31 December 2016.*	New Measure	26%
Completion of remedial requests lodged between 1 January and 30 June 2017. *100% completed within 3 months of lodgement.*	New Measure	21%[5]
Completion of drainage claims lodged by 30 June 2016. *100% completed by 31 March 2017.*	New Measure	74%
Completion of drainage claims lodged by 31 December 2016. *All drainage claims lodged by 31 December 2016 completed by 30 June 2017.*	New Measure	91%
Proportion of customer claims for land damage are paid or closed. *99% of Complex Land[6] Claims paid/closed by 31 December 2016.*	New Measure	89%
Proportion of customer claims for land damage are paid or closed. *Red Zone paid/closed by 31 March 2017.*	New Measure	Not achieved[7]

[5] The calculation is for remedials lodged from 1 January-31 March, as remedials lodged after that did not have a three-month period to 30 June.
[6] Complex Land is land which has Increased Liquefaction Vulnerability and/or Increased Flooding Vulnerability, or which is on the Port Hills; excluding Red Zone land.
[7] The process to finalise the closures was confirmed and an interim payment completed in April 2017.

Focus on safety

EQC continued to work with Fletcher EQR to lift overall safety standards in the Christchurch construction market. The low number of injuries per million hours worked is testament to this focus. Safety efforts were supported by the maintenance of EQC's tertiary safety rating with ACC's workplace accreditation scheme.

MEASURE TARGET	ACTUAL 2015-16	ACTUAL 2016-17
Safe repair of properties within the Total Recorded Injury Frequency rate (TRIFR). *No more than six injuries per million hours worked.*	New Measure	EQR[8]: 2.1
Safe EQC working environment – EQC's ACC rating. *Retain Tertiary Level ACC experience rating for EQC.*	New Measure	Achieved

[8] The term EQR represents the Fletcher's Group that delivered the Canterbury Home Repair Programme. They project managed all Canterbury property repairs between July and December 2016 and the CEDAR properties for the second half of the 2016-17 financial year.

Output Class Three: Research

Consistent with its long-term approach to research of natural hazards, EQC facilitated coordination of natural hazard risk management, improved capacity and capability and directly funded research in this area.

During the year, EQC invested around $12 million to continue its support of GeoNet – one of the world's leading seismic monitoring systems. The tool collects data on earthquakes, volcanic activity, large landslides and tsunami. It celebrated its 15th year of operation in the reporting period. GeoNet information was critical to analysing how the Kaikoura earthquakes set off ruptures on multiple faults in the region, and for quickly measuring levels of shaking and the effect on buildings and infrastructure throughout the country.

Immediately after the Kaikoura earthquake in November 2016, engineers, planners and scientists across the natural hazards sector moved to look at the effects and implications of the earthquake. Several of these were people working on EQC-funded projects in their universities or other institutes who diverted their main effort to understanding the earthquake impacts. Therefore, some EQC-funded project outcomes have been delayed.

Another highlight of the year was EQC's contribution to the New Zealand Geotechnical Database run by the Ministry for Business, Innovation and Employment (MBIE). The database enables sharing of geotechnical information gathered by engineering consultants, government agencies and developers. It originally proved its value in the Canterbury recovery process, greatly reducing the time and cost required for separate geotechnical investigations and databases.

EQC also contributed to "The Seismic Assessment of Existing Buildings" it developed with MBIE and engineering societies to provide engineers with the technical basis to carry out consistent seismic assessment of existing buildings in New Zealand. Our research on ground improvement for liquefaction-prone land also provided core information for "Planning and engineering guidance for potentially liquefaction-prone land", developed jointly by MBIE and the Ministry for the Environment, with EQC support.

MEASURE TARGET	ACTUAL 2015-16	ACTUAL 2016-17
Use of EQC's expertise or resources in national or regional HRM policy, planning or co-ordinating forums etc. *Evaluation evidence of increased use*[1].	Achieved	Achieved
Industry Partnership Programmes for engineers, planners and for national hazard information management meet contracted objectives within expected times. *99% of contracted objectives met* [2].	100%	83%
Evidence of the direct and indirect uses of GeoNet. *Evaluation evidence of increasing direct and indirect uses* [3].	Achieved	Achieved
Funded reports are published/presented in sector print media and/or presented at conferences or stakeholder workshops. *All expected*[4] *reports published.*	Achieved	Achieved
Biennial grants, university grants and post-graduate student awards and research and capability grants meeting their objectives. *All objectives met or on track*[5] *to be met.*	Achieved	Achieved
Percentage of completed research projects receiving at least one peer-reviewed, academic paper or report within one year of completion. *90%.*	100%	81%[6]
GeoNet achieves all contracted objectives. *All objectives met or on track to be met.*	Achieved	Achieved

COSTS ASSOCIATED WITH OUTPUT CLASS 3	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Research	Nil	$23.0 million	Nil	$22.0 million

[1] This is monitored through participation in annual HRM events and regional event attendance (for 18 different committees or organisations).
[2] Ten of twelve Industry Partnership Programmes met contracted objectives in 2016-17. One IPP was deferred to 2017-18 and the other outstanding IPP was completed subsequent to 30 June 2017.
[3] 222.3m pages accessed (54.1m in 2015-16), and 27.2k GB downloads (7.1k GB for 2015-16).
[4] For 2016-17 there were 55 reports published and 17 projects completed.
[5] There were five projects delayed during 2016-17 that will be completed in future periods.
[6] Immediately after the Kaikoura earthquake in November 2016, engineers, planners and research scientists across the natural hazards sector moved to look at the effects and implications of the earthquake. Several of these were people working on EQC-funded projects in their universities or other institutes who diverted their main effort to understanding the earthquake impacts. Some EQC-funded project outcomes have therefore been delayed.

Output Class Four: Education

In 2016-17, EQC implemented a range of measures to increase public awareness of earthquake safety and natural hazard mitigation, and increase homeowners' understanding of EQC's role.

This was achieved via a mix of promotion, partnerships and sponsorships.

During the year, EQC's paid promotion focused on raising awareness of how to make homes more resilient to natural disaster damage, using the "Fix Fasten Don't Forget" message.

EQC also worked with partners, including local government, to extend the reach of preparedness messages and to support customers and communities in the event of a large scale natural disaster.

After the Kaikoura earthquake, EQC undertook a campaign to raise the awareness of homeowners of the need to secure their home foundations as preparation for an event. EQC also participated in a smaller campaign on the same topic, in association with Wellington Region Emergency Management Office. We continue to work with these partners and see them (along with new partnerships with other organisations that are closely connected to their communities) becoming a bigger part of our public education activity in the future. Learnings from these activities are being used to shape future campaigns.

EQC's sponsorship agreements with *Te Papa Tongarewa Museum of New Zealand, the Auckland War Memorial Museum*, and smaller centres such as the Volcanic Activity Centre in Turangi, continued during the year. These institutions are well aligned with EQC's research objectives and they play an essential role in capturing the attention of New Zealanders so that knowledge about natural hazards and how to reduce the risk can be shared across the population.

During the year, EQC also reached more than 3,700 school children through the geohazard virtual school field trips, which focused on the Alpine Fault.

Facilitate research and education about understanding, reducing and preventing natural disasters, and the insurance under the Act

MEASURE TARGET	ACTUAL 2015-16	ACTUAL 2016-17
Percentage of New Zealanders knowledgeable about natural hazard safety in the home. *Year-on-year increase.*	47%	48%
Use of EQC as a source of information (including EQC's website) to obtain information about how to prepare homes or contents for damage from a natural disaster. *Year-on-year increase from a 2014/15 base of 21%.*	23%	23%
New Zealanders are able to correctly identify EQC's roles should they experience a natural disaster. *Increasing percentage of New Zealanders surveyed are able to correctly identify EQC's roles – from a 2014-15 base of 68%.*	68%	67%

COSTS ASSOCIATED WITH OUTPUT CLASS 4	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Public education	Nil	$3.0 million	Nil	$3.0 million

