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EQC
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

EARTHQUAKE COMMISSION'S

ANNUAL REPORT 2017-18

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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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CHAIR'S STATEMENT

The Earthquake Commission (EQC) continues to work towards its Mission "to reduce the impact on people and property when natural disasters occur". Over the past year, we have responded to both new claims for new disasters and continued addressing claims outstanding from prior events including the 2010–11 Canterbury and 2016 Kaikōura earthquakes.

This year has been another of mixed results for EQC. While our primary focus has been on addressing outstanding claims from the 2010–11 Canterbury earthquake sequence and the Kaikōura earthquake, we had a number of much smaller events this year. Damage and claims arose from the Kaiaua and Thames storm and ex-cyclones Gita and Fehi as well as other small events. Settlement of these smaller events is progressing well, with the time taken to settle claims reducing.

The 2017–18 financial year saw EQC placed under close scrutiny by the Government (particularly around the settlement of Canterbury claims), which resulted in a number of Government initiatives, including:

- the appointment of an Independent Ministerial Advisor to advise the Minister on speeding up the resolution of outstanding EQC insurance claims arising from the 2010–11 Canterbury earthquakes;
- the Government's announcement that it would launch an inquiry into EQC;
- the introduction of the Earthquake Commission Amendment Bill to update and improve the operation of our governing legislation; and
- the Government's proposal to establish a special insurance tribunal to resolve outstanding EQC and other insurance claims arising from the 2010–11 Canterbury earthquakes.

EQC sees these activities as opportunities to improve how we serve and support New Zealanders as we realise our Mission "to reduce the impact on people and property when natural disasters occur".

Canterbury

Eight years on and the 2010 and 2011 Canterbury earthquakes still represent the most significant earthquake events in New Zealand in recent times. Undisputedly, the Canterbury earthquakes placed extraordinary demands on EQC; a number of tough decisions had to be made quickly and were made with good intentions and in good faith. EQC quickly scaled up in an unprecedented way; it grew significantly in size and took on substantial responsibilities.

The 2010–11 Canterbury earthquake sequence resulted in over 469,000 claims submitted to EQC since 4 September 2010, and settling the remaining claims is our highest priority. As at 30 June 2018, nearly 99% of claims were settled and we are focusing on approximately 4,800 predominately reopened outstanding claims that are either being managed by EQC, under litigation or being managed by Southern Response (for which EQC has legal liability).

EQC is aspiring to continuously improve the customer's experience and settle claims in a fair, transparent and timely way. This objective is supported by our Customer Centred Model. We are disappointed that our remedial claim settlement progress in Canterbury has not met the targets we set for the 2017–18 year, and we regret the impact for those customers affected. I believe that changes to leadership and culture, and upgraded technology implemented over the year will help us perform better in the 2018–19 financial year.

A number of the remaining Canterbury claims are complex. Such claims present challenges that EQC is looking to address by working together with other governmental organisations and commercial insurers. An example is claims related to on-sold houses, where the original EQC repairs (or EQC scope) are later found to be defective or incomplete, but the total cost of the building claim has reached (or exceeded) the EQC cap.

Finalising the Canterbury claims is our highest priority, and so with the establishment of the EQC Canterbury Business Unit (CBU) and support from our Minister and the broader Crown sector, EQC is confident and committed to seeing all Canterbury claims finalised.

Review by the Independent Ministerial Advisor

Early in 2018, the Minister tasked an Independent Ministerial Advisor to identify ways to ensure swift and fair settlement of the outstanding claims from the 2010–11 Canterbury earthquakes.

The purpose was to report to the Minister on operational changes needed for resolving any residual earthquake claims in a manner that ensures timeliness, cost effectiveness and high professional standards.

The EQC Board and Executive Leadership Team (ELT) welcomed the release of the Independent Ministerial Advisor's report in June 2018, which contained a number of recommendations, some of which have already been implemented.

Inquiry

On 17 May 2018, the Minister announced that the 2018–19 Budget included funding to conduct an inquiry into EQC's response to the Canterbury earthquakes. It is expected that the Inquiry will commence later this year.

The Board and staff of EQC will be co-operating fully with the Inquiry. We will ensure that sufficient support is available to enable effective engagement with the Inquiry and to respond to information requests.

Earthquake Commission Amendment Bill

In March 2018, the Earthquake Commission Amendment Bill was introduced. The Bill amends the Earthquake Commission Act 1993 (EQC Act) to update and improve its operation, with a view to simplifying and speeding up the handling of claims for natural disaster damage. If enacted in its current form, the Bill will:

- remove EQC insurance cover for contents;
- increase the cap limit on EQC residential building cover to $150,000 (plus GST);
- enable EQC to accept claim notifications for a lengthier period than the current three-month time limit for such notifications; and
- clarify EQC's authority to share information to support the implementation of the EQC Act and settlement of insurance claims and where this is in the public interest and safety.

These changes will improve how the EQC Act functions, and allow EQC to simplify and speed up the claims process, enabling the scheme to work more effectively for future natural disasters.

Canterbury Earthquakes Insurance Tribunal

In May, the Minister also announced a proposal to establish an independent insurance tribunal to resolve outstanding Canterbury earthquake insurance claims. Since then the Canterbury Earthquakes Insurance Tribunal Bill has been introduced. If passed into law, this legislation will provide some EQC customers with an alternative pathway to resolve their insurance claims effectively.

Leadership

This year EQC has seen changes to its leadership. In January 2018, a new ELT was formed, and in March I was appointed Interim Chair of the EQC Board of Commissioners following the resignation of Board Chair, Sir Maarten Wevers.

30 June 2018 marks the end of tenure of two of our Board Commissioners – Roger Bell and Gordon Smith.

I thank all outgoing members of the EQC Board for their service to the Board and wish them well for the future.

The Board extends its thanks to all staff, contractors, suppliers and partners who have worked for or with EQC over the 2017–18 financial year. I also thank the other members of the Board for their commitment and support.

Annette King

Hon. Dame Annette King, DNZM
Interim Chair

CHIEF EXECUTIVE'S REPORT

One of EQC's core functions is to respond in a timely manner to all customers and claims in order to help them recover from a natural disaster. Priorities lie with finalising all claims from past events (such as the 2010–11 Canterbury and 2016 Kaikōura earthquakes) while at the same time responding to current claims and events to build certainty for our customers.

Settlement of claims

Canterbury

Progress was seen in finalising outstanding Canterbury claims with nearly 9,000 claims closed during the financial year. It was a great disappointment to the management team and staff that we were not able to meet our Statement of Performance Expectation targets for the remaining Canterbury claims. We continue to focus on lifting our claims settlement performance and are continuing to implement change to improve outcomes for customers. It was particularly disappointing that on migration to a new claims management system approximately 1,000 EQC claims were identified that had not been included in the reported count of claims numbers, although they were being worked on.

The Canterbury Business Unit (CBU) was established in early 2018 to finalise all outstanding claims from the Canterbury 2010–11 earthquakes utilising a case management system to provide customers with:

- an end-to-end process;
- a single point of contact to deal with their claim; and
- open and regular communication.

Every claim now has a case manager or settlement specialist assigned.

EQC will continue to resolve outstanding issues, especially focussing on older claims. We have forecast that an increase in the number of settlement specialists will lead to a significant increase in the claims settlement rate per month in the 2018–19 financial year once the new staff have settled in.

Review by the Independent Ministerial Advisor

During 2017–18 the Minister Responsible for the Earthquake Commission commissioned an independent report with a view to speeding up the resolution of outstanding claims from the Canterbury sequence of earthquakes between September 2010 and December 2011. The Independent Ministerial Advisor Report, published on 6 June 2018, made recommendations covering a number of themes including:

- strengthening EQC's management of claims through procuring additional resource and reducing claim portfolios;
- focusing on our communication with customers and relationship with stakeholders;
- improving data quality and recording;
- increasing our flexibility to make sensible settlements and payments;
- addressing multifaceted policy and legislation issues that sit behind many of the current complex claims and anticipated future claims; and
- strengthening the monitoring arrangements for EQC and providing assurance to government on remaining claims processes.

EQC welcomed the report and accepted the recommendations. We have implemented an action plan to address these recommendations and have been working closely with our Board and our Government colleagues to implement the recommendations. Other government agencies are leading work on some of the recommendations.

CBU by Design

CBU by Design was an intensive work project using customer focussed design to quickly identify and deliver improvements to the case management model and settlement processes for our CBU customers. This work was in response to the direct feedback we've received from customers and third parties and implementing the Independent Ministerial Advisor Report recommendations.

Kaikōura earthquake event

The Kaikōura earthquake event on 14 November 2016 was centred in the Kaikōura region. Kaikōura was the first event where a new response model was piloted, with eight private insurers acting as agents of EQC to manage settlement of the claims. This approach has proved beneficial to homeowners who have had their own insurer manage their building and contents claims from beginning to end, thereby reducing double handling and speeding up settlements. As at 30 June 2018, 99% of claims have been assessed and 98% settled.

EQC has commissioned a strategic review of the insurer-managed model employed for settling Kaikōura earthquake claims, and how it may be improved, so that we can be better prepared for future events.

Weather related events

Good progress in speeding up claims settlements was seen this year across all weather-related events. We used lessons learnt from previous weather events, and strengthened partnerships with the MetService and others providing forecasting and other information, such as the National Institute of Water and Atmospheric Research (NIWA), who are able to provide us with advance information. The Kaiaua and Thames storm, and ex-cyclones Fehi and Gita collectively generated a total of 513 claims, and by year end 439 were settled with 74 still open.

Progressing the Organisational Strategy

I started with EQC in early 2017. Since then we have implemented a number of changes in order to deliver on the organisation's strategic objectives. I have redesigned EQC's operating model to be more customer centred, initiated work on a resilience strategy (including investment in the organisation's loss modelling capability) and begun work on improving event readiness.

Customer Centred Model

The Customer Centred Model is an ongoing approach to the way EQC should organise itself and operate in order to deliver on its Statement of Intent to ensure customer outcomes are at the heart of everything we undertake.

Resilience

During the 2017–18 financial year, EQC continued to develop New Zealanders' resilience to natural hazards through our education and research programmes. We used a variety of preparedness information including continuing the Fix. Fasten. Don't Forget. campaign across television and radio, and direct mailouts. We have also worked with the Treasury to progress our risk financing strategy, including implementing the premium increase on 1 November 2017 to ensure the future resilience of the EQC scheme. EQC has developed a broader Resilience Strategy that will enhance the sharing and practical application of data and technical know-how with key strategic partners accountable for decisions that improve New Zealand's resilience to natural hazards.

Loss Modelling Investment

Loss modelling is at the core of EQC's ability to understand possible natural disaster scenarios. This is vital for planning responses and providing awareness and greater certainty about New Zealand's natural risk to reinsurers. Loss modelling is a key input into better understanding the impact of natural hazards to support risk reduction decision making across New Zealand.

During 2017–18, EQC commenced a project that will deliver a preferred option for sustaining and continuing the development of EQC's access to loss modelling capability. It will provide greater access to this information for both global reinsurance and for those who manage resilience across New Zealand.

Readiness

EQC has continued growing its relationships with local councils, insurance companies and other stakeholders. I believe there are significant benefits in continuing to develop our relationships with a range of stakeholders as we look to develop our capability to improve our readiness for dealing with future events.

EQC is further developing its Tactical Event Response Plan to help communicate our approach effectively to a wide audience, including local and regional councils, Civil Defence, customers and staff. The plan sets out the key external and internal communication messages, responsibilities and actions so that EQC staff involved in an event response have the information available to ensure a coordinated approach.

In May 2018, Whakatane Emergency Management won one of the annual Civil Defence Emergency Management Awards for its innovative work on the April 2017 Edgecumbe flood recovery. They invited the EQC team that worked alongside them in the Recovery Hub to share in this recognition.

Enterprise Change Programme

The Enterprise Change Programme (ECP) was launched during 2017–18 as a vehicle to support how EQC progresses its strategy through culture change and learning. It provides oversight for the prioritisation and implementation of a range of projects and initiatives and ensures that changes are aligned to strategy and will deliver meaningful benefits.

Reinsurance

EQC's reinsurance programme provides substantial financial protection for the Crown's balance sheet in the event of a large-scale natural disaster. Investment by EQC in high-quality applied research and modelling, to better understand the impact of New Zealand's natural hazards, is a fundamental underpinning of its engagement with global reinsurance markets.

During 2017–18, EQC was able to provide New Zealand with additional reinsurance protection against the impact of a significant event by securing $5.55 billion of reinsurance capacity placed for the 2018–19 year, up from $4.83 billion purchased in 2017 for the 2017–18 year. The ability to grow EQC's reinsurance programme was a clear signal of the ongoing confidence the global reinsurance market has in the EQC scheme and their support remains crucial in mitigating against the impact of future events.

Conclusion

As an organisation, EQC has learnt much since the Canterbury sequence of earthquakes. We recognise that we need to continually transform ourselves and adapt to changing circumstances to achieve a better end-to-end experience for our customers. During the year we have undertaken changes to the ELT to better position us for this evolution.

EQC needs to resolve and complete outstanding 2010–11 Canterbury related claims, and the establishment of the dedicated CBU will introduce a more focused and managed way to deal with these.

I would like to thank both my ELT colleagues and the wider staff for their ongoing commitment and dedication.

Sid Miller
Chief Executive

SETTLEMENT OF CLAIMS

Major event – progress in Canterbury

The Canterbury earthquake sequence of 2010 and 2011 was undisputedly the most significant earthquake event in New Zealand in recent times. The earthquakes shattered the lives, property and livelihoods of many Cantabrians and presented EQC with an overwhelmingly large number of claims.

Eight years on, we have settled close to 99% of claims and are focussing on closing the remaining approximately 4,800 outstanding claims, which comprise claims that have been reopened, are in litigation, or are being managed by Southern Response. Canterbury remains EQC's highest priority and several initiatives have been implemented to speed up the process and settle outstanding Canterbury claims.

This year, EQC has established the CBU, which focuses purely on settling the remaining Canterbury claims. The CBU takes a more personalised, customer-centred approach. Customer satisfaction for Canterbury earthquake claims has fluctuated during the year but has shown improvement in the second half of the year with "overall satisfaction" increasing from 28% in June 2017 to 36% in June 2018. This is considerably below the levels EQC would like and the organisation is taking steps to improve this. There was recent improvement in customers being "well informed", and there are signs that the new case management model being implemented is contributing to this.

Key initiatives undertaken to embody a customer centred approach included employing a 30 day customer touch point campaign, a new case management model and setting up CBU by Design. From this we have developed a customer interaction strategy that has also resulted in a positive trend emerging between operation/system changes, proactive customer communication and the elevation of customer satisfaction.

