EQC
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

EARTHQUAKE COMMISSION'S

ANNUAL REPORT

2018-19

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

Date: November 2019

CITATION

Earthquake Commission (2019).
Annual Report 2018-19.
Wellington: Earthquake Commission

Published by:

Earthquake Commission
Kōmihana Rūwhenua
Wellington, New Zealand

CONTENTS

CHAIR'S STATEMENT

Our Mission "to reduce the impact on people and property when natural disasters occur" remains unchanged. In delivering this Mission we attend to the economic and social wellbeing of our customers, when they need it most.

Settling outstanding Canterbury claims received before 30 June 2018 was our number one priority for the 2018-19 financial year. We set a strong target and while we strove to achieve a good outcome, unfortunately we were unable to deliver in full. We achieved a resolution rate of 84%, against a target of 98%, with 556 claims remaining from those open at 30 June 2018. We will continue to develop our processes and work to ensure all Canterbury claims are resolved in as timely a manner as possible.

EQC is an organisation that has entered transition. During the past year we have continued to respond to claims from both existing and new events, which will enable people to get on with their lives following losses. At the same time we have been looking at how EQC needs to work into the future. When we started the 2018-19 financial year, the Board had endorsed a new organisational strategy that focused on four key priorities:

- Response – optimising the Canterbury programme;
- Readiness – making sure we are ready for the next event;
- Corporate – keeping the business running; and
- Resilience – delivering our future loss modelling capability, and finalising and delivering our resilience strategy.

Public Inquiry

On 13 November 2018, the Public Inquiry into the Earthquake Commission (the Inquiry) was announced by the previous Minister Responsible for EQC, Hon. Dr Megan Woods. Dame Silvia Cartwright is chairing the Inquiry, supported by a secretariat team appointed by the Department of the Prime Minister and Cabinet.

The purpose of the Inquiry is to ensure that lessons are learned from these past experiences and EQC has the appropriate policies and operating structures in place for improved operational practices in the future.

The Public Inquiry will report on the application of EQC's operational practices and claims outcomes approaches, from the Canterbury earthquakes and subsequent events. It will make recommendations to government on how EQC can improve its readiness to respond to future events.

To support the Public Inquiry, we have pulled together a lot of information to document EQC's experience of the past nine years. This is the first time we have gathered such a comprehensive set of information on what happened and how this organisation evolved in response to the unprecedented events of 2010-11 and the uncharted territory that we have traversed since. In doing this, we talked with a number of former staff and former Chief Executives and Chairs of the Board, to understand their experiences and perspectives. This has been an invaluable opportunity to reflect on the unique challenges of the Canterbury earthquake sequence, what went well, and what could have been done differently.

It has put into perspective just how much the scale of the Canterbury earthquake sequence tested EQC's processes and capabilities and overwhelmed us. It exposed those areas where we needed to change and/or improve. We tried to adapt and respond to the changing circumstances, but not always quickly enough, and our systems and processes let us down. I want to acknowledge those who have worked at EQC over the years, operating in this challenging environment and maintaining a keen willingness to contribute to an effective and efficient recovery.

Despite the efforts of staff, we were not always easy to deal with when we should have been. It is clear that EQC became an additional source of stress for many of our customers, compounding the stress that was already present as a result of the ongoing earthquakes.

We recognise the shortcomings in our response to the Canterbury earthquake sequence, and that they have had a significant negative effect on our customers, their families, the wider Canterbury community and our staff. For that we unreservedly apologise.

I am pleased to say the staff at EQC, including management and the Board, have learned some hard lessons from the response to the Canterbury earthquakes. We are determined to do better for this community and for all of New Zealand in future, ensuring that these lessons are reflected in the EQC of the future.

Strategic Transformation Overview

EQC has commenced a programme of work to develop our event response and readiness as part of our future operating model. While we have already made significant changes in the nine years since the first Canterbury earthquakes, and incorporated many improvements into our event responses, we still have changes to make to improve our readiness.

This work will take into account lessons learned from previous natural disaster events, and findings from the Public Inquiry once these are known.

Earthquake Commission Act

In February 2019, the Earthquake Commission Amendment Bill passed in Parliament, creating four key changes to the Earthquake Commission Act 1993 (the EQC Act). Two amendments took effect immediately and two from 1 July 2019. All four changes will be fully in place by July 2020.

The changes that took effect in February were:

- further scope for EQC to share property-related information as necessary; and
- an immediate extension of the timeframe for lodging a claim from three months to two years.

The changes that took effect from 1 July 2019 were:

- removal of EQCover for contents (homeowners will be affected only when their insurance policies renew)
- an increase in the cap on EQC residential building cover from $100,000+GST to $150,000+GST (homeowners will be affected only when their insurance policies renew).

EQC moved swiftly to comply with these new requirements by ensuring that we had processes in place ahead of the effective dates in order to deliver on time.

Leadership

During the 2018-19 financial year there were several changes to the organisation's leadership. I was appointed Chair with effect from 1 November 2018 and I would like to acknowledge Dame Annette King's contribution, having held the Interim Chair position from March to October 2018.

Two new Commissioners joined the EQC Board on 1 July 2018, Toni Ferrier and Erica Seville. Tim Hurdle's tenure finished on 30 June 2019.

I wish to thank Dame Annette and Tim for their services, and wish them well for the future. I also thank other members of the Board for their contribution during the year.

The Board thanks the staff, contractors, suppliers and partners who have worked for or with EQC over the 2018-19 financial year.

Sir Michael Cullen
Chair

CHIEF EXECUTIVE'S REPORT

We are undergoing a great deal of change across our organisation, while continuing to make progress in delivering for our customers. The number of open claims continues to reduce and our settlement times overall are improving. We are also developing our readiness to respond to future natural disasters.

Since I commenced with EQC in early 2017, our focus has been on resolving and settling outstanding claims from Canterbury, Kaikōura and other natural disaster events, with little opportunity to look backward and reflect on what might be done differently. While 2018-19 has been very challenging, the volume and variety of material assembled by our internal Public Inquiry team relating to the handling of the 2010-11 Canterbury sequence of earthquake claims, and associated discussions, has given us the chance to take stock and learn more about what has gone before. I assure our customers and stakeholders that these learnings are being incorporated into EQC's future model.

Settlement of Claims

EQC is still working to settle claims arising from the 2010-11 Canterbury Earthquake sequence.

Having focused our resources firmly on the way ahead, and working in conjunction with Greater Christchurch Claims Resolution Service (GCCRS) where required, EQC has reduced the total number of claims open from 4,800 at the start of the financial year to 2,588 at the end of June 2019. These numbers include claims reopened during the period, those being handled by Southern Response, and claims in litigation or alternative dispute resolution processes.

Review by the Independent Ministerial Advisor

The Independent Ministerial Advisor's report dated 26 April 2018 contained recommendations for EQC on operational changes needed for resolving any residual 2010-11 Canterbury earthquake sequence claims. During this financial year, EQC engaged KPMG to undertake a review of the actions undertaken to address the recommendations which was reported back on 9 November 2018.

KPMG found that EQC had addressed many of the recommendations, but seven needed additional work or decisions. Since then, all recommendations except one have been addressed. The remaining recommendation will be complete with the implementation of EQC's quality assurance programme in the new financial year.

Public Inquiry

As an organisational priority for the year, we have put significant effort into supporting the Inquiry into EQC. We have pulled together a lot of information for the Inquiry, and have documented EQC's story of the past nine years. This is the first time we have put together a comprehensive source of information on what happened and how this organisation evolved in response to the unprecedented events of 2010-11. I want to thank former staff and former Chief Executives and Chairs of the Board for their help in pulling this together.

EQC is engaging with the Public Inquiry in an open and transparent manner, and is providing detailed material to the Public Inquiry to allow it to understand EQC's approach to its response to the Canterbury earthquakes, and what changes have already been implemented. EQC is continuing to engage constructively. Additionally, EQC is ensuring that any workstreams and organisational changes that are made between now and the conclusion of the Public Inquiry do not compromise our ability to respond to the recommendations the Public Inquiry will make.

Transformation Programme

In February 2019, EQC embarked on a programme of work to better prepare us for the future. This commenced with the adoption of five revised key priorities, to replace the four in place at that time. Delivery of the new priorities commenced in the 2018-19 financial year, and will carry on through 2019-20. The five priorities are:

- **Resolve all outstanding claims:** Optimise claims strategies and structures to resolve all outstanding claims in the most consistent, efficient and effective way (including successful management of dispute resolution and insurer finalisation;
- **Public Inquiry:** Support the Inquiry and implement changes to the future operating model based on recommendations, including future Act changes;
- **Optimisation of EQC's event management capacity and capability:** incorporating lessons from the Inquiry and previous event response models, and ensuring that the appropriate skills, experience and capability are retained across the industry;
- **Financial Resilience:** Ensure the financial resilience of the EQC scheme in order to support the Crown's response to a significant natural hazard event; and
- **Resilience:** Increase community resilience to natural disasters.

These priorities underpin a framework to ensure alignment of activity across EQC over the sixteen months commencing in March 2019. The overall outcome for this programme of work is to establish a sustainable capability that enables the efficient delivery of an appropriate and scalable event response and recovery, while continuing to build community resilience.

By the end of June 2019, the integrate phase was completed which resulted in all claims from all events (both Canterbury and non-Canterbury) being handled within one department. This provided a platform for a centre of excellence which will improve and streamline the customer experience and ensure the delivery of the strategic priorities related to claim optimisation and resolution.

Readiness

One of the five new priorities is the optimisation of EQC's event management capacity and capability. EQC has begun the planning and implementation of a future forward model to ensure we are well-placed to respond to a variety of future events, of different magnitudes, as outlined in both this Annual Report and the Statement of Performance Expectations for 2019-20. We will do this by having in place a right-sized organisation, and a series of third-party contracts and partnerships, all of which will be able to respond as required.

Resilience

EQC is uniquely positioned to be a leader in natural hazard risk reduction. In 2018-19 EQC developed the Resilience Strategy for Natural Hazard Risk Reduction to provide strategic direction for its programme of research investment, loss modelling (also known as impact estimation) capabilities, public education, and proactive engagement with key stakeholders across the hazard management sector.

In early 2019, EQC commissioned Dr Laurie Johnson to peer review the Strategy against national and international resilience policy guidance and best practice, taking into account EQC's statutory functions, and the practical and strategic needs of its users and stakeholders. The overall tone of this review was positive, with the review concluding that the Strategy speaks to the resilience needs of New Zealand, and builds upon the leadership and strengths of EQC's multi-decadal research and education investments.

Reinsurance

Reinsurance is how we insure ourselves (and the Crown) to be able to pay claims for damage to insured homeowners in very large hazard events covered by EQC such as earthquakes, volcanoes and tsunami. Our reinsurance programme is one of the largest natural hazard reinsurance programmes in the world, with a significant number of reinsurers participating who are spread across all of the major markets. Our natural hazards research programme, claims information and ability to estimate the impact of events all help our international reinsurers understand their level of risk.

Reinsurance purchased during this financial year is for 2019-20 with cover commencing from 1 June 2019. International reinsurers have shown their continuing confidence in New Zealand and EQC with this year's agreement for $6.2 billion of reinsurance, which is the highest level of cover EQC has ever purchased.

Crown Guarantee

We are working to rebuild our Natural Disaster Fund (NDF), which was depleted following settlement of claims arising from the 2010-2011 Canterbury earthquake sequence and the Kaikōura earthquake. Under section 16 of the Earthquake Commission Act 1993 if there is insufficient money in the NDF to meet our liabilities, the Government will provide the funds we need to meet the shortfall.

The key operational requirements necessary for us to access this funding are contained in a Deed of Agreement between EQC and the Government, with authority to decide and manage payment requests having been assigned to The Treasury. For the first time, during 2018-19, EQC drew on this Crown guarantee and received $125m (excluding GST), over three tranches, in order to continue our claims settlement programme.

Conclusion

EQC has aimed to be more transparent during 2018-19. Publishing our performance dashboard reports on our website enables customers and stakeholders to follow our progress on a monthly basis. This will continue into the 2019-20 financial year.

I would like to thank both my Executive Leadership Team (ELT) colleagues and all other staff for their professionalism and commitment to ensuring a quality outcome for our customers during what has been a year of ongoing change.

Sid Miller
Chief Executive

SETTLEMENT OF CLAIMS

Major event – Progress in Canterbury

EQC's highest priority for this financial year was to settle outstanding claims from the Canterbury 2010 and 2011 earthquake sequence. Following on from the 2017-18 financial year, we stepped up our efforts again and resolved 84% of claims on hand at 30 June 2018. While we made significant progress, unfortunately we failed to meet our target of having settled or in the process of repairing 98% of these claims by 30 June 2019.

This year EQC has put in place steps to reduce the time it takes to settle Canterbury claims. These steps include implementing a case management model, earlier engagement with insurers on potentially over-cap claims, shifting to a dispute resolution approach as an alternative to litigation and better triaging of claims. Combined, these initiatives have led to the lowest number of claims on hand, a reduction in the age of claims (more than 50% of open claims have been received during this financial year), an increased settlement rate, and improved customer satisfaction. During the course of this financial year, thousands of Canterbury claims were reopened and settled. 80% of claims that were reopened this year were processed and closed within six months.

At the end of June 2019, EQC was managing 2,588 Canterbury claims. This is the lowest number of claims on hand to date for the Canterbury earthquakes and compares to the 4,800 claims being managed at the same time last year.

In October 2018, the GCCRS was launched to provide a single point of contact for customers navigating the sometimes complex recovery system, and facilitating a pathway forward for them. EQC has worked closely with GCCRS to provide efficient and fair outcomes for Cantabrians with unresolved residential insurance claims. For example, when a homeowner registers with GCCRS, we receive notification and upload claim information to a portal that the homeowner can access directly. This information, including the latest scope of works, engineering reports and other important claim information, provides homeowners with a much more comprehensive and transparent view of their claim.

While GCCRS manages the navigation of services for the homeowner, EQC is responsible for managing the claim. We have dedicated claims managers located at GCCRS to provide the right support and expertise needed to ensure the service is a success, and collectively we deliver a better experience than previously achieved.

To better measure the experience of our customers, we have added additional questions to our customer survey. While we still survey on overall satisfaction across the whole claim, we are also interested in understanding whether our improvements are changing our customers perceptions of our responsiveness – early indications are showing positive outcomes.

We continue to look at ways to improve and better streamline our customer experience and remain committed to settling all remaining Canterbury earthquake claims in as timely a manner as possible.

Alternative Dispute Resolution

During the 2018-19 financial year, EQC implemented an alternative dispute resolution pathway for customers who are in litigation.

This involves an organisation-wide integrated approach to claims management that focuses on resolution of outcomes for the customer, with greater emphasis on resolving legal issues through an internal dispute resolution process before a customer decides to proceed with litigation.

While this process was primarily designed to resolve the remaining Canterbury claims expediently, with outcomes that were both customer and solution focused, it also provided the capability for wider use if needed.

Closer Co-operation with Southern Response Earthquake Services Ltd

Southern Response was established in 2012 with the primary purpose of settling the claims of AMI residential policyholders arising from the Canterbury Earthquakes before 5 April 2012. In the last year, Southern Response has acted as our agent to assist the settlement for AMI policyholders that have claims with EQC.

A pilot team of EQC and Southern Response staff have been co-located at Southern Response's premises, working together to create a seamless customer claims experience incorporating the best of claims settlement functions and capabilities from both organisations.

Major event – Progress in Kaikōura

Following the Kaikōura earthquake in November 2016, EQC entered a new response model with eight private insurers acting as agents of EQC to manage the settlement of claims. At the end of June 2019, there were 183 outstanding Kaikōura claims (including nine in litigation), with 28 of those being managed by EQC.

From 1 July 2019, management of the majority of outstanding Kaikōura claims moves from private insurers back to EQC. EQC has been working closely with private insurers during this transition to ensure we have access to all relevant information and can provide continuity in the handling of any Kaikōura claims, including any future reopened claims.

Other Events

This financial year has been a relatively quiet period in terms of larger scale natural disaster events for New Zealand. During the period, only two events resulted in more than 100 claims to EQC:

- the Central North Island earthquake event on 30 October 2018 which generated 633 claims; and
- a Christchurch earthquake event on 15 July 2018 which generated 207 claims.