FINANCIAL STATEMENTS
2016-17

Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2017

	NOTE	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
EARNED PREMIUMS				
Gross earned premiums	3	283,215	289,563	280,194
Outward reinsurance premium expense		(163,590)	(155,000)	(150,402)
NET EARNED PREMIUM REVENUE		**119,625**	**134,563**	**129,792**
UNDERWRITING MOVEMENTS				
Reinsurance and other recoveries/(reductions)	5	(216,319)	6,572	11,949
Claims (expense)/reduction	6	(149,727)	70,409	(167,459)
Unexpired risk liability (increase)/reduction	18	(18,455)	50,576	(18,908)
TOTAL UNDERWRITING MOVEMENTS		**(384,501)**	**127,557**	**(174,418)**
(DEFICIT)/SURPLUS FROM INSURANCE ACTIVITIES		**(264,876)**	**262,120**	**(44,626)**
OTHER OPERATING REVENUE				
Other revenue	4	136	–	–
OTHER OPERATING EXPENSE				
Catastrophe response programme	7	(29,801)	(36,867)	(26,537)
Public education	7	(3,036)	(3,019)	(3,530)
Research (excluding GeoNet)	7	(10,257)	(9,689)	(7,964)
GeoNet programme	7	(12,745)	(12,303)	(11,451)
TOTAL OPERATING REVENUE AND EXPENSE		**(55,703)**	**(61,878)**	**(49,482)**
INVESTMENT ACTIVITIES				
Investment revenue/(expense)	9	3,771	6,338	59,992
Investment costs	7	(129)	(50)	(135)
Interest on cash balances		13,056	4,420	11,724
REVENUE/(EXPENSE) FROM INVESTMENT ACTIVITIES		**16,698**	**10,708**	**71,581**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
NET (DEFICIT)/SURPLUS AND TOTAL COMPREHENSIVE (EXPENSE)/REVENUE FOR THE PERIOD		**(313,881)**	**200,950**	**(32,527)**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2017

	NOTE	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July		(1,956,589)	(1,737,988)	(1,924,062)
Net (deficit)/surplus and total comprehensive (expense)/revenue for the period		(313,881)	200,950	(32,527)
CLOSING BALANCE AT 30 JUNE		**(2,270,470)**	**(1,537,038)**	**(1,956,589)**
CLOSING BALANCE AS AT 30 JUNE		**(770,470)**	**(37,038)**	**(456,589)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2017

	NOTE	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
NATURAL DISASTER FUND				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings	11	(2,270,470)	(1,537,038)	(1,956,589)
TOTAL EQUITY	**11**	**(770,470)**	**(37,038)**	**(456,589)**
ASSETS				
Bank		483,687	303,000	548,916
Premiums receivable		55,338	54,260	53,466
Outstanding reinsurance and other recoveries	5	206,988	149,276	534,545
GST receivable		8,901	2,323	7,917
Prepayments		1,402	1,140	1,812
Outward reinsurance expense asset		27,645	25,817	27,184
Investments	12	343,371	163,590	859,063
Property, plant and equipment	13	14,323	14,937	15,963
Intangible assets	14	14,063	13,911	10,542
TOTAL ASSETS		**1,155,718**	**728,254**	**2,059,408**
LIABILITIES				
Trade and other payables	15	(72,719)	(15,532)	(30,577)
Provisions	16	(923)	(149)	(594)
Outstanding claims liability	2	(1,614,019)	(602,618)	(2,268,466)
Unearned premium liability	17	(149,307)	(146,993)	(145,595)
Unexpired risk liability	18	(89,220)	–	(70,765)
TOTAL LIABILITIES		**(1,926,188)**	**(765,292)**	**(2,515,997)**
NET LIABILITIES*		**(770,470)**	**(37,038)**	**(456,589)**

* 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 11 – Commission Solvency.

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2017

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest	13,056	4,420	11,724
Premiums	285,055	289,026	282,090
Reinsurance and other recoveries	111,238	260,145	443,859
Other income	136	–	–
Net GST	–	25,139	25,132
Net tax on reinsurance	441	–	–
Cash was applied to:			
Outward reinsurance	(164,051)	(155,315)	(152,748)
Crown underwriting fee	(10,000)	(10,000)	(10,000)
Claims settlements and handling costs	(760,257)	(1,045,362)	(662,621)
Employees and other operating expenses	(37,449)	(39,134)	(32,693)
GeoNet operating expenses	(9,386)	(8,933)	(8,843)
Research grants	(3,600)	(5,775)	(4,105)
Net GST	(984)	–	–
Net tax on reinsurance	–	(3,395)	(127)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(575,801)**	**(689,184)**	**(108,332)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of investments	836,653	654,013	139,472
Interest on investments	24,804	28,624	47,843
Sale of property, plant and equipment	941	–	822
Cash was applied to:			
Purchase of investments	(342,000)	–	–
Purchase of property, plant and equipment	(3,072)	(3,170)	(4,746)
Purchase of intangibles	(6,754)	(5,000)	(5,276)
NET CASH INFLOW FROM INVESTING ACTIVITIES	**510,572**	**674,467**	**178,115**
NET (DECREASE)/INCREASE IN CASH	**(65,229)**	**(14,717)**	**69,783**
Add opening cash brought forward	548,916	317,717	479,133
CASH CLOSING POSITION	**483,687**	**303,000**	**548,916**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2017

Reconciliation of Operating Surplus to Net Cash Flow from Operating Activities

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
NET SURPLUS	**(313,881)**	**200,950**	**(32,527)**
Add non-cash items:			
Depreciation and amortisation	7,007	6,792	7,597
TOTAL NON-CASH ITEMS	**7,007**	**6,792**	**7,597**
Less items classified as investing activities:			
Interest income and gains on investments	(3,771)	(6,338)	(59,991)
Loss on disposal of property, plant and equipment	3	–	927
TOTAL ITEMS CLASSIFIED AS INVESTING ACTIVITIES	**(3,768)**	**(6,338)**	**(59,064)**
Add/(less) movements in Statement of Financial Position items:			
Premiums receivable	(1,872)	(537)	37
Outstanding reinsurance and other recoveries	327,557	253,572	431,910
Other receivables	(984)	25,139	25,132
Prepayments	410	–	(477)
Outward reinsurance expense asset	(461)	(315)	(2,346)
Trade and other payables	42,142	(8,350)	2,152
Provisions	329	(1,950)	(778)
Outstanding claims liability	(654,447)	(1,109,026)	(500,733)
Unearned premium liability	3,712	1,455	1,857
Unexpired risk liability	18,455	(50,576)	18,908
NET MOVEMENTS IN WORKING CAPITAL ITEMS	**(265,159)**	**(890,588)**	**(24,338)**
NET CASH FLOW FROM OPERATING ACTIVITIES	**(575,801)**	**(689,184)**	**(108,332)**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Notes Index

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 2017. These accounts were approved by the Board on 31 October 2017.

Basis of Preparation

Measurement Base

The financial statements have been prepared on a 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 as at 30 June 2017. 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 comply with PBE standards.

Accounting Judgements and Major Sources of Estimation

The preparation of financial statements in conformity with 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

The following policies are applied throughout the financial statements. Other accounting policies can be found in their relevant note.

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.

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.

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.

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation.

Budgets

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in EQC's 2016-17 Statement of Performance Expectations (SPE).

Standards issued not yet effective and not early adopted

In January 2017, the External Reporting Board issued PBE IFRS9: Financial Instruments; this is effective from 1 January 2021; however, the Commission will adopt this standard in the year ending 30 June 2019, in accordance with the New Zealand Treasury's decision to adopt this standard in the Financial Statements of Government in the 2018-19 year. The Commission has not yet to fully assess the effect of this standard, but does not expect this to have a material impact given the nature of the Commission's financial instruments.

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.

Following the 2010-11 Canterbury earthquake sequence which increased the Commission's liabilities significantly, the organisation engaged independent professional actuaries to produce an estimate of the Commission's liabilities (on an ongoing six monthly basis). This is consistent with standard practice within the insurance industry and the estimates are subject to review from the Auditor-General (as part of the financial statements audit), Treasury and international reinsurers.

When an event initially occurs there will often be a high level of uncertainty associated with the estimate, due to a large number of unknowns and this may be reflected in the actuaries producing estimates which are naturally conservative. As time progresses the Commission and the actuaries gather greater levels of information in regards to an event. This information in EQC's case has included, for example, the actual settlement of customer claims as per their entitlement under the EQC Act, legal cases and policy decisions. The actuaries can then use this additional information to refine their estimates which will potentially reduce the estimate of the overall cost of an event. An example of this in relation to the 2010-11 Canterbury earthquake sequence was that as a result of the greater certainty provided by the Declaratory Judgment on land in December 2014, actuaries were able to better refine the estimated costs relating to land settlements and the risks associated with it.

The total costs for any single event will ultimately not be fully known until the final claim has been settled.

Actuarial Assumptions and Methods

The actuarial valuation report for 2017 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 2017. 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 for the financial years from 30 June 2011 to 30 June 2016.

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 30 June 2017. 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, Kaikoura earthquake, or 'Other' claims. These event groups were further split into sub-claim valuation groups being land claims, dwelling claims or contents claims.

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 included those in relation to claims reported but not yet paid, IBNR[1], IBNER[2] 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.

1 Incurred but not reported.
2 Incurred but not enough reported.

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.

The EQC Act requires claims to be reported within three months of an event, and therefore the key area of estimation risk is future development in the cost of existing claims (IBNER) rather than the future notification of claims from past events. The volatility of IBNER is partially mitigated by the maximum settlement amounts which generally apply, of $20,000 for personal property and $100,000 for dwellings plus GST per event. Claims in relation to residential land are subject to a variable monetary limit and are therefore subject to greater uncertainty.