With the establishment of the CBU, a more customer-centred approach, the migration to a better claim management system and working together with the Government and private insurers, EQC is confident and committed to completing fair settlements of all Canterbury claims.


Credit: Greymouth Star

Review by the Independent Ministerial Advisor

Following the review undertaken by the Independent Ministerial Advisor, which was released in June 2018, EQC has progressed a number of the recommendations. Actions already underway include:

- hiring more staff to reduce the caseloads for case managers so claimants get more personal attention;
- establishing a Claimant Reference Group, comprised of claimants and community representative advocates who are paid for their time and expertise to advise EQC on how to improve the treatment of their customers;
- making any claimant's complete, unredacted EQC file available to them on request without them having to request them under the Official Information Act, and introducing a standard for better communication with claimants; and
- having a team of experienced EQC staff peer review all remaining claims, to ensure all information is in place to improve progress on the claims.

The Greater Christchurch Insurance Taskforce has prioritised the issues that have implications beyond the EQC Act within the Report, including those related to on-sold properties, claims management consolidation, statute of limitations, and EQC monitoring arrangements. EQC continues to contribute to this group.

Major event – progress in Kaikōura

Two minutes after midnight on 14 November 2016, a 7.8 magnitude earthquake struck the Kaikōura region. The earthquake, which claimed two lives, caused damage, fault rupture, landslides and the seabed to be lifted, generating around 38,000 claims to EQC spanning from Whangarei to Invercargill. The Kaikōura earthquake is the most geographically widespread event in EQC's history and has been described by experts as "the most complex earthquake ever studied"[1].

Given the volume of claims, and with lessons learnt from the 2010–11 Canterbury earthquake sequence, EQC developed a new way to deal with claims from this earthquake. A Memorandum of Understanding was signed between EQC and eight private insurers working on EQC's behalf to assess and settle EQC home and contents claims for earthquake damage from their own customers. EQC has been directly managing some claims (eg. land claims) from the Kaikōura earthquake. This approach has seen EQC and insurers collaborate more closely than in previous events. To the end of the 2017–18 financial year, approximately $500 million has been paid out in claims settlements.

During the event response EQC developed the Kaikōura Earthquake Viewer (KEV) – an online geospatial viewer – that allowed us to pull field mapping and satellite data from various relevant agencies. This enabled a quick emergency response to quantify where resources and efforts were needed most, as well as information sharing between government agencies, scientists, engineers, the Defence Force and insurers.

1 https://www.tonkintaylor.co.nz/news/2017/6/kaikoura-earthquake-rapid-disaster-mapping

Credit: Thames-Coromandel District Council

A total of 848 claims remained at 30 June 2018, including those reopened (which represents a small percentage of total claims). EQC was responsible for directly managing 5,400 claims and as at 30 June 2018 the EQC-managed portfolio is 99% assessed and settled, with 78 claims remaining. The insurer-managed claims are 99% assessed and 96% settled with 770 claims remaining.

With the majority of customers now having received a cash settlement, EQC has held discussions with councils as to how they can ensure the availability of contractors to complete repairs.

EQC has commissioned a strategic review of the insurer-managed model employed for settling Kaikōura earthquake claims, and how it may be refined, so that we can be better prepared for future events.

Weather events

The start of the 2018 calendar year was a very wet one for parts of New Zealand. During January and February, New Zealand was hit by two ex-cyclones and a storm. EQC was able to settle the majority of claims arising from these events well within performance targets.

Kaiaua and Thames coast storm – 5 January 2018

In early January a storm and tidal surges caused major flooding and damage to properties in the Kaiaua and Thames coastal area. The storm generated 101 claims lodged with EQC. With claims taking, on average, 63 days to close EQC settled 92% of all claims relating to the storm by the end of the financial year.

Ex-cyclone Fehi – 1 February 2018

A month after the Kaiaua storm, ex-cyclone Fehi hit New Zealand. The major storm reached New Zealand on 1 February 2018 and caused extensive damage through the South Island, especially on the West Coast. This event generated 134 claims, and EQC settled 93% of them by the end of the financial year. Claims related to ex-cyclone Fehi took an average of 55 days to close.

Ex-cyclone Gita – 19 February 2018

Two weeks after the devastating ex-cyclone Fehi, another cyclone was reaching New Zealand. Cyclone Gita threatened to hit New Zealand as a strong ex-tropical cyclone. At the time, the MetService issued heavy rain and strong wind warnings covering a wide expanse of the country. As Gita bore down on the South Island, bringing floods and strong winds, a state of emergency was eventually declared for the West Coast and nearby on 20 February 2018.

Of the January and February events, Gita produced the highest number of claims. By the end of the financial year, EQC settled 80% of the 278 Gita-related claims. On average, a Gita-related claim took 54 days to close.

Other claims

During 2017–18 there were a number of additional claims totalling 2,871, comprising:

- 1,290 earthquake claims;
- 1,580 landslip, storm or flood claims; and
- 1 hydrothermal claim.

The average time taken to close these claims was 114 days. As at financial year end, around 300 are awaiting settlement.

STRATEGIC FRAMEWORK

EQC was established to help New Zealanders in the event of a natural disaster. EQC's origins go back to 1945, when we covered earthquake and war damage. Even though we have grown and much has changed since then (eg. we no longer cover war damage), EQC's core purpose is to focus on helping people faced with damage arising from a natural disaster. This is reflected in our Mission: "to reduce the impact on people and property when natural disasters occur".

EQC also undertakes research and educates to raise understanding and awareness, and help people make decisions that will minimise potential damage in disaster situations.

To achieve our Mission, in the 2017-18 year EQC has worked toward three high-level Strategic Objectives that lay the foundation for all of our activity.

Strategic Map 2017–18

OUR VISION – WHAT WE WANT TO ACHIEVE

To be the world's leading national natural hazard insurance scheme

OUR MISSION – WHAT ARE WE HERE FOR

To reduce the impact on people and property when natural disasters occur

STRATEGIC OBJECTIVES – WHAT WE AIM TO ACHIEVE

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

KEY RESULT AREAS – WHAT WE PRIORITISE

- Event Management
- EQC has an operating model that makes us easy to do business with
- EQC is a leader for a risk aware New Zealand
- EQC underpins an efficient insurance market in New Zealand

OUR OUTPUTS – WHAT WE DELIVER

- Administration
- Customer Services
- Research
- Education

OUR OUTPUTS – WHAT HOLDS US TOGETHER

People, Processes, Systems, Machinery of Government, Risk Management

Strategic Objective: New Zealanders have access to natural hazard insurance and reinsurance

EQC is required to administer the Natural Disaster Fund, protect its value, and to administer the insurance against natural disaster that is provided by the EQC Act. In the 2017–18 year, EQC's strategic objective and key result area were to ensure that:

- New Zealanders have access to natural hazard insurance and reinsurance; and
- EQC underpins an efficient insurance market in New Zealand.

Risk financing

Following the large expense required to settle claims from the Canterbury and Kaikōura earthquake damage, EQC has been determining how to re-establish its financial reserve (the Natural Disaster Fund). EQC's risk financing strategy is aimed at ensuring EQC has access to the necessary financial resources to meet the potential liabilities arising from the scheme. This work is often undertaken in advance, for example: EQC purchased reinsurance in the 2016–17 financial year to provide additional financial resources to meet claims in the event of a major natural disaster during 2017–18.

Over the past 12 months, this work has focused on:

- ensuring EQC's levy reflects the expected claims on the scheme, including the cost of administration (the EQC levy was increased on 1 November 2017);
- finalising an agreement with the Treasury on the operational arrangements underpinning the Crown's guarantee of EQC's liabilities under section 16 of the EQC Act; and
- securing more than $5 billion of reinsurance cover from international capital markets for the 2018-19 financial year.

EQC has worked closely with the Treasury in the development of the risk financing strategy and will continue to do this over the course of the coming year as we look at options to rebuild the Natural Disaster Fund.

Strategic Objective: Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner

To be able to claim insurance from EQC, the customer's property will have been damaged by a natural disaster. It is a distressing time and people simply want to get on with their lives as quickly as possible. EQC endeavours to treat every customer's claim fairly, transparently and in a timely manner. We do regular customer satisfaction surveys and monitor our customer satisfaction levels. We also measure and monitor how quickly claims are being settled.

There is wide public awareness of EQC's responsibility for covering earthquake damage, but it is less so in relation to our covering other natural disaster damage. Similarly, expectations have been rising about our role and that of other government and local agencies working together, and how we should respond to help communities recover from these events. The catalyst for becoming more proactive in our approach was the need to effectively respond to a number of forecasted weather events that adversely affected communities across New Zealand in the first three months of the year (the Kaiaua-Thames storm and ex-cyclones Fehi and Gita). EQC's efforts included significant progress and improvements in how we engage with and support:

- councils and the Ministry of Civil Defence and Emergency Management (MCDEM) in their response to events;
- communities in preparing for and recovering from the impacts of extreme or adverse events; and
- individuals, in communities affected by extreme or adverse weather events, in their recovery efforts.

Readiness

Being ready for an event encompasses having the people and processes available to aid recovery. EQC is working to ensure we are ready for future events. During 2017–18, EQC completed an upgrade to its claims management system. We also commissioned a strategic review of the insurer-managed model employed for settling Kaikōura earthquake claims, and how it may be refined, so that we can be better prepared for future events.

Response

Settling the outstanding claims from the Canterbury earthquakes remains our highest priority. EQC has learnt a lot from its response to these events and is ensuring these lessons are used to make us a more customer-focused organisation. Lessons learnt that we have implemented include improved customer interaction, improving the use of our system as a case management tool, and the need to be on the ground liaising with councils in all events, including floods, storms and landslips.

During 2017–18, EQC implemented a new claims management model that provides customers with regular contact and communications.

Recovery

We seek to manage all claims fairly, transparently and in a timely way so that those affected by natural disasters are able to recover. EQC has worked to improve its communications with customers so that they are better informed about their unsettled claims. Changing to a customer-centred model is incrementally leading to an increase in customer satisfaction.

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

New Zealand is a geologically active country with a high exposure to natural disaster risk. EQC plays a leadership role to ensure that New Zealand has an appropriate level of knowledge and risk awareness. We facilitate research to better understand the nature of potential events (eg. earthquakes, floods, landslips, hydrothermal events and tsunamis) and how to manage them. EQC also contributes to nationwide and regional initiatives that educate the public on ways to prepare their homes to minimise or, where possible, prevent natural disaster damage. To ensure that progress stays on target, we require regular progress reporting from research projects that EQC has funded, and evidence that our message is reaching members of the public through the number of homes insured and independent surveys.

Resilience building

During the 2017–18 year, EQC continued to educate the public with information deliveries to dwellings, a variety of preparedness material available on our website, and radio and television campaigns featuring the “Fix. Fasten. Don’t Forget.” message.

EQC’s Resilience Strategy will enable improvements to the modelling of financial, economic and social impact of natural hazards and sharing with other stakeholders the outputs and knowledge gained. Loss modelling is a tool that provides the critical evidence base for both reinsurance and risk reduction policy. Benefits are driven by initiatives that utilise the outputs of the tool, not the tool itself. New Zealand needs EQC to continue to provide loss modelling services to ensure continued credibility with the reinsurance industry. It is the credibility delivered by loss modelling that has enabled EQC to purchase its increased level of reinsurance in the global markets for 2018–19. A project to update EQC’s loss modelling tool has been started and will continue into the 2018–19 financial year.

Agile, proactive engagement approach

Our approach to engagement is agile and proactive, adapting to the needs of the community and the type and scale of the event. Each event helps us further develop this approach, giving us more options for future events.

In particular, EQC uses the following three step approach for potentially severe events:

- early warning systems where possible, eg. information from MetService, NIWA;
- pre-emptive contact with councils; and
- targeting services to high or critical need individuals.

Early warning and rapid response systems

As weather forecasting provides a degree of early warning of weather-related natural disasters, it provides opportunities for EQC to be more proactive with our customer service than is possible with other, non-predictable natural disasters like earthquakes.

We are developing relationships with MetService and others providing forecasting such as NIWA to strengthen our ability to get early warnings about severe weather events. Our fledgling MetService relationship has already helped us identify risk, prepare for potential claims and do the best for customers.

Run by GNS Science, GeoNet delivers data on earthquakes, volcanic activity, large landslides and tsunami from more than 600 sensors around New Zealand. GeoNet provides fast access to information and high-quality research data in a way that was previously unimaginable. This is of great benefit to EQC in our Mission “to reduce the impact of natural disaster on people and property”.

Overall our approach, where possible, is to gather and use data before an event happens to support our strategic decisions and get a better view of the potential impact of an event. EQC monitors weather forecasts, news items, national and local Civil Defence, and council Facebook and Twitter feeds to gain additional data and information.

Pre-emptive contact with councils

EQC treats each natural disaster event as a learning opportunity, recognising that councils and MCDEM teams are the first responders in a natural disaster. We use the combined early warning systems as a prompt to contact councils in regions that are likely to be affected by severe weather.

EQC uses this opportunity to remind councils of our role, what damage we cover, and:

- assure them that we will be on hand to work with them once we are aware of the residential damage; and
- ensure they have all the information they need to be able to get in contact with the right people in EQC before, during and after a severe weather event.

Creating a single web page for storm, flood and landslip events has streamlined and sped up our response, and been well received. This page, promoted through social media, resulted in 944 hits in its first seven days online.

Ongoing collaboration with councils and our insurance partners

Making connections early with council response coordinators also means we have an established line of contact. Having this 'already open' line of communication facilitates our ability to follow up enquiries and to discuss and understand the level of damage, including whether people are displaced from their homes or are vulnerable, and to determine our response. This might mean getting an assessor into the area sooner, as we did in Tolaga Bay, or for extended periods of time so they can get to isolated areas with damage, such as the West Coast.

If significant damage eventuates, we continue to follow up with response coordinators once the initial response is underway and work with the council to identify any ongoing assistance EQC can provide during this phase. Our aim is that, by establishing strong lines of communication with response coordinators, we are able to gather quality information relatively quickly.

The Earthquake Viewer (KEV) was developed in response to the Kaikōura event, and its use has now been widened to all events. This Geographic Information System (GIS)-based tool gives a powerful, jointly created picture (information, photos and videos) of an event's impact with real time mapping of likely damage. EQC is able to share this information with engineers, scientists, insurers and other agencies on the ground.

