Earthquake Commission
Annual Report 2019/20

WE'RE BETTER TOGETHER.

EQC
EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

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

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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, and we help people understand the risk of natural hazards in their environment.

This year has been a year of consolidation and diligent implementation for EQC, where we have made significant progress across our longer-term strategic intentions.

We have worked with and now received the recommendations from the Public Inquiry into the Earthquake Commission (the Public Inquiry) that form a blueprint upon which we will continue to improve. We are grateful to Dame Silvia Cartwright, her team, and all those who contributed to the Public Inquiry for the opportunity to learn from our past experiences and ensure we have the appropriate policies and operating structures in place for improved practices in the future.

There is still work to be done to settle the remaining Canterbury claims and this has been our highest priority in 2019/20. We continue to actively work with all involved to resolve these claims as quickly and fairly as possible. The introduction of the on-sold over-cap policy this year, administered by EQC, has enabled owners of on-sold over-cap properties in Canterbury to apply for an ex gratia Government payment to have their homes repaired. This will have a positive impact on the existing housing stock in Canterbury and alleviate the stress of earthquake damage or poor repairs for many households that were previously unable to access support. In October 2019 the Minister Responsible for the Earthquake Commission directed EQC to act as Southern Response's agent in settling claims for its few remaining customers as that organisation wound down its claim settlement function. This has been an important step toward consolidating and settling all remaining open claims in Canterbury.

In 2019/20 we have further adapted our organisation to respond to future large-scale events and consolidate an already-strong investment in readiness and resilience. We continue to advance our strategy of making better use of partners to provide more resilient, scalable and flexible services. This has included outsourcing much of our information technology operations, working with third party administrators to respond more effectively to natural disasters, and working with the scientific community and partners to promote research and further insights into creating a New Zealand that is more resilient to natural disasters when they inevitably happen. Throughout the year we continued to work effectively with the Government, the Treasury and global reinsurers to ensure an affordable and sustainable natural disaster insurance scheme.

Our investment in creating a mobile and deployable workforce to respond to natural disasters came to the fore during the COVID-19 pandemic, where we were able to seamlessly transition to remote working for all our staff and continue to deliver our services. During this period, we focussed on supporting our vulnerable customers and our people and ensuring we remained ready to respond to natural disasters.

Public Inquiry into EQC

The Public Inquiry was a valuable opportunity for EQC to take stock of where we've been and what we've learned through our experiences over the past 10 years. In sharing our experiences with the Public Inquiry, we've developed a comprehensive set of records setting out what happened and reflecting on the unique challenges of the 2010-11 Canterbury earthquake sequence—acknowledging what went well and what did not.

The Public Inquiry Chair, Dame Silvia Cartwright, has developed a carefully considered report that provided a constructive set of proposed actions for the Government and EQC to consider.

We welcome the report and its recommendations. It highlights that greater clarity of EQC's role is required from the Government and that a clear statement of purpose and principles in the Earthquake Commission Act 1993 would guide and assist EQC in carrying out its duties to the standard expected of it. We agree with these fundamental issues and have been working with The Treasury and other agencies to advance this clarity.

We have started the significant task of putting the recommendations into practice to ensure EQC is best placed for the future.

Working with the insurance industry on an improved claims experience

In 2019/20 we have worked closely with the insurance industry to build on the 'agency model' used following the Kaikōura earthquake. The Natural Disaster Response Agreement (NDRA) is intended to create a fair, simple and consistent claims experience for customers that addresses several recommendations from the Public Inquiry—in particular, providing a single customer touchpoint rather than double handling over-cap claims. The partnership with the insurance industry will mean New Zealanders will receive more timely and responsive insurance settlements services should a significant natural disaster occur.

The NDRA is complemented by an agreement to share insurance-related data that will enable EQC to more actively facilitate improvements to the resilience of New Zealand. It will do so by informing broader public policy on land planning, building regulations and risk financing. The data will allow us to better understand EQC's exposure to natural disaster risk and be used to inform our loss modelling (these results will inform a broader stakeholder group).

Under the NDRA the EQC Board will maintain governance and oversight of EQC's statutory responsibilities, and EQC will retain the ability to step in and provide services as a contingency, should that be required. EQC is ensuring all agreements are adaptable and flexible to future changes, with the objective of preserving all future Government options.

While developing the NDRA is about a better future, we also need to finalise past arrangements with insurers through the Canterbury earthquake sequence. However, in 2010-11 homes were impacted by a number of events, which meant it was not possible to conduct the required assessment work for each event for all properties. This makes these types of disputes fundamentally ill-suited for litigation by both EQC and insurers.

We have progressed finalisation negotiations with private insurers to settle EQC's longstanding 2010-11 Canterbury earthquake sequence liabilities under the Earthquake Commission Act 1993 as the preferable alternative to the cost, delay and complexity of litigation.

Leadership

During the 2019/20 financial year Sid Miller continued as EQC Chief Executive, facilitating changes at the executive level as the organisation transitions to the future operating model. I have now retired from the position of Chair, which I held for two years, and Mary-Jane Daly has stepped into the role. Mary-Jane has been on the EQC Board since 2014 and provides excellent continuity.

Four new Commissioners joined the EQC Board in 2019/20: Alastair Hercus, Emma Dobson, Fiona Wilson and Scott Lewis. Two Commissioners left the EQC Board during the year: Toni Ferrier and Paul Kiesanowski. I thank them for their services and wish them well for the future.

The EQC Board thanks the staff, contractors, suppliers and partners who have worked for or with EQC over the 2019/20 financial year.

Farewell

In June this year I attended my last EQC Board meeting. The two years I served on the EQC Board have been busy, and I am pleased with the significant progress EQC has made, particularly the improvement I have seen in parallel with the Public Inquiry work.

As I retire from this position, I retire from all service to the New Zealand public and the various roles I have held in this capacity for over 45 years. I am immensely proud of what has been accomplished over this time and humbled by the numerous opportunities that have been given to me to contribute to positive change. My thanks to those I have worked with and to the many thousands of people who work so hard to improve the public system for New Zealanders.

Sir Michael Cullen
Chair

CHIEF EXECUTIVE'S REPORT

EQC is focused on helping people understand the risk of natural hazards in their environment and being there to support New Zealanders when they need us.

The 2019/20 financial year has been punctuated by the opportunity to learn from the Public Inquiry; our work to resolve the remaining Canterbury claims; and the successful renegotiation of New Zealand's reinsurance arrangements, accelerated by the threat and impact of the COVID-19 pandemic.

In Canterbury, the Government and EQC have continued to work through the legacy of a system that was ill-prepared for the scale and damage of the Canterbury earthquake sequence, as outlined in the Public Inquiry report.

EQC, in 2020, is a completely different organisation than it was 10 years ago. The tiny agency of 26 staff has been transformed into a modern, collaborative organisation that is now much better set up to help all New Zealanders prepare for and recover from the next natural disaster, whenever that might happen.

In the last year, we have continued to work to resolve the outstanding Canterbury claims. We have also significantly reduced the number of litigation claims. Our customer satisfaction results have recently improved as we have reinforced a new approach in EQC and worked hard on our culture of improvement and customer service. This effort has also seen us improve in the Public Sector Reputation Survey.

But these results should not deflect from the work that is still to be done. There are still people adversely impacted by the 2010-11 Canterbury earthquake sequence that occurred 10 years ago, and so it will remain our highest priority into 2020/21 to work as closely as possible with these customers to resolve their claims.

Of course we are still learning, and we will continue to improve. We are very grateful to our Claimant Reference Group, which provides us with advice to improve the experience of current and future claimants.

Public Inquiry into EQC

As an organisational priority for the year, we continued to put significant effort into supporting the Public Inquiry and, following the finalisation of its report, determining how we can best respond to its findings and recommendations.

We are already well into the process of implementing the recommendations made by the Public Inquiry. Since the release of the report, we have been working to align existing work programmes with the Public Inquiry's recommendations to ensure we are as prepared as possible for future events.

In some cases, we have implemented new programmes of work to respond appropriately to the Public Inquiry's recommendations. We have also been working with our colleagues across government to support the Government's response to recommendations about broader system issues.

These last few months, since the report's release, are only the beginning of what will be a priority programme of work for EQC to ensure that we are better prepared for future events. Work to implement many of the recommendations will continue into 2020/21 and, in some cases, beyond that.

Settlement of claims

Fair and enduring settlement of claims arising from the 2010-11 Canterbury earthquake sequence remained EQC's highest priority this year. The number of outstanding Canterbury claims has been reduced from 2,588 at the end of the last financial year to 1,555[*].

On 15 August 2019 the Government established a policy that allows owners of on-sold over-cap properties in Canterbury to apply for an ex gratia Government payment to have their homes repaired. EQC is administering this policy on behalf the Government. Applications close in October 2020. At the end of June 2020, EQC had received 1,082 applications under the policy.

EQC has completed a first-time settlement on all properties that had claims made against them following the Canterbury earthquakes. Customers, however, have the right to make further claims for damage discovered at a later date, initial repairs that have since failed and under-scoped assessments. EQC remains committed to the swift and fair resolution of these reopened claims.

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[*] Excludes 1,038 claims open in the claims management system for the purpose of triaging or administration of the Crown on-sold over-cap program.

During 2019/20, we continued to build on our case management model to improve customer outcomes, and our renewed emphasis on dispute resolution helped deliver a reduction of the number of claims in litigation from over 300 to 111. Seventy-eight percent of claims that were reopened this year were processed and closed within six months, slightly below our 80 percent target. We also fell short of our target for enduring settlement, with 13.8 percent of settled claims reopened within six months compared with our target of <10 percent. We will continue to work hard into the new financial year to resolve these claims for the people of Canterbury.

Research and resilience

'Natural hazard risk' is created through decisions taken in the construction and location of our buildings and infrastructure. EQC continues to invest in research, modelling, data and information so that we better understand and lower this risk. This requires the ability to quantify the true social and economic impacts of natural hazard damage and disruption.

EQC uses loss modelling tools to develop scenarios for event readiness and better event response and event response strategies. Our loss modelling is supported by EQC's significant investment in science and research, including geophysical and geotechnical data collection and the research application of related knowledge.

This financial year has seen EQC set a pathway to enhance our loss modelling capability. This includes our ability to model future scenarios and identify mitigation options for a broad range of natural hazards (including earthquakes, liquefaction, volcanic eruption, landslide, floods and tsunami).

In 2019/20 EQC invested $16.3 million in natural hazard research and resilience. Through this research investment and modelling, we are enhancing our ability to scale, direct and coordinate the response to major hazard events and extend EQC's financial simulation of economic costs to future scenarios.

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. 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.