Outstanding Claims Liability

The outstanding claims liability has reduced to $1,614 million as at 30 June 2017 (2016: $2,268 million) as the Commission has continued to settle claims predominantly from the 2010-11 Canterbury earthquake sequence and February 2016 Christchurch earthquake. Cash spent on claims settlement and handling costs was $760 million in the 2017 financial year – an increase of approximately $100 million on the 2016 financial year. Factors that have materially impacted upon the movement in outstanding claims liability are:

- On the 14th November 2016, a 7.8 magnitude earthquake struck Kaikoura and the surrounding area, causing significant damage. The Commission received approximately 40,000 claims in relation to this event and provided for the estimated cost during the 2017 financial year
- During the year the Commission settled a significant proportion of the complex land claims in Canterbury known as Increased Liquefaction Vulnerability (ILV). These settlements were almost wholly based on Diminution of Value (DOV) differing from the assumptions made at 30 June 2016.

There were a number of uncertainties associated with the outstanding Canterbury and Kaikoura claims (which will be discussed later in this note), and 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. This high level of uncertainty is reflected in the overall risk margin as a proportion of the net outstanding claims liability (the Commission's liability after accounting for reinsurance recoveries and discounting) rising to 41.7% in 2017, up from 19.7% in 2016. In absolute terms, the 2017 risk margin is $416 million (2016: $297 million). This increase on the prior financial year is primarily due to a $96 million addition for the Kaikoura earthquake, with a significant risk margin remaining for Canterbury relating to the high level of uncertainty associated with potential complex land litigation and other remaining elements of the outstanding liability, eg. agreeing the final liabilities with private insurers. The risk margin in 2017 continues to be determined based on an 85% (2016: 85%) probability of adequacy given the uncertainty, scale and financial impact of the outstanding claims liability.

The Impact of the November 2016 Kaikoura Earthquake

The Commission's response to the earthquake differed from recent previous events, in that it signed a Memorandum of Understanding with a number of commercial insurers to manage the majority of EQC dwelling and contents claims on its behalf. EQC will then reimburse the insurers for the claims settlement (which is made in accordance with the EQC Act) and the insurers' respective handling costs. The Commission is managing any land exposures or claims relating to properties that already had an open claim from a previous event, eg. the Canterbury 2010-11 earthquake sequence.

The new approach to the event and the speed at which it was implemented resulted in some initial limitations to the data available to the actuaries to model the estimated cost, and this added a level of uncertainty to the liability valuation. This is expected to reduce over time as a greater level of information becomes available. Numbers quoted in relation to Kaikoura represent both the change to the outstanding claims liability and the impact on surplus and deficit and net liabilities.

The central estimate ultimate cost of the earthquake is $544 million. The majority of this estimated cost relates to building damage ($443 million) followed by Claims Handling Expenses ($67 million), contents claims ($23 million), and land damage ($11 million). To date, payments of $112 million (including Claims Handling Expenses) have been made, leaving an outstanding central estimate claims expense of $432 million. There is also a $96 million risk margin associated with the event as at 30 June 2017.

Building Modelling Approach

The estimated cost to the Commission from building claims has been modelled considering the following factors:

- the level of land damage likely sustained by a region which a building is in
- the level of shaking likely experienced by a property during the earthquake
- the probability that a reported claim will result in some non-zero cost to EQC
- the distribution of the cost of each non-zero claim to EQC.

This resulted in the claims being mapped to one of eight geographic categories for which assumptions on the level of non-zero payments and the average building damage ratio[3] (which drives the average settlement cost) were applied. This results in the following ranges:

	MAXIMUM APPLICABLE TO A CATEGORY	MINIMUM APPLICABLE TO A CATEGORY	AVERAGE ACROSS ALL DWELLING CLAIMS
Probability that a claim will result in a non-zero cost	99%	60%	67%
Average mean $ claims settlement cost (driven by average building damage ratios)	87,000	1,000	16,000

As greater payment information becomes available, EQC will be monitoring actual amounts against these assumptions. Deviation from these assumptions is highly possible and the below sensitivities provide an indication what impact this would have on the total cost to the Commission:

VARIABLE	MOVEMENT IN VARIABLE	IMPACT ON GROSS ULTIMATE – CENTRAL ESTIMATE $(000)	IMPACT ON RISK MARGIN $(000)
Probability that a claim will result in a non-zero cost	+5%	+24,500	+5,400
	-5%	-26,600	-5,900
	+10%	+44,800	+9,900
	-10%	-53,300	-11,800
Average building damage ratio	+10%	+25,600	+5,700
	-10%	-27,400	-6,100
	+20%	+49,400	+10,900
	-20%	-57,100	-12,600

For example, if the average building damage ratio was to increase by 10% this would increase the gross ultimate central estimate claims expense by $25.6 million and the risk margin by $5.7 million; thus a total increase to the outstanding claims liability of $31.3 million.

3 This represents the severity of the damage to a building.

Changes in the 2010-11 Canterbury Earthquake Sequence Liability

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 were:

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

During the 2017 financial year, EQC continued to make progress in settling outstanding claims; in particular the majority of Green Zone ILV land claims in relation to the Canterbury earthquake sequence was resolved. Despite this, there still remains a higher-than-usual level of uncertainty associated with the valuation of the outstanding claims liability and reinsurance recoveries. The sources of this remaining uncertainty include:

- outstanding litigation, particularly in respect of ILV land settlements
- finalisation of the Red Zone land liability
- the level of remedial activity required on repairs completed under the Canterbury Home Repair Programme
- 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 numbers presented in this note for the Canterbury earthquake sequence are presented either on a gross basis, reflecting the movement in the outstanding claims liability, or on a net basis which includes any impact on reinsurance receipts and reflects the impact on the surplus and deficit and net liabilities.

The estimated gross ultimate cost (central estimate) of the Canterbury 2010-11 earthquake sequence reduced by $545 million to $10,733 million in the 2017 financial year. This was driven by a $746 million reduction in the land liability offset by increases for buildings ($144 million), contents ($9 million) and claims handling expenses ($48 million). As a result of this reduction in the claims cost, expected reinsurance recoveries have reduced by $218 million.

The total associated risk margin for the Canterbury 2010-11 earthquake sequence has increased by $17 million to $295 million ($278 million at 30 June 2016). As a proportion of the net claims liability (after reinsurance and discounting) this is 55.8% in 2017 compared to 19.7% in 2016, with this increase reflecting the high level of uncertainty in the remaining outstanding liability.

Canterbury Land Outstanding Claims Liability

Overview of Approach to Settling Land Damage

The series of earthquakes Canterbury experienced, starting in September 2010, caused several types of land damage. Some types of damage are easily seen by looking at the land, such as cracking and undulation. These types of damage are known as visible land damage. These claims were predominately settled pre the 2017 financial year.

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

The recognition of IFV and ILV land damage, in particular, has required EQC and its professional engineering and valuation advisors to gather significant information, develop new techniques to enable the assessment of qualification and settlement outcomes, including extensive work on potential repair approaches, and the valuation implications of the damage. EQC has developed IFV and ILV policies to deliver sound and consistent settlement decisions. All key advice has been peer reviewed by expert panels.

Due to the complexity of the issues raised by IFV and ILV land damage, EQC sought a High Court Declaratory Judgment to confirm its policies in relation to these forms of land damage. In December 2014, the High Court confirmed EQC's approach to its complex land settlements, and in particular that a Diminution of Value (DOV) approach to settle IFV and ILV land claims is required under the EQC Act in appropriate cases.

Applying the policies and assessment tools it has developed, EQC has now assessed approximately 80,000 properties in relation to land damage. In the Green Zone approximately 5,000 properties qualify for ILV and 5,600 for IFV (with approximately 800 of those having both). In addition, approximately 6,700 Red Zone properties have one or both forms of ILV and IFV land damage.

Changes in the 2017 Financial Year for Land Settlements

In the 2017 financial year, the net ultimate claims liability (ie. once reinsurance payments have been deducted) in respect to land reduced by approximately $561 million ($746 million on a gross basis). This reduction is discussed further below, but is due to:

- the Commission has now made the majority of Green Zone ILV payments and hence has more up to date information to inform the actuarial valuation, including as to the remaining ILV liability
- discussions have been ongoing with Land Information New Zealand (who manage Crown-owned properties in the Red Zone) during the 2017 financial year, with an initial payment now made
- small reductions in relation to the estimated cost for the Port Hills and silt removal.

Despite the high level of settlements made during the financial year, there remains significant uncertainty with the estimate of the outstanding liability. The sections below provide more information on the current situation for each of the different types of damage which contribute to this uncertainty.