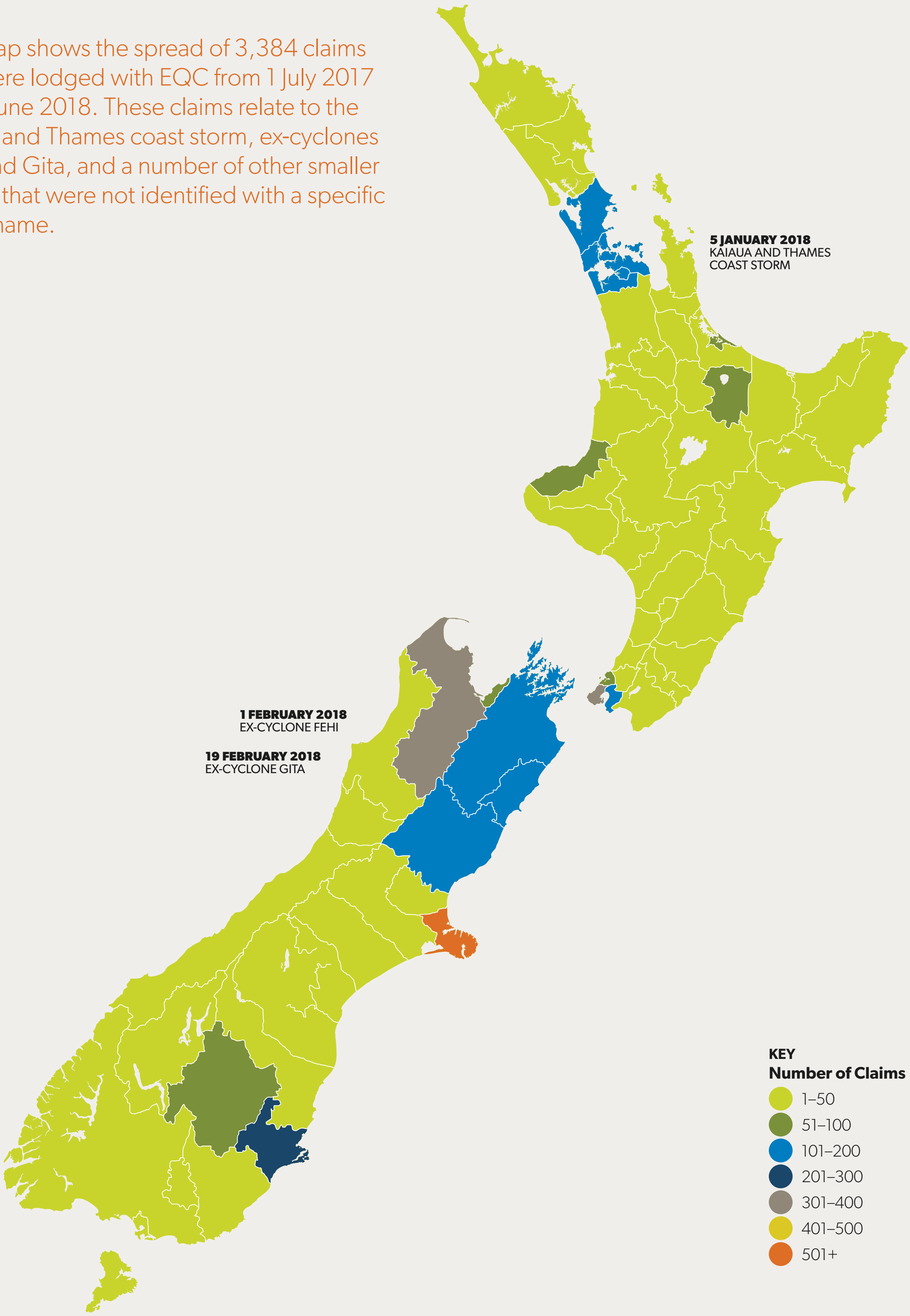
KEV enables us to gather photos of damage, fault line data, the location and type of insurance claims and more, in one shared online space. Another benefit of this tool is that private insurers and EQC can easily share information.

EQC has found this collaborative approach with councils valuable as they are dealing first hand with those experiencing loss or damage and, as first responders, can do much to encourage the lodgement of claims. We also link in with the council's welfare liaison, participating in conference calls with other agencies to understand the local need and share information.

Community engagement and talking to local residents also forms a critical part of EQC's event response plans. We attended meetings and information sessions, in some cases providing guidance on making the sessions effective, to meet with people affected by natural disasters (Kaiau-Thames, Mapua, Riwaka, Marahau, Buller, Westland, Hokitika, Kaikōura and Christchurch). We continue to liaise with local councils and other recovery organisations.

HERE FOR ALL OF NEW ZEALAND

This map shows the spread of 3,384 claims that were lodged with EQC from 1 July 2017 to 30 June 2018. These claims relate to the Kaiaua and Thames coast storm, ex-cyclones Fehi and Gita, and a number of other smaller events that were not identified with a specific event name.



EARTHQUAKE COMMISSION BOARD

2017–18 members

As at 30 June 2018, EQC had seven commissioners. Dame Annette King (Interim Chair), Mary-Jane Daly (Deputy Chair), Alison O'Connell, Gordon Smith, Paul Kiesanowski, Roger Bell and Tim Hurdle.

During the 2017–18 financial year, Sir Maarten Wevers was Chair from 1 July 2017 until he tendered his resignation on 23 February 2018. Sir Maarten had been EQC's Chair of the Board since August 2013. The Minister appointed Dame Annette King as EQC's Interim Chair with effect from 1 March 2018.

Functions of the Board

The Board is the governing body of EQC, with the authority to exercise the powers necessary to perform the functions of EQC. It is accountable to the Minister Responsible for the Earthquake Commission. All decisions relating to the operation of EQC are made by (or under the authority of) the Board in accordance with the EQC Act and the Crown Entities Act 2004.

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; and
- ensure that management has complied with the legal obligations of EQC.

The Board 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 a Letter of Expectations that sets out the Minister's expectations for EQC.

The Board reviews and approves EQC's risk management policy and risk management framework. The Audit and Risk Committee regularly reviewed the effectiveness of the framework on behalf of the Board. In addition to the Audit and Risk Board Committee, at 30 June 2018 the Board was 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.

Dame Annette King

Interim Chair

Former MP, Dame Annette King brings 30 years of governance, community and public health experience to EQC. During her time in Parliament, Dame Annette held several key Ministerial portfolios – Health, Transport, Justice, Police and State Services – and was a member of the Finance and Expenditure, Health, and Local Government and Environment Select Committees. Dame Annette continues as patron for a number of community organisations, a director for Watercare Services Auckland, and Chair for Life Flight Air Ambulance Wellington.

TERM ENDS:
31 October 2018

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. Before this she was Chief Financial Officer for IAG New Zealand, having joined the company in October 2006. Mary-Jane is Deputy Chair of Airways Corporation of New Zealand, and a director of Cigna Life Insurance New Zealand Limited, Auckland Transport and Kiwi Property Group Limited.

TERM ENDS:

29 February 2020

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 Chair, of the New Zealand Business Excellence Foundation, a not-for-profit body that helps New Zealand organisations 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. He served for many years as a director of the Board of the Insurance Council of New Zealand and served a term as President of the Council. Roger is also a strong advocate for animal welfare as a director, and Vice Chair, of SPCA Auckland.

TERM ENDED:

30 June 2018

Tim Hurdle

Commissioner

Tim Hurdle worked as Senior Ministerial Adviser to the Minister for Canterbury Earthquake Recovery from 2010 to 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.

TERM ENDS:

30 June 2019

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. He is currently Acting CFO for City Care Limited. He is also Chair of the Red Bus Company Limited and a director of Apex Environmental Limited.

Paul resigned from being a director of New Zealand Red Cross and a Trustee of the Red Cross Foundation during the financial year.

TERM ENDS:

29 February 2020

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.

TERMS ENDED:

30 June 2018

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. She has also held senior positions at Swiss Re, Mercer, and McKinsey & Co. Alison 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 a board member of the Government Superannuation Fund Authority.

TERMS ENDS:

30 June 2020

EXECUTIVE LEADERSHIP TEAM

Membership

Leadership team at 30 June 2018

Sid Miller, Chief Executive

Hugh Cowan, General Manager Resilience

Trish Keith, Chief Customer Officer

Jayne Lapin, General Manager People, Culture & Change

Jeremy Ford, General Counsel

Renee Walker, Government Relations and Strategic Partnerships

Paul Jepson, General Manager Technology

Chris Chainey, Chief Financial Officer

Heidi Barlow, General Manager of the Canterbury Business Unit

Function

The role of the ELT is to manage EQC's operations and lead EQC's staff. ELT does this by:

- providing advice to the EQC Board to assist them in exercising their duties;
- implementing the strategic direction set by the EQC Board;
- defining organisational and business strategies and policies;
- building organisational capability; and
- managing the organisation's performance.

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

OUR PEOPLE

Yearly overview

Our people are committed to supporting New Zealanders as they deal with the impacts of natural disasters.

Although the organisation was set up by the government in 1945, EQC has had its most concentrated growth in the last eight years in response to the Canterbury earthquakes, and has emerged as an entirely different entity as a result. With a new Chief Executive appointed in 2017, and a new Executive Leadership Team and Board Chair appointed in 2018, the organisation is in the process of reshaping and refocusing to better deliver claim outcomes through improved internal processes and culture, and strengthened external partnerships with local and central government, the insurance sector, media and communities.

In delivering this change and transformation, EQC has remained committed to being a Good Employer through good change management practice, utilising design thinking principles, and providing equal employment opportunities.

Wellbeing survey

The wellbeing and resilience of our people correlates directly with organisational engagement, retention, creativity and performance. At an individual level, it affects every aspect of our daily lives.

This year EQC commissioned an organisation-wide wellbeing assessment. The assessment provided data and evidence to inform the ongoing development of our staff wellbeing programme. The assessment involved staff completing a voluntary online survey that measured health and habits, non-work life challenges, work challenges, organisational climate and resilience. Each respondent received a personal individual report summarising their wellbeing profile, and resources to help strengthen their wellbeing in the specific areas identified in their results.

The survey was completed by 82 percent of staff, which is an exceptionally high response rate. The survey results provide statistically reliable data EQC can use to measure and monitor change over time as we implement wellbeing initiatives to address the results. The survey report and a number of recommendations for follow up were presented to ELT. An Action Plan is currently being developed to bring these to life as part of an ongoing comprehensive wellbeing programme.

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 to support a culture that enables people to thrive, ensures people are treated impartially and strives to instil inclusiveness in how we work.

2 EMPLOYEE DEVELOPMENT, PROMOTION AND EXIT

EQC has an annual professional development fund that all staff are encouraged to access.

3 RECRUITMENT, SELECTION AND INDUCTION

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

All new staff complete online training modules in health and safety and privacy.

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

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.

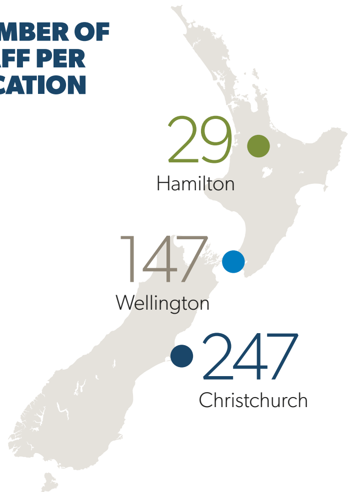
Our remuneration policy framework is reviewed every two years.

Statistics

TOTAL NUMBER OF STAFF
(employee information for 2017–2018 excludes contractors, temps and consultants)

423

NUMBER OF STAFF PER LOCATION



AGE RANGE – YEARS

Less than 20	20–34	35–49	50–64	65+	Unknown
0%	34%	39%	25%	2%	0%

GENDER MAKE-UP

	Female	Male
	211	212
Leadership Team	4	5
People Managers	32	38

- Asian **6%**
- European **19%**
- Māori **7%**
- Middle Eastern/Latin American/African **1%**
- NZ European **52%**
- Pacific Peoples **6%**
- Other **4%**
- Undisclosed **5%**

All numbers are as at 30 June 2018

5 HARASSMENT AND BULLYING PREVENTION

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

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

EQC refreshed 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, in addition to an initial training module.

Safe6 is a health and safety initiative that targets and mitigates the risks and incidence of unsafe practices most likely to contribute to injury or fatalities.

Wellness initiatives have supported personal resilience, with free influenza innoculations 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.

Building a better working world

Chartered Accountants

Independent Auditor's Report

To the Readers of the Earthquake Commission's Financial Statements and Performance Information for the year ended 30 June 2018

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 37 to 86, that comprise the statement of financial position as at 30 June 2018, 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 28 to 36.

In our opinion:

- the financial statements of the Commission on pages 37 to 86:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2018; 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 28 to 36:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2018, 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 2018. 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.

A member firm of Ernst & Young Global Limited

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

Emphasis of Matter – Effect of Crown guarantee 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 2018, 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 23, 27 and 87 to 88, 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 R 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 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, the annual financial statements and the statement of performance for the financial year ended 30 June 2018 fairly reflect the financial position and operations of EQC.

Signed on behalf of the Board:

Dame Annette King DNZM
Interim Board Chair
31 October 2018

Mary-Jane Daly
Deputy Chair
31 October 2018

STATEMENT OF PERFORMANCE

EQC's Statement of Performance includes EQC's standards of delivery achieved for each Output Class against the forecast standards set out in our Statement of Performance Expectations 2017–18.

For the 2017–18 financial year, EQC had four Output Classes, each of which had measures and targets that delivered on our then medium-term Key Result Areas and, in turn, fulfilled our Strategic Objectives to satisfy our Mission.

The four Output Classes are:

- Output One – Administration
- Output Two – Customer Services
- Output Three – Research
- Output Four – Education

While EQC's outputs are sorted into separate classes, they all focus on meeting one or more of our Strategic Objectives and, in some instances, performance in Output Classes cross-contributed.

Output Class One – Administration

The Administration Output Class covered EQC's activities and services to administer the Natural Disaster Fund (NDF)[2], collect premiums and obtain reinsurance. The objectives of the Output were to administer the NDF by:

- investing the fund conservatively and maintaining its liquidity to meet claims in the aftermath of the Canterbury earthquake sequence and 2016 Kaikōura earthquake;
- ensuring that premiums payable under the EQC Act are collected in accordance with the EQC Act; and
- obtaining appropriate reinsurance cover.

In 2010, before the Canterbury and Kaikōura earthquakes, the NDF had over $6.1 billion in accumulated funds. The available cash balance as at 30 June 2018 is $181 million.

To help rebuild the NDF following the Canterbury and Kaikōura earthquakes, premiums increased effective from 1 November 2017 from a maximum of $207 to a maximum of $276 (including GST) per year for home and contents insurance. This should allow EQC to rebuild the NDF to the reinsurance deductible in approximately 10 years, assuming (among other things) that there are no further large natural disasters.