WE WANT EQC TO BE A LEADER IN NATURAL HAZARD RISK REDUCTION:

TO INFORM AND INFLUENCE DECISION MAKING ON RISK REDUCTION.

SO WE CAN CONTINUE TO SECURE REINSURANCE AND PROVIDE INSURANCE COVER.

TO DRIVE BETTER OUTCOMES FOR NEW ZEALANDERS.

The placement of the reinsurance programme is always a significant milestone for EQC. This year it has been complicated by the COVID-19 pandemic and its potential impact on reinsurers' views of risk and pricing. EQC has successfully concluded the renewal of its $6.2 billion reinsurance programme for the forthcoming year, securing the same amount of capacity that was placed in 2019/20.

The Crown Guarantee

The Natural Disaster Fund (NDF) was depleted following settlement of claims arising from the 2010-11 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. During 2019/20, EQC drew on this Crown Guarantee and received $115 million (excluding GST), over three tranches, to continue our claims settlement programme.

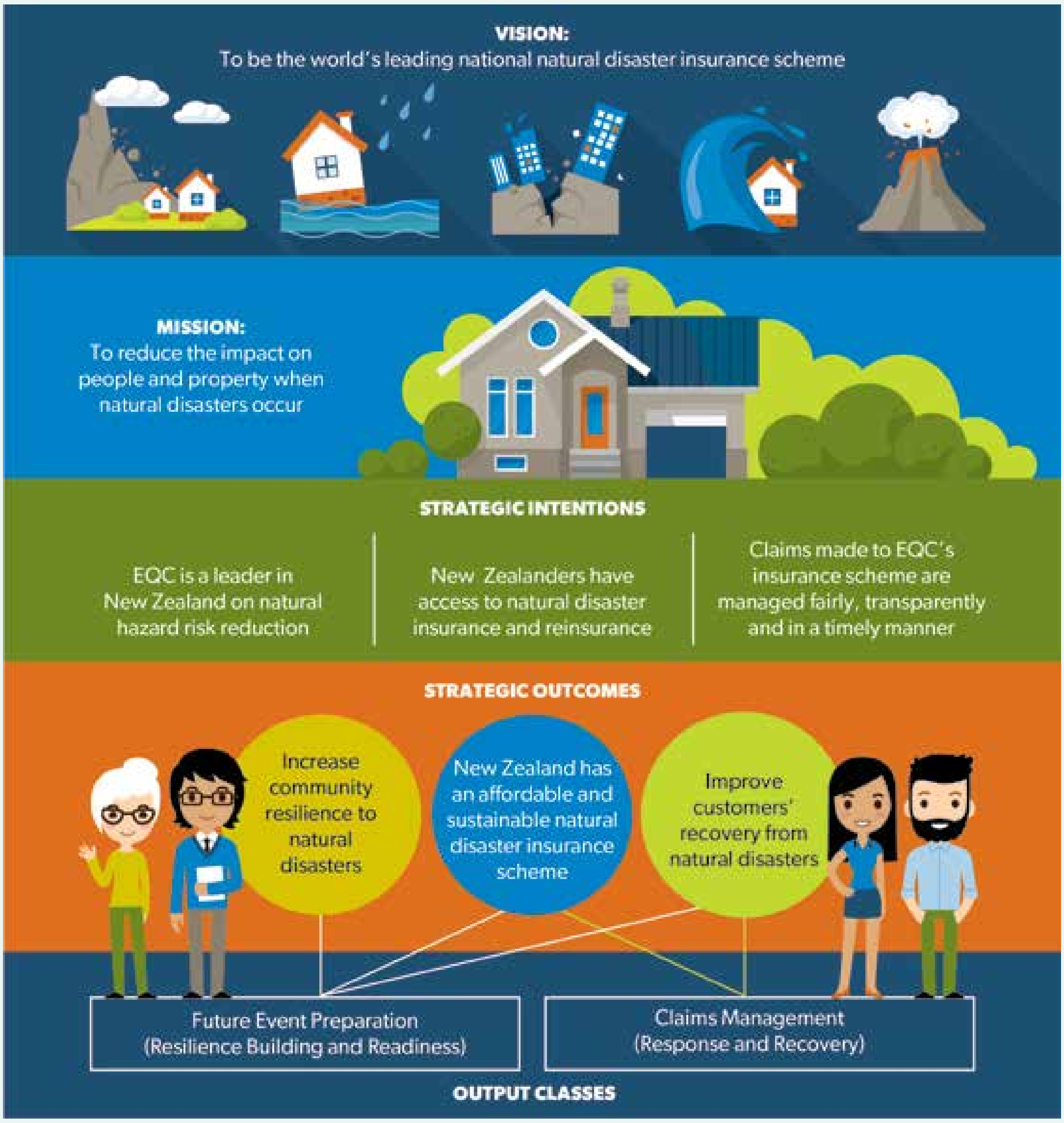
Looking toward the future

A key focus for this financial year and next has been identifying EQC's future operating model and the future capabilities and agreements that underpin the operating model and implementing these capabilities through our transformation portfolio. This is a model that learns from past events and enhanced data. We have delivered many positive changes within the transformation portfolio this year and will continue to implement new capabilities into the new year with the recommendations of the Public Inquiry firmly in mind. In conclusion, I want to extend my gratitude to Sir Michael Cullen for his leadership as Chair of the EQC Board over the past two years. We have benefited significantly from his strong leadership and direction as we build an EQC that is better able to serve New Zealand.

Sid Miller
Chief Executive

Te Taiao | Nature opening, 2019.
Photo by Jeff McEwan. Te Papa.

THE EARTHQUAKE COMMISSION'S STRATEGIC FRAMEWORK



VISION:
To be the world's leading national natural disaster insurance scheme

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

STRATEGIC INTENTIONS

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

New Zealanders have access to natural disaster insurance and reinsurance

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

STRATEGIC OUTCOMES

Increase community resilience to natural disasters

New Zealand has an affordable and sustainable natural disaster insurance scheme

Improve customers' recovery from natural disasters

Future Event Preparation (Resilience Building and Readiness)

Claims Management (Response and Recovery)

OUTPUT CLASSES

Aotearoa New Zealand is a land at risk of many different types of natural hazards. Our Strategic Framework sets the guiderails for the Earthquake Commission (EQC) so we can adapt to the challenges posed by those hazards, be there to support New Zealanders when they need us, and help people understand the risk of natural hazards in their environment.

Our Strategic Framework remains constant. We want to be the world's leading national natural disaster insurance scheme and reduce the impact on people and property when natural disasters occur. Our long-term commitment is that:

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

EQC's operating model

This financial year has been an important period as we respond to the Public Inquiry and focus our efforts on delivering our strategic intentions. For EQC, our future operating model is the representation of how different components of the organisation will work together to:

- deliver on the obligations set out under Statute, the Statement of Intent, and Statement of Performance Expectations
- deliver an enhanced customer-centric service experience
- drive insights and intelligence through enhanced access to and interpretation of data
- activate a broader insurance industry response to natural disasters
- ensure we have the right capabilities in place.

EQC's operating model has been structured around the four key roles for EQC—**Resilience, Readiness, Recovery and Risk Financing**. These four roles collectively describe EQC's reason for being and enable us to deliver on our **outcomes** to stakeholders.

Our **Strategic Intentions** provide focus for *how, where and through whom we deliver the services* relating to EQC's key roles.

Our operating model is underpinned by several strategic enablers including:

- people
- information
- technology
- corporate services.

The EQC operating model provides the bridge between our strategy and execution. As such, it informs the workstreams that make up the transformation portfolio.

These workstreams are delivered alongside one another, with integration and change management functions working across the workstreams; this ensures transformation initiaitves are delivered in a considered and coordinated way.

Transformation portfolio

Resilience
Readiness
Recovery
Risk Financing
People and Culture
Information and Analytics
Technology
Strategy and Policy

Delivery Integration
Change Management

Te Taiao | Nature public opening, 2019. Photo by Jo Moore. Te Papa.

A CHANGING ORGANISATION— PUBLIC INQUIRY INTO EQC

In 2018, the Government established the Public Inquiry into the Earthquake Commission (the Public Inquiry). Its role was to independently examine the role and work of EQC in the aftermath of the 2010-11 Canterbury earthquake sequence and ensure the lessons learned can be applied to improve the response to future events.

EQC has worked closely with the Chair of the Public Inquiry, Dame Silvia Cartwright, and her team over the course of the Public Inquiry. We have supported them with information about the experiences in Canterbury, Kaikōura and other events, and the significant changes we've made in the intervening years.

EQC provided a substantial amount of information to the Public Inquiry, particularly in the form of 18 briefings (over 1,000 pages in total). Close to 600 individual documents have informed these briefings, along with discussions with a number of current and former EQC staff, chief executives, Board members and other relevant subject matter experts. We also met regularly with the Chair of the Public Inquiry and responded to information requests and questions as required.

The Public Inquiry delivered its report to the Governor-General on 27 March 2020. The Governor-General handed the report to the Minister Responsible for the Earthquake Commission and Minister for Greater Christchurch Regeneration for consideration. The Government presented the report to the House of Representatives on 9 April 2020, which meant it then became publicly available for all New Zealanders.

The report was welcomed by EQC. It clearly laid out the challenges we faced in responding to the most complex and damaging earthquake sequence that has occurred since EQC was founded in the 1940s.

Responding to the recommendations

The Public Inquiry provided EQC the opportunity to further learn from any shortcomings and do all we can to better fulfil our responsibilities to New Zealanders in the event of a disaster.

The Public Inquiry made 70 recommendations, directed at both EQC (47) and the Government (23), across eight areas:

- EQC's role and responsibilities
- EQC's approach to claimants
- Assessment of damage
- Managed repair
- Processes for settling claims
- Data and information management
- Advance planning and preparedness
- Resolution of disputes

The Public Inquiry's report has been a springboard for us to test our strategic direction and priorities, make changes that give effect to the Government's response to the independent recommendations, and enable us to be best placed for the future. In some cases, this has resulted in new programmes of work; but in many cases, we had identified similar issues throughout the course of Public Inquiry, which meant that work was already underway to address these. In those instances, existing work programmes are being amended as appropriate to meet the Public Inquiry's recommendations.