ILV Payments

As outlined in the 2016 Financial Statements Insurance Liabilities note, at 30 June 2016 the payment of ILV claims had only just begun, with a small number of payments made and approximately 9,951 ILV properties left to settle. The majority of Green Zone properties received settlement in the 2017 financial year, with an initial payment also made in regards to the Red Zone.

The uniqueness of ILV damage in Canterbury presented significant uncertainty around the eventual cost, and the actuarial valuation as at 30 June 2016 was based on the following assumptions:

- all properties with vacant land were assumed to settle via a repair methodology
- where EQC intended to settle by Diminution of Value (DOV), ie. house in situ, it was assumed there was a 50% chance that EQC would settle that property by DOV and a 50% chance that EQC would settle by repair costs
- there were estimated to be approximately 4,100 properties with both ILV and IFV damage. As the policy for these properties had not been determined, the damage relating to ILV and IFV was modelled independently of each other for the purposes of the valuation.

As the Commission has confirmed and processed customer payments during 2017, a significantly higher proportion of payments were based on DOV rather than repair costs. This was because the criteria for repair cost settlement set out in the ILV Policy were not met. These criteria were:

- The Commission would use repair cost settlement where it was satisfied that, in accordance with its ILV policy, the following criteria were met:
  - the property had not been sold since the 2010-11 Canterbury earthquakes
  - there was a repair methodology for the repair of the ILV land damage on the property
  - the customer intended to undertake the repair of the ILV land damage using the repair methodology within a reasonable period of time
  - the repair cost was not disproportionate to the DOV of the property, determined on a case-by-case basis.

The higher proportion of payments based on DOV, rather than repair costs, was the primary driver behind a $384 million reduction in the net estimate of ultimate claims cost in respect to ILV land damage in the year ($539 million on a gross basis).

The estimate of outstanding claims liability provision for ILV no longer uses the 50/50 DOV vs. repair assumption, but utilises actual data to model potential scenarios in regards to outstanding claims.

Red Zone Settlements

The Commission had in previous financial years prioritised Green Zone properties ahead of Red Zone. However, in the 2017 financial year, the Commission undertook work to better understand its liability in relation to Red Zone land. This resulted in an interim payment of $114.5 million being made to Land Information New Zealand in the financial year, as well as a $136 million reduction in the Commission's net ultimate claims liability in respect to Red Zone IFV land ($168 million on a gross basis).

Work continues in respect to this liability, with a residual payment to occur in the 2018 financial year.

Outstanding complex land claims uncertainty

As highlighted earlier in the note, the uniqueness of ILV and IFV land damage as insured damage meant that determining and settling the Commission's liability was highly complex and there remains the potential for further challenge and/or litigation in this respect. For example, on 20 January 2017, IAG New Zealand Limited and Tower Insurance Limited commenced High Court litigation against the Commission in respect of the Commission's policy for settling ILV damage. The outcome of the litigation is highly uncertain with a range of outcomes possible.

For the purpose of the actuarial valuation, various potential scenarios for this and a number of other potential uncertainties have been modelled, with a potential net impact on the outstanding claims liability (after reinsurance) of between nil and approximately $500 million.

Change in the 2017 Financial Year for Canterbury Building Claims Liability

The Commission completed over 99% of the initial building claims in the 2016 financial year, and in 2017 the focus was on resolving the remaining complex cases, drainage claims and the inflow of remedial claims covering missed scope, material failure and workmanship issues.

During the 2017 financial year, the Commission increased the expected total central estimate ultimate expense for building claims by $144 million. The net increase after reinsurance was $191 million as there was a movement of costs away from the September 2010 earthquake (for which the Commission can claim reinsurance) to other non-claimable events.

This increase reflected a greater understanding of remedial activity; in particular the potential cost of the sub-floor repairs following MBIE's 2015 Inspection Programme. In addition to this, EQC continued to have a comparatively small number of outstanding claims with complaints / disputes or litigation and reassessed its provision around these accordingly.

For sub-floor remedial claims (CEDAR), as at 30 June 2017 there were approximately 1,000 claims for sub-floor managed by Fletcher Construction and these were categorised into four groups, depending on the level of repair required. This modelling resulted in an estimated outstanding claims expense of $74 million. If the average cost of a sub-floor repair were to increase / decrease by 10%, the impact on the outstanding claims liability would be a $7 million increase / decrease.

For other remedial claims, the magnitude of the Canterbury Home Repair Programme meant that the Commission was likely to manage a tail of remedial claims, and this proved to be the case during the 2017 financial year. As at 30 June 17, there were approximately 2,800 remedials managed by the Commission's in-house remedial programme (other than the sub-floor remedials referred to above) with an estimated outstanding claims expense of $51 million.

If the average cost of a remedial repair were to increase / decrease by 10%, the impact on the outstanding claims liability would be a $5 million increase / decrease.

The Commission has assumed it will continue to receive a reducing inflow of remedial requests (covering missed scope, material failure and workmanship issues) in the coming financial years, and an allowance for this has been made within the valuation.

For insurer finalisation, due to the focus on resolving customer issues, limited progress was made during the 2017 financial year with private insurers in relation to determining final liabilities for Canterbury claims. As no further material information came to light during the year, the Commission has retained the estimated provision at the same level as at 30 June 2016. Discussions will continue in the 2018 financial year and these should help to add certainty to any estimate of further liability, which was highly uncertain at 30 June 2017. As discussions progress, a 10% increase / decrease on the expected provision would result in a $13.9 million addition / reduction to the gross outstanding claims liability ($6.9 million on a net after-reinsurance basis).

Other Outstanding Claims Liability Assumptions

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

	2017	2016
Weighted average term to settlement	0.71 years	0.48 years
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	2.0%–2.5%	2.1%–2.0%
Claims handling expense ratio	8.0%[4]	5.0%
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 claims inflation rate by 1.0% results in an increase due to the claims liability of $8 million.

VARIABLE	MOVEMENTS IN VARIABLE	IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
		2017 $(000)	2016 $(000)
Weighted average term to settlement	+0.5 years	-19,000	+4,000
	-0.5 years	+11,000	+8,000
Claims inflation rate	+1.0%	+8,000	+3,000
	-1.0%	-5,000	-8,000
Discount rate	+1.0%	-9,000	-8,000
	-1.0%	+10,000	+9,000
Claims handling expense ratio	+1.0%	+9,000	+6,000
	-1.0%	-14,000	-10,000
Demand surge: probability of surge event	x1.5	+8,000	+4,000
Demand surge: surge severity	x1.5	+17,000	+13,000

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

4 This increase primarily reflects the addition of the Claims Handling Expense (CHE) costs associated with the Kaikoura earthquake.

Processes Used to Determine Assumptions

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

Claims inflation rate: the claims inflation rates were set having regard to Treasury's published Consumer Price Index assumptions as at 30 June 2017, with some allowance for higher levels of claims inflation for the building claims. In addition, the risk margin implicitly allows for somewhat higher levels of claims inflation.

Discount rate: projected cash flows are discounted for the time value of money using Treasury's published discount rates as at 30 June 2017 and 30 June 2016.

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 upon information from material and labour cost indices, discussions with EQC executive and industry expectations.

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

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
OUTSTANDING CLAIMS LIABILITY			
Central estimate of outstanding claims liability	(1,116,710)	(520,904)	(1,894,385)
Claims handling expenses	(98,640)	(10,666)	(98,124)
Risk margin	(415,567)	(77,387)	(296,622)
Gross outstanding claims liability	**(1,630,917)**	**(608,957)**	**(2,289,131)**
Discount	16,898	6,339	20,665
Discounted outstanding claims liability	**(1,614,019)**	**(602,618)**	**(2,268,466)**
OUTSTANDING CLAIMS LIABILITY	**(1,614,019)**	**(602,618)**	**(2,268,466)**
Current	(1,186,313)	(526,572)	(2,240,069)
Non-current	(427,706)	(76,046)	(28,397)
	(1,614,019)	**(602,618)**	**(2,268,466)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY			
Outstanding claims liability at 1 July	(2,268,466)	(1,713,100)	(2,769,199)
Claims (expense)/reduction	(149,727)	70,409	(167,459)
Non-cash items in claims expense	1,209	6,792	1,560
Claims payments during the year	760,257	1,045,362	662,621
Claims handling expense in trade and other payables	42,708	(12,081)	4,011
OUTSTANDING CLAIMS LIABILITY AT 30 JUNE	**(1,614,019)**	**(602,618)**	**(2,268,466)**

The change in the discount rates used within the valuation results in a $1,571,000 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 and the 2016 Kaikoura earthquake, in addition to the business-as-usual costs incurred.