During the 2017–18 financial year, renewal of EQC's reinsurance programme (for the year 1 June 2018 to 31 May 2019) was achieved in line with the Board's mandate. The reinsurance market responded favourably to EQC's placement with all layers fully subscribed, and with additional capacity being obtained for a new top layer. This resulted in $5.55 billion of capacity placed, up from $4.83 billion purchased in 2016–2017 (for the year 1 June 2017 to 31 May 2018). This additional capacity was purchased to protect the Crown balance sheet by offsetting the low balance in the NDF.

Why are we measuring this Output Class?

This Administration Output Class directly supports and is aligned to EQC's obligations under the EQC Act, the Crown Entities Act 2004, and a Ministerial Direction.

Achieving targets in this output class enabled us to realise relevant key result areas that were set up at the beginning of the year, for example, that *"EQC underpins an efficient insurance market in NZ"*. This KRA contributed to EQC's Strategic Objective of ensuring *"New Zealanders have access to natural hazard insurance and reinsurance"* and, in turn, helped us to realise our Mission *"To reduce the impact on people and property when natural disasters occur"*.

2 Money in the NDF is paid out for (among other things) claims settlements for physical loss or damage (to property with home and/or contents insurance) occurring as the direct result of natural disasters.

What was achieved?

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
Invest in, and Administer the Natural Disaster Fund				
Return = 1.36% Benchmark = 1.71%	Annual investment portfolio performance in relation to 90 day bank bill rate	Average rate of return exceeds NZX 90 day bank bill rate less 25 basis points (per annum)	Return = 2.11% Benchmark = 1.71%	Achieved
New measure in 2017-18	Premiums collected meet the Board agreed budget	Quarterly premium collection meets budget amount +/- 2.5% of forecast	Variance 8.3%	The annual premium collection exceeds the 2017-18 forecast. This is the result of a premium increase effective from 1 November 2017.
100% (no violations)	Fund Administration is completed in accordance with the SIPSP[3] and Ministerial Direction	100% of SIPSP objectives are met	One minor non-compliance	A non-compliance occurred in August 2017. The non-compliance was reported immediately and corrective action taken. There was no financial impact on the NDF.
Not applicable		100% of SIPSP variations are duly authorised	Achieved	An updated SIPSP variation with minor changes was approved during the 2017-18 financial year.
Obtaining reinsurance				
Achieved	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 set by the Board	Achieved[4]	This is a two part response. The 2017-18 reinsurance, purchased in 2016-17, performed as expected during the 2017-18 financial year. During the 2017-18 financial year, reinsurance purchased for 2018-19 was signed off by the EQC Board on 1 May 2018.[5]
Achieved		Nationwide coverage obtained for all natural disaster perils covered under the EQC Act	Achieved	All aspects of this target were achieved by the procurement of appropriate reinsurance.

Revenue and expenses associated with Output Class One

COSTS ASSOCIATED WITH OUTPUT CLASS ONE	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Administration	$309.5 million	$177.6 million	$285.9 million	$174.1 million

3 Statement of Investment Policies, Standards and Procedures.
4 While the reinsurance purchased in May 2018 was not in the original 2017–18 budget, the Board approved the additional reinsurance expenditure ahead of the purchase.
5 While not in the original budget, the Board approved the additional reinsurance capacity for 2018–19, which was on favourable terms and provides the Crown with better protection in the event of a major loss.

Output Class Two – Customer Services

The Customer Services Output Class covers EQC's activities for the settlement of claims for natural disaster damage through the EQC insurance scheme.

The volume of claims can vary greatly each year depending on events and the damage sustained as a result. How EQC manages these, both in terms of efficiency of claims handling processes and systems, and the manner in which customer claims are handled by EQC, has a significant impact on customers' experience and perception of EQC. We are continually looking for new ways to do things better, as evidenced by our working with the private insurers to progress claims following the Kaikōura earthquake in November 2016.

EQC's key priorities for Customer Services during 2017-18 were:

- improving the customer experience and journey through the claims settlement process and customer communication;
- safely repairing of damaged residential properties; and
- learning from engagement with private insurers to improve future outcomes.

We progressed this through delivery on our output objectives, which were to:

- calculate and resolve claims correctly, and according to the EQC Act;
- progress all event claims within agreed targets;
- respond appropriately to customers and stakeholders; and
- complete EQC's Canterbury response (remedial work, drainage, land), EQC's Kaikōura response working with private insurers (land, residential buildings, contents), and responses to a number of smaller events.

Over the 2017-18 financial year, the settling of claims has focussed on those outstanding from the Canterbury series of events, Kaikōura and several weather related events

The work undertaken in this regard is discussed in more depth earlier in the Annual Report please refer to pages 7-8.

Why are we measuring this output class?

EQC's Mission is *"To reduce the impact on people and property when natural disasters occur"*. When lodging a claim with EQC, the customer will often be facing distressing times. Therefore, EQC endeavours to deliver customer service in a fair, transparent and timely way. This output class measures and monitors our engagement with the customer and their satisfaction, which helps us to achieve our key result areas, including *"EQC has an operating model that makes us easy to do business with"*. Success against targets in this output class demonstrates that we have provided a service to our customers that has contributed to our strategic objective of *"Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner"*. Achievement in this output class also moves us a step closer to achieving our Mission.

What was achieved?

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
Claims are settled in accordance with the EQC Act and other relevant legislation				
99%[6]	Customers are paid within one year of the damage being duly determined in accordance with the Act	100%	Not Achieved	98.3% of all claims (excluding the Canterbury 2010–11 and Kaikōura earthquakes) have been paid within one year of the damage being duly determined. As at 30 June 2018, 59% of reopened Canterbury 2010–2011 earthquake sequence claims have been settled within one year[7] (a number of reopened claims are complex and are still being settled). For the Kaikōura event, 99% of the EQC-managed Kaikōura claims have been settled within one year of damage being duly determined. This information is not available for insurer-managed claims.

6 The result excludes Canterbury earthquake series and Kaikōura earthquakes.
7 For those settled in 2017-18.

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
EQC is easy to do business with (claims handling)				
55%	All Events: Customer satisfaction[8] with the overall quality of service from EQC	60% of customers[9] report satisfaction with the overall quality of service from EQC	49%	Acknowledging that customer satisfaction has declined year on year, EQC has started implementing a more customer-centred operating model that includes case management across events, including the Canterbury response.
47%	All Events: Customers who report they were kept well informed throughout the claim settlement process	75% of customers[10] consider that they were kept well informed throughout the claim settlement process	38%	The customer-centred operating model includes much improved interaction and communication with customers.
New measure in 2017-18	Kaikōura: Positive customer satisfaction rating for the overall Kaikōura event	75% of customers are satisfied	71%	This was not achieved. The model implemented for Kaikōura resulted in higher overall[11] satisfaction than seen in previous events.
Effective management of claims handling expenses				
New measure in 2017-18	Financial performance for all events for which a Claims Handling Expense budget has been approved	Within 10% of the 2017-18 financial year Board approved budget for: • Canterbury; • Kaikōura; and • all other events	0 of 5 events achieved	This was not achieved. In part this was due to timing; however, the final stages of events have regularly taken longer to complete than originally budgeted. EQC will be working to budget more accurately for future events.
Canterbury 2010 and 2011 earthquake remedial claims				
New measure in 2017-18	Canterbury: All remedial claims (including sub-floor repairs) as at February 2017 are settled by 31 December 2017	100%	86%	This was not achieved. The majority of claims open at February 2017; however, were settled by the target date of December 2017, however, this was not possible in all cases.
EQC maintains a safe working environment				
2.1[12]	A safety-focused environment for the settlement of claims is implemented	No more than 5.5 injuries per million hours worked, with incidents closed within 10 days	4.7 injuries per million hours worked	40% of EQC staff incidents are closed within 10 days. Those that do not meet this timeframe are typically awaiting third party info/consultation to complete, eg. Ergonomic Assessments.

Revenue and expenses associated with Output Class Two

COSTS ASSOCIATED WITH OUTPUT CLASS TWO	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Customer Services	Nil	$32.3 million	Nil	$32.7 million

8 Quarterly telephone survey conducted by external research for EQC comprising 350 respondents from a randomly selected sample of about 1000 customers per month who have had their claim settled in that month. The results are aggregated quarterly. "Satisfaction" means response of 4 or 5 to the question: "Using a 1–5 scale where 5 means very satisfied and 1 means very dissatisfied, how satisfied were you with the overall quality of service delivery from EQC?".

9 This measure does not include Kaikōura customers with insurer-managed claims.

10 This measure does not include Kaikōura customers with insurer-managed claims.

11 Includes both EQC and insurer-managed claims.

12 For 2016–17 the result represented only 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. The target was slightly higher at *"no more than six injuries per million hours worked"*.

Output Class Three – Research

EQC funded research (which also includes education in conjunction with Output Class Four) contributes to improved understanding of New Zealand's geologically active environment. This coupled with a focus on risk reduction and resilience enables better management of natural disaster risk. Output Class Three covers EQC's activities to facilitate research and education (collectively "Research").

In relation to enhancing the understanding of natural disaster risk, including the reduction and prevention and insurance coverage of the perils in the Act, the objectives for this output class are to:

- fund high-quality and publicly available research and natural hazard information projects;
- disseminate EQC funded and facilitated research and natural hazard information; and
- fund and facilitate the application of research into natural hazard management policy and practice.

During the 2017–18 financial year, EQC developed a resilience strategy that will be approved and implemented in the new financial year.

The EQC Board signed off on a Loss Modelling business case, which is a multi-year programme to enhance EQC and New Zealand's ability to model the impacts of natural disasters.

A GeoNet governance review work programme in conjunction with GNS Science and the Ministry of Business, Innovation and Employment commenced during 2017–18 to look at the future governing strategy of GeoNet.

EQC funds $16 million of research annually to reduce the impact of natural disasters on people and property. Just over $12 million of this goes towards New Zealand's natural hazard monitoring system, GeoNet, which provides publicly available, real-time data. The rest is allocated across:

- teaching positions at New Zealand universities;
- grants;
- awards for research, such as a study into how far a volcanic surge is likely to travel which will help Auckland's emergency managers be more effective in managing evacuation;
- support to regional projects (such as It's Our Fault and DeVORA); and
- sponsorships.

EQC supported the development of new knowledge with two grants programmes – one for experienced as well as emerging researchers and the other for promising post-graduate students. Since 1989 we have supported almost 300 research projects and over 100 post-graduate students with our grants. Every two years, EQC's Biennial Grants programme invites experienced and emerging researchers to submit proposals for public good research (available for public use).

Why are we measuring this Output Class?

In the EQC Act, one of our functions is *"to facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act"*. For the 2017–18 year, one of our strategic objectives was *"EQC is a leader in New Zealand on natural hazard risk reduction, and delivering improved national resilience to natural hazards"*. By supporting research and enhancing our and New Zealand's understanding of natural disaster risk, reduction and prevention, we come closer to achieving our Mission.

What was achieved?

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
Fund high-quality natural hazard research and information projects				
New measure in 2017–18	Continued support of investigator-led research to encourage emerging talent and new ideas	At least 20% of research grants and sponsorships awarded to investigator-led research	63%	63% of current research grants and sponsorships have been awarded to researchers who have an investigator-defined research objective in an area that is relevant to EQC research strategy objectives.
100%	Biennial grants, university grants, post-graduate student awards and capability grants achieve key research objectives	90% of current grants on track to meeting key research objectives	100%	Of 58 current grants, all are on track to meeting key research objectives as outlined in the research proposal or contract
100%		95% of completed grants meet key research objectives	100%	Of 10 completed grants, all met key research objectives as outlined in the research proposal or contract
81%	High quality research standard is maintained through a peer review process for completed research reports	95% of research reports within one year after completion have undergone third-party peer review	94%	15 of 16 research reports have undergone independent third party peer review within one year of completion to confirm the level of quality.[13]
Achieved	GeoNet achieves all contracted objectives	All objectives met or on track to be met	Achieved	GeoNet is on track to meet all contracted objectives
Disseminate EQC funded and facilitated research and natural hazard information				
100% (55 reports published)	Funded reports are published / presented in sector print media and/or presented at conferences or stakeholder workshops	90% of completed research reports published or presented in 2017–18	100%	All 17 completed research reports were published or presented in 2017–18
New measure in 2017–18	Number of requests and enquiries for access to EQC's publicly available collections.[14]	50 per year	542	This target was originally for non-electronically available proposal and information requests. Subsequently, the collection has been made available online and the performance number reflects both manual requests and electronic downloads.
New measure in 2017–18	The Research Investment Monitoring and Evaluation Framework demonstrates EQC's ability to capture the impact of Hazard Risk Management (HRM) through medium- to long-term progress	The Framework targets for six monthly measurement are agreed in 2017–18 for 2018–19 implementation	Not agreed in 2017-18	This is a one-off measure to track the development of the Resilience Programme Monitoring and Evaluation Framework. While this framework was not signed off during the 2017–18 financial year, it is being reviewed.

13 Publication of the research outputs in a journal article is appropriate as a third-party peer review.

14 Grant recipients under our programmes for public good research are required to provide a final report and abstracts on completion. These are listed on EQC's website and are publicly available to interested parties on request.

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
Fund and facilitate the application of research into natural hazard management policy and practice				
New measure in 2017–18	Continued use of EQC's expertise or resources in national or regional HRM policy, planning or co-ordinating forums etc.	Evidence that EQC people and resources are engaging in all relevant areas of HRM policy, planning and coordinating activities	Achieved	Many EQC staff and resources are engaged in some element of hazard risk management in relevant areas.[15] For example, EQC invests in research and education about natural hazards and their application leads to improved monitoring assessment and risk reduction.[16]
New measure in 2017–18	Industry and local government partnership projects to improve natural hazard management capacity and capability meet key contracted project objectives	90% of current projects on track to meeting key research objectives; 95% of completed projects met key objectives	100%	All current projects on track to meet key research objectives. There were no industry or local government partnership projects due for completion during the 2017–18 financial year.
New measure in 2017–18	Minerva loss modelling tool incorporates robust up-to-date earthquake science to inform claims and loss forecasting capabilities for New Zealand	90% of relevant reinsurer and research stakeholders report they are satisfied with Minerva development or outputs	Unmeasured for 2017–18	In 2017–18, EQC has confirmed its commitment to loss modelling and agreed significant investment in loss modelling capabilities.