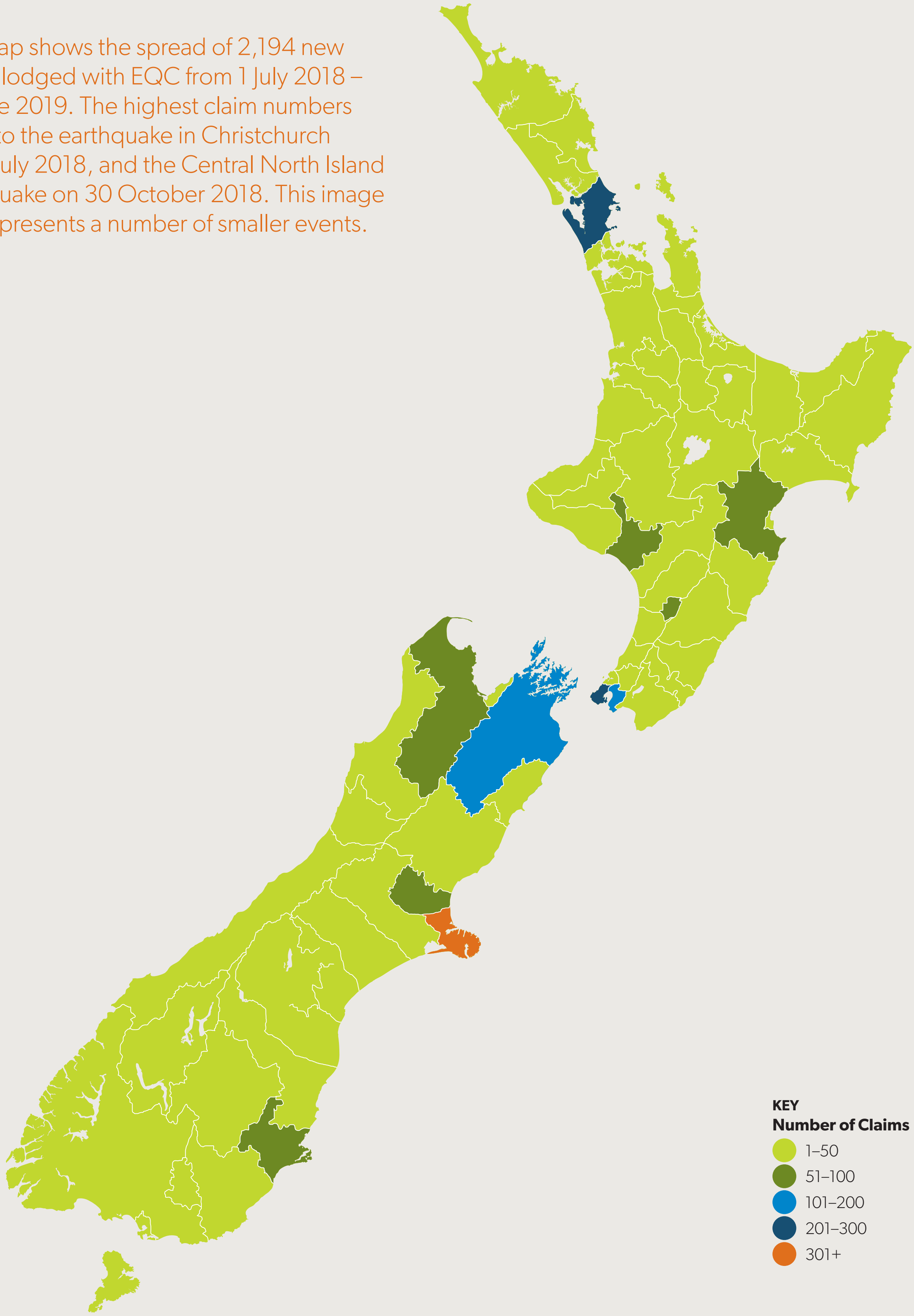
These two events, together with many smaller events, resulted in a total of 2,194 claims received during the 2018-19 financial year. These claims can be broken down as:

- 1,458 earthquake claims;
- 735 landslip, storm or flood claims; and
- 1 hydrothermal activity claim.

The average time to settle these claims was 47 days, and at the end of June 2019, there were a total of 143 outstanding claims.

HERE FOR ALL OF NEW ZEALAND

This map shows the spread of 2,194 new claims lodged with EQC from 1 July 2018 – 30 June 2019. The highest claim numbers relate to the earthquake in Christchurch on 15 July 2018, and the Central North Island Earthquake on 30 October 2018. This image also represents a number of smaller events.

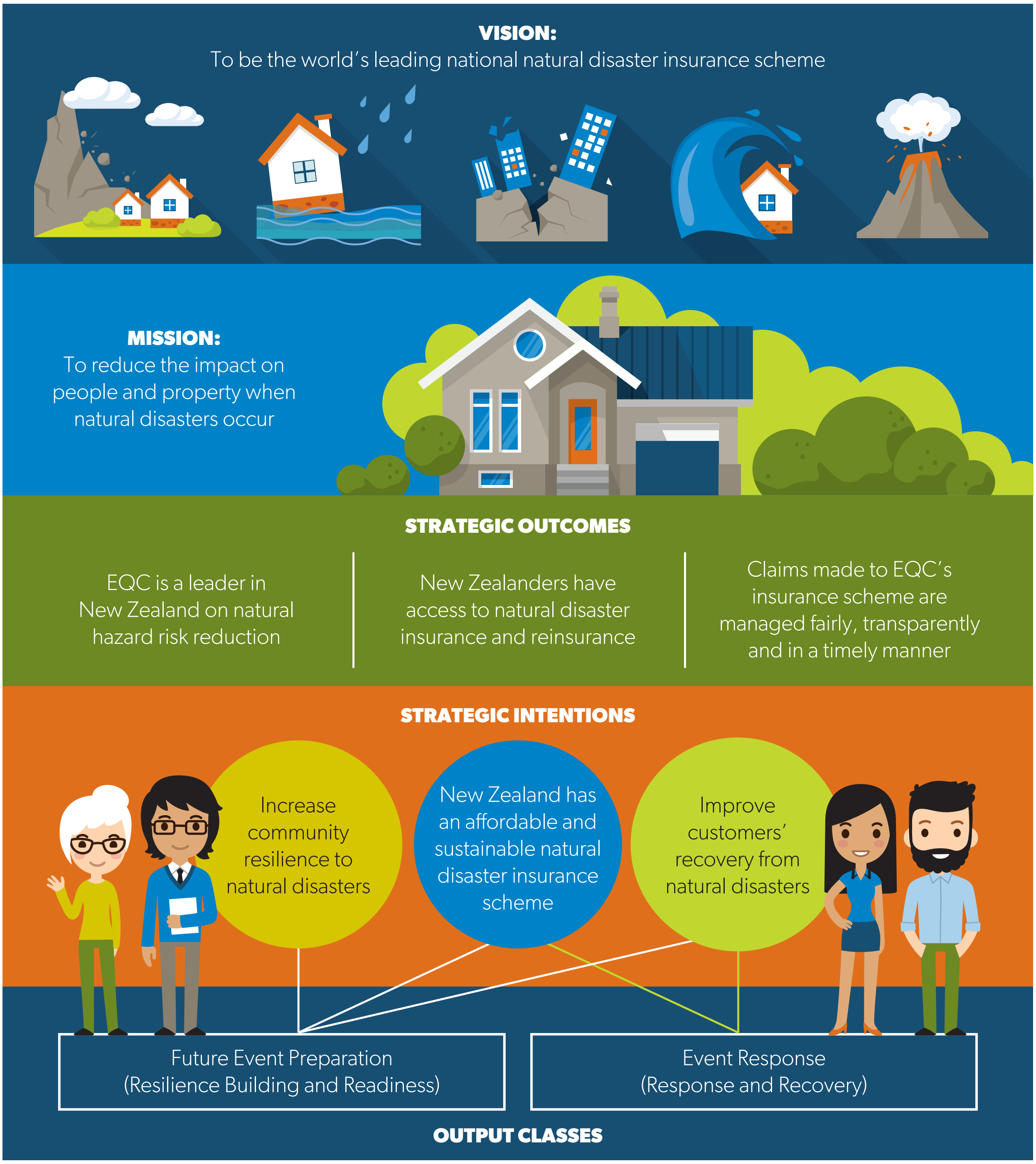


STRATEGIC FRAMEWORK

EQC was established to help New Zealanders in the event of a natural disaster. Our origins go back to 1945, when we covered earthquake and war damage. Even though we have grown, and much has changed since then (for example, we no longer cover war damage), EQC's core purpose continues to be to help 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".

We also undertake research and public education campaigns to raise understanding and awareness, and help people make decisions that will minimise potential damage in disaster situations.

Strategic Map 2018–19



OPERATING ENVIRONMENT

EQC's operating environment underwent a number of changes during the 2018-19 financial year. While previously there had been a pattern of increased seismic activity and a growing number of weather related events, by comparison 2018-19 was reasonably quiet.

EQC's vision of being "the world's leading natural disaster insurance scheme" remains unchanged, and our mission "to reduce the impact on people and property when natural disasters occur" is still at the heart of what we do.

The Earthquake Commission Amendment Bill passed into law in February 2019. Two of the amendments took effect immediately and two took effect from 1 July 2019. All four changes will be fully in place by July 2020.

The changes that took effect from when the bill passed into law were:

- further scope for EQC to share property-related information; and
- an immediate extension of the timeframe for lodging a claim from three months to two years.

The changes that take effect from 1 July 2019 are:

- removal of EQCover for contents (homeowners will be affected only when their insurance policies renew); and
- an increase in the cap on EQC residential building cover from $100,000+GST to $150,000+GST (homeowners will be affected only when their insurance policies renew).

On 13 November 2018, the Minister Responsible for EQC, Hon. Dr Megan Woods, announced the Public Inquiry into EQC (the Inquiry) chaired by Dame Silvia Cartwright. Dame Silvia is working alongside a secretariat team appointed by the Department of Prime Minister and Cabinet (DPMC). The Inquiry will investigate Canterbury operational practice experiences, comparative experiences and future strategies. It will then make recommendations on:

- lessons that can be learned from the Canterbury earthquake sequence events and subsequent events relating to the management of operational practices. This should include contingency planning, preparedness, and the Commission's responsiveness (and, as relevant to the Commission's performance, the responsiveness of other insurers);
- any changes or additions to operational practices as a result; and
- any other matter which the Inquiry believes may promote improved operational practices for future events and/or minimise the recurrence of any inadequacies in claims handling identified by the Inquiry.

EQC is fully supporting the Inquiry, and has appointed an internal Public Inquiry team to manage EQC's response to the Inquiry and liaise with the Inquiry secretariat.

STRATEGIC OUTCOMES

EQC is a leader in New Zealand on natural hazard risk reduction

New Zealand straddles the boundary of two active tectonic plates and is highly exposed to catastrophic geological hazards such as earthquakes, landslides, volcanic activity and tsunami. These natural hazards frequently cause damage to land and buildings, as well as essential infrastructure serving the community – such as power and communication networks, roads, and water systems. For some events, the combination or scale of damage will cause social dislocation and economic disruption far greater than the direct cost of repairing the physical damage.

The only way to reduce damage and the impacts of disasters is to build more resilient buildings on suitable land, with more resilient essential service infrastructure.

This year, we have engaged with the Ministry for the Environment (MfE) and provided them with examples where Special Housing Areas (SHA) were being pursued in areas with potential for natural hazard risk. That information helped MfE amend legislation so that councils must explicitly consider natural hazard risk within their SHA recommendations.

Resilience Strategy

We are uniquely positioned to be a leader in natural hazard risk reduction. This year, we developed the "Resilience Strategy for Natural Hazard Risk Reduction" to provide strategic direction for our programme of research investment, loss modelling (also known as impact estimation) capabilities, public education, and proactive engagement with key stakeholders across the hazard management sector. The Strategy sets out our ambition to play a key role in addressing New Zealand's disaster resilience challenges, through a focus on risk reduction actions, driven by our research and education mandate.

The essence of this Strategy is enhancing the uptake and implementation of resilient building and land-use policy and practices.

Our choice of what to do and who to work with is driven by where we think the greatest value can be gained for national resilience balanced against the ease of implementation. EQC's understanding of risk exposure and vulnerability is a key starting point, and leads to opportunities to leverage existing strong partnerships such as with Local Government New Zealand (LGNZ) and local councils in Christchurch, Wellington and Auckland. We also need to work closely with the building and land-use control parts of central and local government to build their understanding of the potential power of impact estimation, and to shape the information products and delivery mechanisms that have the greatest influence.

In early 2019, EQC commissioned Dr Laurie Johnson to peer review the Strategy against national and international resilience policy guidance and best practice, taking into account EQC's statutory functions, and the practical and strategic needs of its users and stakeholders. The overall message of this review was positive, with the review concluding that the Strategy speaks to the resilience needs of New Zealand, and builds upon the leadership and strengths of EQC's multi-decade research and education investments.

Achieving changes to the way New Zealand manages disaster risk requires natural hazard impacts to be considered in decision-making alongside all the other aspects of community wellbeing. Such decisions need to be informed by the ability to estimate the full costs of natural hazard impacts, which will enable assessment and prioritisation of resilience initiatives.

Members of the science and research community and representatives of the design and construction industries rely on EQC to support and facilitate knowledge sharing and engagement across the sector with the focus on promoting engineering and construction solutions that result in more resilient buildings and infrastructure. In addition to providing funding and sponsorship to relevant research and scientific initiatives, EQC is expected to provide consultation and direction in terms of most appropriate building practices and main priorities for further research and investigation.

Case study – Joining forces for a closer look at South Dunedin ground conditions

This year EQC initiated a project to collect data in a high hazard area in Dunedin. EQC co-ordinated a joint funding agreement and an agreement on scope with Dunedin City Council, the Otago Regional Council, GNS Science, and the University of Otago and QuakeCoRE to conduct a geotechnical investigation in South Dunedin. The project tested the soil at 15 locations and installed instruments to take water level measurements every 10 minutes at eight of those locations. The data generated was placed in the NZ geotechnical database which EQC currently co-funds with Ministry of Business, Innovation and Employment. This database informed our increased liquefaction vulnerability policy and, in addition to other applications, will directly underpin EQC's loss modelling in the future.

South Dunedin is vulnerable to numerous hazards, including sea level rise and associated flooding and earthquake shaking, but limited data is available to quantify the options for managing these risks. The information collected from this project will provide a better understanding of the effects of rainfall and tidal movement on the water level below ground, and how the soil may behave in an earthquake. This will help the community make better informed decisions on how to manage risk, such as building foundation design to handle conditions in an earthquake.

Otago Regional Council's General Manager Operations, Dr Gavin Palmer said "as well as giving us a better understanding of what's going on now, the testing will help develop better computer models of the impacts of future storms and sea level rise. This in turn lets us better understand options to mitigate against and adapt to these affects in future."

With $35 million budgeted by Dunedin City for flood alleviation in South Dunedin over the next 10 years, the project data will help inform options for exactly what that money should be spent on. It will also give emergency response agencies a better idea of the ground's capacity to hold rainwater when there is a risk of flooding.

Increasing the quality and availability of data in this targeted study will assist many stakeholders in planning for the future state of the area. This example is illustrative of EQC fulfilling its key priorities in the Resilience Strategy by being a leader in hazard data management in high risk areas, and developing reciprocal relationships both within local government and other interested organisations.

The image on the next page sets out the EQC Resilience Strategy and how we intend to reduce risk and build resilience.

Loss Modelling

The purpose of loss modelling is to provide:

- a robust analysis of the potential impacts as soon as a natural hazard event occurs, to quickly understand the scale of a disaster, such as the probable numbers of properties impacted and potential losses, which helps EQC and our partners appropriately activate our response capability;
- other central government agencies, land use policy makers and local councils with realistic predictions of the impact of possible events to help improve land use planning and build resilience to natural hazard events in New Zealand; and
- reliable natural hazard risk profiling to the international reinsurance market to enable EQC to negotiate and purchase reinsurance to support the Natural Disaster Fund.

EQC's loss modelling platform, Minerva, uses information from a number of sources, along with scientific insights and vulnerability models, to calculate the impact of natural disaster events and help influence sector decision making. During this financial year, EQC has been working in partnership with GNS Science and the National Institute of Water and Atmospheric Research (NIWA) to replace the current in-house version of Minerva with an enhanced loss modelling platform. This platform, when launched, will use the same scientific insights and vulnerability models as Minerva, but with a view to adding more in the future.

EQC
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

REDUCING RISK BUILDING RESILIENCE

VISION:

Our vision is that natural hazards resilience becomes embedded in all aspects of decision-making for our homes, towns and cities.

CHALLENGES:

What are we up against?

- High exposure to natural hazard risks
- Built assets are vulnerable to damage which results in significant social costs
- Small economy cannot sustain the social and financial costs of ongoing events
- Attitudes and biases about natural hazard risks
- Communities require solutions based on knowledge and know-how
- Natural hazard management system needs greater coordination

OUR GOALS:

What are we working toward?

Stronger homes, built on better land, served by resilient infrastructure, supported by affordable risk capital.

Stronger homes
More resilient buildings and infrastructure reduce damage and impacts

Better land
Smarter land use avoids the worst risks

Access to insurance
Sustained access to insurance markets funds effective recovery

Reduce New Zealand's vulnerability and exposure to natural hazard events

OUR AREAS OF FOCUS:

What are we going to do?

1. Build data and knowledge
Identify and fill data, information and knowledge gaps

2. Translate and transform
Create meaning and new insights by translating ideas and interpreting science

3. Uptake and implement
Influence uptake and implementation into building and land-use practice

PRIORITIES:

What are we going to be working on over the next three years?