2017	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE		
Ultimate claims expense estimate		
At end of incident year	–	–
One year later	–	–
Two years later	–	–
Three years later	–	–
Four years later	–	–
Five years later	–	–
Six years later	–	–
Current estimate of ultimate claims expense	**–**	**–**
Cumulative payments	–	–
Outstanding claims liability (undiscounted)	**–**	**–**
Discount to present value	–	–
Outstanding claims liability (discounted)	**–**	**–**
2010-11 Canterbury event risk margin		
KAIKOURA EARTHQUAKE		
Ultimate claims expense estimate		
At end of incident year	(544,022)	–
Current estimate of ultimate claims expense	**(544,022)**	**–**
Cumulative payments	111,618	–
Outstanding claims liability (undiscounted)	**(432,404)**	**–**
Discount to present value	5,904	–
Outstanding claims liability (discounted)	**(426,500)**	**–**
2016 Kaikoura event risk margin		
OTHER EVENTS		
Other claims (expected to be settled within a year)		
Other risk margin		
Outstanding claims liability (85% probability of adequacy, discounted)		

ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL ($000)
–	–	–	(611,000)	(11,711,529)	N/A
–	–	–	(893,567)	(11,594,000)	N/A
–	–	–	(781,034)	(11,121,971)	N/A
–	–	–	(442,947)	(10,965,420)	N/A
–	–	–	(455,293)	(10,805,614)	N/A
–	–	–	(417,165)	(10,823,437)	N/A
–	–	–	N/A	(10,316,320)	N/A
–	**–**	**–**	**(417,165)**	**(10,316,320)**	**(10,733,485)**
–	–	–	397,748	9,593,885	9,991,633
–	**–**	**–**	**(19,417)**	**(722,435)**	**(741,852)**
–	–	–	287	10,190	10,477
–	**–**	**–**	**(19,130)**	**(712,245)**	**(731,375)**
					(295,265)
–	–	–	–	–	N/A
–	**–**	**–**	**–**	**–**	**(544,022)**
–	–	–	–	–	111,618
–	**–**	**–**	**–**	**–**	**(432,404)**
–	–	–	–	–	5,904
–	**–**	**–**	**–**	**–**	**(426,500)**
					(95,721)
					(40,577)
					(24,581)
					(1,614,019)

2016	ACTUAL 2016 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE	
Ultimate claims expense estimate	
At end of incident year	–
One year later	–
Two years later	–
Three years later	–
Four years later	–
Five years later	–
Current estimate of ultimate claims expense	**–**
Cumulative payments	–
Outstanding claims liability (undiscounted)	**–**
Discount to present value	–
Outstanding claims liability (discounted)	**–**
2010-11 Canterbury event risk margin	
OTHER EVENTS	
Other claims (expected to be settled within a year)	
Other risk margin	
Outstanding claims liability (85% probability of adequacy, discounted)	

Settlement of Outstanding Claims Liability

The Commission is expecting to settle the majority of outstanding claims (as at 30 June 2017) in respects of Canterbury, Kaikoura and other smaller events within the next 12 months. However, given the nature of some elements of the outstanding liability (eg. litigation cases), a proportion is likely to be settled in later financial years.

	2018 $(000)	2019 $(000)	2020 $(000)	2021 $(000)	TOTAL $(000)
	Pattern of claims run-off (Settlement of Outstanding Claims Liability)				
Outstanding claims liability – Central estimate	881,006	313,543	2,774	1,129	1,198,452
Risk Margin	296,313	117,849	995	410	415,567
Total Outstanding Claims Liability	**1,177,319**	**431,392**	**3,769**	**1,539**	**1,614,019**

	ACTUAL 2015 $(000)	ACTUAL 2014 $(000)	ACTUAL 2013 $(000)	ACTUAL 2012 $(000)	ACTUAL 2011 $(000)	ACTUAL TOTAL ($000)
	–	–	–	(611,000)	(11,711,529)	N/A
	–	–	–	(893,567)	(11,594,000)	N/A
	–	–	–	(781,034)	(11,121,971)	N/A
	–	–	–	(442,947)	(10,965,420)	N/A
	–	–	–	(455,293)	(10,805,614)	N/A
	–	–	–	N/A	(10,823,437)	N/A
	–	**–**	**–**	**(455,293)**	**(10,823,437)**	**(11,278,730)**
	–	–	–	411,355	8,967,922	9,379,277
	–	**–**	**–**	**(43,938)**	**(1,855,515)**	**(1,899,453)**
	–	–	–	429	19,384	19,813
	–	**–**	**–**	**(43,509)**	**(1,836,131)**	**(1,879,640)**
						(278,441)
						(92,204)
						(18,181)
						(2,268,466)

3. Gross Earned Premiums

Premium income represents premiums collected and paid to the Commission by insurance companies and brokers. As such, gross earned premiums are classified as exchange transactions. 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.

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.

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Gross earned premiums	294,247	298,293	289,464
Less rebate to insurers	(7,320)	(7,275)	(7,413)
	286,927	**291,018**	**282,051**
Unearned premium opening	145,595	145,538	143,738
Unearned premium closing	(149,307)	(146,993)	(145,595)
	(3,712)	**(1,455)**	**(1,857)**
GROSS EARNED PREMIUMS	**283,215**	**289,563**	**280,194**

4. Other Revenue

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Other revenue	136	–	–
OTHER REVENUE	**136**	**–**	**–**

5. 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.

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Movement in gross reinsurance recoveries	(218,337)	–	(369)
Movement in discount	2,018	6,572	12,318
TOTAL DISCOUNTED REINSURANCE AND OTHER RECOVERIES/ (REDUCTIONS)	**(216,319)**	**6,572**	**11,949**

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Gross reinsurance receivable	187,416	146,465	506,418
Discount	(3,021)	(1,800)	(5,038)
Discounted reinsurance receivable	**184,395**	**144,665**	**501,380**
Other recoveries			
– Sundry receivables*	14,132	4,611	20,013
– Aon Benfield**	8,461	–	13,152
Total other recoveries	**22,593**	**4,611**	**33,165**
TOTAL OUTSTANDING REINSURANCE AND OTHER RECOVERIES	**206,988**	**149,276**	**534,545**
Current	143,676	131,401	529,498
Non-current	63,312	17,875	5,047
	206,988	**149,276**	**534,545**
Reconciliation of movement in outstanding reinsurance and other recoveries			
Outstanding reinsurance and other recoveries at 1 July	534,545	402,849	966,455
Reinsurance and other recoveries/ (reductions)	(216,319)	6,572	11,949
Reinsurance and other recoveries received during the year	(111,238)	(260,145)	(443,859)
OUTSTANDING REINSURANCE AND OTHER RECOVERIES AT 30 JUNE	**206,988**	**149,276**	**534,545**

The reinsurance recoveries relate to the Canterbury earthquakes included within the outstanding claims liability in Note 2, which occurred in the 2010-11 financial year. No reinsurance recoveries relate to the current financial year.

At 30 June 2017, the total actuarial valuation of reinsurance recoveries was reduced by $218,337,000 to $4,079,819,000. 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 2017, the discount for the outstanding reinsurance recoveries was reduced by $2,018,000 to $3,021,000.

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.

** Aon Benfield are EQC's reinsurance brokers who manage the collection of reinsurance monies on behalf of EQC. The other recoveries relate to work which was performed in June 2017 for which the Commission has requested a reinsurance recovery. As at 30 June 2017, payment had not been received.

6. 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 2017 claims expense is $150 million (2016: $167 million). There are a number of components to this expense, with the most material being a provision for the November 2016 Kaikoura earthquake, offset by a reduction in the anticipated total cost of the Canterbury earthquake sequence:

- EQC has received approximately 40,000 claims for Kaikoura earthquake, which occurred in the 2017 financial year, and actuarial modelling has resulted in an estimated gross ultimate central estimate cost of $544 million with an associated $96 million risk margin (after discounting the total cost is $634 million). As at 30 June 2017, $112 million has been paid in claims and claims handling costs.
- The total Canterbury gross ultimate liability, including risk margin, has reduced after discounting by $519 million (2016: $48 million increase) during the 2017 financial year. This is primarily due to changes in the expected land liability following the settlement of the majority of complex land claims during the year (further details are available in Note 2: Insurance Liabilities). The net reduction includes a $48 million increase in associated claim handling costs as the organisation continues to work on resolving the remaining complex claims and remedial claims.
- Other event costs in the year are $35 million and relate to a number of smaller events across the year, including the Wellington floods in November 2016 and the Auckland storms in March 2017. This is an $85 million reduction compared to the 2016 financial year, which included the costs of the 14 February 2016 Canterbury earthquake.

SUMMARY	2017 CURRENT YEAR $(000)	2017 PRIOR YEARS $(000)	2017 TOTAL $(000)	2016 CURRENT YEAR $(000)	2016 PRIOR YEARS $(000)	2016 TOTAL $(000)
Gross claims expense – undiscounted	(628,802)	482,842	(145,960)	(110,853)	(7,384)	(118,237)
Discount – on total outstanding claims	6,421	(10,188)	(3,767)	851	(50,073)	(49,222)
Gross claims expense – discounted	**(622,381)**	**472,654**	**(149,727)**	**(110,002)**	**(57,457)**	**(167,459)**

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

During the current year, there were also further non-Canterbury claims incurred for which the paid and payable value is $622,381,000.