Revenue and expenses associated with Output Class Three

COSTS ASSOCIATED WITH OUTPUT CLASS THREE	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Research	Nil	$23.7 million	Nil	$21.8 million

15 Central Government Policy, Local Government Policy, Engineering Planning Practice, Research.
16 Measured through emails, meeting documents, calendar invites, reports.

Output Class Four – Education

While the key responsibility for being prepared in the event of natural disasters lies with homeowners, they need information and guidance on the most effective and prudent measures that will mitigate the risk of damage and physical harm. They also need to know what to expect from EQC should a natural disaster event causing damage occur.

EQC educates the New Zealand public on ways to reduce and prevent natural disaster damage and encourages them to take action to prepare for events through delivery of the objectives for this output class, which are to:

- increase public awareness of, and provide education about earthquake safety and natural hazard mitigation measures; and
- improve homeowners' understanding of EQC's role should they experience natural disaster damage.

The Be Prepared section of the website has also been developed this year, to target specific audiences with information about making their homes and rental properties more resilient. This work has gone beyond the "Fix. Fasten. Don't Forget." "how to", to encompass significant changes people can make to their properties. We successfully involved councils, agencies, ICNZ, real estate and legal governing bodies and building industry associations in the review of this work to ensure its accuracy and consistency, all with the aim of giving New Zealanders clear direction towards resilience. The EQC communications team coordinated with the ICNZ to identify common issues and liaise on media releases.

Output Class Four works closely with the results and programmes delivered by Output Class Three.

Why are we measuring this Output Class?

An important part of EQC's function is its public education programme, which includes sponsorship of exhibitions and events at museums and natural history centres; schools' programmes; publications; and web information. The purpose of our public education programme is to:

- raise homeowners' awareness of the natural disaster risks in their region, and
- show homeowners practical things they can do to make their homes safer and prevent damage if there is a natural disaster.

As EQC works with more partners, knowledge will be disseminated more broadly, giving New Zealanders a better chance to receive our messages. The more awareness they gain, the better prepared they are for natural disasters. This fulfils our Mission *"to reduce the impact on people and property when natural disasters occur"*.

Output Class Four focuses on preparedness and, therefore, contributes to the 2017–18 strategic objective *"EQC is a leader in New Zealand on natural hazard risk reduction, delivering improved national resilience to natural hazards"*. The more aware and educated the public is, the better we can achieve our Mission.

What was achieved?

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
EQC works with partners to extend the reach of its messages relating to how homeowners can prepare their homes against natural hazards				
New measure in 2017–18	EQC works with strategic partners, including all territorial authorities, to extend the reach of home preparedness messages	3.3 million New Zealanders are exposed to EQC's messaging	Achieved	EQC uses a range of media channels to connect with all New Zealanders, such as: news media, digital advertising, website page viewers, radio, television, internet etc., and direct mail (brochures delivered to homes).
New measure in 2017–18		EQC supports strategic partners to promote home preparedness.[17]	Achieved	'Earthquake Encounters' learning programme and ShakerMod (free module download for Minecraft) were both officially launched with events at Te Papa. EQC will partner with the Ministry of Civil Defence and Emergency Management to deliver the initiative ShakeOut 2018 Schools Challenge.[18]

17 This includes museum sponsorships to increase knowledge of natural hazards and encourage families to prepare their homes against damage from natural hazards, research that leads to improved home resilience, and other initiatives such as the Wellington City Council's Resilient Homes project.

18 The focus is on reaching 150,000 school children and their families and providing them with educational tools for being prepared for natural disasters.

PERFORMANCE 2016–17	PERFORMANCE MEASURE 2017–18	TARGET 2017–18	ACTUAL PERFORMANCE 2017–18	COMMENT
New measure in 2017–18	EQC works with ICNZ to ensure homeowners better understand the importance of home and content insurance	New Zealand's penetration rates for house insurance are at 98% or greater	98%	From three surveys of 1,000 New Zealanders over 18 years of age conducted by UMR Research on behalf of the ICNZ during the financial year, an average of 98% respondents confirmed they had house insurance.
New measure in 2017–18		New Zealand's penetration rates for contents insurance are at 78% or greater	82%	From three surveys of 1,000 New Zealanders over 18 years of age conducted by UMR Research on behalf of the ICNZ during the financial year, an average of 82% respondents confirmed they had contents insurance.
Educate New Zealanders to take action to prepare for natural hazards				
New measure in 2017–18	The "Fix. Fasten. Don't Forget." programme extends to cover home preparedness for all natural hazards, covered by EQC	New information live by December 2017	Achieved	New "Fix. Fasten. Don't Forget." content for homeowners, home buyers and tenants published on the Be Prepared section of eqc.govt.nz, within timeframe.
New measure in 2017–18	New Zealanders take action to prepare their homes for natural hazards	Greater than 40%	45% averaged over the year	An average of 45% of New Zealanders have indicated, via Nielson Survey, that they are taking action to prepare their homes for natural hazards.
Support New Zealanders when a natural hazard event has occurred				
New measure in 2017–18	After an event, homeowners know how EQC can help and what to do to lodge a claim	EQC provides information using mainstream, paid and social media to reach 90% of homeowners in event area	Unmeasured for 2017–18	Responding to events this year went to plan and seems to have been successful. However, we cannot confirm 90% success due to lack of available council data on specific numbers of homeowners in affected areas.
New measure in 2017–18		Relevant government agencies, local authorities and NGOs have EQC event-specific information to share with their stakeholders	Achieved	EQC worked with councils to remind them of our role and what damage we cover. We tailored our communication to line up with their event communications (eg. using social media). We supported local communities following events by sharing information about where claims could also be lodged or discussed. (eg. following Thames/ Kaiaua and ex-cyclone Gita events).

Revenue and expenses associated with Output Class Four

COSTS ASSOCIATED WITH OUTPUT CLASS FOUR	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Education	Nil	$2.2 million	Nil	$2.9 million

FINANCIAL INFORMATION

Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
EARNED PREMIUMS				
Gross earned premiums	3	309,479	285,856	283,215
Outward reinsurance premium expense		(167,534)	(164,120)	(163,590)
Net earned premium revenue		**141,945**	**121,736**	**119,625**
UNDERWRITING MOVEMENTS				
Reinsurance and other recoveries/(reductions)	5	82,890	1,447	(216,319)
Claims (expense)/reduction	6	(398,749)	89,533	(149,727)
Unexpired risk liability reduction/(increase)	18	52,200	102,515	(18,455)
Total underwriting movements		**(263,659)**	**193,495**	**(384,501)**
(DEFICIT)/SURPLUS FROM INSURANCE ACTIVITIES		**(121,714)**	**315,231**	**(264,876)**
OTHER OPERATING REVENUE				
Other revenue	4	11	–	136
OTHER OPERATING EXPENSE				
Catastrophe response programme	7	(32,336)	(32,715)	(29,801)
Public education	7	(2,240)	(2,902)	(3,036)
Research (excluding GeoNet)	7	(10,024)	(9,719)	(10,257)
GeoNet programme	7	(13,730)	(12,033)	(12,745)
Total operating expense		**(58,319)**	**(57,369)**	**(55,703)**
INVESTMENT ACTIVITIES				
Investment revenue	9	4,202	–	3,771
Investment costs	7	(77)	–	(129)
Interest on cash balances		6,877	–	13,056
Revenue from investment activities		**11,002**	**–**	**16,698**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
NET (DEFICIT)/SURPLUS AND TOTAL COMPREHENSIVE (EXPENSE)/REVENUE FOR THE YEAR		**(179,031)**	**247,862**	**(313,881)**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July		(2,270,470)	(2,363,474)	(1,956,589)
Net (deficit)/surplus and total comprehensive (expense)/revenue for the year		(179,031)	247,862	(313,881)
Closing balance at 30 June		**(2,449,501)**	**(2,115,612)**	**(2,270,470)**
CLOSING BALANCE AS AT 30 JUNE		**(949,501)**	**(615,612)**	**(770,470)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2018

	NOTE	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings		(2,449,501)	(2,115,612)	(2,270,470)
Total equity		**(949,501)**	**(615,612)**	**(770,470)**
ASSETS				
Bank		181,354	–	483,687
Premiums receivable		76,164	54,843	55,338
Outstanding reinsurance and other recoveries	5	226,677	9,754	206,988
GST receivable		15,018	7,040	8,901
Prepayments		1,832	2,271	1,402
Outward reinsurance expense asset		30,239	27,184	27,645
Investments	12	–	–	343,371
Property, plant and equipment	13	12,537	14,991	14,323
Intangible assets	14	12,748	31,761	14,063
Total assets		**556,569**	**147,844**	**1,155,718**
LIABILITIES				
Bank		–	(456,103)	–
Trade and other payables	15	(51,736)	(11,954)	(71,762)
Provisions	16	(1,758)	(400)	(1,880)
Outstanding claims liability	2	(1,218,215)	(143,931)	(1,614,019)
Unearned premium liability	17	(197,341)	(151,068)	(149,307)
Unexpired risk liability	18	(37,020)	–	(89,220)
Total liabilities		**(1,506,070)**	**(763,456)**	**(1,926,188)**
NET LIABILITIES*		**(949,501)**	**(615,612)**	**(770,470)**

*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 2018

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest	6,877	–	13,056
Premiums	336,687	285,313	285,055
Reinsurance and other recoveries	63,201	176,737	111,238
Other income	11	–	136
Net GST	–	37,500	–
Net tax on reinsurance	117	–	441
Cash was applied to:			
Outward reinsurance	(170,128)	(164,120)	(164,051)
Crown underwriting fee	(10,000)	(10,000)	(10,000)
Claims settlements and handling costs	(815,631)	(1,165,180)	(760,257)
Employees and other operating expenses	(36,593)	(36,248)	(37,449)
GeoNet operating expenses	(9,657)	(9,043)	(9,386)
Research grants	(3,800)	(5,873)	(3,600)
Net GST	(6,117)	–	(984)
Net cash outflow from operating activities	**(645,033)**	**(890,914)**	**(575,801)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of investments	342,080	–	836,653
Interest on investments	5,493	–	24,804
Sale of property, plant and equipment	149	–	941
Cash was applied to:			
Purchase of investments	–	–	(342,000)
Purchase of property, plant and equipment	(2,051)	(3,225)	(3,072)
Purchase of intangibles	(2,971)	(10,162)	(6,754)
Net cash inflow/(outflow) from investing activities	**342,700**	**(13,387)**	**510,572**
Net (decrease) in cash	**(302,333)**	**(904,301)**	**(65,229)**
Add opening cash brought forward	483,687	448,198	548,916
CASH CLOSING POSITION	**181,354**	**(456,103)**	**483,687**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

Reconciliation of Operating Surplus to Net Cash Flow from Operating Activities

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Net(deficit)/surplus	**(179,031)**	**247,862**	**(313,881)**
Add non-cash items:			
Depreciation and amortisation	7,975	7,004	7,007
Total non-cash items	**7,975**	**7,004**	**7,007**
Less items classified as investing activities:			
Interest income and gains on investments	(4,202)	–	(3,771)
Gain/(loss) on disposal of property, plant and equipment	(1)	–	3
Total items classified as investing activities	**(4,203)**	**–**	**(3,768)**
Add/(less) movements in Statement of Financial Position items:			
Premiums receivable	(20,826)	(543)	(1,872)
Outstanding reinsurance and other recoveries	(19,689)	175,290	327,557
GST (receivables)/payables	(6,117)	37,500	(984)
Prepayments	(430)	–	410
Outward reinsurance expense asset	(2,594)	–	(461)
Trade and other payables	(20,026)	(8,800)	43,738
Provisions	(122)	(654)	(1,267)
Outstanding claims liability	(395,804)	(1,247,553)	(654,447)
Unearned premium liability	48,034	1,495	3,712
Unexpired risk liability	(52,200)	(102,515)	18,455
Net movements in working capital items	**(469,774)**	**(1,145,780)**	**(265,159)**
Net cash outflow from operating activities	**(645,033)**	**(890,914)**	**(575,801)**

The accompanying notes form part of these financial statements.

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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 insurance against natural disaster damage as provided for under the EQC Act, facilitate research and education about matters relevant to natural disaster damage, and 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 2018. These accounts were approved by the Board on 31 October 2018.

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 2018. 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 regularly reviewed. 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. 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.

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 surplus or deficit 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.

Accrued annual leave has been reclassified from trade and other payables to provisions for the 30 June 2018 unaudited budget and 30 June 2017 actuals.

Due to commercial sensitivity, the 2017 Commitment for Reinsurance Contracts has been adjusted to remove the brokerage fee portion of the cost.

Budgets

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the Commission's 2017–18 Statement of Performance Expectations (SPE).

Standards issued not yet effective and not early adopted

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the Commission are:

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9 Financial Instruments. This replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses; and
- revised hedge accounting requirements to better reflect the management of risks.

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. This is not expected to have a significant impact on the Commission.

Insurance contracts

In August 2017, the External Reporting Board issued NZ IFRS 17 Insurance Contracts. This replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Currently there is no equivalent PBE standard; however, it is understood that the External Reporting Board will be considering the applicability for PBEs. The Commission has not yet assessed the effects of the new standard.

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 for 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) and the Treasury.

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. This may be reflected in the actuaries producing estimates that are naturally conservative. As time progresses the Commission and the actuaries gather greater levels of information about an event. This information in the Commission's case has included, for example, the actual settlement of customer claims as per their entitlement under the EQC Act, court judgments and policy decisions. The actuaries can then use this additional information to refine their estimates, which will potentially increase/decrease the estimate of the overall cost of an event. 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 2018 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 2018. 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 for the outstanding claims liability for the financial years from 30 June 2011 to 30 June 2017.

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 2018. 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, Kaikōura 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, incurred but not reported (IBNR), incurred but not enough reported (IBNER) and claims handling costs.

The outstanding claims liability, comprising all unpaid claims and claims handling expenses related to claims incurred prior to the end of the reporting period, is valued in accordance with the Professional Standard No.30 (Valuations of General Insurance Claims) of the New Zealand Society of Actuaries and PBE IFRS 4 – Insurance Contracts.

The risk margin associated with an event decreases 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 notified 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 for each event of $20,000 for personal property and $100,000 for dwellings plus GST. 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 $1,218 million as at 30 June 2018 (2017: $1,614 million) as the Commission has continued to settle claims predominantly relating to the 2016 Kaikōura earthquake and the 2010–11 Canterbury earthquake sequence. Cash spent on claims settlement and handling costs was $816 million in the 2018 financial year; an increase of approximately $56 million on the 2017 financial year. The effect of the settlement of claims was somewhat offset by the following factors that have materially impacted upon the movement in outstanding claims liability:

- for reopened claims for the 2010–11 Canterbury Earthquake sequence, the number of claims received since December 2016 has been within previous estimations. However, the average cost of these claims has been above that initially estimated. In addition to this it had previously been assumed the flow of reopened claims would cease around December 2018. This assumption has been updated to reflect a reducing inflow through to June 2020; and
- as a consequence of the future expected inflow, the Commission has been required to reassess the resources required to settle the outstanding claims. This has resulted in a revised claims handling expenses forecast for the Canterbury event response.