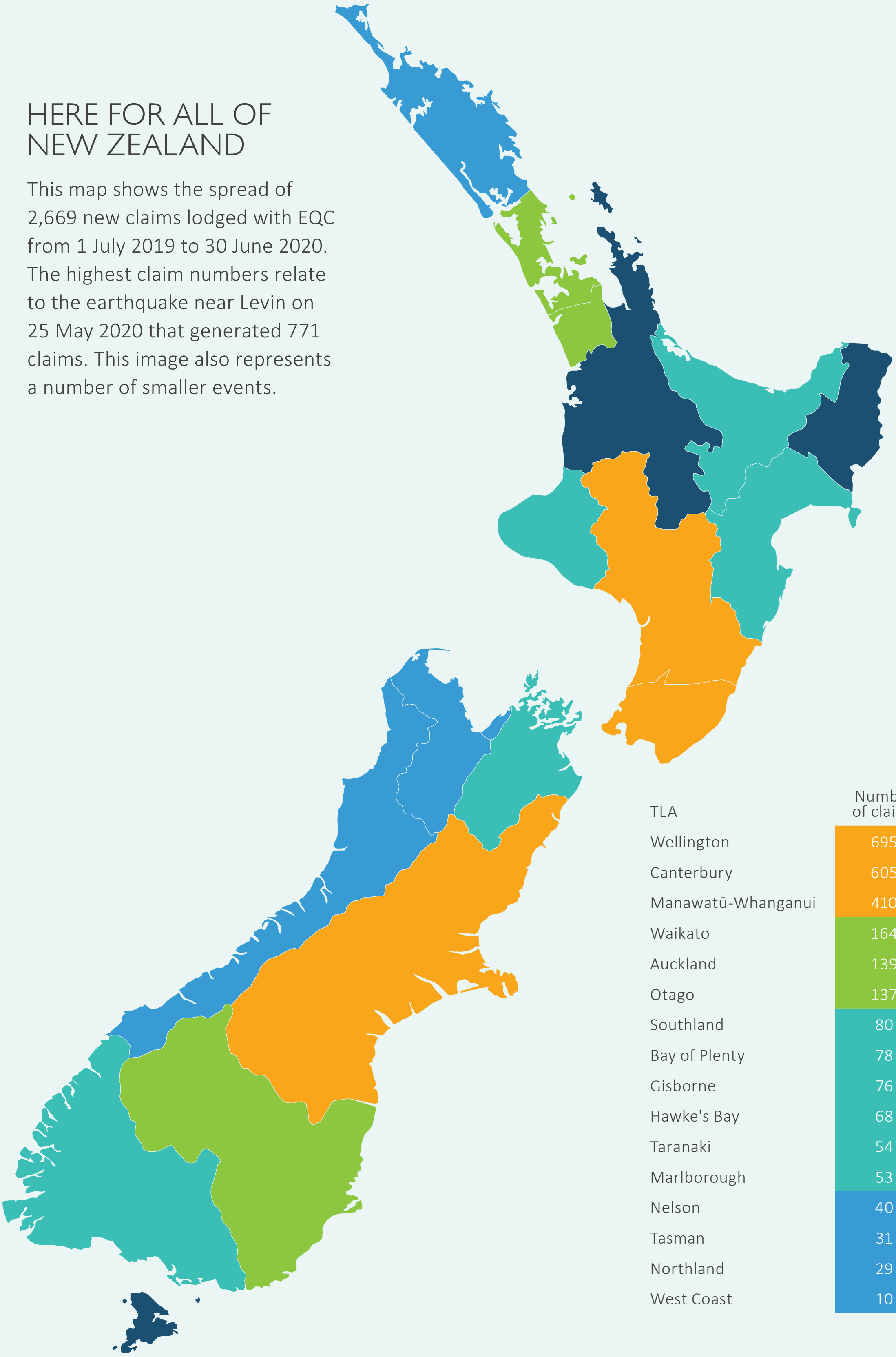
EQC is also working with The Treasury, who is leading the Government's response to the Public Inquiry. We have been participating in cross-agency discussions with those agencies responsible for Government recommendations, providing input based on our experiences over the past 10 years and the lessons we have learned.

There is much to be done in creating a better model for the future. Central and local government, EQC and the private insurance industry will need to work cooperatively and with a clear recognition of each other's roles and responsibilities to make this happen.

Implementing the recommendations will continue as a priority portfolio of activity throughout 2020/21, and in some cases beyond that (particularly where legislative change is required).

HERE FOR ALL OF NEW ZEALAND

This map shows the spread of 2,669 new claims lodged with EQC from 1 July 2019 to 30 June 2020. The highest claim numbers relate to the earthquake near Levin on 25 May 2020 that generated 771 claims. This image also represents a number of smaller events.



TLA	Number of claims	Stratification
Wellington	695	301+
Canterbury	605	301+
Manawatū-Whanganui	410	301+
Waikato	164	101-200
Auckland	139	101-200
Otago	137	101-200
Southland	80	51-100
Bay of Plenty	78	51-100
Gisborne	76	51-100
Hawke's Bay	68	51-100
Taranaki	54	51-100
Marlborough	53	51-100
Nelson	40	1-50
Tasman	31	1-50
Northland	29	1-50
West Coast	10	1-50

CUSTOMER RECOVERY—SETTLEMENT OF CLAIMS

Fair and enduring settlement of claims arising from the 2010-11 Canterbury earthquake sequence remained EQC's highest priority this financial year. During this financial year, thousands of Canterbury claims were reopened and settled.

Progress in Canterbury and the on-solds solution

Over the year, EQC has implemented a number of strategies that have led to the reduction of unresolved claims, improved customer satisfaction, more enduring settlements and greater employee and stakeholder engagement and satisfaction.

A key focus has been to improve the way we communicate and engage with customers and ensure that we are delivering a good customer outcome. Efforts to improve this experience have resulted in a marked improvement in customer satisfaction across all measures in the Canterbury programme. Changes to our claim management process have included:

1. Further developing the case management model introduced last financial year to maintain the optimal average portfolio size of 40 cases per settlement specialist. This supports efficient and effective claim resolution with good customer outcomes.
2. An emphasis on dispute resolution: claims previously in 'litigation' have decreased from over 300 to 111.
3. Better complaint and challenge management, as well as improvements through the dispute resolution team.
4. Enhancements to the builder pricing and scoping model to improve visibility for customers by involving them in the process. More recent claims settled using this model have been more enduring.

On-sold over-cap

On 15 August 2019 the Government announced a policy that allows owners of on-sold over-cap properties in Canterbury to apply for an ex gratia Government payment to have their homes repaired. EQC is administering this policy on behalf of the Government.

This programme is expected to cost $300 million and take three years to complete*.

At the end of June 2020, EQC had received 1,082 applications under the policy. In each case we have initiated contact with the applicant within 10 business days of receipt to acknowledge the application and explain the process for review and settlement.

We have completed the assessment of 281 applications, leaving 801 applications currently under review (in most cases pending receipt of required documentation from the homeowner). Our target for completion of the assessment process is within one month following receipt of all required documentation. We have achieved this target for all claims processed to date.

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.

From 1 July 2019, management of the majority of outstanding Kaikōura claims moved from private insurers back to EQC. We worked closely with private insurers during this transition to ensure our access to all relevant information and continuity in the handling of any Kaikōura claims, including any future reopened claims.

At the end of June 2020, there were 118 outstanding Kaikōura claims, down from 183 in June 2019.

Other events

During this financial year Aotearoa New Zealand has not experienced any significant, large-scale natural disaster events. During the period, four events resulted in more than 100 claims to EQC:

- a magnitude 3.9 earthquake centred near Christchurch on 22 July 2019 that generated 101 claims
- a magnitude 5.0 earthquake centred near Turangi on 4 September 2019 that generated 102 claims
- a magnitude 4.3 earthquake centred near Christchurch on 9 April 2020 that generated 225 claims
- a magnitude 5.8 earthquake centred near Levin on 25 May 2020 that generated 771 claims.

These events, together with many smaller events, resulted in a total of 2,669 claims received during the 2019/20 financial year. These claims can be broken down as:

- 2,215 earthquake claims
- 451 landslip, storm or flood claims
- 3 hydrothermal activity claims.

Our operating environment

EQC's operating environment underwent several changes during the 2019/20 financial year.

The Canterbury Earthquake Insurance Tribunal was established in June 2019 by the Canterbury Earthquakes Insurance Tribunal Act 2019. Its purpose is to provide "fair, speedy, flexible and cost-effective services".

The Tribunal's efforts are targeted at resolving disputes about insurance and EQC claims for physical loss or damage to residential buildings, property and land arising from the 2010-11 Canterbury earthquake sequence. It is 'inquisitorial' in nature and encourages settlement at all points, operating as a 'customer friendly' forum to determine claims.

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 are now fully in place.

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* On-Sold Programme Forecast May 2020.

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

- further scope for EQC to share property-related information
- 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 are affected when their insurance policies renew)
- an increase in the cap on EQC residential building cover from $100,000+GST to $150,000+GST (homeowners are affected when their insurance policies renew).

WORKING ACROSS THE INSURANCE SECTOR TO ACHIEVE BETTER OUTCOMES FOR NEW ZEALANDERS

EQC's operating model underwent substantial change in the 2019/20 financial year to improve our service to New Zealanders in the event of a natural disaster.

Readiness

Historically, EQC was not well positioned to respond to large-scale events in a way that provided an optimal customer experience. The model that was used in the 2010-11 Canterbury earthquake sequence created a dual insurance system whereby some customers have had to make two claims—one to EQC up to a capped level of the damage and the other to their private insurer for top-up cover losses. The lessons learned from this model, as well as the Public Inquiry report, demonstrated that the model presented several process inefficiencies and a frustrating experience for our customers.

EQC implemented an alternative response model for the Kaikōura earthquake sequence whereby private insurers stood in the shoes of EQC for the lodgement, assessment and settlement of claims, using processes that were already familiar to the customer from their existing relationship with their private insurer. The customer had one point of contact regardless of whether the claim was covered by EQC's or the insurer's policy.

An external review in 2018 demonstrated higher customer satisfaction levels for customers who were managed by their private insurers rather than EQC. The review also demonstrated that:

- private insurers had the capacity to support a cash settlement model and could offer faster claims settlements
- partnering with the industry increased EQC's capacity to scale and respond to the event within acceptable costs
- the rate of reopened claims remained low.

Leveraging existing market capability

Many of EQC's internal lessons learned relate to improving our customer experience by simplifying contact points for customers and being more consistent in our communications, approach and outcomes. We have also recognised that EQC needs to make better use of the capability that already exists in the market. Tapping into this capability will enable us to scale appropriately to deal with large events and improve our relationships across the insurance industry, community and Government; EQC cannot, in isolation, build and maintain the capability and capacity to respond to large-scale natural hazard events.

Central to future readiness plans is the use of existing market capability to ensure EQC, our partners and stakeholders are prepared for a natural disaster event. A key aspect of this future model is the use of private insurers to manage new EQC claims through a Natural Disaster Response Agreement. EQC is working with the insurance industry to forge closer and more strategic relationships; this will ensure the system is responsive to customer needs and focused on the successful delivery of services while sharing data to support EQC's role in natural hazard risk management and resilience. We are focused on ensuring that any arrangements support the obligations of the Earthquake Commission Act 1993 (the EQC Act) and insurance policies. This partnership has made significant progress over the past year and a project is underway to ensure that these arrangements are agreed by the end of 2020.