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE CLAIMS EXPENSE		
Amortisation of intangibles	(188)	(698)
Fees paid to the auditor		
– Audit of the financial statements	(121)	(188)
Bad debts	(965)	(117)
Call centres and claims management – third party	(1,344)	(1,159)
Claims administrators and contractors	(6,926)	(8,313)
Claims assessment fees	(408)	(1,357)
Depreciation	(83)	(745)
Employee remuneration and benefits (i)	(31,477)	(51,762)
Engineers and consultants	(22,280)	(32,406)
Interest expense	–	(51)
Office rental	(2,669)	(3,445)
Other costs	(9,436)	(12,219)
Project management and infrastructure – rebuilding programme (ii)	(11,683)	(31,594)
Superannuation contribution costs	(877)	(1,370)
Travel and accommodation	(1,525)	(2,761)
CANTERBURY CLAIMS HANDLING EXPENSES INCURRED	**(89,982)**	**(148,185)**

i. *During the 2017 financial year the organisation continued to scale down its resources working on the Canterbury event as the majority of claims had been resolved.*

ii. *From December 2016 a significant proportion of remedial work previously managed by Fletchers EQR was transferred directly to EQC.*

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
2016 KAIKOURA EARTHQUAKE		
Fees paid to the auditor		
– Audit of the financial statements	(45)	–
Call centres and claims management – third party	(241)	–
Claims administrators and contractors	(1,266)	–
Claims assessment fees	(1,334)	–
Employee remuneration and benefits	(2,183)	–
Engineers and consultants	(1,268)	–
Infrastructure costs	(7,593)	–
Office rental	(48)	–
Other costs	(654)	–
Superannuation contribution costs	(33)	–
Travel and accommodation	(506)	–
KAIKOURA CLAIMS HANDLING EXPENSES INCURRED	**(15,171)**	**–**

7. Operating Costs (excluding Claims Expense and Canterbury and Kaikoura Claims Handling Expense)

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.

COSTS GROUPED BY EXPENSE TYPE	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Amortisation of intangibles	(3,046)	(1,882)	(2,677)
Fees paid to the auditor			
– Audit of the financial statements	(133)	(165)	(139)
Bad debts	(14)	–	–
Consultants and contractors	(10,161)	(10,371)	(10,218)
Depreciation	(3,690)	(4,910)	(3,477)
Employee remuneration and benefits	(12,043)	(15,050)	(8,409)
Grants for earthquake research	(3,519)	(5,075)	(4,104)
GeoNet operating costs	(9,290)	(8,933)	(8,100)
Office rental	(825)	(454)	(495)
Other costs	(4,952)	(5,746)	(4,376)
Superannuation contribution costs	(389)	(242)	(268)
Technology costs	(7,906)	(9,100)	(7,354)
TOTAL OPERATING COSTS (EXCLUDING CLAIMS EXPENSE AND CLAIMS HANDLING EXPENSE)	**(55,968)**	**(61,928)**	**(49,617)**

In 2017, $276,000 of legal fees which were disclosed in 2016 in other costs have been reclassified to consultants and contractors.

8. Commitments

Reinsurance Contracts

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

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	141,764	139,458
Later than one year but not later than two years	41,250	45,000
Later than two years but not later than five years	–	41,250
TOTAL REINSURANCE COMMITMENTS	**183,014**	**225,708**

Museums

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

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	40	–
Later than one year but not later than two years	20	–
TOTAL MUSEUM COMMITMENTS	**60**	**–**

Research Grants

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. During the financial year, the Commission also awards biennial and post-graduate university grants.

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	1,052	2,845
Later than one year but not later than two years	850	1,550
Later than two years but not later than five years	300	1,450
TOTAL RESEARCH GRANT COMMITMENTS	**2,202**	**5,845**

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 2017 $(000)	ACTUAL 2016 $(000)
Capital commitment		
Not later than one year	2,500	2,720
Later than one year but not later than two years	3,497	3,225
Later than two years but not later than five years	7,096	10,593
	13,093	**16,538**
Operating commitment		
Not later than one year	9,768	8,933
Later than one year but not later than two years	9,224	9,043
Later than two years but not later than five years	19,077	28,301
	38,069	**46,277**
TOTAL GNS SCIENCE COMMITMENTS	**51,162**	**62,815**

Building 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.

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

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	2,508	3,048
Later than one year but not later than two years	936	1,599
Later than two years but not later than five years	903	650
TOTAL BUILDING LEASE COMMITMENT	**4,347**	**5,297**

Claims Management System

Service Aggregation Services

4impact manages the overall delivery of services, including EQC third-party supply relationships, for the claims management system.

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	334	–
Later than one year but not later than two years	339	–
Later than two years but not later than five years	585	–
TOTAL CLAIM MANAGEMENT SYSTEM COMMITMENT	**1,258**	**–**

Support and Maintenance Services

4impact provides support and maintenance services for the claims management system.

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Operating commitment		
Not later than one year	1,343	–
Later than one year but not later than two years	1,361	–
Later than two years but not later than five years	2,352	–
TOTAL CLAIM MANAGEMENT SYSTEM COMMITMENT	**5,056**	**–**

9. Investment Revenue/(Expense)

EQC's investment revenue/(expense) is generated from holdings in New Zealand (NZ) Government stock, residual income from global equities which previously were held, and interest from term deposits.

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.

Unrealised Gains and Losses

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

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Global equities			
Class actions and tax reclaims	156	–	158
	156	**–**	**158**
NZ Government stock			
Interest and discount income	14,514	24,705	47,070
Realised and unrealised gains/(loses)	(13,040)	(18,367)	12,764
	1,474	**6,338**	**59,834**
Other short-term investments			
Interest income	2,141	–	–
TOTAL INVESTMENT INCOME	**3,771**	**6,338**	**59,992**

10. Major Budget Variances

Statement of Comprehensive Revenue and Expense

Reinsurance and other recoveries

Reinsurance and other recoveries is $223 million adverse to budget, representing a reduction in the expected level of reinsurance recoveries from the Canterbury earthquake sequence. This results from reductions in the expected gross ultimate cost of the Canterbury event.

Claims (expense)/reduction

Due to the estimated cost of the November 2016 Kaikoura earthquake which occurred post the setting of the budget, claims expense is adverse to budget. This unbudgeted cost is partially offset by reductions in the expected total Canterbury liability.

Unexpired risk liability (increase)/reduction

The $69 million adverse variance in the movement in unexpired risk liability is due to an additional risk element relating to potential aftershocks from the Kaikoura earthquake and no significant downwards movement in the Canterbury element.

Other operating expenses

Other operating expenses are $6 million lower than anticipated, primarily due to time and resources being directed to the Kaikoura response and subsequently captured within claims costs.

Investment activities

Revenue from investment activities is $6 million higher than budget as cash and investment balances have been higher than budgeted for the majority of the 2017 financial year.

Statement of Financial Position

Bank and investments

Bank and investment balances are higher than budget, reflecting actual claims payments being lower than anticipated in the budget. Surplus monies have been invested in term deposits to maximise return while minimising risk.

Trade and other payables

Trade and other payables is $57 million higher than budget. This is primarily a result of accruals in relation to monies due to insurers for handling Kaikoura claims.

Outstanding claims liability

The outstanding claims liability is $1.0 billion higher than budgeted. This is primarily due to Kaikoura event costs of $0.6 billion and Canterbury payments being made at a slower rate than budgeted. The Canterbury payments are driven by the complexity of the remaining claims and the need for specialist engineering or legal expertise in a number of cases.

Unexpired risk liability

The budget assumed a significant reduction in the unexpired risk liability associated with the Canterbury earthquake sequence; this has not occurred as anticipated. In addition to this a further unexpired risk liability has been derived relating to the potential risks from the Kaikoura aftershock sequence.

Statement of Cash Flows

Claims settlements and handling costs

Claims settlements and handling costs are $286 million lower than budget as a result of fewer payments made due to the high complexity associated with the outstanding Canterbury claims.

Sale and purchase of investments

To minimise its exposure to interest rate risk the organisation has divested its Government stock holdings during the year and invested in term deposits. This has resulted in variances to budget in both the sale and purchase of investment lines.

11. Natural Disaster Fund

Capitalised Reserves

1,500,000,000 ordinary shares of $1.00 each deemed to have been issued and paid up in full from the Natural Disaster Fund (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 2018 financial year, but the need or timing of any initiation of Section 16 will be dependent on factors outside of the Commission's immediate control.

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".