A number of uncertainties are associated with the outstanding Canterbury and Kaikōura claims (which are discussed later in this note). 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 54.0% in 2018, up from 41.7% in 2017. In absolute terms the 2018 risk margin is $352 million (2017: $416 million). The size of the risk margin relative to the net outstanding claims liability has increased because of there being an increasing proportion of the remaining outstanding claims liability that relates to certain activities. Specifically, finalising settlement amounts owed to and from private insurers and remaining complex land claims are of a material nature and have a wide range of potential outcomes associated with them, hence attract a high risk margin. The risk margin in 2018 continues to be determined based on an 85% (2017: 85%) probability of adequacy based on the uncertainty, scale and financial impact of the outstanding claims liability.

Progress with the November 2016 Kaikōura Earthquake

For the 2016 Kaikōura earthquake, the Commission signed a Memorandum of Understanding with a number of private insurers to manage the majority of the Commission's dwelling and contents claims on its behalf. The Commission reimburses the insurers for the claims settlement (which is made in accordance with the EQC Act) and the insurers' respective handling costs. The Commission manages any land exposures or claims relating to properties that already had an open claim from a previous event, for example the Canterbury 2010–11 earthquake sequence.

In 2017 the Commission indicated that the approach to the event and the speed at which it was implemented had resulted in some initial limitations to the data available to the actuaries to model the estimated cost. These limitations to the available data had added a level of uncertainty to the liability valuation. The uncertainty has reduced during the 2018 financial year as the Commission has made significant reimbursements to the private insurers, albeit data challenges remain relating to the remaining outstanding claims. Numbers quoted in relation to the earthquake event represent both the change to the outstanding claims liability and the impact on surplus and deficit and net liabilities. This is because the cost of the event is below the Commission's reinsurance deductible, hence there are no reinsurance receipts.

The central estimate ultimate cost of the earthquake is $616 million, an increase of $72 million compared to 30 June 2017. The primary drivers of the increase are:

- a $40 million increase in the building liability estimate primarily driven by higher average costs of settlement than expected in areas suffering low levels of shaking; and
- a $39 million increase in anticipated claims handling expenses as further information became available on the costs of private insurers' responses to managing the Commission's claims.

To date payments of $516 million (including Claims Handling Expenses) have been made, leaving an outstanding central estimate claims expense of $100 million. A $40 million risk margin is also associated with the event as at 30 June 2018.

As the event response has progressed and with 98% of all claims settled at 30 June 2018, the Commission and the private insurers have experienced approximately 2.5% of claims being reopened. Some level of reopened claims is inevitable for reasons such as further damage being identified through the undertaking of repair work. Within the actuarial valuation an overall reopened rate of approximately 7% has been allowed (there was no allowance at 30 June 2017), providing a provision of $28 million. It is highly likely that the actual reopened rate will vary from this assumption and, as an example, if the reopened rate was to be half of that assumed, this would result in a $14 million reduction to the outstanding claims liability. Alternatively, a doubling of the reopened rate would generate a $28 million increase in the outstanding claims liability.

Changes in the 2010–11 Canterbury Earthquake Sequence Liability

During the 2018 financial year the Commission continued to settle thousands of reopened claims and materially finalised its payment to Land Information New Zealand (LINZ) in respect of the Red Zone land liability. Despite this, there still remains a 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 relating to Increased Liquefaction Vulnerability land settlements;
- the continuing level of reopened claims, both for repairs under the Canterbury Home Repair Programme and cash settlements; and
- the need to reach an agreed financial settlement position with insurers and reinsurers as the Commission seeks to finalise its liability.

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 that includes any impact on reinsurance receipts and reflects the impact on the surplus and deficit and net liabilities.

The central estimate of the gross ultimate cost of the Canterbury 2010–11 earthquake sequence increased by $311 million to $11,044 million in the 2018 financial year. This was driven by a $301 million increase in the estimated total buildings claims costs and a $113 million increase in claims handling expenses. It is offset by a reduction of $97 million in the estimated total land claims costs and a reduction in the contents claims costs of $6 million. As a result of this overall increase in the expected claims cost, expected reinsurance recoveries have increased by $83 million.

The total associated risk margin for the Canterbury 2010–11 earthquake sequence has increased by $5 million to $300 million ($295 million at 30 June 2017). As a proportion of the net claims liability (after reinsurance and discounting) this is 57.2% in 2018, which is in line with the level seen in 2017 (55.8%).

Canterbury Buildings Claims Liability

The Commission's activities in recent financial years in regards to Canterbury building claims has predominantly focussed on addressing reopened claims that either initially received a repair through the Canterbury Home Repair Programme (CHRP) or a cash settlement directly from the Commission. A claim may be reopened for investigation for a number of reasons, including missed damage, poor workmanship, faulty or inappropriate materials, or inappropriate or poorly lasting repairs.

During the 2018 financial year the Commission has increased the expected total central estimate ultimate expense for building claims by $301 million. The net increase after reinsurance is $212 million.

This increase primarily reflects a strengthening of the future liability in relation to reopened claims driven by:

- the average cost experienced to resolve a reopened claim has been higher than that previously assumed; and
- a revised assumption for the duration for which the Commission will receive reopened claims.

The buildings model used in the actuarial valuation as at 30 June 2018 effectively has three elements: current reopened claims, expected future inflow of reopened claims and insurer finalisation. Each of these elements is discussed in greater detail below, including the key assumptions and sensitivities associated with them.

Current Reopened Claims

At 30 June 2018, the Commission had approximately 4,400 reopened claims outstanding that were either being directly managed by the Commission's claims team, or were within litigation or being managed by Southern Response under a Memorandum of Understanding (MoU) agreed in May 2017. Based on experience to date, the Commission estimates that approximately 70% of these will result in a further monetary payment (ie. the customer will receive an additional settlement either through repair or cash settlement) and 30% will require no further payment. Settlement payment experience to date and consideration of the complexity of the claims outstanding has allowed assumptions to be made for the likely average settlement cost for these non-nil payments. Overall this results in an outstanding claims liability of $180 million as at 30 June 2018.

Future Inflow of Reopened Claims

Since December 2016, over 8,000 claims have been reopened, on average requiring a further settlement at around $25,000. The Commission had previously assumed a higher number of claims reopening although it was expected that the rate of reopening would reduce by the end of the 2018 calendar year.

The assumption in the 30 June 2018 valuation is that the reopening of claims continues, but at a diminishing rate until June 2020. This equates to approximately 7,400 additional claims after 30 June 2018. It is estimated that approximately two-thirds of these will result in a further payment, of which a proportion are likely to become overcap claims following further assessment or entering litigation. This results in a gross outstanding liability of $213 million for future reopened claims at 30 June 2018. Of this, $137 million relates to reopened claims post December 2018.

It is possible that as time progresses actual experience will differ from that assumed. Two ways in which this could occur are:

- the time period over which reopened claims are received is either shorter or longer (resulting in fewer or more claims). If this period was to shorten to 18 months (instead of to 24 to June 2020), a $43 million reduction to the gross outstanding claims liability would result ($27 million on a net after reinsurance basis). Alternatively, if the receipt of reopened claims was to continue to December 2020, a $44 million increase to the gross outstanding claims liability would result ($28 million on a net after reinsurance basis).
- the proportion of reopened claims that require a non-nil payment may deviate from experience to date, ie. a higher or lower proportion of reopened claims require a further payment. If the proportion that required a payment was to increase by 10%, a $28 million increase to the gross outstanding claims liability would result ($18 million on a net after reinsurance basis). Consequently, if the proportion was to reduce by 10%, a $28 million reduction to the gross outstanding claims liability would result ($18 million on a net after reinsurance basis).

Insurer Finalisation

During 2018 the Commission's primary focus has remained on resolving customer issues, some progress has been made during the 2018 financial year with private insurers to determining final liabilities for Canterbury claims. Reflecting this, the Commission has retained the estimated provision and consequently the associated sensitivities at the same level as at 30 June 2017. Discussions with private insurers will continue in the 2019 financial year and these should help add certainty to any estimate of further liability, which is highly uncertain at 30 June 2018. 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).

Canterbury Claims Handling Expenses Liability

In working to resolve the outstanding Canterbury claims, the Commission incurs claims handling expenses including personnel, technology, and professional expertise costs. At 30 June 2018, the Commission has revised its estimate of the total claims handling expenses that may be required to settle ongoing reopened claims and undertake key activities such as the finalisation of liabilities with insurers. Although the numbers of personnel working on the Canterbury response will reduce over time, this reforecast reflects the expectation that these activities will now take longer to complete than previously anticipated. The reforecast has resulted in an increase of $113 million to the gross outstanding claims liability ($83 million on a net of reinsurance basis), with the ultimate claims handling costs now estimated to be $1,642 million, an increase from $1,529 million at 30 June 2017. As at 30 June $1,534 million has been paid. If the outstanding claims handling expenses were to increase/decrease by 10% the impact on the outstanding claims liability would be a $11m increase/decrease ($8 million on a net after reinsurance basis).

Canterbury Land Claims Liability

Overview of approach to settling land damage

The series of earthquakes Canterbury experienced from 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.

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 the Commission 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. The Commission 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, the Commission 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 the Commission'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.

Changes in the 2018 financial year for land settlements

As at 30 June 2018 the Commission has materially completed settlements of land claims to Green Zone properties with the exception of claims subject to the High Court litigation brought by IAG New Zealand Limited and Tower Insurance Limited in the 2017 financial year with respect to ILV land damage settlements.

In addition, the Commission also made further payments totalling $23 million (including GST) during the financial year to LINZ (who manage Crown owned properties in the Red Zone) in regards to the Red Zone liability. The Commission expects that this payment materially settles its Red Zone liability.

As a result of the above factors the ultimate claims liability for land reduced by approximately $97 million ($67 million on a net of reinsurance basis) to $618 million in the 2018 financial year. As at 30 June 2018 the gross outstanding claims liability is $114 million.

The uniqueness of ILV and IFV land damage as insured damage has meant that determining and settling the Commission's liability has been highly complex and the potential remains for further challenge and/or litigation in this respect. As mentioned, IAG New Zealand Limited and Tower Insurance Limited commenced High Court litigation against the Commission in the 2017 financial year 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 refinements made to the modelling used at 30 June 2017. These have a potential net impact on the outstanding claims liability (after reinsurance) of between nil and approximately $215 million (nil to $500 million as at 30 June 2017).

Other outstanding claims liability assumptions

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

	2018	2017
Weighted average term to settlement	1.19 years	0.71 years
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	1.8% to 2.1%	2.0% to 2.5%
Claims handling expense ratio	16.1%	8.0%
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 and on net surplus/deficit and equity. For example, increasing the claims inflation rate by 1.0% results in an increase due to the claims liability of $5 million.

VARIABLE	MOVEMENTS IN VARIABLE	IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
		2018 $(000)	2017 $(000)
Weighted average term to settlement	+0.5 years	-9,000	-19,000
	-0.5 years	+7,000	+11,000
Claims inflation rate	+1.0%	+5,000	+8,000
	-1.0%	-4,000	-5,000
Discount rate	+1.0%	-11,000	-9,000
	-1.0%	+12,000	+10,000
Claims handling expense ratio	+1.0%	+6,000	+9,000
	-1.0%	-5,000	-14,000
Demand surge: probability of surge event	x1.5	+6,000	+8,000
Demand surge: surge severity	x1.5	+12,000	+17,000

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

Processes used to determine assumptions

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

Claims inflation rate: the claims inflation rates were set having regard to the Treasury's published CPI assumptions as at 30 June 2018, 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 the Treasury's published discount rates as at 30 June 2018 and 30 June 2017.

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 the Commission's 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 that are discussed earlier in the note.

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
OUTSTANDING CLAIMS LIABILITY			
Central estimate of outstanding claims liability	(742,384)	(118,068)	(1,116,710)
Claims handling expenses	(143,124)	(10,388)	(98,640)
Risk margin	(351,544)	(15,960)	(415,567)
Gross outstanding claims liability	**(1,237,052)**	**(144,416)**	**(1,630,917)**
Discount	18,837	485	16,898
Discounted outstanding claims liability	**(1,218,215)**	**(143,931)**	**(1,614,019)**
Outstanding claims liability	**(1,218,215)**	**(143,931)**	**(1,614,019)**
Current	(579,530)	(116,071)	(1,186,313)
Non-current	(638,685)	(27,860)	(427,706)
	(1,218,215)	**(143,931)**	**(1,614,019)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY			
Outstanding claims liability at 1 July	(1,614,019)	(1,392,981)	(2,268,466)
Claims (expense)/reduction	(398,749)	89,533	(149,727)
Non-cash items in claims expense	4,565	7,004	1,209
Claims payments during the year	815,631	1,165,180	760,257
Claims handling expense in trade and other payables	(25,643)	(12,667)	42,708
Outstanding claims liability at 30 June	**(1,218,215)**	**(143,931)**	**(1,614,019)**

Variances to budget are further explained in Note 10: Major Budget Variances.

The change in the discount rates used within the valuation results in a $3,170,000 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 Kaikōura earthquake, in addition to the costs incurred in other events.

2018	ACTUAL 2018 $(000)	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	–	–	–
Seven 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			
KAIKŌURA EARTHQUAKE			
Ultimate Claims Expense Estimate			
At end of incident year	–	(544,022)	–
One year later	–	(615,947)	–
Current estimate of ultimate claims expense	**–**	**(615,947)**	**–**
Cumulative payments	–	516,121	–
Outstanding claims liability (undiscounted)	**–**	**(99,826)**	**–**
Discount to present value	–	2,303	–
Outstanding claims liability (discounted)	**–**	**(97,523)**	**–**
2016 Kaikōura 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
	–	–	–	(435,175)	(10,316,320)	N/A
	–	–	–	N/A	(10,609,302)	N/A
	–	**–**	**–**	**(435,175)**	**(10,609,302)**	**(11,044,477)**
	–	–	–	407,696	9,882,119	10,289,815
	–	**–**	**–**	**(27,479)**	**(727,183)**	**(754,662)**
	–	–	–	601	15,566	16,167
	–	**–**	**–**	**(26,878)**	**(711,617)**	**(738,495)**
						(299,752)
	–	–	–	–	–	N/A
	–	–	–	–	–	N/A
	–	**–**	**–**	**–**	**–**	**(615,947)**
	–	–	–	–	–	516,121
	–	**–**	**–**	**–**	**–**	**(99,826)**
	–	–	–	–	–	2,303
	–	**–**	**–**	**–**	**–**	**(97,523)**
						(39,514)
						(30,653)
						(12,278)
						(1,218,215)

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		
KAIKŌURA 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 Kaikōura 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 2018) for Canterbury, Kaikōura 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.