A renewed focus on the strategic value of data and information

through smarter and more consistent collection and management of physical, financial and economic exposure and loss information related to housing stock, residential land and service connections.

Initial priorities:
> Geotechnical data in high risk areas
> Improved sharing of hazard information

Coordinated and targeted science investment

with an expanded focus on insurance market and social-behavioural responses to hazard risk, and the research to support impact estimation beyond earthquake hazard.

Initial priorities:
> Research on the effects of risk-based insurance coverage
> Improved volcanic and landslide hazard models

Accelerating the synthesis and translation of research outputs

to develop new products and tools for hazard risk management, including education and training resources to improve design and construction practices, raise risk literacy and encourage consistent regulatory compliance.

Initial priority:
> Engineering guidance for seismic improvement of buildings

Enhancing loss modelling/impact estimation products

to drive planning and policy settings, assessment of resilience costs and benefits, and operational benefits for EQC readiness and response.

Initial priority:
> Replatforming existing capability and expanding the hazard types that can be modelled

Developing reciprocal partnerships

with a wider range of stakeholders to deliver information and guidance to drive risk reduction action.

Initial priorities:
> Local government and key regulators
> Guidance and training for engineers and land-use planners

Research

EQC has a legislated mandate to facilitate research relevant to reducing or preventing natural disaster damage. We fund short term projects that address specific gaps in our knowledge and understanding of the natural hazard science and risk reduction practice, and long term projects that build deep capability across the natural hazards sector.

EQC supports university-based research capability programmes in volcanology, geotechnical hazards and engineering, seismology and fault mechanics, and landslide hazards, as well as professorial chairs in disaster economics and resilience planning. These programmes support teaching positions, and PhD and post-doctoral students across four universities – Canterbury, Victoria, Massey and Auckland. EQC also funds the translation of this research into practical, usable solutions in buildings and communities.

Case study – Fulbright-EQC award winner in natural disaster research

PhD researcher Amanda Wallis is this year's recipient of the Fulbright-EQC Graduate Award in Natural Disaster Research. Amanda will use the Award to research creative ways of encouraging people to be more prepared for natural disasters.

"One of the key things I'll be looking for is how a sense of bond with a place makes a difference to being prepared. It's practical research that will help develop new strategies to help people prepare. The Fulbright-EQC Graduate Award in Natural Disaster Research is the perfect opportunity to enrich my PhD research project, and allows me to work with world-class researchers in my field," says Amanda.

Amanda is doing research for a PhD in Psychology at Victoria University of Wellington and will be a Visiting Student Researcher at the Natural Hazards Center at the University of Colorado, USA, during her Fulbright programme.

"What we know from previous research is that even if people know there is a risk — such as the risk of earthquake in Wellington or volcano in Auckland — they don't necessarily take action. We've also seen that giving information often isn't enough to change that. I'll be looking at what it is that can motivate people to take action. It's really exciting to be involved in research that can translate into strategies that will have an impact for New Zealanders," says Amanda.

EQC is always looking for more ways to encourage New Zealanders to reduce their own risk and be better prepared for natural disasters. Through the Fulbright-EQC award, Amanda will be working with leading researchers in this field to contribute to reducing natural disaster risk for all New Zealanders.

Fulbright-EQC natural disaster researcher, Amanda Wallis

Public Education

Through a combination of marketing campaigns, partnerships and sponsorships, EQC's public education stream of work continues to grow New Zealanders' resilience to natural hazards.

An important element of driving risk mitigation actions is raising awareness of New Zealand's natural hazards and the potential damage they might cause. Hazard awareness is a key feature of both EQC's museum sponsorships and schools programme of works – all of which are conducted through a number of strong stakeholder partnerships and EQC funding. A key piece of work in this area was the development of the new Te Taiao | Nature exhibit at Te Papa in Wellington. Throughout the year EQC worked closely with Te Papa to develop four key interactive elements for the new exhibit, including a return of the ever-popular earthquake house.

The development of a dedicated public education strategy started in 2018-19. This work aims to establish a strong and longer-term framework for EQC's public education efforts, with a focus on driving behaviour change that will see New Zealand households and communities better prepared for natural hazards.

New Zealanders have access to natural disaster insurance and reinsurance

EQC is required to administer the Natural Disaster Fund (NDF), to protect its value, and to administer the insurance against natural disaster that is provided by the EQC Act. In the 2018-19 financial year, EQC's key result areas were to ensure that New Zealanders have access to natural hazard insurance and reinsurance through:

- a reinsurance programme that supports EQC's delivery of affordable residential natural disaster insurance;
- managing the NDF; and
- premium collection.

These components form part of a comprehensive strategy that supports EQC's strategic goal of ensuring New Zealanders have access to natural hazard insurance and reinsurance.

Payments Under the Crown Guarantee

As a result of settling the insurance claims arising from the Canterbury and Kaikōura earthquakes, the NDF was depleted. It has not yet started to rebuild, as the claim payments being made in respect of those earthquakes, and EQC's operating costs, exceed the premium income EQC receives. The shortfall between income and cost of claim settlements is currently being met by the Crown through grants under Section 16 of the EQC Act.

As the claim payments for the Canterbury and Kaikōura events wind down, premium income will again contribute to growing the NDF, assuming there are no further major natural disasters. EQC has developed a model to help understand how long it will take for the NDF to reach the level of EQC's reinsurance deductible of $1.75bn under a range of future event scenarios.

Reinsurance

International reinsurers have shown their continuing confidence in New Zealand and EQC with this year's agreement for $6.2 billion of reinsurance for the year beginning 1 June 2019. It was particularly pleasing to note the reinsurers' feedback and support in relation to EQC's continuing transformation, primarily:

- the organisation's development of its relationships with private insurers including the prospect of an enduring future model;
- the movement to a dispute resolution strategy, with a reduction in claims settled through lengthy court processes; and
- EQC's commitment to New Zealand specific natural hazard risk modelling, with reinsurers welcoming investment in local models as alternatives to the global commercial models that are currently available to them.

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

The resolution of all outstanding Canterbury claims remained our highest priority during 2018-19.

Based on lessons learned, a claims operating model has been implemented that takes a case management approach, with an increased focus on the customer.

This approach will:

- ensure that enough staff are available to ensure people get a more personalised response;
- customise our response depending on the type of event, volume and complexity of claims;
- ensure that we continue to improve the way we engage with customers, including establishing customer and community representative groups;
- ensure that claim information is accurate and readily accessible for use in recovery planning, claim settlement and resilience purposes;
- ensure that case management will result in fair and consistent outcomes for customers;
- improve the way we listen and respond to individual customers; and
- to the greatest extent possible, ensure there is a seamless experience when there is a private insurer element to a claim.

The continued focus on customer engagement and outcomes is already demonstrating a positive impact. The satisfaction rate of our Canterbury customers showed a clear increase when asked about the last six months or less (58% satisfied) compared to the entire life cycle of the claim (40%).

Preparedness

EQC has been developing a future readiness state that details how we plan to convene, mobilise and activate the insurance response for future natural disaster events. We are currently undergoing transformational change, and while we have made good progress on a number of fronts, work continues to action lessons learned from the Canterbury sequence of earthquakes through various reviews and recommendations.

The outcomes from the lessons learned are clear:

- EQC must forge closer and more strategic relationships with local government, central government, and the insurance industry; and
- EQC cannot, in isolation, build and maintain the required capability and capacity to respond to large scale natural hazard events and implement some of the lessons learned.

We are optimising our internal claims operating model to resolve claims in the most efficient and effective way. We have combined claims functions, leveraging capability and capacity from across our different event response models. We have contracts in place with three external providers and we are working with private insurers to design a future model.

Together with the insurers, we are focused on:

- ensuring the system is responsive to customer needs and focused on the successful delivery of services and outcomes for the customer;
- agreeing data sharing processes that support EQC's role in natural hazard risk management and resilience;
- building relationships that are based on openness, transparency and principles of partnership, with clear roles and responsibilities;
- ensuring that any arrangement(s) support the obligations of the EQC Act and insurance policies;
- developing pricing mechanisms that are clear, transparent, and reasonable; and
- embracing a culture of continuous improvement grounded in shared learning and understanding.

EQC will continue working with stakeholders to fully develop the future model over the next financial year.

EARTHQUAKE COMMISSION BOARD

As at 30 June 2019, EQC had seven commissioners, from left to right: Paul Kiesanowski, Dr Alison O'Connell, Mary-Jane Daly (Deputy Chair), Erica Seville, Sir Michael Cullen (Chair), Toni Ferrier, and Tim Hurdle (Absent).

Dame Annette King was EQC's Interim Chair from 1 March 2018 until 31 October 2018. The Minister appointed Sir Michael Cullen to the role of EQC's Chair of the Board, effective from 1 November 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 and 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 1993 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;
- appoint the Chief Executive Officer; 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. 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 (ARC) regularly reviews the effectiveness of the Framework on behalf of the Board. In addition to the Audit and Risk Board Committee, at 30 June 2019 the Board was supported by two other committees – the People Culture and Change Board Committee and the Reinsurance and Resilience Board Committee (RRC). Three to five Board members participate in each committee and, while the ARC and RRC are required to meet at least quarterly, they may meet more often if circumstances require. Members of the Board are involved in advisory sub groups as needed to support key strategic initiatives.

Sir Michael Cullen
Chair and Commissioner

Sir Michael Cullen was an Otago University lecturer until he entered Parliament in 1981. Sir Michael was Finance Minister from 1999 to 2008, and Deputy Prime Minister from 2002 to 2008. His achievements include the establishment of the New Zealand Superannuation Fund and the creation of KiwiSaver.

Term ends: 30 June 2021

Mary-Jane Daly
Deputy Chair and Commissioner

Mary-Jane was appointed to the EQC Board in March 2014. She was formerly Executive General Manager at State Insurance. Prior to this she was Chief Financial Officer for IAG New Zealand having joined the company in October 2006. Mary-Jane is Deputy Chair of Airways Corporation of New Zealand, a Director of Cigna Life Insurance New Zealand Limited, Auckland Transport, OnePath Life (NZ) Limited and Kiwi Property Group Limited.

Term ends: 29 February 2020

Toni Ferrier
Commissioner

Toni is an experienced senior executive in the financial services sector and was appointed to the EQC Board on 1 July 2018. Toni was most recently an Executive at Crombie Lockwood (New Zealand) Limited, part of the Arthur J Gallagher international group of insurance brokers. Prior to that Toni was on the Executive team at Lumley General Insurance (part of the Wesfarmers Group) from 2010 to 2015 where she ran the Lumley Canterbury Earthquake Recovery Business Unit and the Lumley Business Solutions Division.

Toni is a qualified lawyer who was in practice for ten years before starting her financial services career. She is a current Director of Accuro Health Insurance, Advisory Board member for Fergus Software Limited and runs her own consultancy business Purposely Limited.

Term ends: 30 June 2021

Tim Hurdle
Commissioner

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

Term ended: 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.

Paul's other roles include Director of Red Bus Limited, Electricity Invercargill, PowerNet, Apex Environmental, and Craigpine Timber.

Term ends: 29 February 2020

Erica Seville
Commissioner

Erica was appointed to the EQC Board on 1 July 2018. Erica is a founder and director of Resilient Organisations, a social enterprise doing both public-good research and consulting with communities and organisations to help them improve their resilience. Erica is also a Principal Investigator with QuakeCoRE, the New Zealand Centre of Research Excellence on Earthquake Resilience, and has led several major of research programmes in the fields of disaster management, economic and business recovery, and the efficacy of insurance. She is a member of the Resilience Expert Advisory Group, providing advice to the Australian Government on critical infrastructure resilience issues. Erica is an Adjunct Senior Fellow with University of Canterbury and she has PhD in risk management.

Term ends: 30 June 2021

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. Alison has held senior positions at Swiss Re, Mercer, and McKinsey, and was Director of the Pensions Policy Institute in London. She is a Director at the Government Superannuation Fund Authority. Alison lives in Christchurch and is a Director of the Christchurch Art Gallery Foundation.

Terms ends: 30 June 2020

EXECUTIVE LEADERSHIP TEAM

Left to right: Chris Chainey (Chief Financial Officer), Jayne Lapin (General Manager People, Culture and Change), Sid Miller (Chief Executive), Paul Jepson (Deputy Chief Executive Operations) and Renèe Walker (Deputy Chief Executive Canterbury and External Affairs).

Function

The role of the ELT is to manage EQC's operations and lead EQC's staff. They do 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.

While the organisation was set up by the Government in 1945, EQC has had its most concentrated growth in the last nine years in response to the Canterbury earthquake sequence, and has emerged as an entirely different entity as a result. We are now in the process of reshaping and refocusing to better deliver claim outcomes through improved readiness, 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, using collaborative design principles, and providing equal employment opportunities.

EQC Wellbeing Programme

In October 2018, EQC's Board approved our Wellbeing Programme. The Programme is a set of initiatives, benefits and activities being put in place to increase and maintain our people's wellbeing. The Programme has a dedicated manager as well as wellbeing champions, represented by our people. The Programme addresses three wellbeing areas: mental, physical and financial. Another area the Programme is looking at is work culture which feeds into all three wellbeing areas.

During October 2018, we held our first Wellness Expo which gave our people the opportunity to vote on which health and wellbeing initiatives they would prefer, and to offer new ideas and initiatives. Good progress is being made with implementing those initiatives.

The setting up of the Wellbeing Programme directly supports two of our Good Employer Initiatives:

EQC GOOD EMPLOYER INITIATIVE	EQC WELLBEING PROGRAMME INITIATIVE
Leadership, accountability and culture 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.	Several initiatives are currently being worked on and/or are already in place that support and enhance staff physical, mental and financial wellbeing as well as cementing our inclusive and safe culture.
Employee development, promotion and exit EQC has an annual professional development fund that all staff are encouraged to access.	A range of personal development courses are available to all staff. Throughout the year, EQC arranges for in-house talks and seminars that are free of charge.

Wellbeing Survey

Up until 2017, EQC measured employee engagement through pulse surveys during the year. In 2018 the focus shifted to acknowledging the stressful roles that our staff have and, therefore, assessing and responding to their needs around wellbeing. EQC commissioned wellbeing organisation, Umbrella Ltd, to carry out a staff wellbeing survey.

EQC's wellbeing programme began with the pilot survey and assessment carried out by an external provider in June 2018, the second wellbeing pulse survey followed five months later in November 2018. The goal of the second survey was to identify whether EQC employees felt EQC was heading in the right direction with the proposed EQC Wellbeing Programme, and to learn what specific suggestions staff may have had to improve wellbeing at EQC.

During the five months between the two surveys, EQC's results showed that:

- staff health habits (e.g. exercise, sleep, alcohol intake, etc) had not changed;
- some work challenges decreased;
- the organisational climate had improved;
- organisational support for wellbeing and resilience had improved; and
- staff agreed that EQC was heading in the right direction.

Wellbeing Initiatives

EQC Wellbeing Initiatives include:

PHYSICAL WELLBEING	• Each staff member has a Grab and Go bag. • Part-funding of EQC sports teams is available to all staff. • Fresh fruit – offices receive fresh fruit for staff twice a week. • Onsite yoga and fitness classes are provided for staff, along with user-pays onsite massages.
MENTAL WELLBEING	• On-site counselling – both the Wellington and Christchurch offices have on-site trained wellness counsellors that staff can meet with to talk through issues they are experiencing. • EAP services are available to all staff. • All EQC people leaders attended Mental Health Awareness and Managing Mental Health full day workshops in 2018 to give them the tools to identify potential issues with staff, and how to procure assistance when necessary. • All staff were required to attend a one day Mental Health Awareness and Resilience workshop. This training, which aligned with the training attended by people leaders was part of us building a culture at EQC where mental wellness and resilience is actively supported and thrives. • All EQC staff have access to a set of online modules developed by the provider of the above mental health training, which provide follow up learning and tools for maintaining personal resilience and mental wellness. • Information on coping strategies and how to maintain a good mental state is available on EQC's intranet.
FINANCIAL WELLBEING	• EAP financial management advice is available to all staff, along with a series of onsite financial management seminars run by BNZ. • All EQC staff had the opportunity to take advantage of a special personal banking package with a range of fee savings and discounts on banking products and services, with ANZ. • Information on Sorted and KiwiSaver is available on the intranet. • A Health Insurance discount is provided to EQC employees.

Longer-term Initiatives Being Worked On

Leadership and culture

The EQC Leadership Forum was launched in Wellington and Christchurch in December 2018 and continues to occur on a regular basis. These sessions for people leaders are a great means of ensuring that EQC remains connected. The organisational development team has also had a huge level of interest from teams wanting to do the Working Together team-building sessions, and other leadership development initiatives.

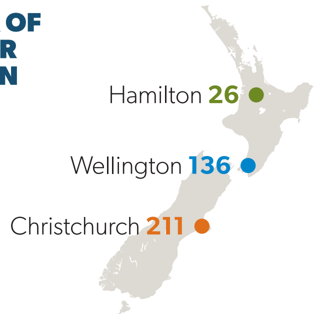
We are now in the process of finalising a Leadership Development Strategy that will continue to build leadership capability across all levels of EQC.