12. Financial Instruments

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

Bank

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

Investments

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

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

Receivables

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

Other Financial Assets

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

Trade and Other Payables

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

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Financial assets designated at fair value* through surplus or deficit			
NZ Government stock	–	163,590	859,063
Term deposits	343,371	–	–
	343,371	**163,590**	**859,063**
Loans and receivables			
Bank	483,687	303,000	548,916
Premiums receivable	55,338	54,260	53,466
Outstanding reinsurance and other recoveries	206,988	149,276	534,545
	746,013	**506,536**	**1,136,927**
Financial liabilities measured at amortised cost			
Trade and other payables	(72,719)	(15,532)	(30,577)
Provisions	(923)	(149)	(594)
	(73,642)	**(15,681)**	**(31,171)**
OUTSTANDING CLAIMS LIABILITY	**(1,614,019)**	**(602,618)**	**(2,268,466)**

* 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 (ie. as prices) or indirectly (ie. derived from prices)
- 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).

In 2016, all of the Commission's financial assets were NZ Government stock designated at fair value and were classified as level 1. These were liquidated during the 2017 financial year. The Commission invested in term deposits in the 2017 financial year, these are classified as level 2.

Investments

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

On 27 July 2015, the Minister Responsible for the Earthquake Commission signed a new ministerial direction in regards to investments. 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 tradeable only with the New Zealand Debt Management Office (NZDMO).

At 30 June 2017, the fair values and concentrations of the Commission's investments were as follows:

	2017 FAIR VALUE $(000)	2017 % OF TOTAL INVESTMENT	2016 FAIR VALUE $(000)	2016 % OF TOTAL INVESTMENT
NZ Government stock	–	–	859,063	100.0
NZ Government stock	**–**	**–**	**859,063**	**100.0**
Term deposits	343,371	100.0	–	–
Total investments	**343,371**	**100.0**	**859,063**	**100.0**
Current*	343,371	100.0	–	–
Non–current*	–	–	859,063	100.0
	343,371	**100.0**	**859,063**	**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. In the current and prior year, the Commission's investments were exposed to interest rate risk.

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

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

	2017 YIELD	2017 DURATION	2016 YIELD	2016 DURATION
NZ Government stock	–	–	2.02%	3.54 yrs
Term deposits	2.84%	57 days	–	–

Interest Rates on Investments Risk Sensitivity

In the 2016 financial year, a change in interest rates (yields) affected the price (fair value) that the Commission would receive upon the sale of a security. In 2017, all investments had fixed interest rates, hence were not subject to changes in interest rates.

In 2016, the fair value was arrived at by discounting the cash flows arising from a financial instrument at the market yield and recognised the change in the Statement of Comprehensive Revenue and Expense. An identical increase or decrease in interest rates would therefore not produce an identical outcome. A 50 basis point increase in interest rates would have increased the deficit at balance date by $14,872,845. A 50 basis point decrease would have decreased the deficit by $15,227,641.

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, EQC held short-term securities with seven registered banks. $324,511,137 was held on-call and $393,555,135 held on term deposits (2016: on-call: $285,531,701 and short-term deposits $169,898,309).

Other

Credit Risk

The Commission limits its exposure to very large-scale natural disasters through the purchase of reinsurance. The Commission is exposed to the credit risk of a reinsurer defaulting on its obligations. Note 19 explains how the Commission minimises the risk of default. The Commission reduces credit risk by placing reinsurance with counterparties who have a credit rating of AAA to A- from Standard and Poor's (ie. 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 counterparty default rates:

CREDIT RATINGS – FINANCIAL INSTRUMENTS	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Bank		
AA–	637,620	374,418
A+	32,047	60,252
A	157,391	114,246
	827,058	**548,916**
REINSURANCE RECOVERIES		
AA	13,216	34,731
AA–	56,350	155,803
A+	83,139	221,380
A	32,123	78,821
A–	8,028	23,797
	192,856	**514,532**

CREDIT RATINGS – FINANCIAL INSTRUMENTS	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
PREMIUMS RECEIVABLE		
AA–	28,784	28,352
A+	17,653	15,815
A	2,825	3,519
A–	6,059	5,755
Other	17	25
	55,338	**53,466**
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Sundry receivables	14,132	20,013

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 (2016: 12 months). The majority of outstanding claims are expected to be settled within the 2018 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, cash at bank has been held at higher levels to provide for claims expenses and settlements.

13. Property, Plant and Equipment

The Commission's Property, plant and equipment is classified as either Non-Canterbury, Canterbury, GeoNet or Work in Progress. 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	0-9 years
Computer hardware	3-10 years
Canterbury event furniture and equipment	1- 11.8 years
Canterbury event motor vehicles	3 years
Canterbury event computer hardware	1.5-3 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years

2017

	NON-CANTERBURY			CANTERBURY
	FURNITURE & EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE & EQUIPMENT $(000)
Cost				
At 1 July 2016	74	1,330	349	2,406
Additions	–	–	78	–
Transfer	–	–	124	–
Disposals	(1)	–	(56)	(1,328)
At 30 June 2017	**73**	**1,330**	**495**	**1,078**
Accumulated depreciation				
At 1 July 2016	(31)	(150)	(328)	(2,073)
Depreciation charge	(5)	(171)	(72)	(82)
Disposals	1	–	56	1,095
At 30 June 2017	**(35)**	**(321)**	**(344)**	**(1,060)**
Carrying amounts at 30 June 2017	**38**	**1,009**	**151**	**18**

2016

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

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

			GEONET					
	COMPUTER HARDWARE $(000)	LAND $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
	4,355	1,230	728	2,730	35,539	48,741	–	48,741
	–	–	–	706	1,902	2,686	262	2,948
	–	–	–	–	–	124	–	124
	(209)	(1,026)	–	(99)	(417)	(3,136)	–	(3,136)
	4,146	**204**	**728**	**3,337**	**37,024**	**48,415**	**262**	**48,677**
	(4,355)	(396)	(360)	(2,068)	(23,017)	(32,778)	–	(32,778)
	–	–	(29)	(462)	(2,952)	(3,773)	–	(3,773)
	209	331	–	99	406	2,197	–	2,197
	(4,146)	**(65)**	**(389)**	**(2,431)**	**(25,563)**	**(34,354)**	**–**	**(34,354)**
	–	**139**	**339**	**906**	**11,461**	**14,061**	**262**	**14,323**

			GEONET					
	COMPUTER HARDWARE $(000)	LAND $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
	5,460	1,230	753	2,212	32,808	50,769	456	51,225
	22	–	–	429	3,471	4,823	–	4,823
	–	–	(25)	172	(147)	456	(456)	–
	(1,127)	–	–	(83)	(593)	(7,307)	–	(7,307)
	4,355	**1,230**	**728**	**2,730**	**35,539**	**48,741**	**–**	**48,741**
	(5,374)	(396)	(331)	(1,756)	(20,682)	(34,037)	–	(34,037)
	(72)	–	(29)	(395)	(2,871)	(4,222)	–	(4,222)
	1,091	–	–	83	536	5,481	–	5,481
	(4,355)	**(396)**	**(360)**	**(2,068)**	**(23,017)**	**(32,778)**	**–**	**(32,778)**
	–	**834**	**368**	**662**	**12,522**	**15,963**	**–**	**15,963**

14. Intangible Assets

The Commission's Intangible assets are classified as either Non-Canterbury, Canterbury or Work in Progress. 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	3-9 years
Canterbury event software	1.5-3 years
Claims management system v8	5 years

In 2007, the claims management system v4 was implemented with a useful life of nine years. This system was fully amortised in February 2017. Planning has started to decommission this system.

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
- 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.

2017

	NON-CANTERBURY			CANTERBURY			
	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM V4 $(000)	CLAIMS MANAGEMENT SYSTEM V8 $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
Cost							
At 1 July 2016	6,268	5,505	–	2,541	14,314	6,508	20,822
Additions	17	–	6,793	–	6,810	1,224	8,034
Transfer	969	–	4,249	–	5,218	(6,497)	(1,279)
Disposals	–	–	–	–	–	–	–
At 30 June 2017	**7,254**	**5,505**	**11,042**	**2,541**	**26,342**	**1,235**	**27,577**
Accumulated amortisation							
At 1 July 2016	(2,933)	(5,020)	–	(2,327)	(10,280)	–	(10,280)
Amortisation charge	(2,193)	(485)	(368)	(188)	(3,234)	–	(3,234)
Disposals	–	–	–	–	–	–	–
At 30 June 2017	**(5,126)**	**(5,505)**	**(368)**	**(2,515)**	**(13,514)**	**–**	**(13,514)**
Carrying amounts at 30 June 2017	**2,128**	**–**	**10,674**	**26**	**12,828**	**1,235**	**14,063**

2016

	NON-CANTERBURY		CANTERBURY			
	SOFTWARE $(000)	CLAIMS MANAGEMENT SYSTEM V4 $(000)	SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
Cost						
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)
Disposal	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**

15. Trade and Other Payables

The Commission recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain, the obligation is recognised as a provision. Annual leave is included within these figures and within Note 22 Employee Remuneration.