EQC will maintain existing relationships with several third-party administrators. This will allow us to support in-house event response capacity and provide a consistent relationship to customers who have dealt with EQC in the past. It will also provide us with additional confidence in our ability to respond to large-scale natural disaster events.

Our future readiness plan also involves relationship building across the community, central and local government, and the wider engineering and construction industry. We are investing in work to strengthen these relationships and ensure that EQC is more responsive to community and industry needs; we also want to ensure these stakeholders are closely involved in scenario planning and other activities to prepare for an event response. We will continue to build relationships with partners, community and Government throughout the next year.

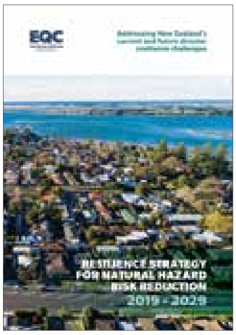
NATURAL HAZARD RISK REDUCTION AND RESILIENCE

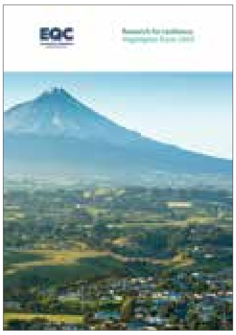
EQC works to support the reduction of impact *before* a disaster happens by investing in research and education about natural disaster damage and methods of reducing risk and building resilience. We work to make this information publicly available for all New Zealanders, and we support stakeholders in improving policy and practice so that, together, we build a more resilient New Zealand.

Our resilience goals

In November 2019, we published EQC's *Resilience Strategy for Natural Hazard Risk Reduction 2019-2029.* The Resilience Strategy describes our strategic intention to play a key role in addressing New Zealand's disaster resilience challenges through a focus on risk reduction actions. It is driven by our research and education mandate and establishes a 10-year resilience goal of:

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





The Strategy outlines five three-year priorities to provide an overview of how we will work and who we will work with. These priorities are:

- **Priority 1:** Enhancing loss modelling/impact estimation products
- **Priority 2:** A renewed focus on the strategic value of data and information
- **Priority 3:** Coordinated and targeted science investment
- **Priority 4:** Accelerating the synthesis and translation of research outputs
- **Priority 5:** Developing reciprocal partnerships

STRONGER HOMES, BUILT ON BETTER LAND,

SERVED BY RESILIENT INFRASTRUCTURE AND SUPPORTED BY AFFORDABLE RISK CAPITAL.

Investing in natural hazards research and data

As part of implementing the direction and priorities set out in the Resilience Strategy, we have reviewed how EQC can best contribute to New Zealand's resilience and how all parts of our annual investment in scientific research and data can be optimised.

Independent reviews of the Resilience Strategy and our long-running investment in university teaching and research capabilities recommended that we be more active in driving the priorities in the Resilience Strategy to raise awareness of our role in research, resilience and natural hazard risk management. As a result, in November 2019, in conjunction with the release of the Resilience Strategy, we published the *Research Investment Priorities Statement 2020-2021.* The aim of this document is to better target our research investment to the Resilience Strategy, specify the areas of research where we see gaps and value in more information, and more effectively drive the research landscape in matters relevant to natural disaster damage.

In November 2019 we also released *Research for Resilience: Highlights from 2019*. This report describes a wide range of EQC-funded research and projects relating to building data, research talent and research knowledge; translating research results for decision makers; and our role in science and knowledge-building partnerships. The report outlines the positive impact these activities have and their ongoing value for building New Zealand's resilience to natural hazards.

University Research Programme

Following a 2019 in-depth review by Dr Dianne McCarthy, we have revamped our $3 million University Research Programme. The new programme ties research more closely to EQC's goals of stronger buildings, better land, resilient infrastructure and access to insurance. As of 1 July 2020, the programme funds eight leading scientists at Auckland, Massey, Victoria, Canterbury and Otago universities for research into the impact of natural hazards on New Zealanders and ways to reduce that impact. Each research project will receive $125,000 per year for three years. Through the Programme, we will help support more than 30 students at master's degree and PhD level to develop their skills and knowledge under expert guidance.

Our natural hazards will always be with us, so it's important that we keep building world-class natural hazard science talent here in New Zealand.

Biennial Research Funding Programme

The Resilience Strategy informed the selection of 16 research projects for the 2020/21 Biennial Research Funding Programme. The projects support our aim of encouraging decision making that will deliver stronger homes on better land, resilient infrastructure and access to insurance. While many of the projects are focused on our ambition to drive advances in hazard modelling and forecasting, there are also projects that will provide immediate benefits such as seismic testing and guidance for new building materials; investigation of low cost earthquake early warning sensors; and 'real life' testing of how a bridge behaves in an earthquake on the decommissioned Whirokino Bridge on State Highway 1 south of Foxton.

We will be working closely with the researchers to help them raise the visibility of their research and engage the stakeholders that can best make use of the results.


first-aid
Mitutoyo

GeoNet

EQC is a key partner in GeoNet, providing $13.7 million over the financial year to support live access to high-quality natural hazards data from a national network of 600 sensors.

GeoNet data is the base for nearly all natural hazards research in New Zealand and is freely available to all. It is also the first port of call for New Zealanders after a natural hazard event with millions of visits each year as people check what has happened and contribute their own 'felt reports'.

GeoNet monitors earthquakes, volcanoes, tsunami and large landslides.

Working across the natural hazards risk system

Achieving our resilience goals will require coordination and actions that lie beyond the direct role of EQC. Sustained engagement with key stakeholders and new ways of working will be required to influence these changes.

EQC aims to work with stakeholders in central and local government; practitioners working in the building and construction sector; and those in risk, crisis and emergency management.

EQC has no regulatory power to compel change, but we intend to leverage our track record in research and facilitation to foster cooperation across sectors. Through this we will seek to reduce barriers to communication and accelerate improvements to risk management practice within EQC and across the community.

Building relationships in the policy world

We continue to focus on building our relationships and partnerships with central government policy agencies on matters of hazard risk management and resilience policy; this includes building the links between policy levers and the ongoing affordability and availability of natural disaster insurance. We have participated in several inter-agency policy processes and, in the built environment policy area, contributed to a better understanding of structural engineering knowledge and practice.

Through some of this work we identified a significant gap in the uptake of research on natural hazards resilience by central government policy practitioners. To address this, we hosted an inaugural EQC Science-to-Policy Forum in December 2019 to support the synthesis and translation of research into policy and practice.

Building relationships with local government

In December 2019, EQC transferred the world's largest local groundwater monitoring network to the people of Christchurch. The sophisticated network of about 650 measuring boreholes, including approximately 250 with high-tech sensors, was initially installed to better understand the localised impact of changing water levels. The aim was to help determine the increased liquefaction and flood vulnerability and pay outs for land damage. When EQC concluded its three-year research project, the network was transferred to the Christchurch City Council, where the sensors will continue to provide data that can help scientists, city planners and policy makers understand, predict and prepare for the future.

126,573 VISITORS

TO THE 'BE PREPARED' SECTION OF EQC’S WEBSITE IN THE PAST YEAR.

2019/20 FY

Supporting the building and construction sector

On 1 January 2020 EQC took over the full funding of the New Zealand Geotechnical Database. This database provides critical data for both EQC's loss modelling and the engagement we have with stakeholders to raise awareness of risk and resilience issues. The New Zealand Geotechnical Database lets engineers and planners 'see' the soil under the ground they are working with. The data is 'crowd sourced', which means that any person can contribute data and receive access to the database. If it were purchased instead of crowd-sourced this data would have an equivalent value of approximatively $500 million. This data can be used by all to understand the characteristics of our land and determine how best to build on it.

Growing understanding of natural hazard risk and helping New Zealanders prepare

A key development from the past year was the completion of a new Public Education Strategy, which supports EQC's Resilience Strategy and has a vision to "Make having a stronger home a priority for more New Zealanders". The strategy identifies priority audiences and aims to move toward more significant preparedness steps that will be beneficial, should a disaster occur.

If you've spent a bit more time at home lately, now is the perfect opportunity to make your place Quake Safe. But if you're thinking you need building skills to even get started, think again. There's a lot you can do right now.

You'll find everything you need to check, fasten and fix at **eqc.govt.nz/prepare**
While you're there be sure to download a copy of our free Quake Safe Your Home brochure.

After all, a safer home means a safer family.

Inspiring preparedness during the challenges of COVID-19

EQC has run advertising campaigns consistently across the past year. Our most prominent campaign rolled rolled out during the unprecedented situation of the nation being in lockdown due to the COVID-19 pandemic. Featuring EQC's previously used 'Teddy' character, the campaign built on that fact that nearly every New Zealander was getting to know their home well due to lockdown—with a view to inspiring earthquake preparedness. Acknowledging the stressful situation of COVID-19, the campaign aimed to deliver our messages in a feel-good way.

The campaign delivered 4,892,889 impressions of EQC's preparedness messages and received a positive response from the public.

Growing the next generation of hazard-aware New Zealanders

The first step in preparing for natural hazards is being aware of them. Helping young New Zealanders understand the natural forces that have shaped our land is a vital aspect of EQC's Public Education programme.

EQC has strong and long-standing relationships with a number of partners that allow us to connect with young people across Aotearoa. The past year has seen a number of visitors to four museum exhibitions with a natural hazards focus that EQC supports, including the redeveloped Te Taiao | Nature exhibit at Te Papa Tongarewa in Wellington.

In 2019 we saw the delivery of our eleventh LEARNZ virtual fieldtrip in partnership with CORE Education. Held over four days, *Natural Hazards: Our Supervolcano* focused on the central Taupō Volcanic Zone—the world's most frequently active supervolcano system. A key element of the process was aligning science with mātauranga and Māori, and kaumatua from local iwi contributed a wealth of knowledge throughout the trip.

4,892,889 IMPRESSIONS

OF EQC’S PREPAREDNESS MESSAGES DELIVERED.

Through EQC's *Prepare your home. Protect your whānau.* campaign

NATURAL DISASTER INSURANCE AND REINSURANCE

EQC is required to administer the Natural Disaster Fund (NDF), protect its value, and administer the insurance against natural disaster that is provided by the EQC Act.

In the 2019/20 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
- premium collection.

These components form part of a comprehensive Risk Finance Strategy approved by the EQC Board in May 2020. This Strategy 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 $1.75 billion under a range of future event scenarios.