Working conditions

During the design of the Wellbeing Programme, there was feedback from our people about issues impacting working conditions, including concerns about some of our ageing technology. Many of these concerns have been addressed by our Modern Workspace Programme which is rolling out new technology and tools to all our people.

TOTAL NUMBER OF STAFF
(employee information for 2018-19 excludes contractors, temps and consultants)
373

NUMBER OF STAFF PER LOCATION



EQC Good Employer Initiatives

1 LEADERSHIP, ACCOUNTABILITY AND CULTURE

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

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

2 EMPLOYEE DEVELOPMENT AND PROMOTION

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 to jointly go through.

4 REMUNERATION, RECOGNITION AND CONDITIONS

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

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

Our remuneration policy framework is reviewed every two years.

Statistics

All numbers are as at 30 June 2019

AGE RANGE – YEARS

0%	Under 20
28%	20–34
43%	35–49
26%	50–64
2.5%	65+
0.5%	Unknown

GENDER MAKE-UP

	Female	Male
	186	187
Leadership Team	2	3
People Managers	30	35

- Asian **6%**
- European **15%**
- Māori **7%**
- Middle Eastern/Latin American/African **1%**
- NZ European **59%**
- Pacific Peoples **4%**
- Other **5%**
- Undisclosed **3%**

5

HARASSMENT AND BULLYING PREVENTION

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

EQC Standards of Integrity and Conduct and relevant policies are available online, 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 inoculations and annual health checks.

A detailed review of EQC security procedures including the addition of Critical Incident Management Boards and Leader led safety training.

An upgrade to electronic induction and sign in for visitors to our offices.

Engagement of a proactive, professional security company to ensure physical safety of staff across all offices.

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.

MEDIA COVERAGE

As in past years, EQC's media coverage outside Canterbury was much more positive than in Canterbury. Over this financial year, coverage outside Canterbury was 42% positive, but only 25% positive in Canterbury.

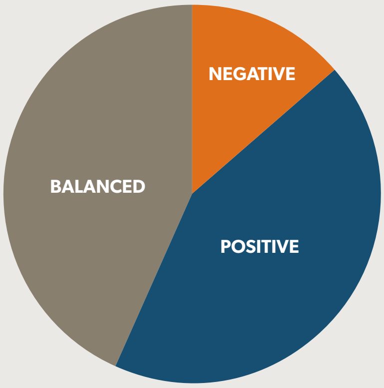
However, there were some positive highlights for Canterbury coverage as a result of a more proactive approach this year to host individual Christchurch journalists and for them to experience EQC's new way of working. EQC also ensured a quick response to media queries and often responded with an immediate phone interview.

There was an increase in the volume of media coverage in June 2019 compared with previous months, driven by EQC's proactive release of positive resilience stories. This included a story about our EQC-sponsored Fulbright scholar and the anniversary of the Wairarapa earthquake, which led to the founding of EQC 75 years ago.

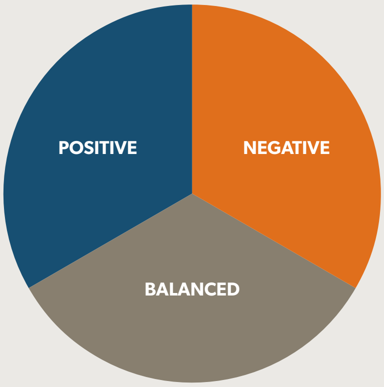
Less favourable coverage included the organisational restructure announcement in May 2019, the launch of the Canterbury Earthquakes Insurance Tribunal, and a story about a Christchurch couple's discovery of faulty repairs in their home.

The start of the Public Inquiry into EQC also led to some negative coverage, with promotion of the event resulting in claimants reviving complaints of slow settlements and faulty repairs, evidenced by 46% negative, 49% neutral and only 4% positive stories relating to the Public Inquiry.

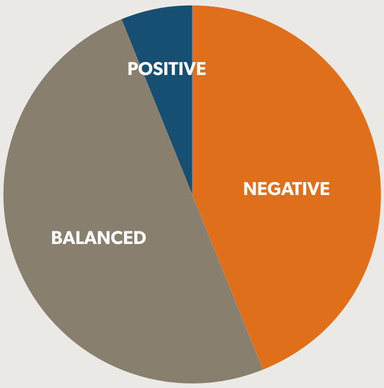
Business as Usual Coverage



Canterbury Coverage



Inquiry Coverage



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 2019 fairly reflect the financial position and operations of EQC.

Signed on behalf of the Board:

Sir Michael Cullen
Board Chair
25 October 2019

Mary-Jane Daly
Deputy Chair
25 October 2019

Building a better working world

Chartered Accountants

Independent Auditor's Report

Independent auditors report to the readers of the Earthquake Commission's financial statements and performance information for the year ended 30 June 2019

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 44 to 91, that comprise the statement of financial position as at 30 June 2019, 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 33 to 42.

In our opinion:

- the financial statements of the Commission on pages 44 to 91:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 33 to 42:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2019, 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 25 October 2019. 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. A member firm of Ernst & Young Global Limited

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 indicate that at 30 June 2019 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.

Basis for our opinion

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

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

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

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 2 to 27 and page 92, 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 provided technical accounting services, which are compatible with those independence requirements. Other than the audit and this engagement, we have no relationship with or interests in the Commission.

BRPenrose

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

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 2018-19.

For the 2018-19 financial year, EQC had two 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 two Output Classes are:

- Output One – Future Event Preparation
- Output Two – Event Response

Output One:
Future event preparation

In 2018-19 EQC developed the "Resilience Strategy for Natural Hazard Risk Reduction" to provide strategic direction for its programme of research investment, loss modelling (also known as impact estimation) capabilities, public education, and proactive engagement with key stakeholders across the hazard management sector. The Strategy sets out our ambition to play a key role in addressing New Zealand's disaster resilience challenges, through a focus on risk reduction actions, driven by our research and education mandate.

We measure the results of our performance by conducting stakeholder surveys to understand how our outputs are perceived by stakeholders and the value that can be derived from them. These were largely new measures for 2018-19 and will set a benchmark for the future.

Using a more strategic approach has seen us exceed the performance standards on all key measures defined in the Statement of Performance Expectations 2018-19. In a survey of key stakeholders commissioned by EQC, the organisation was viewed as the definitive authority in terms of championing natural hazard science research and is seen as a major player within the resilience-focused research and science community. The outputs produced by EQC are viewed as being robust and of a high scientific value.

EQC funded research 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.

We fund $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;
- support to regional projects; and
- sponsorships.

Through a combination of marketing campaigns, partnerships and sponsorships EQC's public education stream of work continues to grow New Zealanders' resilience to natural hazards.

Often utilising the well-recognised tagline of "Fix. Fasten. Don't Forget". EQC's campaigns strongly focus on inspiring property preparedness steps that will make New Zealand homes better able to weather the challenges of natural disasters. Across the past year a number of key audiences have been targeted with these messages, including homeowners with young children, homebuyers and people in areas that recently experienced natural disaster events.

What was achieved?

The key activity required for future event preparation relates to building resilience to natural hazards and education. In order to deliver this, EQC delivered policy advice, research findings and analysis that stakeholders saw as high-quality and well-targeted. The proportion of New Zealanders who take action to prepare their home for risks from natural disasters acts as a guide to how EQC's resilience programme positively impacts New Zealanders' resilience to natural disasters.

This output contributes to EQC's Strategic Intentions "EQC is a leader in New Zealand on natural hazard risk reduction" and "New Zealanders have access to natural hazard insurance and reinsurance", and in doing so moves us closer to achieving our Mission. This output also focusses on the accessibility and uptake of home insurance in New Zealand that is underpinned by the EQC natural disaster insurance scheme.

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
A resilience programme that facilitates improved analysis and public understanding of natural risk				
New Measure	Stakeholders[1] surveyed[2] agree or strongly agree that the outputs of EQC's resilience strategy (advice, analysis and modelling, and research findings): • to be of good or excellent quality; and • to be relevant and focussed on the right issues.	75%	 90% 93%	The Research First survey response demonstrated that EQC exceeded performance standards on all key measures defined in the Statement of Performance Expectations (SoPE) 2018-19. The target measurements were broken down into individual results. EQC provided a list of 70 stakeholders, and 30 representatives from a range of interested sectors participated in the research for both this and the following measure.
New Measure	Stakeholders surveyed agree or strongly agree that the EQC's facilitation and engagement was a positive contribution toward: • improved coordination and collaboration in natural hazards science and research; • improved understanding of natural hazard risk; and • improved coordination and collaboration in natural hazards risk management.	75%	 93% 87% 79%	The Research First survey response demonstrated that EQC exceeded key stakeholder expectations in relation to EQC's facilitation and engagement on each topic. The target measurements were broken down into individual results.
45% averaged over the year	There is a year on year increase in the proportion of New Zealanders who, when surveyed, confirm: • that they have taken action to prepare their homes for natural disasters.	> 45%	46%	1,000 different New Zealanders located in five geographical zones were randomly selected from Nielsen's database and surveyed by The Nielsen Company three times during the 2018-19 financial year. This result is averaged across three surveys.
Insurance Coverage under the EQC Act				
98%	Maintain the high proportion of New Zealand housing stock that has house insurance.	98%[3]	98%	These results are supplied by the Insurance Council of NZ, from their UMR Research survey.

Costs associated with Output Class One

COSTS ASSOCIATED WITH OUTPUT CLASS ONE	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Future event preparation	Nil	$31 million	Nil	$33 million

During the 2019 financial year EQC focused on the development of its Resilience Strategy and as a consequence did not enter into as many new Research Grants as in previous years. This combined with a lower allocation of broader organisational operating costs drives the under budget variance.

1 Stakeholders in every element of the output class include central and local government, members of regional co-ordinating organisations, insurance industry representatives, design and construction professionals, and science and research community members
2 All customer surveys in this output class are undertaken by independent organisations
3 There may be other factors, beyond EQC's control, which could affect the number of New Zealanders choosing to purchase house insurance.

Output Two: Event Response[4]

The Event Response output class focusses on how EQC manages claims after an event. This output contributes to EQC's Strategic Outcome "Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

Our highest priority was to resolve the unsettled claims from the 2010-11 Canterbury earthquake sequence and the November 2016 Kaikōura earthquake. Separate performance measures are monitored for these and are represented in the tables below.

For a claim to be settled, the customer must have received a cash settlement or had a repair completed that meets EQC's obligations under the Act. In some instances, following a settlement the claim may subsequently be requested to be reopened. This will be treated as a reopened claim and be measured accordingly.

EQC has increased collaboration with the private insurance industry and will continue to work closely with it. A strategic review was undertaken of the 2016 Kaikōura earthquake response to identify lessons from the model used in that event which piloted private insurers acting as EQC's agents.

EQC's key priorities for Claims Management during 2018-19 were:

- responding swiftly to all customers' claims to help them recover from an event. Priorities lay with finalising all unresolved Canterbury and Kaikōura claims while responding to new claims and events as they occur;
- improving customer experience and keeping customers better informed about the progress of their claims through the timely release of their information;
- tracking financial efficiency in responding to events through the continued monitoring of claims handling expenses; and
- responding to the recommendations outlined in the Independent Ministerial Advisor's Report published on 6 June 2018.

We tracked our results through a combination of data held within our claims management system including time to settle claims, and independent customer satisfaction surveys. For the 2018-19 financial year, we revised some of our performance measures and, in these cases, this will establish a performance benchmark against which we will be able to measure in future years.

The activities contained within this output are directly targeted at customers who have experienced loss through a natural disaster event. Each activity has measures which set time-bound, qualitative or quantitative criteria designed to ensure that customers are treated in a fair and timely manner. EQC worked to ensure that customers with existing outstanding claims are given a completion pathway during the 2018-19 financial year. Customer satisfaction with this process is also measured, as is EQC's ability to settle claims within the initial claims handling expenses budget approved by the EQC Board.

What was achieved?

Settlement of Canterbury 2010-11 Earthquake Sequence Remedial Claims

Our top priority was to provide services to customers with claims from the 2010-11 Canterbury earthquake sequence. These measures address both the timeliness and quality of claims resolved during the 2018-19 financial year. We also increased the frequency and quality of communications with our customers. The survey results showing their overall level of satisfaction as well as how well they have been kept informed regarding progress of their claims, informs us of how successful this has been.

4 EQC have changed the name of this Output Class from Claims Management to Event Response to better align with strategy.

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	Outstanding claims[5] on hand at 30 June 2018, are settled or in the process of being physically repaired by 30 June 2019.	98%	84%	EQC started the financial year with 3,476 claims on hand. By the end of the financial year 84%, or 2,920, of these had either been settled or were under repair. Outstanding claims tend to be highly complex in nature or are now in litigation or being facilitated/managed by a third party (GCCRS/ Southern Response).
New Measure	New inflow of accepted reopened claims[6] lodged post 30 June 2018 will be settled, or in the process of being physically repaired, within six months of reopened[7] date.	80%	80%	During the 2018-19 financial year, EQC had an inflow of 3,293 reopened claims (that qualified for this measure i.e. settled within six months or over six months old). Of those, 2,627, or 80%, were resolved within six months of acceptance.
New Measure	The frequency of communications providing customer certainty in the progress of their claims settlements.	All customers with an outstanding claim[8] are provided a personalised monthly communication from EQC	75%	The introduction of the case management approach increased the regularity of contact with customers, however, an element of claims had third parties or advocates involved (therefore it was difficult for EQC to confirm customer contact) and some customers did not want to be contacted monthly.
New Measure	EQC settlements should be enduring. Less than 10% of claims settled between 1 May 2018[9] and 1 January 2019 are reopened by 30 June 2019.	<10%	14%	A total of 4,572 claims were closed during the measurable period, of which 648 were reopened within the six month window.
37%[10]	The proportion of surveyed[11] customers who indicate satisfaction about their overall claim settlement process increases by 5% per annum.	≥42%	40%	This result is provided by Kantar TNS. It is calculated on weighted average results across the year. Each month a different number of customers are available to be surveyed, based on the number of claims settled during the previous month. During 2018-19 measurable satisfaction performance has fluctuated between a high of 54% and a low of 25%.
23%	The proportion of surveyed customers who indicate that they were well informed during the claims settlement process increases by 15% per annum.	≥38%	32%	This result is provided by Kantar. It is calculated on weighted average results across the year. Each month a different number of customers are available to be surveyed, based on the number of claims settled during the previous month. During 2018-19 measurable well informed performance has fluctuated between a high of 46% and a low of 18%.

5 Where EQC potentially has outstanding liability under the EQC Act. Excludes any claims that are subject to litigation or managed by Southern Response under the agreed Memorandum of Understanding
6 Where EQC potentially has outstanding liability under the EQC Act. Excludes new litigation cases
7 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required
8 Excluding claims in litigation
9 Canterbury claims were transferred to a new system during April 2018 hence the 1 May 2018 date
10 This percentage, and the one for the following measure, differs from last year's annual report as last year's figures included all claims and these numbers have now been separated out to represent Canterbury only
11 Telephone survey conducted with customers whose claims were settled the previous month. All customer surveys in this output class are conducted by independent organisations

Settlement of Kaikōura 2016 Earthquake Claims

Resolving any outstanding and reopened claims from the 2016 Kaikōura earthquake in a swift manner was also a high priority. While some strong progress was made, we were unable to meet the completion target of settlement by 31 December 2018. These measures indicate the level of achievement by EQC and the private insurers. From 1 July 2019, management of most outstanding claims moves from private insurers back to EQC.

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	Outstanding claims[12] on hand at 30 June 2018, excluding any that are subject to litigation proceedings, are settled by 31 December 2018.	95%	85% at 31/12/18	2018-19 opened with 848 claims on hand (78 with EQC and 770 with private insurers). At the end of December 2018, EQC had 13 claims remaining and private insurers had 115 open – a total of 128 claims. Settlement of the remaining claims will continue into the 2019-20 financial year.
New Measure	Reopened[13] Kaikōura claims lodged post 30 June 2018 will be settled within 6 months of reopening.	90%	96%	The majority of reopened Kaikōura claims have been resolved via cash settlement in a timely manner by either the relevant private insurer or EQC. 512 claims were reopened, with 490 closed within the required timeframe.

Claims relating to other natural disaster events (excluding Canterbury and Kaikōura)

This section is focused on providing service to EQC's customers with claims unrelated to existing Canterbury 2010-11 or Kaikōura 2016 earthquake events. These measures address claims (including any reopened claims), and the speed and quality of EQC's claims resolution – the aim being to settle claims swiftly, fairly and efficiently. This output also includes communication with EQC's customers, surveying their level of satisfaction with the claim settlement process and how well they were kept informed. Managing the cost of the natural disaster events against specific budgets was not measured this period as no events met the necessary criteria.