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.

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Trade payables and accruals	(67,513)	(12,137)	(25,813)
Tax on reinsurance	(5,206)	(3,395)	(4,764)
	(72,719)	**(15,532)**	**(30,577)**

16. Provisions

Provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. 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.

The provisions balance consists of a make-good provision for restoring leased premises to their original condition at the end of the lease term and a provision for employee benefits (excluding annual leave).

17. Unearned Premium Liability

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
Unearned premium liability at 1 July	(145,595)	(145,538)	(143,738)
Deferral of premiums on contracts written in the period	(149,307)	(146,993)	(145,595)
Earning of premiums written in previous periods	145,595	145,538	143,738
Unearned premium liability at 30 June	**(149,307)**	**(146,993)**	**(145,595)**

Premiums not earned at balance date are disclosed in the Statement of Financial Position as an unearned premium liability and also presented in note 3.

18. Unexpired Risk Liability Reduction/(Increase)

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

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

The unexpired risk liability was determined as follows:

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
CALCULATION OF DEFICIENCY			
Cost of future claims from unexpected risks, undiscounted – central estimate	153,705	62,619	139,301
Administration and reinsurance costs for unexpired risks	103,237	67,471	95,103
Reinsurance recoveries, undiscounted	(15,260)	(11,674)	(15,212)
Net premium liabilities, undiscounted – central estimate	**241,682**	**118,416**	**219,192**
Discounting	(3,155)	(1,887)	(2,832)
Net premium liabilities, discounted – central estimate	**238,527**	**116,529**	**216,360**
Risk margin	–	–	–
Net premium liabilities	**238,527**	**116,529**	**216,360**
Unearned premium liability	(149,307)	(146,993)	(145,595)
Net deficiency/(surplus)	**89,220**	**(30,464)**	**70,765**

	ACTUAL 2017 $(000)	UNAUDITED BUDGET 2017 $(000)	ACTUAL 2016 $(000)
UNEXPIRED RISK LIABILITY			
Unexpired risk liability balance at 1 July	(70,765)	(50,576)	(51,857)
Movement for the year	(18,455)	50,576	(18,908)
Unexpired risk liability at 30 June	**(89,220)**	**–**	**(70,765)**

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 2017 is 0% (2016:0%). The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin is $0 at 30 June 2017 because the distribution of potential claims is heavily skewed and, as a consequence, the central estimate (mean) outcome is greater than the 75th percentile.

The 2017 budget assumed a reduction in the net premium liabilities to below the unearned premium balance. This has not occurred during the financial year.

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**	**2017 $(000)**	**2016 $(000)**
Discount rate	+1.0%	-1,500	-1,400
	-1.0%	+1,500	+1,300
Base inflation	+1.0%	+1,600	+2,400
	-1.0%	-1,500	-2,400
Future claims-handling expense ratio	+1.0%	+1,500	+1,400
	-1.0%	-1,500	-1,400
Average term to settlement	+0.5 years	-700	-1,500
	-0.5 years	+600	+1,200

19. Insurance Risks

The Commission must accept exposure to claims for the natural disasters as specified in the EQC Act. The premium level is set by the Earthquake Commission Amendment Regulations 2011 is 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
- varying the reinsurance agreement terms and conditions as appropriate should the Crown determine a different risk profile under the natural disaster insurance scheme
- 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- (ie. from "extremely strong" to "strong"), or
    - Best's: A++ to A- (ie. from "superior" to "excellent")
  - 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 reinsurer.

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 11). The Minister of Finance determined that $10 million be paid for the year ended 30 June 2017 (2016: $10 million).

Interest Rate Risk and Credit Risk

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

Research and Education

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

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.

20. 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.

EQC received 469,472 claims from the 2010-11 Canterbury earthquake sequence, of which some disputes and the possibility of litigation is inevitable. As at 30 June 2017, EQC had 212 open litigation cases before the courts relating to claims under the EQC Act. 209 of these litigation cases relate to the 2010-11 Canterbury earthquake sequence and three relate to Non-Canterbury events.

The expectation of costs from disputes and litigation has been considered by the actuaries in deriving the outstanding claims liability as at 30 June 2017.

21. 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 or Section 103 of the Crown Entities Act 2004.

Key management personnel for the 2017 year included all Commissioners, two Chief Executives and seven senior managers (2016: all Commissioners, the Chief Executive and eight senior managers).

Key Management Personnel Compensation

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)
Salaries and other employee benefits	2,309	2,541
Commissioner's remuneration	303	333

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

In the 2017 financial year, the Commission purchased services of $563,574 (2016: $656,404) from Kiwi Income Property Trust, a company of which M Daly is a director. The services purchased related to office rental.

The Commission purchased services of $1,365 (2016: $1,374) from New Zealand Red Cross, an organisation of which P Kiesanowski is a director. The services purchased related to first aid courses.

P Kiesanowski is the Chair for Red Bus Company. The Commission purchased services of $609 (2016: nil). The services purchased related to bus hire.

KB Taylor, a former Commissioner, was a director for Southern Cross Medical Care Society. In the 2016 financial year, the Commission purchased insurance of $39,822. In 2017, Southern Cross Medical Care Society was no longer a related party.

During the 2017 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.

During the 2016 financial year, one of EQC's employees, was a close family member of key management personnel. The terms and conditions of their employment arrangement were no more favourable than the Commission would have adopted if there were no relationship to key management personnel.

22. Employee Remuneration

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

$(000)	ACTUAL 2017	ACTUAL 2016
100-110	20	16
110-120	21	47
120-130	20	49
130-140	7	24
140-150	9	11
150-160	6	12
160-170	4	11
170-180	5	4
180-190	4	4
190-200	3	5
200-210	2	1
210-220	2	1
220-230	–	1
230-240	1	1
240-250	–	1
250-260	1	1
260-270	–	2
270-280	1	–
280-290	1	–
290-300	–	2
300-310	1	–
310-320	–	1
330-340	1	–
360-370	1	–
440-450	–	1
	110	**195**

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, seven (2016: nine) payments totalling $295,966 (2016: $329,629) were made during the year upon cessation of an individual's employment.

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

	ACTUAL 2017 $(000)	ACTUAL 2016 $(000)	
M Wevers	74	72	Appointed 12 June 2013, Chairman from 1 August 2013
G Smith	37	36	Appointed 1 October 2011
A O'Connell	37	36	Appointed 1 September 2013
R Bell	37	36	Appointed 1 August 2013
M Daly	45	36	Appointed 14 March 2014, as Deputy Chairperson 1 July 2016
P Kiesanowski	37	36	Appointed 14 March 2014
T Hurdle	36	–	Appointed 1 July 2016
KB Taylor	–	45	Appointed 18 August 2006, as Deputy Chairman 1 May 2009. Term concluded 30 June 2016
R Black	–	36	Appointed 1 December 2010. Term concluded 30 June 2016
Total	**303**	**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.

Superannuation Schemes

Defined Contribution Schemes

Obligations for contributions to 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.

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.

23. Events after Balance Sheet Date

There were no significant events after balance sheet date.


EQC

MINISTERIAL DIRECTIONS

Ministerial directions to EQC that remained current as at 30 June 2017 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 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.
- **Effective 9 August 2016** – a direction to pay the amount of the damage to, or replace or reinstate (at EQC's option), certain storm water and sewerage services and structures appurtenant to them that suffered damage as the direct result of one or more of the 2010-11 Canterbury earthquakes.
- **Effective 1 May 2017** – a direction to remove and dispose of debris situated on land, and fill and re-level scoured land, in the Edgecumbe community that was damaged as the direct result of any storm or flood that occurred in April 2017.

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 now records the NZBN numbers of new suppliers (where available) and has made considerable progress obtaining them for existing suppliers. This is a searchable and reportable field within EQC's finance system.

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

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.

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.

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.

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 (eg. under cross-leases).

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

Fletcher EQR: was a business unit of Fletcher Construction Company Limited established in October 2010 to manage home repairs on behalf of EQC. This work was 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 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.

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 repair claims: remedial repair claims include claims for 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 recorded as resolved only 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.

CORPORATE DIRECTORY

Executive Officers

The executive officers are the:

- Chief Executive
- General Manager, Strategy and Policy
- General Manager, Internal Partners
- General Manager, Reinsurance, Research and Education
- General Manager, Communications and Public Education
- General Manager, Customer and Claims.

Earthquake Commission

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Auditors

Ernst & Young (On behalf of the Auditor-General)

Banker

ANZ Bank New Zealand Limited, Wellington

Solicitors

Chapman Tripp

EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

New Zealand Government