Reinsurance

International reinsurers have again shown their confidence in New Zealand and EQC with this year's agreement for $6.2 billion of reinsurance for the year beginning 1 June 2020. It was particularly pleasing to complete the renewal against the backdrop of the COVID-19 pandemic and the potential impact of this on reinsurers' views of risk and pricing.

EQC worked closely with its reinsurance broker, Aon, to bring forward the key steps in the renewal process. This strategy provided EQC additional time to manage reinsurer questions and agree contractual terms to ensure both sides understood and were comfortable with the final coverage.

EARTHQUAKE COMMISSION BOARD

Functions of the EQC Board

The EQC Board is the governing body of EQC, with the authority to exercise the powers necessary to perform the functions of EQC. The EQC Board 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 EQC Board in accordance with the EQC Act and the Crown Entities Act 2004.

The role of the EQC 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
- ensure, through the activities of management, that EQC complies with its legal obligations.

The EQC Board gives effect to government policy through the Statement of Intent and the Statement of Performance Expectations under which the Minister and EQC agree on specific deliverables. The EQC Board is also guided by a Letter of Expectations that sets out the Minister's expectations for EQC.

The EQC Board reviews and approves EQC's Risk Management Policy and Risk Management Framework. The Audit and Risk Committee regularly reviews the effectiveness of the framework on behalf of the EQC Board. In addition to the Audit and Risk Committee, at 30 June 2020 the EQC Board was supported by the People and Culture Committee.

Sir Michael Cullen

Chair and Commissioner

Sir Michael Cullen was a University of Otago 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.
Sir Michael was appointed to the EQC Board in November 2018.

Retired 30 June 2020

Mary-Jane Daly

Chair and Commissioner (from 1 July 2020)
BCom, MBA, CFInstD

Mary-Jane (MJ) joined the EQC Board as Chair of the Audit and Risk Committee in March 2014. She has a strong background in banking and insurance in a variety of roles both in New Zealand and the United Kingdom. MJ is an Independent Director of Kiwi Property Group Limited, Kiwibank Limited and Auckland Transport. Previous governance roles have included Cigna Life Insurance New Zealand, Onepath Life, Airways Corporation and the New Zealand Green Building Council. Her last corporate executive role was leading State Insurance.

Dr Alison O'Connell

Commissioner
MA, MSc, PhD, FIA, FNZSA, CMInstD

Dr Alison O'Connell is an actuary and research consultant. She was founding Director of the United Kingdom's Pensions Policy Institute and has held senior positions at Swiss Re, Mercer, and McKinsey. Alison is also a Director at the Government Superannuation Fund Authority, the Christchurch Art Gallery Foundation and Resolution Life New Zealand. Alison was appointed to the EQC Board in September 2013.

Erica Seville

Commissioner

PhD, BE (hon), FBCI (hon), CMInstD

Erica was appointed to the EQC Board in 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 the University of Canterbury and has PhD in risk management. She is a member of the Institute of Directors.

Alastair Hercus

Commissioner

BA (Hons), LLB, CMInstD

Alastair has been a Partner at Buddle Findlay since 1995. He brings legal and government sector experience as well as five years of Deputy Chair experience in the insurance sector at the Medical Assurance Society. He is currently a member of the Risk and Advisory Committee at the Ministry of Business, Innovation and Employment. Alastair brings a focus on EQC’s policy, regulatory and commercial environment, including responding to the Public Inquiry, regulatory changes, and EQC's relationship with the private insurance industry. Alastair was appointed to the EQC Board in March 2020.

Emma Dobson

Commissioner

BCom

Emma is a New Zealander who has returned after many years working at a senior level with Westpac in Australia. Her career included work on the Australian Federal Government’s Digital Business Council and the Australian Tax Office’s Digital Strategy Working Group. Emma brings a strong focus on strategic opportunities and risks and pursuing digital transformation to meet customer expectations. She has transferable skills and great experience in working at a high level with government and industry. Emma was appointed to the EQC Board in March 2020.

Fiona Wilson

Commissioner

BSc, MSc, GradDipApplStats, MInstD

Fiona, originally from Australia and now a New Zealand citizen, has held Chief Information Officer and Chief Executive Officer roles in Australia and New Zealand. Having been Chief Information Officer for major organisations in the Australian health sector, she brings experience leading technology-related changes across complex organisations to deliver benefit to diverse stakeholder groups. Fiona has also worked with a large consulting firm and led an analytics business in New Zealand. She offers a track record of bridging technology, data, and business needs, and building business capability to deliver in both the public and private sectors. Fiona was appointed to the EQC Board in March 2020.

Scott Lewis

Commissioner

BBS, FIAA, FNZSA, MInstD

Scott has had a career in insurance and actuarial work in New Zealand and overseas. He provided expertise to Lumley Insurance from 2012 to 2014 with its response to the 2010-11 Canterbury earthquake sequence before joining IAG as Head of Insurance Risk and Reinsurance. More recently, he spent two years at Oranga Tamariki – Ministry for Children, working on a data-driven approach to better understand wellbeing for the Child and Youth Wellbeing Strategy. He is a Fellow of the Institute of Actuaries of Australia and the New Zealand Society of Actuaries and currently sits on the Council of the New Zealand Society of Actuaries. Scott was appointed to the EQC Board in March 2020.

EQC Board Committees 2019/20

During 2019/20 the EQC Board had four committees to undertake targeted work and provide specialist advice. The table below describes the role of each committee.

Board committees 2019/20	Role
Audit and Risk Committee (ARC)	The ARC supports the Board to fulfil its responsibilities relating to EQC's external financial reporting, internal control environment, business assurance and external audit function, and risk management.
People and Culture Committee (PCC)	The PCC supports and advises the Board in fulfilling its responsibilities across all aspects of EQC's people and capability strategies, policies, practices and risks.
Public Inquiry Committee (PIC)	The PIC was established for a finite period to ensure EQC and the EQC Board responded to and worked with Dame Silvia Cartwright to inform the Public Inquiry.
Reinsurance and Resilience Committee (RRC)	The RRC provides oversight within EQC on the reinsurance strategy and administration and the Resilience Strategy and delivery.

Attendance at EQC Board and committee meetings

This table records attendance at the full Board meetings and at Board committee meetings of which the noted Commissioner was a member. The bracketed number reflects the number of meetings held during each Commissioner's tenure. In addition, on occasion, Commissioners attended meetings of committees that they were not a member of as observers. Following the retirement of Sir Michael Cullen at 30 June 2020, Mary-Jane Daly was appointed as Chair of the EQC Board with Alastair Hercus replacing Mary-Jane Daly as Chair of the Audit and Risk Committee.

Board member	Board (11 meetings)	Board (out of cycle - 3 meetings)	PIC (4 meetings)	ARC (8 meetings)	PCC (4 meetings)	RRC (4 meetings)
Sir Michael Cullen (retired June 2020)	11 (11)	3 (3)	3 (4)	6 (8)	4 (4)	3 (4)
Mary-Jane Daly	11 (11)	3 (3)	3 (4)	8 (8)	4 (4)	
Emma Dobson (joined Mar 2020)	4 (4)	3 (3)	1 (1)	3 (3)		1 (1)
Toni Ferrier (retired Feb 2020)	7 (7)		2 (3)		3 (3)	
Alastair Hercus (joined Mar 2020)	4 (4)	3 (3)	1 (1)	3 (3)	1 (1)	
Paul Kiesanowski (retired Feb 2020)	7 (7)		3 (3)	5 (5)		
Scott Lewis (joined Mar 2020)	4 (4)	3 (3)	1 (1)	2 (3)		0 (1)
Alison O'Connell	11 (11)	3 (3)	3 (4)	8 (8)		4 (4)
Erica Seville	11 (11)	3 (3)	2 (3)		1 (1)	4 (4)
Fiona Wilson (joined Mar 2020)	4 (4)	3 (3)	1 (1)	2^	1(1)	

^ Attended as an observer.

$6.2 BILLION

OF REINSURANCE FOR THE YEAR BEGINNING 1 JUNE 2020.

EXECUTIVE LEADERSHIP TEAM

Function

The role of the Executive Leadership Team 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
- managing the organisation's performance.

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

All Numbers are at 16 June 2020

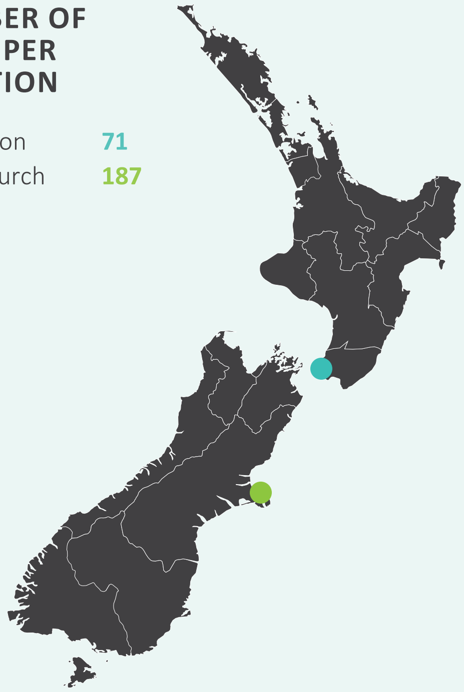
TOTAL NUMBER OF STAFF

(Employee Information for 2019/20 excludes contractors, temps and consultants)

258

NUMBER OF STAFF PER LOCATION

Wellington	71
Christchurch	187



Age range - years

0%	Under 20
26%	20-34
47%	35-49
26.5%	50-64
0.5%	65+

Gender

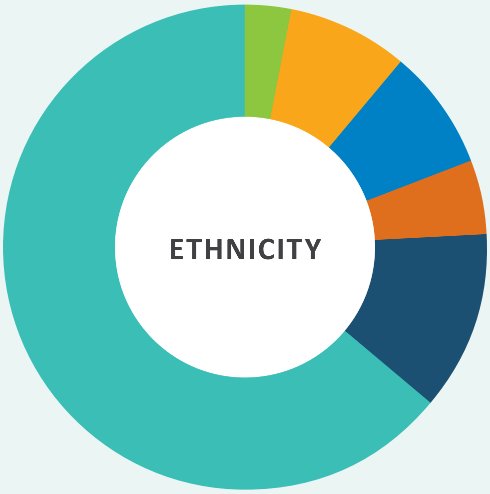
131	Male
127	Female

Leadership team

3 4

People managers

36 34



🟩	Samoan/Indian/Pacific	1%
🟧	African/Chinese/Other/Tongan	2%
🟦	Maori/Undisclosed	4%
🟧	Asian	5%
🟦	European	12%
🟦	NZ European	64%

OUR PEOPLE

Yearly overview

Our people are committed to providing excellence in customer service as they support New Zealanders who are dealing with the impacts of natural disasters.