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	Claims are settled within 90 working days of assessment.	80%	97%	The percentage of claims in this category were settled within one year, as per the EQC Act, of assessment currently tracks at 100%.
New Measure	The frequency of communications providing customer certainty in the progress of their claims settlements.	All customers with an outstanding claim[14] are provided a personalised communication from EQC monthly.	98%	The majority of customers have received monthly contact, however not every customer is available, nor wishes to be contacted every month.

12 Either first time settlements or reopened claims
13 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required
14 Excluding claims in litigation

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	EQC settlements should be enduring. Less than 10% of claims resolved between 1 January 2018 and 1 January 2019 are reopened by 30 June 2019.	<10%	3.6%	A total of 3,375 claims were closed during the measurable period, and 123 claims were reopened during the six month window.
57%[15]	The proportion[16] of surveyed customers who indicate satisfaction about their overall claim settlement process increases by 5% per annum.	≥62%	76%	This result is provided by Kantar TNS. It is calculated on weighted average results across the year. Each month a different number of customers are available to be surveyed, based on the number of claims settled during the previous month. During 2018-19 measurable satisfaction performance has fluctuated between a high of 82% and a low of 59%.
45%[17]	The proportion of surveyed customers who indicate they were well informed during the claims settlement process increases by 15% per annum.	≥60%	75%	This result is provided by Kantar. It is calculated on weighted average results across the year. Each month a different number of customers are available to be surveyed, based on the number of claims settled during the previous month. During 2018-19 measurable well informed performance has fluctuated between a high of 83% and a low of 56%.
New Measure	New natural disaster event[18] claims are resolved within Board approved claims handling expense budgets[19] for those events.	Within 10% of initial budget	N/A	There were no natural disasters large enough to trigger a specific budgeted event.

Costs and Revenue associated with Output Class Two

COSTS AND REVENUE ASSOCIATED WITH OUTPUT CLASS TWO	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Claims Management	Nil	$42 million	Nil	$35 million

Costs were $7m higher than budgeted, due to the occurrence of non-budgeted restructuring costs ($2.1m), a provision for bad debts ($1.5m) and a higher allocation of the organisational operating costs than budgeted.

15 Based on Q1 – Q3 average
16 Telephone survey conducted with customers whose claims were settled the previous month
17 Based on Q1 – Q3 average
18 A specific event budget may be established when there are 500 or more claims and/or the estimated total financial impact is anticipated to be above $5 million
19 In the approval of budgets, the Board will consider the type of response required, previous costs of similar events and any available benchmarks

KEY ACTIVITY MEASURES

In addition to our output classes, EQC introduced key activity measures to provide transparency on how we continually progress key activities to achieve our strategic outcomes and intentions, as well as delivering the functions set out in the EQC Act. The following key activities contribute to all three of EQC's strategic outcomes.

The key activity measures demonstrate how EQC will increase its resilience and capability to respond to future events through the purchase of reinsurance, the steps being taken to manage the Natural Disaster Fund, and the collection of premiums payable under the EQC Act.

Key activity measure 1: A reinsurance programme that supports EQC's delivery of affordable residential natural disaster insurance protection

The purchase of reinsurance transfers an agreed amount of natural disaster risk to offshore capital providers, thereby reducing the concentration of New Zealand's financial exposure to future natural disaster events.

What was achieved?

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	The reinsurance programme continues to support delivery of affordable residential natural disaster insurance protection consistent with EQC's risk financing strategy.	Reinsurance protection is obtained on terms that assure continuity of coverage for all perils, at rates that are lower than the Crown's cost of capital.	Achieved	The ceded Return on Equity on the 2019-20 programme is estimated to be less than 2.5%, while the Crown's cost of capital (debt) is 5.5%.
		Annual Consultation with the Crown on risk appetite occurs.	Achieved	The meeting was held between EQC and Treasury in February 2019 ahead of 2019-20 reinsurance programme placement.

Costs and revenue associated with key activity measure 1

COSTS AND REVENUE ASSOCIATED WITH KEY ACTIVITY MEASURE 1	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Reinsurance Programme	Nil	$181 million	Nil	$168 million

Expenditure in the year was above budgeted levels as a result of EQC purchasing increased levels of cover, for which there was capacity in the market.

Key activity measure 2: Managing the Natural Disaster Fund

While having the financial ability to regrow the NDF may be some way off, EQC has developed a model to better understand future projected growth

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
New Measure	The long-term financial strategy of EQC enables a rebuild of the Natural Disaster Fund to reach $1.75bn[20] by 2030.	An independently assessed model will demonstrate progress.	This measure was partly achieved. A model has been constructed. Review is currently underway by KPMG and is expected to be completed in July 2019.	The review of this model was completed by 29 July 2019.

Revenue associated with key activity measure 2

REVENUE ASSOCIATED WITH KKY ACTIVITY MEASURE 2	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Crown Guarantee	$125 million	Nil	Nil	Nil

The Treasury have requested that EQC does not forecast / budget for receipt of monies under the Deficiency Deed. Actuals represent the cash received (excluding GST).

20 This represents the current deductible (excess) for EQC's reinsurance programme

Key activity measure 3: Premium Collection

The accurate collection of premiums is crucial to ensuring the ongoing funding of the EQC natural disaster insurance scheme and rebuild of the NDF. The premiums are collected by private insurers and transferred to EQC.

PERFORMANCE 2017-18	PERFORMANCE MEASURE 2018-19	TARGET 2018-19	ACTUAL PERFORMANCE 2018-19	COMMENT
108%[21]	The level of premiums collected compared to annual financial budget.	> 97.5%	100.7%	Actual premiums collected of $386.6m vs. budget of $383.9m. This is due to the numbers of dwellings in NZ increasing by more than the 1% budgeted growth number.

Revenue associated with key activity measure 3

REVENUE ASSOCIATED WITH KKY ACTIVITY MEASURE 3	ACTUAL REVENUE	ACTUAL EXPENDITURE	BUDGET REVENUE	BUDGET EXPENDITURE
Premium Collection	$387 million	Nil	$384 million	Nil

21 This figure is due to the increased EQC Levy (which occurred following completion of the 2017-18 budget) from 1 November 2017

FINANCIAL INFORMATION

Statement of Comprehensive Revenue and Expense

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
EARNED PREMIUMS				
Premiums	3	386,589	383,907	309,479
Outward reinsurance premium expense		(180,685)	(168,076)	(167,534)
Net earned premium revenue		**205,904**	**215,831**	**141,945**
UNDERWRITING MOVEMENTS				
Reinsurance and other recoveries	5	459,969	1,497	82,890
Claims (expense)/reduction	6	(302,101)	84,440	(398,749)
Unexpired risk liability reduction	17	6,808	7,421	52,200
Total underwriting movements		**164,677**	**93,358**	**(263,659)**
SURPLUS/(DEFICIT) FROM INSURANCE ACTIVITIES		**370,580**	**309,189**	**(121,714)**
OTHER OPERATING REVENUE				
Crown guarantee*	4	125,000	–	–
Other revenue		–	–	11
Total other operating revenue		**125,000**	**–**	**11**
OTHER OPERATING EXPENSE				
Future event preparation		(31,107)	(33,412)	(26,119)
Event response		(42,383)	(34,752)	(32,211)
Total other operating expense	**7**	**(73,490)**	**(68,164)**	**(58,330)**
INVESTMENT ACTIVITIES				
Investment revenue	9	125	–	4,202
Investment costs		(32)	–	(77)
Interest on cash balances		1,971	–	6,877
Revenue from investment activities		**2,064**	**–**	**11,002**
Crown underwriting fee	18	(10,000)	(10,000)	(10,000)
TOTAL COMPREHENSIVE REVENUE/(EXPENSE) FOR THE YEAR		**414,154**	**231,025**	**(179,031)**

* In line with Treasury's instructions, the Earthquake Commission ('Commission') does not budget for funding received under the Crown Funding Deed.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July		(2,449,501)	(2,060,881)	(2,270,470)
Total comprehensive revenue/(expense) for the year		414,154	231,025	(179,031)
Closing balance at 30 June		**(2,035,347)**	**(1,829,856)**	**(2,449,501)**
CLOSING BALANCE AS AT 30 JUNE		**(535,347)**	**(329,856)**	**(949,501)**

The accompanying notes form part of these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2019

	NOTE	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings		(2,035,347)	(1,829,856)	(2,449,501)
Total equity		**(535,347)**	**(329,856)**	**(949,501)**
ASSETS				
Bank		72,646	–	181,354
Premiums receivable		77,872	71,946	76,164
Outstanding reinsurance and other recoveries	5	627,661	40,583	226,677
GST receivable		6,296	1,742	15,018
Prepayments		1,454	1,434	1,832
Outward reinsurance expense asset		28,735	28,013	30,239
Property, plant and equipment	13	12,425	11,493	12,537
Intangible assets	14	10,298	16,721	12,748
Total assets		**837,387**	**171,932**	**556,569**
LIABILITIES				
Bank		–	(76,618)	–
Trade and other payables	15	(25,606)	(12,370)	(51,736)
Provisions	16	(4,938)	(1,886)	(1,758)
Outstanding claims liability	2	(1,104,712)	(172,386)	(1,218,215)
Unearned premium liability	3	(207,266)	(204,616)	(197,341)
Unexpired risk liability	17	(30,212)	(33,912)	(37,020)
Total liabilities		**(1,372,734)**	**(501,788)**	**(1,506,070)**
NET LIABILITIES*		**(535,347)**	**(329,856)**	**(949,501)**

* To ensure that the Commission can meet its liabilities as they fall due, the Crown and the Commission have a Funding Deed in place for the Crown to meet its obligation under Section 16 of the Earthquake Commission Act 2019 (EQC Act). For further information on the going concern basis of these financial statements refer to Note 1 and Note 11.

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2019

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Interest	1,971	–	6,877
Premiums	394,805	386,346	336,687
Reinsurance and other recoveries	57,265	86,504	63,318
Crown guarantee	125,000	–	–
Other income	–	–	11
Net GST	8,723	1,192	(6,117)
Cash was applied to:			
Outward reinsurance	(178,959)	(168,444)	(170,128)
Crown underwriting fee	(10,000)	(10,000)	(10,000)
Claims settlements and handling costs	(446,696)	(446,762)	(815,631)
Employees and other operating expenses	(41,736)	(46,839)	(36,593)
GeoNet operating expenses	(10,357)	(9,043)	(9,657)
Research grants	(3,497)	(4,673)	(3,800)
Net cash outflow from operating activities	**(103,481)**	**(211,719)**	**(645,033)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Sale of investments	125	–	342,080
Interest on investments	–	–	5,493
Sale of property, plant and equipment	11	–	149
Cash was applied to:			
Purchase of property, plant and equipment	(3,767)	(3,875)	(2,051)
Purchase of intangibles	(1,596)	(7,431)	(2,971)
Net cash (outflow)/inflow from investing activities	**(5,227)**	**(11,306)**	**342,700**
Net decrease in bank	**(108,708)**	**(223,025)**	**(302,333)**
Add opening bank	181,354	146,407	483,687
CLOSING BANK	**72,646**	**(76,618)**	**181,354**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

Reconciliation of Total Comprehensive Revenue/(Expense) for the Year to Net Cash Outflow from Operating Activities

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Total comprehensive revenue/(expense) for the year	414,154	231,025	(179,031)
Add non-cash items:			
Depreciation and amortisation	7,434	7,580	7,975
Impairment	389	–	–
Total non-cash items	**7,823**	**7,580**	**7,975**
Less items classified as investing activities:			
Interest income and gains on investments	(125)	–	(4,202)
Loss/(gain) on disposal of property, plant and equipment	92	–	(1)
Total items classified as investing activities	**(33)**	**–**	**(4,203)**
Add/(less) movements in Statement of Financial Position items:			
Premiums receivable	(1,708)	2,439	(20,826)
Net movement in reinsurance	(399,480)	84,087	(22,283)
GST receivable	8,722	1,997	(6,117)
Prepayments	378	(368)	(430)
Trade and other payables	(26,131)	(23,258)	(20,026)
Provisions	3,180	96	(122)
Outstanding claims liability	(113,503)	(515,317)	(395,804)
Unearned premium liability	9,925	7,421	48,034
Unexpired risk liability	(6,808)	(7,421)	(52,200)
Net movements in working capital items	**(525,425)**	**(450,324)**	**(469,774)**
Net cash outflow from operating activities	**(103,481)**	**(211,719)**	**(645,033)**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Notes Index

1. Accounting Policies

Reporting Entity

The Earthquake Commission ('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 2019 (EQC Act). The Commission's ultimate parent is the New Zealand Government.

The Commission's primary objectives are to administer the insurance against natural disaster damage as provided for under the EQC Act, facilitate research and education about matters relevant to natural disaster damage, and to manage the Natural Disaster Fund ('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 2019. These financial statements were approved by the Board on 25 October 2019.

Basis of Preparation

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 Public Benefit Entity Standards ('PBE Standards') as appropriate for Tier 1 public benefit entities.

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 2019. The Crown has entered into a Deficiency Funding Deed with the Commission to meet its obligation under Section 16 of the EQC Act to ensure that the Commission can meet its liabilities as they fall due. The Deed was signed on 18 September 2018 for a term of 12 months and was extended for another term of 12 months from the anniversary of the original deed. Section 16 states: "If the assets of the Commission (including the money 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.

Measurement Base

The financial statements have been prepared on a historical cost basis modified by 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.

Accounting Judgements and Major Sources of Estimation

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

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

The actuarial judgements and estimations involved in measuring insurance liabilities and reinsurance recoveries are key areas of estimation where the assumptions made may have a significant effect on the financial statements, with a significant risk of material adjustment in future periods. This is discussed in Note 2.

Significant Accounting Policies

The following policies have been applied consistently 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.

Other operating expense categories have been reclassified from four previous categories into two categories for the 2018 actuals to align with internal analysis and reporting as well as the 2018-19 Statement of Performance Expectations (SoPE).

Budgets

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the Commission's 2018-19 SoPE. Major variances to budget are explained in Note 10.

Standards adopted in the current period

The Commission has voluntarily adopted PBE IFRS 9 Financial Instruments for the first time on 1 July 2018 in accordance with the New Zealand Treasury's decision to adopt this Standard in the financial statements of the Government. PBE IFRS 9 replaces parts of PBE IPSAS 29 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment; and hedge accounting. The Commission applied PBE IFRS 9 prospectively, with an initial application date of 1 July 2018. The Commission has not restated the comparative information, which continues to be reported under PBE IPSAS 29.

The assessment of the Commission's business model was made as of the date of initial application. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of PBE IFRS 9 did not have a significant impact on the Commission. Bank, premiums receivable; and outstanding reinsurance and other recoveries previously classified as loans and receivables as at 30 June 2018 are now classified as financial assets measured at amortised cost. There were no changes to the classification of the Commission's financial liabilities.

The adoption of PBE IFRS 9 has changed the Commission's accounting for impairment losses for financial assets by replacing PBE IPSAS 29's incurred loss approach with a forward-looking expected credit loss approach.

Standards issued but 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

The XRB issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the Commission has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

Service Performance Reporting

PBE FRS 48 Service Performance Reporting was issued in November 2017 and replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The Commission has not yet determined how application of PBE FRS 48 will affect its SoPE.

Standard not yet issued

Leases

In February 2016, the External Reporting Board issued NZ IFRS 16 Leases. This replaces NZ IAS 17 Leases. NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. 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 assessed the effects as there is currently no relevant standard in place.

Insurance Contracts

In August 2018, 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 assessed the effects as there is currently no relevant standard in place.

2. Insurance Liabilities

The Commission provides cover to all New Zealand homeowners who take out fire policies on their home for 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. Due to New Zealand's high level of insurance penetration, and the mandatory nature of EQC cover, the Commission has a balanced, diversified portfolio covering the vast majority of New Zealand homes. The Commission has an extensive reinsurance programme to protect the portfolio, and has an uncapped guarantee from the Crown, should retained funds and reinsurance prove inadequate.

At balance date, the Commission recognises a liability in respect of outstanding claims, including amounts in relation to claims reported but not yet paid, claims incurred but not reported, claims incurred but not enough reported and costs, including claims handling expenses. The Commission also assesses the adequacy of the unearned premium liability and calculates any resulting unexpired risk liability. Following the 2010-11 Canterbury earthquake sequence, which caused a significant influx of claims to the Commission, the organisation engaged independent professional actuaries to undertake a valuation of outstanding claims on a six monthly basis. This is consistent with standard practice within the insurance industry.

When an event initially occurs there will often be a high level of uncertainty associated with the estimated cost, due to the large number of unknowns. As time progresses the Commission and the actuaries gather greater levels of information in regards to an event, such as details of the quake's magnitude and impact in different locations, and patterns start to emerge in the cost of claims as customers receive their entitlement under the EQC Act. In the case of the Canterbury sequence, court judgments and policy decisions by the Government over time have also affected the nature and amount of claims paid. The actuaries take this additional information into account at each valuation to refine their calculations, which may increase or 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 Valuation as at 30 June 2019

The most recent actuarial valuation report was prepared by Craig Lough and Jeremy Holmes of Melville Jessup Weaver, who are both Fellows of the New Zealand Society of Actuaries. Their report was commissioned to provide estimates of the outstanding claims liability, reinsurance and other recoveries, and premium liabilities, including the unexpired risk liability. The effective date of the valuation report is 30 June 2019. Melville Jessup Weaver also performed actuarial valuations of EQC's outstanding claims liability for the financial years from 30 June 2011 to 30 June 2018.