	PATTERN OF CLAIMS RUN-OFF (SETTLEMENT OF OUTSTANDING CLAIMS LIABILITY)				
	2019 $(000)	2020 $(000)	2021 $(000)	2022 $(000)	TOTAL $(000)
Outstanding claims liability – Central estimate	413,942	321,649	102,376	28,704	866,671
Risk Margin	165,588	134,069	40,273	11,614	351,544
Total Outstanding Claims Liability	**579,530**	**455,718**	**142,649**	**40,318**	**1,218,215**

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)

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.

Effective from 1 November 2017 the Earthquake Commission Amendment Regulations 2017 increased the premium collected from 15 cents for every $100 to 20 cents for every $100 insured.

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Gross earned premiums	366,568	294,729	294,247
Less rebate to insurers	(9,055)	(7,378)	(7,320)
	357,513	**287,351**	**286,927**
Unearned premium opening	149,307	149,573	145,595
Unearned premium closing	(197,341)	(151,068)	(149,307)
	(48,034)	**(1,495)**	**(3,712)**
Gross earned premiums	**309,479**	**285,856**	**283,215**

4. Other Revenue

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Other revenue	11	–	136
Other Revenue	**11**	**–**	**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 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Movement in gross reinsurance recoveries	83,341	–	(218,337)
Movement in discount	(451)	1,447	2,018
Total discounted reinsurance and other recoveries/ (reductions)	**82,890**	**1,447**	**(216,319)**

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Gross reinsurance receivable	222,791	9,802	187,416
Discount	(3,473)	(48)	(3,021)
Discounted reinsurance receivable	**219,318**	**9,754**	**184,395**
Other recoveries			
Sundry receivables*	6,596	–	14,132
Less: provision for impairment	(3,908)	–	–
Aon Benfield**	4,671	–	8,461
Total other recoveries	**7,359**	**–**	**22,593**
Total outstanding reinsurance and other recoveries	**226,677**	**9,754**	**206,988**
Current	109,476	9,754	143,676
Non–current	117,201	–	63,312
	226,677	**9,754**	**206,988**

RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES

Outstanding reinsurance and other recoveries at 1 July	206,988	185,044	534,545
Reinsurance and other recoveries/ (reductions)	82,890	1,447	(216,319)
Reinsurance and other recoveries received during the year	(63,201)	(176,737)	(111,238)
Outstanding reinsurance and other recoveries at 30 June	**226,677**	**9,754**	**206,988**

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 2018, the total actuarial valuation of reinsurance recoveries was increased by $83,341,000 to $4,163,160,000. This increase 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 2018, the discount for the outstanding reinsurance recoveries was increased by $451,000 to $3,473,000.

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 the Commission's reinsurance brokers who manage the collection of reinsurance monies on behalf of the Commission. The other recoveries relate to work performed in June 2018 for which the Commission has requested a reinsurance recovery. As at 30 June 2018 payment had not been received.*

The aging profile for sundry receivables and impairment at year end is detailed below:

	GROSS 2018 $000	IMPAIRMENT 2018 $000	NET 2018 $000	GROSS 2017 $000	IMPAIRMENT 2017 $000	NET 2017 $000
Not past due	5,344	–	5,344	18,640	–	18,640
Past due 1–30 days	415	(30)	385	266	–	266
Past due 31–60 days	1	–	1	4	–	4
Past due 61–90 days	1	–	1	3	–	3
Past due > 90 days	5,506	(3,878)	1,628	3,680	–	3,680
Total	**11,267**	**(3,908)**	**7,359**	**22,593**	**–**	**22,593**

The provision for impairment for sundry receivables has been calculated based on a combination of factors including the evaluation of aging balances, previous collection history and other qualitative and quantitative analysis.

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 2018 claims expense is $399 million (2017: $150 million). The increase is primarily due to an increase in both the gross ultimate liability for the 2010–11 Canterbury earthquake sequence and the 2016 Kaikōura earthquake.

During the 2018 financial year the total Kaikōura gross ultimate liability including risk margin, increased after discounting by $19 million. This is mainly due to an increase in the expected building liability and the associated claims handling costs, which is offset by a small reduction in the expected land liability.

The total Canterbury gross ultimate liability including risk margin increased after discounting by $320 million (2017:$519 million reduction) during the 2018 financial year. This primarily reflects reviewed assumptions about the inflow of reopened claims and claims handling expenses. More details can be found in Note 2.

Other event costs in the year are $72 million and relate to the settling of smaller events, particularly landslips and floods during the 2018 financial year. The risk margin associated with these events reduced by $12 million.

Current year claims expense comprises amounts paid (or estimates of amounts payable) for 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, further claims were also incurred for which the paid and payable value is $46,600,000.

SUMMARY	2018 CURRENT YEAR $(000)	2018 PRIOR YEARS $(000)	2018 TOTAL $(000)	2017 CURRENT YEAR $(000)	2017 PRIOR YEARS $(000)	2017 TOTAL $(000)
Gross claims expense – undiscounted	(46,967)	(357,323)	(404,290)	(628,802)	482,842	(145,960)
Discount – on total outstanding claims	367	5,174	5,541	6,421	(10,188)	(3,767)
Gross claims expense – discounted	**(46,600)**	**(352,149)**	**(398,749)**	**(622,381)**	**472,654**	**(149,727)**

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE CLAIMS EXPENSE		
Amortisation of intangibles	(125)	(188)
Fees paid to the auditor		
Audit of the financial statements	(94)	(121)
Bad debts (iii)	(4,379)	(965)
Call centres and claims management – third party	(701)	(1,344)
Claims administrators and contractors	(5,005)	(6,926)
Claims assessment fees	(970)	(408)
Depreciation	(61)	(83)
Employee remuneration and benefits (i)	(21,788)	(31,477)
Engineers and consultants	(16,150)	(22,280)
Office rental	(2,154)	(2,669)
Other costs	(6,981)	(9,436)
Project management and infrastructure – rebuilding programme (ii)	(1,006)	(11,683)
Superannuation contribution costs	(575)	(877)
Travel and accommodation	(873)	(1,525)
Canterbury claims handling expenses incurred	**(60,862)**	**(89,982)**

i. During the 2018 financial year the organisation continued to scale down its resources working on the Canterbury event as the majority of claims had been resolved.

ii. The Fletchers EQR programme was closed during the 2017/18 financial year.

iii. A provision for impairment was raised in the 2017/18 financial year for sundry receivables. This is included within bad debts. More details can be found in Note 5.

CLAIMS EXPENDITURE BY EXPENSE TYPE	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
2016 KAIKŌURA EARTHQUAKE		
Fees paid to the auditor		
Audit of the financial statements	(21)	(45)
Call centres and claims management – third party	(58)	(241)
Claims administrators and contractors	(1,984)	(1,266)
Claims assessment fees	(1,293)	(1,334)
Employee remuneration and benefits	(2,386)	(2,183)
Engineers and consultants	(768)	(1,268)
Infrastructure costs (i)	(23,616)	(7,593)
Office rental	(114)	(48)
Other costs	(1,349)	(654)
Superannuation contribution costs	(45)	(33)
Travel and accommodation	(311)	(506)
Kaikōura claims handling expenses incurred	**(31,945)**	**(15,171)**

i. The infrastructure costs represents reimbursement of claims handling expenses to private insurers for managing the Commission's claims.

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

The operating costs of the Commission are allocated across catastrophe response programme, public education, research (excluding GeoNet), GeoNet programme and investment costs. Expenditure is allocated to these functions by directly attributing costs as far as possible. Indirect costs are apportioned based on the average number of full-time equivalents employed during the financial year and are allocated between catastrophe response programme, public education and research (excluding Geonet).

COSTS GROUPED BY EXPENSE TYPE	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Amortisation of intangibles	(4,161)	(3,792)	(3,046)
Fees paid to the auditor			
Audit of the financial statements	(102)	(75)	(133)
Bad debts	(5)	–	(14)
Consultants and contractors	(10,424)	(8,352)	(10,161)
Depreciation	(3,628)	(3,212)	(3,690)
Employee remuneration and benefits	(12,933)	(12,619)	(12,043)
Grants for research	(4,134)	(4,942)	(3,474)
GeoNet operating costs	(10,375)	(9,043)	(9,290)
Office rental	(658)	(1,095)	(825)
Other costs	(3,831)	(6,106)	(4,997)
Superannuation contribution costs	(415)	(404)	(389)
Technology costs	(7,741)	(7,729)	(7,906)
Total operating costs (excluding claims expense and claims handling expense)	**(58,407)**	**(57,369)**	**(55,968)**

8. Commitments

Reinsurance Contracts

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

	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	149,401	139,871
Later than one year but not later than two years	–	41,250
Total reinsurance commitments	**149,401**	**181,121**

Due to commercial sensitivity the 2017 comparative figure has been adjusted to remove the brokerage fee. This had no impact on the Statement of Financial Performance or Statement of Financial Position.

Museums

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

	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	20	40
Later than one year but not later than two years	300	20
Total museum commitments	**320**	**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 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	770	1,052
Later than one year but not later than two years	150	850
Later than two years but not later than five years	–	300
Total research grant commitments	**920**	**2,202**

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 2018 $(000)	ACTUAL 2017 $(000)
CAPITAL COMMITMENT		
Not later than one year	2,386	2,500
Later than one year but not later than two years	2,306	3,497
Later than two years but not later than five years	2,409	7,096
	7,101	**13,093**
OPERATING COMMITMENT		
Not later than one year	10,334	9,768
Later than one year but not later than two years	10,602	9,224
Later than two years but not later than five years	10,855	19,077
	31,791	**38,069**
Total GNS Science commitments	**38,892**	**51,162**

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.

At the end of the 2017–18 financial year, the Commission signed new leases for additional floors in one of the buildings it currently occupied in Wellington, as one of the leases was expiring in July 2018. The Commission also signed a lease for additional space in another Wellington building.

	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	2,483	2,508
Later than one year but not later than two years	1,853	936
Later than two years but not later than five years	3,885	903
Later than five years but not later than ten years	1,173	–
Total building lease commitment	**9,394**	**4,347**

Claims Management System

Service Aggregation Services

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

	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	339	334
Later than one year but not later than two years	347	339
Later than two years but not later than five years	237	585
Total claim management system commitment	**923**	**1,258**

Support and Maintenance Services

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

	ACTUAL 2018 $(000)	ACTUAL 2017 $(000)
OPERATING COMMITMENT		
Not later than one year	1,361	1,343
Later than one year but not later than two years	1,397	1,361
Later than two years but not later than five years	955	2,352
Total claim management system commitment	**3,713**	**5,056**

9. Investment Revenue

The Commission's investment revenue is generated from holdings in NZ Government stock, residual income from Global equities that were previously 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.

NZ Government Stock which was held by the Commission at 30 June 2016 was liquidated during the 2017 financial year.

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
GLOBAL EQUITIES			
Class actions and tax reclaims	81	–	156
	81	**–**	**156**
NZ GOVERNMENT STOCK			
Interest and discount income	–	–	14,514
Realised and unrealised losses	–	–	(13,040)
	–	**–**	**1,474**
OTHER SHORT–TERM INVESTMENTS			
Interest income	4,121	–	2,141
Total investment income	**4,202**	**–**	**3,771**

10. Major Budget Variances

Statement of Comprehensive Revenue and Expense

Gross earned premiums

The gross earned premiums were higher than budget due to the increase in premiums from 15 cents to 20 cents in the $100 from November 2017.

Reinsurance and other recoveries

Reinsurance and other recoveries is $81 million higher than budget, representing an increase in the expected level of reinsurance recoveries from the Canterbury earthquake sequence and associated discounting adjustments. This is the result of increases in the expected gross ultimate cost of the Canterbury event.

Claims (expense)/reduction

Claims expense is adverse to budget by $488 million because of the increase in the central estimate for the Canterbury and Kaikōura events together with lower amortisation of risk margin.

Unexpired risk liability reduction/(increase)

The budget had assumed a higher release of the unexpired risk liability for the Canterbury and Kaikōura events.

Investment activities

Investment revenue was higher than budget by $11 million because of a slower settlement of the Canterbury liability. The budget assumed the fund would have been fully depleted by the beginning of the 2018 financial year.

Statement of Financial Position

Bank

Settlement of the Canterbury liability has not occurred at the rate assumed in the budget, resulting in a higher cash balance.

Premiums receivable

Premiums receivable is $21 million higher than budget because of the premium levy increasing in November 2017 from 15 cents to 20 cents for every $100 insured.

Reinsurance and other recoveries

Reinsurance receivables balance is $210 million higher than budget as payments have been slower than budgeted and there has been a $83 million increase as a result of the increase in the gross ultimate for Canterbury (partially offset by changes in the discounting).

Trade and other payables

Trade and other payables is $40 million higher than budget. This is primarily a result of accruals in relation to monies due to insurers for handling Kaikōura claims.

Outstanding claims liability

The outstanding claims liability is $1.1 billion higher than budgeted. This is primarily due to Kaikōura and Canterbury settlements being made at a slower rate than anticipated and an increase in the gross ultimate costs for these events.

Statement of Cash Flows

Claims settlements and handling costs

Claims settlements and handling costs are $350 million lower than budget as a result of slower payments of Canterbury and Kaikōura claims.

Sale of investments

The variance to budget is due to the budget assuming all investments would have been utilised by the beginning of the 2018 financial year.

11. Natural Disaster Fund

Capitalised reserves

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

Capital management

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

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

Commission solvency

The Commission has exposure to liabilities estimated to be in excess of its current level of assets. In the event 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 cash will be materially depleted during the 30 June 2019 financial year, but the need or timing of any initiation of Section 16 may be dependent on factors outside of the Commission's immediate control. The Commission has been working with the Treasury to agree a process for any required utilisation of Section 16.