As we continue to work at pace with closing outstanding claims from previous natural disaster events, we are also looking forward to how we can best support New Zealanders in the future. As part of our transformation journey toward our future operating model, we are focussing on building the required capabilities of our workforce and the transition of our people to our future state organisation. We continue to focus on having the right people with the right capabilities in place, supported by a culture of wellbeing, inclusiveness and engagement.

In delivering our organisational transformation, EQC remains committed to being a good employer through good change management practice, developing our people, and providing equal employment opportunities.

Culture and engagement

Over the course of the year, we have worked on further defining and building our 'One EQC' culture. At a high level, our strengths (reflected in the early 2020 Engagement Survey), which we will continue to build on, include that our people:

- value the emphasis we place on customer needs in all our work
- enjoy working at EQC
- feel most connected to our purpose and the difference we make for New Zealand
- appreciate our focus on safety, health and wellbeing.

Regular pulse surveys, run throughout our COVID-19 response period, showed that our people:

- felt very well supported by the organisation, their direct managers and wider teams while working remotely
- continue to feel that their wellbeing is important to EQC
- value the transparent communications
- appreciated that we prioritised their safety, health and wellbeing throughout our response.

Wellbeing

Our people's wellbeing is an embedded and ongoing priority for EQC, both from a good-employer perspective and because we know that our customers are better served by a workforce that is well and thriving. Our wide range of wellbeing initiatives is now considered to be 'business-as-usual' (e.g.provision of onsite counselling services, internal fitness and psychological wellness communications, and this year's roll out of a wellbeing fund that contributes to our employees' ability to access health and wellbeing services).

Results from the fortnightly staff pulse surveys run between late-March and June 2020 were consistently positive across all topics surveyed, including an average score of 82 percent across all surveys for the question of whether our staff members believe their wellbeing is important to the organisation. As we move into the 2020/21 year, we retain our priority about our people's wellbeing and will be looking to maintain EQC's high rate of workforce wellbeing.

Diversity and inclusion

This year, EQC launched its Diversity and Inclusion Strategy, recognising that through diversity we make better decisions and better serve the wide-ranging needs of our customers by representing, understanding and supporting them well. Our three strategic priorities are:

- Diversity—at all levels of EQC, we reflect the communities we serve
- Inclusion—at all levels of EQC, our people can be successful being themselves in the workplace
- Valuing People—we understand and value our people, and we understand and value the communities we serve.

We have implemented the priority areas from our Strategy that are listed below, with further work to be delivered during the 2020/21 year:

- improving our demographic people data, gathered through our engagement survey, so we can better understand the make up of our workforce
- acting on lessons learned and our staff members' feedback during our COVID-19 response, to implement much greater flexibility to how we move forward with our flexible working arrangements
- celebrating diversity through launching our Culture and Wellbeing calendar of events, which will help us raise awareness and embed diversity and inclusion as an embedded part of our organisational culture
- engaging a preferred provider to design and deliver a learning programme focused on unconscious bias and building our cultural competence, with delivery organisation wide scheduled for August and September 2020
- establishing a baseline measure of inclusion, to monitor and track through our engagement surveys.

Leadership development

Our Leadership Development Strategy was developed during the year and is a key enabler for achieving the leadership capability EQC requires to successfully deliver our strategic priorities.

We have implemented the following priorities from our Strategy, with further initiatives scheduled for delivery in the 2020/21 year:

- committing to a set of leadership behaviours that supports our strategic intent and desired culture
- launching EQC's core development programme, which will equip our leaders with a common leadership language, mindset and tools to lead through times of challenge and change
- delivering leadership forums as part of our approach to develop our leaders as a cohort as well as individuals
- establishing a baseline measure of leadership capability that we will monitor and track through our engagement surveys.

Good employer

We take our responsibilities as a good employer very seriously. In 2019, we reviewed all our people-related policies to ensure they meet best practice as well as our legislative obligations as a good employer. We maintain a schedule of policy review activity to ensure our policies remain current, with key elements of our good-employer approach outlined below.

Health and safety

This year we completed a review of our Health and Safety Management System, ensuring we continue to meet legislative requirements regarding the health and safety and organisational compliance with ISO45001 (International Standard for Occupational Health and Safety).

Performance and development framework

From 1 July 2019, EQC's new performance and development framework was used organisation wide. The new framework includes templates and regular planning and review processes to ensure that all staff members have clear performance objectives, individual development plans, and a wellbeing action plan. To support its successful implementation, our people leaders have received training on the framework and capability building in areas such as coaching, setting development goals, having challenging conversations, and supporting the wellbeing of their people. Our professional development fund remains in place and is available to all employees, where this supports their development plan.

Recruitment, selection and induction

We have robust policies and processes in place to ensure transparency, fairness and confidentiality are embedded and maintained in our approach. As part of our induction programme, all new staff complete online training modules in health, safety, security and privacy and attend EQC's induction course.

Harassment and bullying prevention

EQC has a zero-tolerance approach to any form of harassment or bullying. Our Standards of Integrity and Conduct and the related set of policies are available online and are included in welcome packs provided to all new staff. We maintain alignment of our Protected Disclosures Policy with guidance released by the Public Service Commission.

Remuneration, recognition and conditions

EQC's job evaluation practices ensure ongoing transparency, equitability and gender neutrality. We benchmark remuneration against third-party New Zealand data each year to ensure we are up to date with current market trends. We also review our remuneration policy framework every two years. For our annual remuneration review at completion of the 2019/20 performance year, EQC's approach was fully aligned with guidelines published by the Public Service Commission on this topic.

Flexibility and working conditions

EQC has a Flexible Working Policy and associated guidelines, which are reviewed regularly to ensure we continue to meet the expectations of our people and are aligned to best practice and Public Service Commission guidelines. We provide flexibility across hours of work, days of work and place of work under our Policy. We communicate regularly with all EQC people leaders to ensure consistency of application across the organisation. This includes providing support with flexible working arrangements for parents returning from parental leave.

EQC ensures that all staff have the tools they need to do their job, including standing desks, ergonomic chairs and other tools as required.

MEDIA COVERAGE

EQC's research and education function was a key driver of positive coverage this financial year. This includes, most prominently, reporting on a multinational drone mission, led by Dr Ian Schipper and funded by EQC, to study volcanic craters and a study into different foundation types and quake resistance conducted by EQC and BRANZ.

Canterbury-related coverage remained markedly less positive than our business-as-usual coverage, with 23 percent positive coverage (compared to 45 percent) and 37 percent negative coverage (compared to just 13 percent). On-solds and re-repairs were prominent and recurring topics of reporting and sources of criticism throughout the year, peaking in August 2019 with the announcement of the Government's ex gratia policy for on-solds and the Giblings 'test case' by Shine Lawyers. The impending deadline of the scheme was also widely reported, both positively and negatively, in June 2020.

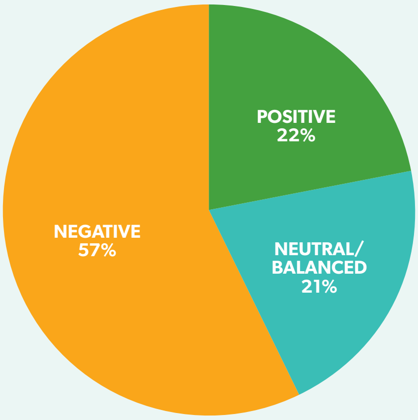
August 2019 recorded the highest volume of coverage for EQC. In addition to widespread reporting on the Government ex gratia policy and the Giblings test case, EQC was also frequently (and largely neutrally) mentioned in coverage relating to a High Court ruling that found Southern Response had engaged in misleading and deceptive conduct.

Public Inquiry-related coverage was most frequently negative (57 percent), with the release of the findings generating a high volume of negative reporting for EQC that focused on criticism regarding quality of repairs, claims settlement delays, and 'dodgy' assessments and assessors. Notably, however, media interest in the report appeared to be concentrated and short lived, with coverage subsiding swiftly in the days following the release.

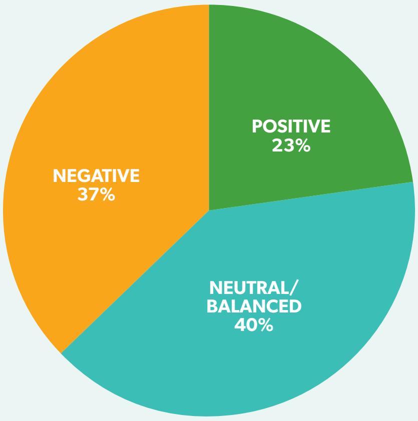
Positive Public Inquiry-related coverage was primarily the result of Chair Sir Michael Cullen's formal apology in November 2019 for EQC's handling of the Canterbury earthquake claims and his commitment that EQC "have been working hard at learning lessons from experience".

A data breach in May 2020 garnered considerable media attention. Coverage on the incident was mixed, but largely balanced, due to EQC's apology and avowal that we will continue to focus on improving experiences and outcomes, which effectively mitigated reproach of EQC's apparent operational inefficiency.

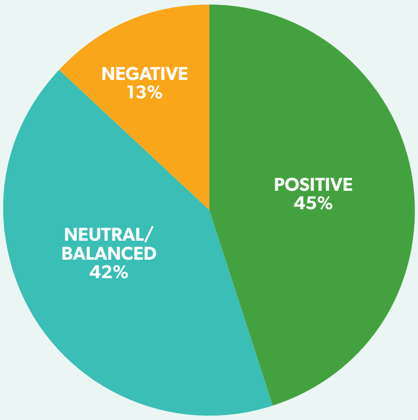
Public Inquiry coverage



Other Canterbury coverage



Other/BAU coverage



STATEMENT OF RESPONSIBILITY

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

The EQC 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 EQC Board, the annual financial statements and the Statement of Performance for the financial year ended 30 June 2020 fairly reflect the financial position and operations of EQC.

Signed on behalf of the EQC Board:

Mary-Jane Daly
Board Chair

30 September 2020

Alastair Hercus
Commissioner

30 September 2020

INDEPENDENT AUDITOR’S REPORT

TO THE READERS OF THE EARTHQUAKE COMMISSION’S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2020

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 61 to 110, that comprise the statement of financial position as at 30 June 2020, 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 49 to 57.

In our opinion:

- the financial statements of the Commission on pages 61 to 110:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; 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 49 to 57:
  - presents fairly, in all material respects, the Commission’s performance for the year ended 30 June 2020, 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 30 September 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. 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.

Emphasis of Matters

Without modifying our opinion, we draw attention to the following disclosures in the financial statements.