Messrs Lough and Holmes considered that overall the information and data supplied to Melville Jessup Weaver was adequate and sufficient for the purpose of the valuation. The outstanding claims liability, comprising all unpaid claims and claims handling expenses related to claims incurred prior to the end of the reporting period, was valued in accordance with New Zealand Society of Actuaries Professional Standard No.30 – Valuations of General Insurance Claims, and PBE IFRS 4 – Insurance Contracts.

To determine the outstanding claims liability, the actuaries needed to develop a range of assumptions about the eventual cost of currently open claims and the incidence of reopened claims in the future. To do this, they have analysed past payment and settlement patterns in the Commission's claims data, including how these have changed over time, and discussed with management and claims staff how these patterns are evolving and the drivers of changes.

The final claims assumptions adopted are determined by the actuaries using their professional judgement. Management provides information on current and short term claims handling expenses, which the actuaries then project out in line with the expected level of claims in force in future periods. The actuaries projected the ultimate claims costs then deducted the payments made in relation to those claims on or before 30 June 2019 to arrive at the outstanding claims liability. The calculations are performed by event and claim type (land claims, dwelling claims or contents claims and claims handling expenses). An aggregate stochastic frequency/severity simulation model was used to calculate the estimated ultimate claims costs for the Canterbury sequence. For the Kaikoura event a multi-state transition simulation model was used for insurer managed non multi-unit buildings, based on transition probabilities and potential costs in each state. For land, contents, Wellington multi-unit buildings and EQC managed buildings there are fewer open exposures, and a simplified approach was adopted using a stochastic average cost per claim model. The final results for Kaikoura used a weighted average between the simulated results and the case estimates, where case estimates were available from insurers.

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, plus an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, incurred but not reported (IBNR), incurred but not enough reported (IBNER) and claims handling costs. The risk margin is set to achieve a desired probability of sufficiency, based on the actuarial modelling. The Commission's Board has chosen to adopt a risk margin of 85% (2018: 85%) probability of sufficiency, i.e. there is an 85% probability that the net provision will ultimately prove to be adequate to meet the Commission's liabilities from events which have occurred as at 30 June 2019, and a 15% chance that it will be insufficient.

Changes to the EQC Act affecting the Outstanding Claims Liability

At the time of the first Canterbury earthquake, the EQC Act required claims to be notified within one month of an event. This was amended to three months in 2011. 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 applied for each of the Canterbury and Kaikoura events of $20,000 for contents 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.

In February 2019 the EQC Amendment Bill was passed which extended the timeframe for lodging a claim from three months to two years from that date forward. This has been taken into consideration by Melville Jessup Weaver in estimating the 'incurred but not reported '(IBNR) element of the outstanding claims liability.

From 1 July 2019 the EQC Amendment Bill will also see the removal of the $20,000 EQCover for contents and an increase in the cap on EQC residential building cover from $100,000 (plus GST) to $150,000 (plus GST) at the homeowner's next policy renewal date. This does not affect this year's outstanding claims liability.

Valuation Results – Outstanding Claims Liability and Risk Margin

On a net of reinsurance basis, the outstanding claims liability including risk margin has reduced to $524 million as at 30 June 2019 (2018: $1,004 million) as the Commission has continued to settle claims predominantly relating to the 2016 Kaikoura earthquake and the 2010-11 Canterbury earthquake sequence. Cash spent on claims settlement and handling costs was $447 million in the 2019 financial year; a decrease of approximately $369 million on the 2018 financial year.

As the total value of current and future claims cannot be known with certainty, the amounts recorded in the financial statements for claims liabilities and reinsurance recoveries are almost certain to be different from the liabilities and associated receivables that eventuate. The 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 85.8% in 2019, up from 54.0% in 2018. In absolute terms the 2019 risk margin is $242 million (2018: $352 million). The size of the risk margin relative to the net outstanding claims liability has risen due to there being an increased proportion of the remaining outstanding claims liability that relates to highly uncertain activities. The specific issues related to each part of the liability are discussed in more detail in the related sections below.

Progress with the November 2016 Kaikoura Earthquake

For the 2016 Kaikoura 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 e.g. 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 limitations to the data available to the actuaries to model the estimated cost. These limitations have increased the level of uncertainty in the valuation of the remaining Kaikoura claims liabilities. The Commission has made significant reimbursements to private insurers during the 2019 financial year in respect of claims they paid on the Commission's behalf, however, data challenges remain in relation to the remaining outstanding claims due to delays in receiving information from insurers and systems issues. As the event response has progressed and with 99.6% of all claims settled at 30 June 2019, the Commission and the private insurers have experienced approximately 4% of claims being reopened to date. Some level of reopened claims is inevitable for reasons such as further damage being identified through the undertaking of repair work.

The total cost of the Kaikoura event is estimated to be less than the Commission's reinsurance deductible, hence there are no reinsurance receipts expected. Costs given below in relation to the Kaikoura earthquake event represent both the change to the outstanding claims liability and the impact on surplus and deficit and net liabilities.

The central estimate ultimate cost of the earthquake is $648 million, an increase of $32 million compared to 30 June 2018. To date payments of $604 million (including claims handling expenses) have been made, leaving an outstanding central estimate claims expense of $44 million. There is an additional $17 million risk margin associated with the event as at 30 June 2019 (2018: $40 million). The primary drivers of the increase in the estimated cost are:

- A revision to the reopened claims assumption. Reopened claim rates are difficult to predict, and to date there is a scarcity of reliable data to inform the assumption. The actuaries have taken a conservative approach, and estimated the expected cost of future reopened claims to be $19 million, or 4% of closed claims to date (30 June 2018: $28 million, 10% of closed claims to date). Reopened claims are now projected to occur out to 30 June 2020. It is highly likely that the actual reopened rate will vary from this assumption in future.
- A $5 million increase in anticipated claims handling expenses as further information became available in regards to the costs of private insurers' responses to managing the Commission's claims and in light of the higher reopened claims assumptions.

The Commission is now taking back in-house a large proportion of remaining undercap claims from the majority of participating insurers, although they will retain management of multi-unit buildings, claims with outstanding complaints, and some with other special features, at their discretion. Managing claims in-house should provide the Commission with more up-to-date information for assumption setting going forward.

Summary of key assumptions for future payments arising from the Kaikoura earthquake

The Kaikoura earthquake claims model uses stochastic processes to estimate the range and central estimate of the ultimate claims cost. As such, each key assumption has a probability distribution. The claim size coefficient of variation, defined as the ratio of the standard deviation to the mean, gives an indication of the reasonable range of outcomes for each claim.

EXPOSURE	2019	2018	HOW DETERMINED	SENSITIVITY/IMPACT ON OCL
Land:				
• Average claim size	$10,000	$11,000	Past experience	Claim size coefficient of variation of 175%
• Proportion finalising non-zero	85%	50%		
Contents				
• Average claim size	$5,000	$2,700	Past experience	Claim size coefficient of variation of 135%
• Proportion finalising non-zero	50%	70%		
EQC managed non multi-unit buildings				
• Average claim size	$48,000	$40,000	Past experience	Claim size coefficient of variation of 250%
• Proportion finalising non-zero	40%	25%		
Wellington multi-unit buildings				
• Average claim size	$8,500	$8,000	Past experience	Claim size coefficient of variation of 225%
• Proportion finalising non-zero	100%	70%		
Reopened claims rate				
• Percentage of claims which reopen	4% of closed claims to date	10% of closed claims to date	Estimate based on limited data	Reopened rate +6%: +$34 million Reopened rate -2%: -$8 million

Progress with the 2010-11 Canterbury Earthquake Sequence

During the 2019 financial year the Commission continued to settle thousands of re-opened claims arising from the Canterbury Earthquake Sequence. Although it is now nearly nine years since the sequence began, there still remains a level of uncertainty associated with the valuation of the outstanding claims liability and reinsurance recoveries. Due to the ongoing contribution from reinsurance, the numbers for the Canterbury sequence in this note are presented either on a gross basis, reflecting the movement in the outstanding claims liability, or on a net basis which includes any recoveries from reinsurance 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 $363 million to $11,407 million in the 2019 financial year. This was driven by a $292 million increase in the estimated total buildings claims costs and an $88 million increase in claims handling expenses. As a result of the increase in the expected claims cost, and a re-apportionment of claims costs towards the September 2010 earthquake arising from work undertaken in respect of insurer finalisation, expected reinsurance recoveries have increased by $468 million.

The total associated risk margin for the Canterbury 2010-11 earthquake sequence has reduced by $77 million to $223 million (2018: $300 million). As a proportion of the net claims liability (after reinsurance and discounting) this is 98% in 2019, which is significantly higher than the level seen in 2018 (57%) due to the higher proportion of uncertain elements left outstanding.

The key components of the outstanding claims liabilities for the Canterbury Earthquake Sequence are discussed in more detail in the next sections.

Canterbury Buildings Claims Liability

The Commission's activities in recent financial years in regards to Canterbury building claims have focused on addressing reopened claims and continuing discussions with private insurers in relation to finalisation of the wash-up of claims costs for settled claims.

There are a number of reasons why a claim may be reopened for investigation, including missed damage, poor workmanship, faulty or inappropriate materials, or inappropriate or poorly lasting repairs. As at 30 June 2019, the Commission had approximately 2,600 reopened claims outstanding, that were either being directly managed by the Commission's claims team, or were being managed by Southern Response under a Memorandum of Understanding (MoU) agreed in May 2018.

During the 2019 financial year the Commission has increased the expected total central estimate ultimate expense for building claims by $292 million. After allowing for reinsurance, the net impact is a decrease of $134 million.

The main elements driving the change in the liability are:

- An increase to the assumptions regarding the cost of resolving reopened claims, based on observed recent experience
- Increases to the assumed number of future reopened claims and the duration over which they will occur
- Increases in claim handling expenses allowances, reflecting the increased workflow projections
- Revisions to the estimated scenarios for Insurer Finalisation, based on further engagement with insurers and a range of settlement scenarios

The reopened claims numbers and Insurer Finalisation are both highly uncertain, and a wide range of possible outcomes could eventuate. The reopened claims assumption has been based on both current and past trends and discussions with management and claims handling staff. The Insurer Finalisation provision has been determined based on the key findings to date of sample file reviews undertaken in conjunction with insurers and a range of probability weighted future scenarios as to the eventual settlements.

Canterbury Land Claims Liability

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.

As at 30 June 2019 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 2018 financial year with respect to ILV land damage settlements. 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 there remains considerable uncertainty around the final financial outcome.

The central estimate of the gross ultimate land claims costs reduced by approximately $18 million ($16 million on a net of reinsurance basis) to $600 million in the 2019 financial year. As at 30 June 2019 the gross outstanding claims liability is $88 million.

Reinsurance recoveries

The Commission continues to draw on reinsurance in respect of the 2010 Darfield event. The ultimate reinsurance recovery has been estimated taking into account currently open claims, the modelled scenarios for future reopened claims, insurer finalisation and litigation outcomes, reinsurable claims handling expenses, and the structure and amount of the Commission's remaining reinsurance cover. In approximately 25% of modelled scenarios, the Commission will reach the limit of the available reinsurance. Claims on the Commission's reinsurance may be subject to audit by reinsurers prior to payment.

No further reinsurance recoveries are available for the 2011 Lyttelton event.

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. As at 30 June 2019, 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. Whilst the numbers of personnel working on the Canterbury response will reduce over time, this reforecast reflects the expectation that the inflow of claims will continue for longer than previously anticipated. The reforecast has resulted in an increase of $88 million to the gross ultimate claims costs ($45 million on a net of reinsurance basis), with the ultimate claims handling costs now estimated to be $1,730 million, an increase from $1,642 million at 30 June 2018. As at 30 June 2019 $1,596 million has been paid.

Summary of key assumptions for future payments arising from the Canterbury earthquake sequence

ITEM	2019	2018	HOW DETERMINED	SENSITIVITY/ IMPACT ON OCL
Current claims (excluding categories below)				
• Average cash settlement	$42,000	$37,000	Based on recent experience	±10%: ±$7 million
• Percentage non-nil payment	98%	68%		±10%: ±$7 million
Current drainage claims				
• Average cash settlement amount	$15,000	Previously included with other claims	Based on recent experience	±10%: ±$0.2 million
• Percentage non-nil payment	100%	100%		-10%: -$0.2 million

ITEM	2019	2018	HOW DETERMINED	SENSITIVITY/ IMPACT ON OCL
Current construction claims				
• Average cash settlement	Now included within reopened building claims	$40,000		
• Percentage non-nil payment		78%		
Current Southern Response claims				
• Average cash settlement	$82,000	Previously included within reopened building claims	Based on recent experience	±10%: ±$2 million
• Percentage non-nil payment	100%			±10%: ±$2 million
Current dispute resolution claims				
• Average cash settlement	$105,000	$75,000	Based on recent experience	±10%: ±$3 million
• Percentage non-nil payment	100%	100%		±10%: ±$3 million
Reopened building claims				
• Number reopening after June 2018	18,400 to December 2023	7,500 to June 2020	Based on analysis of past and current trends	Claims continue ± six months: ± $73 million
• Percentage non-nil payments	66%	62%		Nil claim rate is ± 5%: ± $26 million
• Average non-nil payment	$42,000	$46,000		Average cost ± $5,000: ± $40 million

Summary of key sensitivities and methodologies for calculated Canterbury liabilities

PROVISION	2019	2018	HOW DETERMINED	SENSITIVITY/ IMPACT ON OCL
Insurer Finalisation	Provision is based on findings from progress to date and a weighted average of a range of different outcome scenarios, informed by work with insurers over the last year	Scenarios have been updated from those one year ago based on ongoing work with insurersProvision was based on a weighted average of a range of different outcome scenarios	Scenarios and weightings determined based on advice from management	Changing scenario weightings within a range of potential outcomes could alter the provision by ± $80 million
Land litigation	Provision is based on a weighted average of a range of different outcome scenarios, which are only slightly different from those used in 2018	Scenarios have only minor updates from those used one year agoProvision is based on a weighted average of a range of different outcome scenarios	Scenarios and weightings determined based on advice from management	Changing scenario weightings within a range of potential outcomes could alter the provision by ± $100 million
Future claims handling expenses	Based on current expense levels and current projected future claims	Based on then recent expense levels and then projected future claims	Expenses determined from recent experience bases on type. Future projected claims determined by management in conjunction with actuaries	±10%: ±$13 million (±$5 million on a net of reinsurance basis)
Future reinsurance recoveries	Determined stochastically based on projected ultimate reinsurable claims scenarios and the Commission's reinsurance arrangements	Determined stochastically based on projected ultimate reinsurable claims scenarios and the Commission's reinsurance arrangements	Calculated result based on ultimate cost scenarios (i.e. directly related to ultimate claim payments)	Interquartile range of estimates (50% probability of occurrence) is $558m wide

Economic Assumptions used in the Actuarial Valuation

The following are the key economic assumptions the actuaries have used in determining the outstanding claims liability:

	2019	2018
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	1.1% to 1.4%	1.8% to 2.1%
Demand surge per annum – mean of distribution	15.0%	15.0%

A number of assumptions are made relating to the timing of payments and claims handling expenses. These can be summarised in the following two measures, which are the results of calculations over the entire claims portfolio:

	2019	2018
Weighted average term to settlement	0.92 years	1.19 years
Claims handling expenses as a percentage of claims paid	16.3%	16.1%

Processes Used to Determine Economic Assumptions

Claims inflation rate: the claims inflation rates were set having regard to Treasury's published CPI assumptions as at 30 June 2019, with some allowance for higher levels of claims inflation for the building claims.

Discount rate: projected cash flows are discounted for the time value of money using Treasury's published discount rates as at 30 June 2019 and 30 June 2018.

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

Claims handling expenses are allocated by 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.

Sensitivity of Economic 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 $12.3 million.