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 is established by using valuation techniques.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables with a maturity date within 12 months of the reporting date are recognised in current assets in the notes to the Statement of Financial Position, while those with maturities longer 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 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE* THROUGH SURPLUS OR DEFICIT			
Term deposits	–	–	343,371
	–	**–**	**343,371**
LOANS AND RECEIVABLES			
Bank	181,354	–	483,687
Premiums receivable	76,164	54,843	55,338
Outstanding reinsurance and other recoveries	226,677	9,754	206,988
	484,195	**64,597**	**746,013**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST			
Bank	–	(456,103)	–
Trade and other payables	(51,736)	(11,954)	(71,762)
Provisions	(1,758)	(400)	(1,880)
	(53,494)	**(468,457)**	**(73,642)**
Outstanding claims liability	(1,218,215)	(143,931)	(1,614,019)

The annual leave accrual for the 2018 unaudited budget and 2017 actuals has been reclassified from Trade and other payables to Provisions for consistent treatment with the 2018 actuals.

* 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).

The Commission invested in term deposits in the 2017 financial year; these were classified as level 2. As at 30 June 2018, all of the Commission's term deposits had matured.

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 relation 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 2018 the Commission no longer held investments in term deposits. The fair values and concentrations of the Commission's investments as at 30 June 2017 were as follows:

	2018 FAIR VALUE $(000)	2018 % OF TOTAL INVESTMENT	2017 FAIR VALUE $(000)	2017 % OF TOTAL INVESTMENT
Term deposits	–	–	343,371	100.0
Total investments	**–**	**–**	**343,371**	**100.0**
Current*	–	–	343,371	100.0
	–	**–**	**343,371**	**100.0**

* Classification as 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 prior year the Commission's investments were exposed to interest rate risk.

The average market yield and duration as at 30 June 2017 are summarised below:

	2018 YIELD	2018 DURATION	2017 YIELD	2017 DURATION
Term deposits	–	–	2.84%	57 days

Interest rated on investments risk sensitivity

In 2017 all investments had fixed interest rates, hence were not subject to changes in interest rates.

Cash flow interest rate risk

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

Credit risk

The Commission is exposed to the credit risk of a bank or the Crown defaulting on an investment. The Commission reduces credit risk by investing funds only in securities issued by approved New Zealand banks that have a short-term credit rating of A-1 or higher from Standard and Poor's. Exposure to any one bank with a rating of less than A-1+ is restricted to a maximum of 15% of total bank securities, but for banks with a rating of A-1+, the exposure may be extended to 25%. No collateral is held by the Commission in respect of bank balances or short-term securities due to the credit rating of financial institutions with whom the Commission transacts business. At balance date the Commission held short-term securities with seven registered banks. $146,131,258 was held on-call (2017: on-call: $324,511,137 and term deposits $393,555,135).

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 2018 $(000)	ACTUAL 2017 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Bank		
AA-	131,246	637,620
A+	15,033	32,047
A	35,075	157,391
	181,354	**827,058**
REINSURANCE RECOVERIES		
AA	8,812	13,216
AA-	45,834	56,350
A+	129,832	83,139
A	30,188	32,123
A-	9,323	8,028
	223,989	**192,856**
PREMIUMS RECEIVABLE		
AA-	39,942	28,784
A+	22,337	17,653
A	5,776	2,825
A-	8,082	6,059
Other	27	17
	76,164	**55,338**
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Sundry receivables	2,688	14,132

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 the Commission to obtain a licence and therefore the Commission 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 (2017: 12 months).

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. As at 30 June 2018 the majority of funds were held in on-call bank deposits.

13. Property, Plant and Equipment

The Commission's Property, plant and equipment is classified as either Non-Canterbury, Canterbury, GeoNet or WIP. 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 purchasing, testing, installation and commissioning 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	10 years
Leasehold improvements	0–9 years
Computer hardware	3–10 years
Canterbury event furniture and equipment	1–11.8 years
Canterbury event computer hardware	1.5–3 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years

2018

	NON-CANTERBURY			CANTERBURY
	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)
COST				
At 1 July 2017	73	1,330	495	1,078
Additions	181	80	66	43
Transfer	–	10	136	–
Disposals	(2)	–	(57)	(511)
At 30 June 2018	**252**	**1,420**	**640**	**610**
ACCUMULATED DEPRECIATION				
At 1 July 2017	(35)	(321)	(344)	(1,060)
Depreciation charge	(8)	(163)	(107)	(19)
Disposals	2	–	54	509
At 30 June 2018	**(41)**	**(484)**	**(397)**	**(570)**
Carrying amounts at 30 June 2018	**211**	**936**	**243**	**40**

2017

	NON-CANTERBURY			CANTERBURY
	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)
COST				
At 1 July 2016	74	1,330	349	2,406
Additions	–	–	78	–
Transfers	–	–	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**

			GEONET					
	COMPUTER HARDWARE $(000)	LAND $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
	4,146	204	728	3,337	37,024	48,415	262	48,677
	23	–	–	648	945	1,986	79	2,065
	102	–	–	–	–	248	(262)	(14)
	(204)	(204)	–	(13)	(174)	(1,165)	–	(1,165)
	4,067	**–**	**728**	**3,972**	**37,795**	**49,484**	**79**	**49,563**
	(4,146)	(65)	(389)	(2,431)	(25,563)	(34,354)	–	(34,354)
	(42)	–	(29)	(616)	(2,705)	(3,689)	–	(3,689)
	204	65	–	11	172	1,017	–	1,017
	(3,984)	**–**	**(418)**	**(3,036)**	**(28,096)**	**(37,026)**	**–**	**(37,026)**
	83	**–**	**310**	**936**	**9,699**	**12,458**	**79**	**12,537**

			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**

14. Intangible Assets

The Commission's Intangible assets are classified as either Non-Canterbury, Canterbury or Work in Progress (WIP). 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	3-5 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.
The decommissioning of this system has begun.

Impairment of non-financial assets

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

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

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

- are not primarily dependent on the asset's ability to generate net cash inflows; or
- the Commission would, if deprived of the asset, replace its remaining future economic benefits or service potential.

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

2018

	NON-CANTERBURY SOFTWARE $(000)	NON-CANTERBURY CLAIMS MANAGEMENT SYSTEM V4 $(000)	NON-CANTERBURY CLAIMS MANAGEMENT SYSTEM V8 $(000)	CANTERBURY SOFTWARE $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
COST							
At 1 July 2017	7,254	5,505	11,042	2,541	26,342	1,235	27,577
Additions	1,043	–	1,181	441	2,665	306	2,971
Transfer	790	–	–	445	1,235	(1,235)	–
At 30 June 2018	**9,087**	**5,505**	**12,223**	**3,427**	**30,242**	**306**	**30,548**
ACCUMULATED AMORTISATION							
At 1 July 2017	(5,126)	(5,505)	(368)	(2,515)	(13,514)	–	(13,514)
Amortisation charge	(1,836)	–	(2,325)	(125)	(4,286)	–	(4,286)
At 30 June 2018	**(6,962)**	**(5,505)**	**(2,693)**	**(2,640)**	**(17,800)**	**–**	**(17,800)**
Carrying amounts at 30 June 2018	**2,125**	**–**	**9,530**	**787**	**12,442**	**306**	**12,748**

2017

	NON-CANTERBURY SOFTWARE $(000)	NON-CANTERBURY CLAIMS MANAGEMENT SYSTEM V4 $(000)	NON-CANTERBURY CLAIMS MANAGEMENT SYSTEM V8 $(000)	CANTERBURY 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)
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)
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**

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.

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Trade payables and accruals	(46,413)	(6,762)	(66,556)
Tax on reinsurance	(5,323)	(5,192)	(5,206)
	(51,736)	**(11,954)**	**(71,762)**

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.

The accrual for annual leave for the 2018 unaudited budget and the 2017 actuals has been reclassified from Trade and Other Payables to Provisions for consistent treatment with the 2018 actuals.

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.

17. Unearned Premium Liability

	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Unearned premium liability at 1 July	(149,307)	(149,573)	(145,595)
Deferral of premiums on contracts written in the period	(197,341)	(151,068)	(149,307)
Earning of premiums written in previous periods	149,307	149,573	145,595
Unearned premium liability at 30 June	**(197,341)**	**(151,068)**	**(149,307)**

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:

CALCULATION OF DEFICIENCY	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Cost of future claims from unexpected risks, undiscounted – central estimate	151,146	63,799	153,705
Administration and reinsurance costs for unexpired risks	104,679	74,493	103,237
Reinsurance recoveries, undiscounted	(17,530)	(10,459)	(15,260)
Net premium liabilities, undiscounted – central estimate	**238,295**	**127,833**	**241,682**
Discounting	(3,934)	(919)	(3,155)
Net premium liabilities, discounted – central estimate	**234,361**	**126,914**	**238,527**
Risk margin	–	–	–
Net premium liabilities	**234,361**	**126,914**	**238,527**
Unearned premium liability	(197,341)	(151,068)	(149,307)
Net deficiency/(surplus)	**37,020**	**(24,154)**	**89,220**

UNEXPIRED RISK LIABILITY	ACTUAL 2018 $(000)	UNAUDITED BUDGET 2018 $(000)	ACTUAL 2017 $(000)
Unexpired risk liability balance at 1 July	(89,220)	(102,515)	(70,765)
Movement for the year	52,200	102,515	(18,455)
Unexpired risk liability at 30 June	**(37,020)**	**–**	**(89,220)**

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 2018 is 0% (2017: 0%). The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin is $0 at 30 June 2018 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 2018 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.

VARIABLE	MOVEMENTS IN VARIABLE	IMPACT ON PREMIUM LIABILITIES	
		2018 $(000)	2017 $(000)
Discount rate	+1.0%	-2,100	-1,500
	-1.0%	+2,100	+1,500
Base inflation	+1.0%	+1,500	+1,600
	-1.0%	-1,400	-1,500
Future claims handling expense ratio	+1.0%	+1,500	+1,500
	-1.0%	-1,500	-1,500
Average term to settlement	+0.5 years	-1,700	-700
	-0.5 years	+1,200	+600

19. Insurance Risks

The Commission must accept exposure to claims for the natural disasters as specified in the EQC Act. The premium level set by the Earthquake Commission Amendment Regulations 2017 is 20 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; and
- minimising the risk of default among reinsurers by limiting its exposure to any one reinsurer or related group of reinsurers, by applying the following policies:
  - setting a target for the overall programme at placement that achieves a weighted average score of Standard and Poor's (S&P) financial strength rating of A or better;
  - normally placing reinsurance with organisations that have the following security ratings:
    - S&P: AAA to A- (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 2018 (2017: $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.

The Commission received around 469,000 claims from the 2010–11 Canterbury earthquake sequence, of which some disputes and the possibility of litigation is inevitable. As at 30 June 2018, the Commission had 400 open litigation cases before the courts relating to claims under the EQC Act; 394 of these litigation cases relate to the 2010–11 Canterbury earthquake sequence and 6 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 2018.

Included in the 400 open litigation cases, the Commission has received 30 litigation cases claiming that the Commission has a liability outside of the EQC Act. Most of these cases relate to on-sold properties. Depending on the outcomes of these litigation cases there may be a material impact on the Commission's liabilities. The quantum of any liability will depend on the specifics of each case. As at 30 June 2018, no separate provision has been made for these cases.

The Commission has received a small number of claims for interest under the Interest on Money Claims Act 2016 as part of litigation cases currently before the courts. As at 30 June 2018, none of these claims had been settled. A number of variables are involved in any litigation outcome. As at 30 June 2018, no separate provision has been made for these claims.

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 Commission include all Commissioners, the Chief Executive and the Executive Leadership Team. The total remuneration of key management personnel and the number of individuals on a full-time (FTE) basis receiving remuneration from the Commission are:

	ACTUAL 2018 $(000) REMUNERATION	ACTUAL 2018 $(000) FTE	ACTUAL 2017 $(000) REMUNERATION	ACTUAL 2017 $(000) FTE
Commissioners	296	7	303	7
Executive Leadership Team	2,534	7	2,309	7.25
	2,830	**14**	**2,612**	**14.25**

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 2018 financial year the Commission purchased services of $474,231 (2017: $563,574) from Kiwi Property Group Limited, a company of which M Daly is a director. The services purchased related to office rental.

The Commission purchased services of $1,365 in the 2017 financial year from New Zealand Red Cross, an organisation of which P Kiesanowski was a director. The services purchased related to first aid courses. In the 2018 financial year, New Zealand Red Cross was no longer a related party.

P Kiesanowski is the Chair of Red Bus Company. The Commission purchased services of $609 in the 2017 financial year. The services purchased related to bus hire. In the 2018 financial year no services were purchased from Red Bus Company.

During the 2018 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 awaiting payments from the Commission.

During the financial year, one (2017: nil) of the Commission'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 with key management personnel.

22. Employee Remuneration

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

$(000)	ACTUAL 2018	ACTUAL 2017
100–110	19	20
110–120	27	21
120–130	12	20
130–140	13	7
140–150	13	9
150–160	6	6
160–170	1	4
170–180	2	5
180–190	4	4
190–200	4	3
200–210	1	2
210–220	2	2
230–240	1	1
250–260	1	1
270–280	–	1
280–290	–	1
290–300	1	–
300–310	–	1
330–340	–	1
360–370	1	1
400–410	1	–
	109	**110**

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

In addition to the above, and in accordance with confidential contractual agreements, 23 (2017: 7) payments totalling $324,780 (2017: $295,966) 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 2018 $(000)	ACTUAL 2017 $(000)	
A King	23	–	Appointed Chairperson as 1 March 2018
G Smith	36	37	Appointed 1 October 2011
A O'Connell	36	37	Appointed 1 September 2013
R Bell	36	37	Appointed 1 August 2013
M Daly	45	45	Appointed 14 March 2014, as Deputy Chairperson 1 July 2016
P Kiesanowski	36	37	Appointed 14 March 2014
T Hurdle	36	36	Appointed 1 July 2016
M Wevers	48	74	Appointed 12 June 2013, Chairperson from 1 August 2013. Term concluded 23 February 2018
Total	**296**	**303**	

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 between the balance date and the date at which the financial statements were signed. The Commission did in this period request that the first drawdown under Section 16 of the EQC Act be made on 1 November 2018. This has been agreed by the Treasury.

MINISTERIAL DIRECTIONS

Ministerial directions to EQC that remained current as at 30 June 2018 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. EQC finished work in Edgecumbe early in the 2017–18 year, albeit the Direction was received in the 2016–17 year.

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.

CORPORATE DIRECTORY

Executive Officers

The executive officers as at 30 June 2018 were the:

- Chief Executive
- General Manager Resilience
- Chief Customer Officer
- General Manager People, Culture & Change
- General Counsel
- Government Relations and Strategic Partnerships
- General Manager Technology
- Chief Financial Officer
- General Manager of the Canterbury Business Unit

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

EQC

EARTHQUAKE COMMISSION

Kōmihana Rūwhenua

New Zealand Government