Deficiency Funding Deed between the Crown and the Commission

Notes 1 and 11 on pages 68 and 95 indicate that at 30 June 2020, the Commission's total liabilities exceed its assets. The Crown, in terms of its obligation under Section 16 of the Earthquake Commission Act 1993, has entered into a Deficiency Funding Deed with the Commission to ensure that the Commission can meet its liabilities when they fall due. The Crown has provided $115 million as a grant in the 2019/20 financial year.

Uncertainties associated with the outstanding claims liability

Note 2 on pages 71 to 83 describes the inherent uncertainties involved in estimating the outstanding claims liability and the related reinsurance receivable and how these have been affected by the Canterbury and Kaikōura earthquakes.

Impact of COVID-19

Note 1 on page 69 outlines the impact of COVID-19 on the Commission.

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.

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Other information

The Board of Commissioners is responsible for the other information. The other information comprises the information included on pages 2 to 44 and page 112, 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.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Commission.

BRPenrose

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

STATEMENT OF PERFORMANCE

EQC's Statement of Performance includes the standards of delivery achieved for each Output Class against the forecast standards set out in our Statement of Performance Expectations 2019/20.

For the 2019/20 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

This output relates to building resilience to natural hazards so that we:

1. Reduce the risks of and from future natural hazard events
2. Provide assurance to reinsurance markets that New Zealand understands and is managing risk
3. Understand, and are prepared for, future natural hazard events
4. Drive better outcomes for New Zealanders

Output One contributes to two of 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".

The highlight for the 2019/20 year is that we published the *EQC Resilience Strategy for Natural Hazard Risk Reduction 2019-2029*. 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 invest approximately $17 million annually in research and data on natural hazard damage and ways to reduce that damage. We also work to translate and 'operationalise' that knowledge into useful and usable products and put those products in the hands of decision makers and people who can make a difference.

2019/20 results

We measure the results of our performance on Output One by conducting an annual stakeholder survey to understand how our activities are perceived by stakeholders. We raised the bar in 2018/19 and aimed to have between 80 and 90 percent of stakeholders agree that EQC facilitates improved analysis and public understanding of natural risk.

We were pleased with the qualitative feedback we received from stakeholders, who were positive about the value added by EQC's resilience activities and the Resilience Strategy. We were, however, disappointed that we did not meet the quantitative targets we exceeded in 2018/19.

This year, the survey was conducted in May 2020 by Research First Ltd. Stakeholders were randomly chosen from a list of 87 stakeholders provided by EQC. This was a different approach to last year, as we wanted to protect the integrity of the survey process and ensure stakeholder responses were not influenced by upcoming funding bids.

Of those invited, 31 stakeholders participated. This was a smaller sample size than the one in the 2018/2019 survey, meaning one or two neutral answers to a survey question can have a significant impact on the result.

The Stakeholder Survey when combined with the quantitative results give us valuable feedback on where to focus our efforts. These findings suggest that while EQC is seen as a leader in resilience to natural hazards by many of our stakeholders, especially those in the research and local government sectors, we need to target communications to audiences where EQC's role is not so well understood and build on our leadership potential. A future review of the EQC Act might also provide the opportunity to clarify EQC's role and functions.

Stakeholder survey results

Five key themes emerged from the Stakeholder Survey:

1. **EQC has the support of its stakeholders to be a leader in natural hazard resilience.**

   Survey participants commented on the potential for EQC to be a leader in resilience given the experience it has in managing natural disasters, its commitment to research and knowledge production, and its established network with Government and industry.

   "If they can change their structure and invest in mitigation, they have an opportunity in doing something that's very revolutionary. It could be ground-breaking, very novel, and quite radical. EQC could be leading internationally."

   (Insurance stakeholder)

2. **There is positive recognition for EQC's investment and involvement in research.**

   EQC's funding of research at all levels, its openness with results, its support for projects such GeoNet and RiskScape, and its collection and curation of data received consistent appreciation across survey participants and sectors. While research on geological hazards is strong and relevant, there are calls from some for EQC to define and refine its research priorities (e.g. including other types of hazards such as floods and climate change).

3. **Stakeholders were divided over the specific role EQC should play in coordinating resilience activities.**

   Survey participants put forward a variety of views on the role EQC should play in influencing resilience activities. Some thought EQC should function as coordinator; others envisaged an expanded role influencing policy and actioning research; some felt EQC should focus on its role as insurer. The Public Inquiry into EQC also identified the need for clarity on EQC's role.

   "I would like to see Treasury looking at the reach of the EQC Act… I find stakeholders, especially the public, get quite confused about what's covered and what's not. There needs to be a lot more discussion and clarity about that and on what role EQC will have in terms of climate change."

   (Science and research stakeholder)

4. **Stakeholders believe EQC could tell New Zealanders more about the resilience work it does.**

   Survey respondents felt EQC could do more to inform partner agencies and the general public about its resilience activities.

   "Your average member of the public doesn't appreciate half of the good work EQC does. If they did get a track record in good, honest communications over the coming years, that would go a long way to gaining the trust of the wider NZ public. This would make a difference in the context of another natural disaster. They should communicate their good work."

   (Design and construction stakeholder)

5. **EQC faces a number of challenges as it builds its resilience role.**

   A number of stakeholders noted the challenges EQC faces in building its resilience activities as it continues to focus on claims from natural disasters over the past decade. Survey participants suggested research and resilience work could play a more prominent role in informing EQC's direction and the role EQC will play when New Zealand is not recovering from a natural disaster.

Quantitative results

EQC's performance scores for Output One are lower in 2020 than they were in 2019, despite generally very positive feedback from the May 2020 Stakeholder Survey.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
A resilience programme that facilitates improved analysis and public understanding of natural risk				
	Stakeholders[1] surveyed[2] agree or strongly agree that the outputs of EQC's Resilience Strategy (advice, analysis and modelling, and research findings):			One of the most prominent themes to emerge from this year's survey is the role that stakeholders felt EQC ought to be playing in natural hazard resilience leadership. The 2020 scores reflect this uncertainty of role.
90%	• to be of good or excellent quality	90%	72% 🔴	We intend to work closely with stakeholders over the next year to understand perspectives on where EQC can add most value to the natural hazards management system.
93%	• to be relevant and focussed on the right issues.	93%	80% 🔴	
	Stakeholders surveyed agree or strongly agree that the EQC's facilitation and engagement was a positive contribution toward:			
93%	• improved coordination and collaboration in natural hazards science and research	90%	81% 🔴	
87%	• improved understanding of natural hazard risk	85%	87% 🟢	
79%	• improved coordination and collaboration in natural hazards risk management.	80%	68% 🔴	
46%	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%	43% 🔴	1,000 New Zealanders located in five geographical zones were randomly selected from Nielsen's database and surveyed by The Nielsen Company four times during the 2019/20 financial year. This result is averaged across four surveys

Costs associated with Output Class One	Actual revenue	Actual expenditure	Budget revenue	Budget expenditure
Future event preparation	Nil	$37 million	Nil	$36 million

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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.

OUTPUT TWO: EVENT RESPONSE

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 claims relating to all other natural disaster events (including 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 EQC 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.

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. 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 customers are treated in a fair and timely manner. 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 2010-11 Canterbury earthquake sequence remedial claims

This section is focussed on providing service to EQC's customers with claims from the 2010-11 Canterbury earthquake sequence. These measures address both the timeliness and quality of claims resolved during the 2019/20 financial year. Customer survey results show the overall level of satisfaction and how well our customers have been kept informed regarding progress of their claims. This output contributes to EQC's strategic outcome "Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
New measure	Outstanding claims over six months old, on hand at 30 June 2019, are settled by 31 December 2019	75%	58% 🔴	EQC started the financial year with 1,274 outstanding claims over six months old. By 31 December 58%, or 745, of these had been settled
New measure	Inflow of reopened[3] claims lodged post 1 January 2019 will be settled within six months[4] of reopened date[5]	80%	78% 🔴	During the period 1 January 2019 – 31 December 2019, EQC had an inflow of 6,085 reopened claims. Of those, 4,756, or 78%, were resolved within six months of acceptance
New measure	Complete finalisation of the attribution of correct liabilities for Canterbury claims. This will involve discussion/negotiation with private insurers	30 June 2020	Not achieved	Discussions on finalisation were substantively progressed, but not completed, with insurers by June 2020
14%	EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months	<10%	13.8% 🔴	A total of 7,356 claims were closed during the measurable period, of which 1,013 were reopened within the six-month window
40%	The proportion of surveyed[6] customers who indicate satisfaction about their overall claim settlement process[7]	≥45%	49% 🟢	During 2019/20 measurable satisfaction performance has fluctuated between a high of 54% and a low of 32%
New measure	The proportion of surveyed customers who agree or strongly agree that the overall quality of the service received while making the claim (during recent claim experience) was good	>60%	74% 🟢	During 2019/20 measurable performance has fluctuated between a high of 81% and a low of 58%
32%	The proportion of surveyed customers who indicate that they were well informed during the claims settlement process	≥40%	44% 🟢	During 2019/20 measurable well-informed performance has fluctuated between a high of 54% and a low of 32%
New measure	The proportion of surveyed customers who agree or strongly agree that they were kept well informed during their recent claim experience	> 60%	74% 🟢	During 2019/20 measurable performance has fluctuated between a high of 86% and a low of 69%

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[3] To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required.

[4] If a claim is reopened more than once in the 2019 calendar year, with at least six months between the reopen dates, both instances are counted.

[5] This measure will apply to all Canterbury 2010-11 earthquake claims and will not exclude litigation claims. Claims that qualify for SOPE 2.1.1 are excluded from this measure. That is, outstanding claims over six months old, on hand at 30 June 2019, and are settled by 31 December 2019.

[6] Monthly telephone survey conducted with customers whose claims were settled the previous month. Over the course of the year, 1,340 customers were surveyed, randomly sampled from customers who had a claim settled in the prior month. Full-year results are a weighted average of results across the year. Applicable to the following five measures.