ASSUMPTION	MOVEMENTS IN VARIABLE	IMPACT ON NET OUTSTANDING CLAIMS LIABILITY	
		2019 $(000)	2018 $(000)
Claims inflation rate	+1.0%	+12,300	+5,000
	-1.0%	-12,500	-4,000
Discount rate	+1.0%	-4,300	-11,000
	-1.0%	+4,700	+12,000
Demand surge: probability of surge event	x1.5	+25,000	+6,000
Demand surge: surge severity	x1.5	+50,000	+12,000
Overall weighted average term to settlement	+0.5 years	-2,900	-9,000
	-0.5 years	+1,000	+7,000
Overall claims handling expense ratio	+1.0%	+9,500	+6,000
	-1.0%	-10,200	-5,000

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
OUTSTANDING CLAIMS LIABILITY			
Central estimate of outstanding claims liability	(732,161)	(115,960)	(742,384)
Claims handling expenses	(144,227)	(10,186)	(143,124)
Risk margin	(242,269)	(47,145)	(351,544)
Gross outstanding claims liability	**(1,118,657)**	**(173,291)**	**(1,237,052)**
Discount	13,945	905	18,837
Discounted outstanding claims liability	**(1,104,712)**	**(172,386)**	**(1,218,215)**
Outstanding claims liability	**(1,104,712)**	**(172,386)**	**(1,218,215)**
Current	(610,047)	(136,836)	(579,530)
Non-current	(494,665)	(35,550)	(638,685)
	(1,104,712)	**(172,386)**	**(1,218,215)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY			
Outstanding claims liability at 1 July	(1,218,215)	(728,537)	(1,614,019)
Claims (expense)/reduction	(302,101)	84,440	(398,749)
Non-cash items in claims expense	2,037	4,565	4,565
Claims payments during the year	446,696	446,762	815,631
Claims handling expense in trade and other payables	(33,129)	20,384	(25,643)
Outstanding claims liability at 30 June	**(1,104,712)**	**(172,386)**	**(1,218,215)**

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. This is in relation to the 2010-11 Canterbury earthquake sequence occurring since 4 September 2010 and the 2016 Kaikoura earthquake in addition to the costs incurred in other events.

2019	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)	ACTUAL 2017 $(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	–	–	–
Eight years later			
Current estimate of ultimate claims expense	**–**	**–**	**–**
Cumulative payments	–	–	–
Outstanding claims liability (undiscounted)	**–**	**–**	**–**
Discount to present value	–	–	–
Outstanding claims liability (discounted)	**–**	**–**	**–**
2010-11 Canterbury event risk margin			
KAIKOURA EARTHQUAKE			
Ultimate Claims Expense Estimate			
At end of incident year	–	–	(544,022)
One year later	–	–	(615,947)
Two years later	–	–	(648,432)
Current estimate of ultimate claims expense	**–**	**–**	**(648,432)**
Cumulative payments	–	–	603,752
Outstanding claims liability (undiscounted)	**–**	**–**	**(44,680)**
Discount to present value	–	–	212
Outstanding claims liability (discounted)	**–**	**–**	**(44,468)**
2016 Kaikoura event risk margin			
OTHER EVENTS			
Other claims (expected to be settled within a year)			
Other risk margin			
Outstanding claims liability (85% probability of adequacy, discounted)			

ACTUAL 2016 $(000)	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
–	–	–	–	(421,149)	(10,609,302)	n/a
				n/a	(10,986,273)	
–	**–**	**–**	**–**	**(421,149)**	**(10,986,273)**	**(11,407,422)**
–	–	–	–	417,121	10,167,880	10,585,001
–	**–**	**–**	**–**	**(4,028)**	**(818,393)**	**(822,421)**
–	–	–	–	96	13,561	13,657
–	**–**	**–**	**–**	**(3,932)**	**(804,833)**	**(808,765)**
						(222,943)
–	–	–	–	–	–	n/a
–	–	–	–	–	–	n/a
–	**–**	**–**	**–**	**–**	**–**	**(648,432)**
–	–	–	–	–	–	603,752
–	**–**	**–**	**–**	**–**	**–**	**(44,680)**
–	–	–	–	–	–	212
–	**–**	**–**	**–**	**–**	**–**	**(44,468)**
						(17,318)
						(9,211)
						(2,007)
						(1,104,712)

2018	ACTUAL 2018 $(000)	ACTUAL 2017 $(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		
KAIKOURA 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 Kaikoura event risk margin		
OTHER EVENTS		
Other claims (expected to be settled within a year)		
Other risk margin		
Outstanding claims liability (85% probability of adequacy, discounted)		

Settlement of Outstanding Claims Liability

The table below reflects how the Commission expects the outstanding claims liability to be settled.

	2020 $(000)	2021 $(000)	2022 $(000)	2023 $(000)	TOTAL $(000)
Outstanding claims liability – central estimate	424,603	216,407	108,991	112,442	862,443
Risk margin	185,444	22,668	13,735	20,422	242,269
Total outstanding claims liability	**610,047**	**239,075**	**122,726**	**132,865**	**1,104,712**

	ACTUAL 2016 $(000)	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)

3. Gross Earned Premiums

Premium income represents premiums, net of discounts, collected and paid to the Commission by insurance companies, brokers and individuals with EQCover. 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 recorded in the Statement of Financial Position as an unearned premium liability. Premiums receivable are reported net of discounts paid to collecting agencies in the Statement of Financial Position.

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 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Gross written premiums	406,365	397,118	366,568
Less rebate to insurers	(9,851)	(9,686)	(9,055)
	396,514	**387,432**	**357,513**
Movement in unearned premium liability (refer below)	(9,925)	(3,525)	(48,034)
Premiums	**386,589**	**383,907**	**309,479**
Unearned premium liability at 1 July	(197,341)	(201,091)	(149,307)
Deferral of premiums on contracts written in the period	(207,266)	(204,616)	(197,341)
Earning of premiums written in previous periods	197,341	201,091	149,307
Unearned premium liability at 30 June	**(207,266)**	**(204,616)**	**(197,341)**

4. Crown Guarantee

Crown guarantee revenue represents the amount the Commission has received under the EQC Deficiency Funding Deed. The amounts received are classified as non-exchange transactions and are recognised when received or receivable.

5. Reinsurance and Other Recoveries

Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that the Commission can recover under its reinsurance contracts. Reinsurance and other recoveries received or receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and claims incurred but not enough reported (IBNER) are recognised as revenue in the Statement of Comprehensive Revenue and Expense. They are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Gross reinsurance recoveries	467,739	–	83,341
Movement in discount	(7,770)	1,497	(451)
Total discounted reinsurance and other recoveries	**459,969**	**1,497**	**82,890**

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Gross reinsurance receivable	630,335	40,855	222,791
Discount	(11,242)	(272)	(3,473)
Discounted reinsurance receivable	**619,093**	**40,583**	**219,318**
Other recoveries			
Sundry receivables*	6,657	–	6,596
Less: provision for impairment	(5,690)	–	(3,908)
Aon Benfield**	7,601	–	4,671
Total other recoveries	**8,568**	**–**	**7,359**
Total outstanding reinsurance and other recoveries	**627,661**	**40,583**	**226,677**
Current	256,480	40,583	109,476
Non-current	371,181	–	117,201
	627,661	**40,583**	**226,677**

RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES

Outstanding reinsurance and other recoveries at 1 July	226,677	124,630	206,988
Reinsurance and other recoveries recognised in the year	459,969	1,496	82,890
Reinsurance and other recoveries received during the year	(58,985)	(85,543)	(63,201)
Outstanding reinsurance and other recoveries at 30 June	**627,661**	**40,583**	**226,677**

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
RECONCILIATION OF MOVEMENTS IN THE PROVISION FOR IMPAIRMENT			
Provision for impairment at 1 July	(3,908)	–	–
Impairment expense in the year	(1,782)	–	(3,908)
Provision for impairment at 30 June	**(5,690)**	**–**	**(3,908)**

* 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 which was performed in June 2019 for which the Commission had requested a reinsurance recovery but had not yet been received.

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

At 30 June 2019, the total actuarial valuation of reinsurance recoveries was increased by $468 million to $4,631 million. This increase was passed through reinsurance and other recoveries 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 2019, the discount for the outstanding reinsurance recoveries was increased by $7.8 million to $11.2 million.

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

Sundry receivables are monitored based on a combination of factors including the evaluation of aging balances, previous collection history and other qualitative and quantitative factors. The Commission considers the probability of default upon initial recognition of the sundry receivable and throughout the period and provides for sundry receivables expected to be impaired. The Commission recognises an allowance for expected credit losses in the Statement of Comprehensive Revenue and Expenses. When a sundry receivable is deemed uncollectible, it is written off against the provision account for sundry receivables. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Revenue and Expenses.

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

	2019 EXPECTED LOSS RATE	2019 GROSS $(000)	2019 IMPAIRMENT $(000)	2019 NET $(000)	2018 EXPECTED LOSS RATE	2018 GROSS $(000)	2018 IMPAIRMENT $(000)	2018 NET $(000)
Not past due	9.6%	8,471	(810)	7,661	0.0%	5,344	–	5,344
Past due 1-30 days	0.0%	–	–	–	7.2%	415	(30)	385
Past due 31-60 days	0.0%	–	–	–	0.0%	1	–	1
Past due 61-90 days	0.0%	–	–	–	0.0%	1	–	1
Past due > 90 days	84.3%	5,787	(4,880)	907	70.4%	5,506	(3,878)	1,628
Total		**14,258**	**(5,690)**	**8,568**		**11,267**	**(3,908)**	**7,359**

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 claims expense for the 2018-19 financial year is $302 million (2018: $399 million).

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

During the current year, there were also further claims incurred for which the paid and payable value is $20 million (2018: $46.6 million).

SUMMARY	2019 CURRENT YEAR $(000)	2019 PRIOR YEARS $(000)	2019 TOTAL $(000)	2018 CURRENT YEAR $(000)	2018 PRIOR YEARS $(000)	2018 TOTAL $(000)
Gross claims expense – undiscounted	(22,615)	(276,685)	(299,300)	(46,967)	(357,323)	(404,290)
Discount – on total outstanding claims	76	(2,877)	(2,801)	367	5,174	5,541
Gross claims expense – discounted	**(22,539)**	**(279,562)**	**(302,101)**	**(46,600)**	**(352,149)**	**(398,749)**

Claims handling expenses are costs incurred by the Commission in relation to the processing and administration of claims received. The following tables show the costs related to the 2010-11 Canterbury earthquake sequence and the Kaikoura earthquake.

CANTERBURY CLAIMS HANDLING EXPENSES INCURRED BY EXPENSE TYPE	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE		
Amortisation of intangibles	(179)	(125)
Fees paid to the auditor		
Audit fees (refer note 7)	(153)	(98)
Bad debts *(i)*	(1,782)	(4,379)
Call centres and claims management – third party	(675)	(701)
Claims administrators and contractors *(ii)*	(11,241)	(5,005)
Claims assessment fees	(997)	(970)
Depreciation	(76)	(61)
Employee remuneration and benefits	(21,826)	(21,448)
Engineers and consultants	(14,917)	(16,150)
Office rental	(1,881)	(2,154)
Onerous lease *(iv)*	(418)	–
Other costs	(6,348)	(6,981)

CANTERBURY CLAIMS HANDLING EXPENSES INCURRED BY EXPENSE TYPE	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE		
Project management and infrastructure – rebuilding programme *(iii)*	–	(1,006)
Restructuring costs *(iv)*	(1,215)	(340)
Superannuation contribution costs	(583)	(575)
Travel and accommodation	(759)	(873)
Canterbury claims handling expenses incurred	**(63,050)**	**(60,862)**

i. A provision for impairment of $1,782,000 was raised in the 2018-19 financial year (2018: $3,908,000) for sundry receivables. This is included within bad debts. More details can be found in Note 5.
ii. Additional costs were incurred in the 2018-19 financial year as the Commission engaged third party claim managers to assist with the Canterbury response.
iii. The Fletchers EQR programme was closed during the 2017-18 financial year.
iv. The reduction in outstanding claims has led to the Commission reviewing the size and scale of its event response.

KAIKOURA CLAIMS HANDLING EXPENSES INCURRED BY EXPENSE TYPE	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
2016 KAIKOURA EARTHQUAKE		
Fees paid to the auditor		
Audit fees (refer note 7)	(26)	(22)
Call centres and claims management – third party	(22)	(58)
Claims administrators and contractors	(855)	(1,984)
Claims assessment fees	(163)	(1,293)
Employee remuneration and benefits	(694)	(2,386)
Engineers and consultants	(759)	(768)
Infrastructure costs *(v)*	(4,743)	(23,616)
Office rental	(77)	(114)
Other costs	(183)	(1,349)
Restructuring costs	(284)	–
Superannuation contribution costs	(10)	(45)
Travel and accommodation	(28)	(311)
Kaikoura claims handling expenses incurred	**(7,844)**	**(31,945)**

v. The infrastructure costs represents reimbursement of claims handling expenses to private insurers for managing EQC claims.

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

The operating costs of the Commission are allocated across future event preparation and event response. 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 future event preparation and event response.

COSTS GROUPED BY EXPENSE TYPE	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Advertising and publicity	(437)	(784)	(688)
Amortisation of intangibles	(3,479)	(3,890)	(4,161)
Fees paid to the auditor			
Audit fees*	(128)	(76)	(102)
Commissioners' fees	(290)	(315)	(296)
Consultants and contractors	(16,980)	(16,804)	(10,424)
Depreciation	(3,700)	(3,690)	(3,628)
Employee remuneration and benefits	(16,191)	(19,005)	(12,892)
Gain/loss on disposal	(92)	–	(6)
Grants for research	(3,584)	(4,173)	(4,134)
GeoNet operating costs *(i)*	(10,558)	(9,043)	(10,375)
Impairment of intangible WIP	(389)	–	–
Office rental	(791)	(675)	(658)
Onerous lease	(704)	–	–
Public inquiry *(ii)*	(1,550)	–	–
Sponsorship	(358)	(65)	(40)
Superannuation contribution costs	(520)	(335)	(415)
Technology costs	(7,231)	(8,028)	(7,731)
Restructuring costs *(iii)*	(2,768)	–	(41)
Other administration costs	(3,740)	(1,281)	(2,739)
Total operating costs (excluding claims expense and claims handling expense)	**(73,490)**	**(68,164)**	**(58,330)**

i. The overall spend for GeoNet is in line with the signed Agreement; however there was a higher operating spend in the 2018-19 financial year compared to the budget, with an offsetting capital expenditure spend.
ii. The Commission established a team in the 2018-19 financial year to respond to the public inquiry announced on 13 November 2018.
iii. As the number of open claims decline, the Commission is continually reviewing its operating model and restructuring where necessary.

* TOTAL AUDIT FEES INCLUDE PAYMENTS TO EY FOR THE FOLLOWING:	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
Audit of the financial statements	(275)	(222)
Additional audit fee for the 2017-18 financial statements	(27)	–
Other services	(5)	–
Total fees paid to auditors	**(307)**	**(222)**

8. Commitments

The below tables reflect the committed costs that are not included in the Statement of Financial Position.

Reinsurance Contracts

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

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
OPERATING COMMITMENT		
Not later than one year	143,932	149,401
Later than one year but not later than two years	24,563	–
Later than two years but not later than five years	22,516	–
Total reinsurance commitments	**191,011**	**149,401**

Museums

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

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
OPERATING COMMITMENT		
Not later than one year	394	20
Later than one year but not later than two years	–	300
Total museum commitments	**394**	**320**

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.

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
OPERATING COMMITMENT		
Not later than one year	1,747	770
Later than one year but not later than two years	–	150
Total research grant commitments	**1,747**	**920**

Claims Management System

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

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
OPERATING COMMITMENT		
Not later than one year	1,859	1,700
Later than one year but not later than two years	1,859	1,744
Later than two years but not later than five years	155	1,192
Total claim management system commitment	**3,873**	**4,636**

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 2019 $(000)	ACTUAL 2018 $(000)
CAPITAL COMMITMENT		
Not later than one year	2,306	2,386
Later than one year but not later than two years	2,409	2,306
Later than two years but not later than five years	–	2,409
	4,715	**7,101**
OPERATING COMMITMENT		
Not later than one year	10,602	10,334
Later than one year but not later than two years	10,855	10,602
Later than two years but not later than five years	–	10,855
	21,457	**31,791**
Total GNS Science commitments	**26,172**	**38,892**

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 and the below commitment represents the Commission's anticipation for lease terms expected to be renewed.

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)
OPERATING COMMITMENT		
Not later than one year	2,576	2,483
Later than one year but not later than two years	1,440	1,853
Later than two years but not later than five years	2,835	3,885
Later than five years	84	1,173
Total building lease commitment	**6,935**	**9,394**

9. Investment Revenue

The Commission did not hold investments in the 2018-19 financial year. The Commission's investment revenue is generated from holdings in residual income from Global equities.

Interest

Interest income is accrued using the effective interest method.

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
GLOBAL EQUITIES			
Class actions and tax reclaims	125	–	81
	125	**–**	**81**
OTHER SHORT-TERM INVESTMENTS			
Interest income	–	–	4,121
Total investment income	**125**	**–**	**4,202**

10. Major Budget Variances

Statement of Comprehensive Revenue and Expense

Outward reinsurance premium expense

Higher reinsurance expense resulting from an increase in financial cover approved subsequent to completion of the 2018-19 budget.

Reinsurance and other recoveries

Reinsurance and other recoveries higher than budget, resulting from an increase in the expected level of reinsurance recoveries from the Canterbury earthquake sequence as a result of a reallocation of claims towards the September 2010 earthquake.

Claims (expense)/reduction

Claims expense is adverse to budget due to the increase in the central estimate for the Canterbury and Kaikoura events together with lower amortisation of risk margin.

Unexpired risk liability reduction

The actuarial amount of the unearned premium liability has increased by $10 million compared to June 2018 as the Commission has experienced a full year of the increased levy rate. This has caused the variance to budget.

Other Operating Revenue

Crown funding received from Treasury of $125 million (per Section 16 of EQC Act) was not included in the budget as instructed.

Other Operating Expenses

Higher operating expenses mainly due to higher costs associated with business restructuring, a higher proportion of GeoNet operating expenses than anticipated and costs associated with the Inquiry which was announced post budget.

Statement of Financial Position

Bank

Crown funding was received from Treasury (per Section 16 of EQC Act) that was not included in the budget at the Treasury's request.

Reinsurance and other recoveries

Reinsurance receivables balance is $587 million higher than budget mainly due to an increase in the expected level of reinsurance recoveries from the Canterbury earthquake sequence but also impacted by the timing of collections.

Trade and other payables

Trade and other payables is $13 million higher than budget. The budget was on the basis that the Kaikoura event would be substantially complete by the year end and the Canterbury settlement rate would be faster however both remain ongoing at the year-end, increasing supplier and insurer payables and accruals.

Outstanding claims liability

The outstanding claims liability is $932 million higher than budgeted. This is primarily due to increases in the estimated gross ultimate costs for these events and the retention of a high risk margin.

Statement of Cash Flows

Crown Guarantee

Crown Guarantee relates to funding received from Treasury of $125 million (per Section 16 of EQC Act) that was not included in the budget as instructed.

11. Natural Disaster Fund

Capitalised Reserves

1,500,000,000 ordinary shares of $1.00 each deemed to have been issued and paid up in full from the 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 (of which the Commission has an exemption), acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

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

Commission Solvency

The Commission has exposure to liabilities estimated to be in excess of its current level of assets. In the event that the Commission's assets are insufficient to meet its liabilities, the Crown, under Section 16 of the 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 provided $125 million as a grant in the 2018-19 financial year to meet this obligation.

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.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Commission's business model for managing them. The Commission initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs. 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.

All financial liabilities are recognised at fair value and, in the case of financial liabilities measured at amortised cost, net of directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification. Financial liabilities are derecognised if the Commission's obligations specified in the contract expire, are discharged or cancelled.

Bank

Bank 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. Cash is subsequently measured at amortised cost on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables with a maturity date within 12 months of the reporting date are recognised in current assets in the notes to the Statement of Financial Position while those with maturities greater than 12 months are recognised as non-current. Receivables are subsequently measured at amortised cost, on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset, 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 on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Impairment of Financial Assets

The Commission recognises an allowance for expected credit losses ('ECL') for financial assets measured at amortised cost. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Commission expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The Commission has established a provision matrix to measure expected credit 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 which is the fair value of the consideration to be paid in the future for goods and services received.

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
FINANCIAL ASSETS MEASURED AT AMORTISED COST			
Bank	72,646	–	181,354
Premiums receivable	77,872	71,946	76,164
Outstanding reinsurance and other recoveries	627,661	40,583	226,677
	778,179	**112,529**	**484,195**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST			
Bank	–	(76,618)	–
Trade and other payables	(25,606)	(12,370)	(51,736)
Provisions	(4,938)	(1,886)	(1,758)
	(30,544)	**(90,875)**	**(53,494)**
Outstanding claims liability	**(1,104,712)**	**(172,386)**	**(1,218,215)**

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 18 explains how the Commission minimises the risk of default. The Commission reduces credit risk by placing reinsurance with counterparties who have a credit rating of AAA to A- from Standard and Poor's (i.e. from "extremely strong" to "strong") and limiting its exposure to any one reinsurer or related group of reinsurers.

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 2019 $(000)	ACTUAL 2018 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Bank		
AA-	72,646	131,246
A+	–	15,033
A	–	35,075
	72,646	**181,354**
Reinsurance recoveries		
AA	59,408	8,812
AA-	137,970	45,834
A+	318,011	129,832
A	84,641	30,188
A-	26,664	9,323
	626,694	**223,989**
Premiums receivable		
AA-	40,170	39,942
A+	8,363	22,337
A	6,462	5,776
A-	22,766	8,082
Other	111	27
	77,872	**76,164**
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Sundry receivables	**967**	**2,688**

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 liquidity risk is the risk of having insufficient liquid funds available to meet claims, and trade and other payables as they fall due.

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 (2018: 12 months).

13. Property, Plant and Equipment

The Commission's property, plant and equipment are classified as either Non-Canterbury, Canterbury, GeoNet or Work in Progress ('WIP'). Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

Additions

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

Disposals

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

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.

Subsequent Costs

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

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

GeoNet Assets

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

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

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:

Non-Canterbury furniture and equipment	10 years
Non-Canterbury leasehold improvements	2-9 years
Non-Canterbury computer hardware	3-10 years
Canterbury furniture and equipment	3-12 years
Canterbury computer hardware	1-3 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years

2019	NON–CANTERBURY			CANTERBURY
	FURNITURE AND EQUIPMENT $(000)	LEASEHOLD IMPROVEMENTS $(000)	COMPUTER HARDWARE $(000)	FURNITURE AND EQUIPMENT $(000)
COST				
At 1 July 2018	252	1,420	640	610
Additions	–	–	162	6
Transfer	165	701	151	–
Disposals	(8)	(78)	(53)	(40)
At 30 June 2019	**409**	**2,043**	**900**	**576**
ACCUMULATED DEPRECIATION				
At 1 July 2018	(41)	(484)	(397)	(570)
Depreciation charge	(46)	(295)	(229)	(19)
Disposals	7	62	57	39
At 30 June 2019	**(80)**	**(717)**	**(569)**	**(550)**
Carrying amounts at 30 June 2019	**329**	**1,326**	**331**	**26**

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
Transfers	–	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**

	GEONET					
COMPUTER HARDWARE $(000)	BUILDINGS $(000)	COMPUTER EQUIPMENT $(000)	OTHER EQUIPMENT $(000)	TOTAL $(000)	WORK IN PROGRESS $(000)	TOTAL $(000)
4,067	728	3,972	37,795	49,484	79	49,563
–	–	7	1,987	2,162	1,621	3,783
11	–	–	–	1,028	(1,028)	–
(2,113)	–	(7)	(301)	(2,600)	(15)	(2,615)
1,965	**728**	**3,972**	**39,481**	**50,074**	**657**	**50,731**
(3,984)	(418)	(3,036)	(28,096)	(37,026)	–	(37,026)
(45)	(29)	(295)	(2,818)	(3,776)	–	(3,776)
2,109	–	32	190	2,496	–	2,496
(1,920)	**(447)**	**(3,299)**	**(30,724)**	**(38,306)**	**–**	**(38,306)**
45	**281**	**673**	**8,757**	**11,768**	**657**	**12,425**

		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**

14. Intangible Assets

The Commission's intangible assets are classified as either Non-Canterbury, Canterbury or 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.

Amortisation

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:

Non-Canterbury software	3-9 years
Non-Canterbury claims management system v8	4-5 years
Canterbury software	3-5 years

Impairment of Intangible Assets

The carrying amounts of the Commission's intangible 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.

2019	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 2018	9,087	5,505	12,223	3,427	30,242	306	30,548
Additions	–	–	–	8	8	1,593	1,601
Transfer	1,091	–	–	–	1,091	(1,091)	–
Disposal	–	(5,505)*	–	(4)	(5,509)	–	(5,509)
Impairment	–	–	–	–	–	(389)	(389)
At 30 June 2019	**10,178**	**–**	**12,223**	**3,431**	**25,832**	**419**	**26,251**
ACCUMULATED AMORTISATION							
At 1 July 2018	(6,962)	(5,505)	(2,693)	(2,640)	(17,800)	–	(17,800)
Amortisation charge	(992)	–	(2,487)	(179)	(3,658)	–	(3,658)
Disposals	–	5,505*	–	–	5,505		5,505
At 30 June 2019	**(7,954)**	**–**	**(5,180)**	**(2,819)**	**(15,953)**	**–**	**(15,953)**
Carrying amounts at 30 June 2019	**2,224**	**–**	**7,043**	**612**	**9,879**	**419**	**10,298**

* Claims Management System v4 was decommissioned in October 2018.

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**

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

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Trade payables and accruals	(20,060)	(7,110)	(46,413)
Tax on reinsurance	(5,546)	(5,260)	(5,323)
	(25,606)	**(12,370)**	**(51,736)**

16. Provisions

Provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. The provisions balance consists of a make-good provision for restoring leased premises to their original condition at the end of the lease term, a provision for employee benefits, a provision for three onerous leases and a provision for restructuring costs.

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
Provisions at 1 July	(1,758)	(1,790)	(1,480)
Created during the year	(6,856)	(1,886)	(1,118)
Utilised during the year	3,532	1,790	566
Released during the year	144	–	274
Provisions at 30 June	**(4,938)**	**(1,886)**	**(1,758)**

17. Unexpired Risk Liability Reduction

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

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

The unexpired risk liability was determined as follows:

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
CALCULATION OF DEFICIENCY			
Cost of future claims from unexpected risks, undiscounted – central estimate	144,682	149,341	151,146
Administration and reinsurance costs for unexpired risks	111,141	103,830	104,679
Reinsurance recoveries, undiscounted	(16,581)	(13,737)	(17,530)
Net premium liabilities, undiscounted – central estimate	**239,241**	**239,433**	**238,295**
Discounting	(2,226)	(905)	(3,934)
Net premium liabilities, discounted – central estimate	**237,015**	**238,528**	**234,361**
Risk margin	462	–	–
Net premium liabilities	**237,477**	**238,528**	**234,361**
Unearned premium liability	(207,266)	(204,616)	(197,341)
Net deficiency	**30,212**	**33,912**	**37,020**

	ACTUAL 2019 $(000)	UNAUDITED BUDGET 2019 $(000)	ACTUAL 2018 $(000)
UNEXPIRED RISK LIABILITY			
Unexpired risk liability balance at 1 July	(37,020)	(41,333)	(89,220)
Movement for the year	6,808	7,421	52,200
Unexpired risk liability at 30 June	**(30,212)**	**(33,912)**	**(37,020)**

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 2019 is 0.2% (2018:0%). The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin for 2019 is $462 (2018: $0) because the distribution of potential claims is heavily skewed and, as a consequence, the central estimate (mean) outcome is greater than the 75th percentile.

Sensitivity Analysis

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

VARIABLE	MOVEMENTS IN VARIABLE	IMPACT ON PREMIUM LIABILITIES	
		2019 $(000)	2018 $(000)
Discount rate	+1.0%	-1,800	-2,100
	-1.0%	+1,900	+2,100
Base inflation	+1.0%	+1,900	+1,500
	-1.0%	-1,900	-1,400
Future claims handling expense ratio	+1.0%	+1,900	+1,500
	-1.0%	-1,000	-1,500
Average term to settlement	+0.5 years	-1,400	-1,700
	-0.5 years	+1,100	+1,200

18. 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 2018 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- (i.e. from "extremely strong" to "strong"), or
  - Best's: A++ to A- (i.e. 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, 4 and 11). The Minister of Finance determined that $10 million be paid for the year ended 30 June 2019 (2018: $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 outward reinsurance expense asset in the Statement of Financial Position.

19. 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 2019, 309 open litigation cases are currently in the Commission's dispute resolution process. The expectation of costs from litigation has been considered by the actuaries in deriving the outstanding claims liability as at 30 June 2019. The litigation cases as at 30 June 2018 that related to on-sold properties are no longer considered a contingent liability due to the Ministerial announcement on 15 August 2019.

20. 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 equivalent (FTE) basis receiving remuneration from the Commission are:

	ACTUAL 2019 $(000) REMUNERATION	ACTUAL 2019 FTE	ACTUAL 2018 $(000) REMUNERATION	ACTUAL 2018 FTE
Commissioners	294	7	296	7
Executive Leadership Team	2,830	8	2,534	7
	3,124	**15**	**2,830**	**14**

In addition to the above, and in accordance with confidential contractual agreements, three payments totalling $484,943 were made upon cessation of 3 different individual's employment (2018: Comparatives not provided as relate to one individual only and therefore not appropriate to disclose).

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 2019 financial year the Commission purchased services of $1,114,171 (2018: $474,231) from Kiwi Property Group Limited, a company of which M Daly is a director. The services purchased related to office rental. During the 2019 financial year some of the Commission's Board members, key management personnel and their close family members have lodged claims and have either received payments or are waiting on payments from the Commission. During the financial year, one (2018: one) 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 to key management personnel.

21. Employee Remuneration

The table below represents the number of EQC personnel paid more than $100,000 cash and cash equivalents during both the 2018 and 2019 financial years. Examples of cash and cash equivalents include gross salary, employee and employer superannuation contributions, long service leave, holiday and sick entitlements where utilised in the period, and the settlement of accrued holiday balances when an individual leaves employment with the Commission. The data in the table below has not been annualised so where an employee started or ended employment with the Commission partway through either of the years, only the remuneration during the relevant period is shown. These timing differences means direct comparisons cannot be made in a particular pay bracket between the two years.

The numbers of employees whose total remuneration paid or payable for the financial year was in excess of $100,000, in $10,000 bands, are as follows (nil in remuneration bands not included below):

$(000)	ACTUAL 2019	ACTUAL 2018
100-110	33	19
110-120	40	27
120-130	30	12
130-140	12	13
140-150	7	13
150-160	8	6
160-170	4	1
170-180	2	2
180-190	–	4
190-200	2	4
200-210	3	1
210-220	1	2
230-240	–	1
250-260	–	1
270-280	1	–
280-290	1	–
290-300	–	1
300-310	1	–
340-350	1	–
350-360	1	–
360-370	–	1
400-410	–	1
410-420	1	–
500-510	1*	–
	149	**109**

In addition to the above, and in accordance with confidential contractual agreements, 50 (2018: 23) payments totalling $2,027,654 (2018: $324,780) were made during the year upon cessation of an individual's employment.

The scale and scope of the work of the Commission has continued to evolve in recent years. This has been due to legislative changes, Ministerial Direction, and in response to lessons learnt from previous natural disaster events. In response, the Commission continues to make changes to its operating model to provide a better customer experience and to prepare for when another major event occurs.

While the total number of staff employed by the Commission has reduced between the past two financial years, the scope of many roles has increased requiring additional expertise and experience. While the Commission has continued to upskill staff, a range of specialist services such as the dispute resolution services that were previously externally sourced have also been brought in-house.

The continual change in the scale and scope of work means employee remuneration disclosed in both years within the table above are not directly comparable.

For context, 70% of personnel included in the 2018 column of the table above are also included in the current financial year. A further 22% of personnel only appear in the current year balances as they were not employed for the full previous year and hence had not received more than $100,000. Since 30 June 2019, 16% of the personnel shown in the above table for 2019 are no longer employed by the Commission. Included within these statistics is the impact of a number of changes at the Executive Leadership level.

* The Chief Executive received both the 2018 and 2019 'at risk' element of his entitlement in the 2019 financial period resulting in a higher pay band.

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

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

	ACTUAL 2019 $(000)	ACTUAL 2018 $(000)	
M Cullen	45	–	Appointed Chairperson as 1 November 2018
A King	26	23	Term concluded 31 October 2018
M Daly	45	45	Appointed 14 March 2014, as Deputy Chairperson 1 July 2016
G Smith	–	36	Term concluded 30 June 2018
A O'Connell	36	36	Appointed 1 September 2013
R Bell	–	36	Term concluded 30 June 2018
P Kiesanowski	36	36	Appointed 14 March 2014
T Hurdle	36	36	Term concluded 30 June 2019
M Wevers	–	48	Term concluded 23 February 2018
T Ferrier	35	–	Appointed 1 July 2018
E Seville	35	–	Appointed 1 July 2018
	294	**296**	

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.

22. Events after Balance Sheet Date

On 15 August 2019 the New Zealand Government announced a forthcoming Ministerial Directive that will allow owners of on-sold over-cap properties in Canterbury to apply for an ex gratia Government payment to have their homes repaired and that this process will be facilitated by the Commission. These customers have effectively purchased a property that requires additional remediation work, however, the Commission has settled its liability and the homeowners are not able to access private insurance, i.e. they have an uninsured gap between Policy and Act entitlement, and the cost to repair their property. Whilst this is not expected to have a material financial impact on the Commission, as it will act as the facilitator for this process only, it is estimated by the Commission that there are approximately 1,000 property owners in this position. The announcement of the ex gratia payments from the Government will allow these homeowners to be settled, without EQC accepting any liability for outstanding damage.

On 22 October 2019 the New Zealand Government announced a Ministerial Directive whereby the Commission is to act as agent in managing Southern Response's remaining customers. The transition of claims to the Commission is anticipated to be completed by the end of December 2019. It is not expected to have a material financial impact on the Commission.

There were no other significant events after balance sheet date (2018: nil) that warranted inclusion in the financial statements or separate disclosure.

MINISTERIAL DIRECTIONS

Ministerial directions to EQC that remained current as at 30 June 2019 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.

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.

EARTHQUAKE COMMISSION

Kōmihana Rūwhenua

New Zealand Government