[7] Monthly telephone survey conducted with customers whose claims were settled the previous month. Over the course of the year, 2,032 customers responded to the survey (including 1,340 Canterbury customers), from a total eligible population of 6,686. This equates to a response rate of 30 percent. Full year results are a weighted average of results across the year. Applicable to the following five measures.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
New measure	The proportion of surveyed customers who agree or strongly agree that the overall manner of the people they had contact with (during your recent claim experience) was good	> 60%	83% 🟢	During 2019/20 measurable performance has fluctuated between a high of 88% and a low of 78%

Claims relating to other natural disaster events (excluding Canterbury)

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

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
New measure	Claims lodged post 1 January 2019 are settled within six months of lodgement date	95%	98% 🟢	During the period 1 January 2019 – 31 December 2019, EQC had an inflow of 1,555 new non-Canterbury claims. Of those, 1,521, or 98%, were resolved within six months of lodgement
New measure	Claims that have not been settled within six months of lodgement are settled within 90 working days of the assessment process being completed	95%	87% 🔴	Three individual claims, from a total of 23 in scope for this measure remained open at end of financial year resulting in 87% success
New measure	Inflow of reopened[8] claims lodged post 1 January 2019 will be settled within six months of reopened date	80%	83% 🟢	During the period 1 January 2019 – 31 December 2019, EQC had an inflow of 800 reopened non-Canterbury claims. Of those, 660, or 83%, were resolved within six months of reopened date
3.6%	EQC settlements should be enduring. Less than 10% of claims settled[9] are reopened within six months	<10%	8% 🟢	During the period 1 January 2019 – 31 December 2019, EQC settled 2,273 non-Canterbury claims. Of those, 175, or 8%, were reopened within six months of lodgement
76%	The proportion[10] of surveyed customers who indicate satisfaction about their overall claim settlement process	80%	73% 🔴	During 2019/20 measurable performance has fluctuated between a high of 84% and a low of 58%

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[8] To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required.

[9] The start date for this rolling measure is 1 January 2019.

[10] "Monthly telephone survey conducted with customers whose claims were settled the previous month. Over the course of the year, 2,032 customers responded to the survey (including 692 non-Canterbury event customers), from a total eligible population of 6,686. This equates to a response rate of 30 percent. Full year results are a weighted average of results across the year.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
75%	The proportion of surveyed customers who indicate they were well informed during the claims settlement process	80%	73% ●	During 2019/20 measurable performance has fluctuated between a high of 84% and a low of 63%
N/A There were no natural disasters large enough to trigger a specific budgeted event	New natural disaster event[11] claims are resolved within Board approved claims handling expense budgets[12] 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	Actual revenue	Actual expenditure	Budget revenue	Budget expenditure
Event response	Nil	$37 million	Nil	$37 million

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 and deliver 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 one: 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 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
Achieved	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 by 1 June 2020	Achieved	EQC renewed its expiring $6.2 billion reinsurance programme within the budget and operational parameters set by the EQC Board

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[11] 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.

[12] In the approval of budgets, the EQC Board will consider the type of response required, previous costs of similar events and any available benchmarks.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
Achieved		Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2020/21 by March 2020	Achieved	The meeting was held between EQC and Treasury in January 2020 as part of the 2020/21 reinsurance programme placement
New measure	Development of a future investment strategy to support the regrowth of the Natural Disaster Fund	30 June 2020	Not Achieved	The EQC Board decided to postpone the development of an investment strategy for the Natural Disaster Fund until 2020/21

Costs and revenue associated with key activity measure one	Actual revenue	Actual expenditure	Budget revenue	Budget expenditure
Reinsurance programme	Nil	$174 million	Nil	$209 million

Key activity measure two: Managing the Natural Disaster Fund

Although we do not yet have the financial ability to regrow the NDF, EQC has developed a probabilistic model to better understand potential future growth and premium adequacy.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
New measure	EQC develops a long-term financial strategy that gives a 75% probability of the Natural Disaster Fund reaching $1.75 billion by 2030 under a range of potential scenarios	A probability model will be in place by 30 June 2020 that will forecast progress against achieving a NDF size of ≥ $1.75 billion by 2030	Achieved	The new model has been developed
New measure	Transition to a new loss modelling platform, in partnership with GNS Science and NIWA, will be completed by the end of quarter two	EQC's new loss modelling platform will be tested and in place by 31 December 2019	Not Achieved	The model has been developed but is still undergoing testing and reconciliation
100.7%	The level of premiums collected compared to annual financial budget	> 97.5%	101.4% ●	Actual premiums collected of $446 million. This is due to the numbers of dwellings in New Zealand increasing by more than 1% budgeted growth number

Revenue associated with key activity measure three	Actual revenue	Actual expenditure	Budget revenue	Budget expenditure
Crown Guarantee	$115 million	Nil	Nil	Nil
Premium collection	$446 million	Nil	$440 million	Nil

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

Key activity measure three: Transformation—customer and claims management capability

EQC is currently optimising and transforming customer and claims management capability and is designing and implementing a future claims model to support this. It will include partnerships with outsourced service providers and the development and delivery of the co-designed Future Model. The primary outcome from this work is that we are able to retain and increase our capability and capacity to be able to respond to existing and future claims resulting from a natural disaster.

Performance 2018/19	Performance measure 2019/20	Target 2019/20	Actual performance 2019/20	Comment
New measure	EQC Amendment Act fully implemented	Complete by 30 June 2020	Achieved	Required updates to systems, procedures, and technical documentation were completed on schedule
New measure	EQC is able to demonstrate the claims management capacity of its event response model	50,000 claims (annually) by June 2020	Achieved	Capacity of 50,000 claims is in place. This comprises EQC in-house capacity of 5,000 claims together with additional capacity from Third Party Administrators (TPA). TPA Resource models have been reviewed and confirmed capable of resourcing 45,000 claims in total

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	Actual 2020 $(000)	Unaudited Budget 2020 $(000)	Actual 2019 $(000)
EARNED PREMIUMS				
Premiums	3	446,258	440,127	386,589
Outward reinsurance premium expense		(174,207)	(208,899)	(180,685)
Net earned premium revenue		**272,051**	**231,228**	**205,904**
UNDERWRITING MOVEMENTS				
Reinsurance and other recoveries	6	(19,519)	4,055	459,969
Claims (expense)/reduction	7	(470,431)	73,228	(302,101)
Unexpired risk liability reduction	17	30,212	39,129	6,808
Total underwriting movements		**(459,738)**	**116,412**	**164,677**
Surplus/(deficit) from insurance activities		**(187,687)**	**347,640**	**370,580**
OTHER OPERATING REVENUE				
Crown guarantee*	4	115,000	-	125,000
Other revenue	5	2,960	-	-
Total other operating revenue		**117,960**	**-**	**125,000**
OTHER OPERATING EXPENSE				
Future event preparation		(37,098)	(35,543)	(31,107)
Event response		(36,577)	(36,534)	(42,383)
Other expenses	5	(2,335)	-	-
Total other operating expense	8	**(76,011)**	**(72,077)**	**(73,490)**
INVESTMENT ACTIVITIES				
Investment revenue		146	-	125
Investment costs		-	-	(32)
Interest on cash balances		1,219	-	1,971
Total revenue from investment activities		**1,365**	**-**	**2,064**
Crown underwriting fee	18	(10,000)	(10,000)	(10,000)
Net (deficit)/surplus		**(154,373)**	**265,563**	**414,154**
Total comprehensive revenue/(expense) for the year		**(154,373)**	**265,563**	**414,154**

* In line with Treasury's instructions, the Earthquake Commission (the 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 2020

	NOTE	Actual 2020 $(000)	Unaudited Budget 2020 $(000)	Actual 2019 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
RETAINED EARNINGS				
Opening balance at 1 July (deficit)		(2,035,347)	(1,981,198)	(2,449,501)
Total comprehensive revenue/(expense) for the year		(154,373)	265,563	414,154
Closing balance at 30 June (deficit)		**(2,189,720)**	**(1,715,635)**	**(2,035,347)**
CLOSING BALANCE AS AT 30 JUNE		**(689,720)**	**(215,635)**	**(535,347)**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTE	Actual 2020 $(000)	Unaudited Budget 2020 $(000)	Actual 2019 $(000)
EQUITY				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings		(2,189,720)	(1,715,635)	(2,035,347)
Total equity		**(689,720)**	**(215,635)**	**(535,347)**
ASSETS				
Bank		179,850	32,956	72,646
Premiums receivable		98,919	96,232	77,872
Outstanding reinsurance and other recoveries	6	528,984	114,446	627,661
GST receivable		3,436	(712)	6,296
Prepayments		1,637	1,293	1,454
Outward reinsurance expense asset		31,304	34,774	28,735
Property, plant and equipment	13	10,527	1,348	12,425
Intangible assets	14	12,463	9,486	10,298
Total assets		**867,120**	**289,823**	**837,387**
LIABILITIES				
Trade and other payables	15	(26,739)	(22,655)	(25,606)
Finance lease liability	9	(105)	-	-
Provisions	16	(2,386)	(2,017)	(4,938)
Outstanding claims liability	2	(1,262,986)	(223,529)	(1,104,712)
Unearned premium liability	3	(264,624)	(257,257)	(207,266)
Unexpired risk liability	17	-	-	(30,212)
Total liabilities		**(1,556,840)**	**(505,458)**	**(1,372,734)**
NET LIABILITIES*		**(689,720)**	**(215,635)**	**(535,347)**

* 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.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

	NOTE	Actual 2020 $(000)	Unaudited Budget 2020 $(000)	Actual 2019 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from:				
Interest		1,219	-	1,971
Premiums		482,569	419,933	394,805
Reinsurance and other recoveries		83,421	281,148	57,265
Crown guarantee		115,000	-	125,000
On-sold agreement receipts		3,383	-	-
Other revenue		7	-	-
Net GST		2,859	2,718	8,723
Cash was applied to:				
Outward reinsurance		(176,515)	(213,435)	(178,959)
Crown underwriting fee	18	(10,000)	(10,000)	(10,000)
Claims settlements and handling costs		(307,754)	(407,961)	(446,696)
Employees and other operating expenses		(57,672)	(49,636)	(41,736)
GeoNet operating expenses		(10,315)	(12,908)	(10,357)
Research grants		(4,444)	(4,703)	(3,497)
On-sold agreement settlement and handling costs		(5,283)	-	-
SRES agreement handling costs		(887)	-	-
Net cash inflow/(outflow) from operating activities		**115,588**	**5,156**	**(103,481)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from:				
Sale of investments		146	-	125
Sale of property, plant and equipment		-	-	11
Cash was applied to:				
Purchase of property, plant and equipment	13	(2,336)	(2,000)	(3,767)
Purchase of intangibles	14	(6,176)	-	(1,596)
Net cash outflow from investing activities		**(8,366)**	**(2,000)**	**(5,227)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was applied to:				
Interest on finance lease liabilities		(8)	-	-
Payment of finance lease expense		(10)	-	-
Net cash outflow from financing activities		**(18)**	**-**	**-**
Net increase/(decrease) in bank		**107,204**	**3,156**	**(108,708)**
Add opening bank		72,646	29,800	181,354
Closing bank		**179,850**	**32,956**	**72,646**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2020

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

	Actual 2020 $(000)	Unaudited Budget 2020 $(000)	Actual 2019 $(000)
Total comprehensive revenue/(expenses) for the year	**(154,373)**	**265,563**	**414,154**
Add non-cash items:			
Depreciation and amortisation	7,963	4,169	7,434
Impairment	397	-	389
Total non-cash items	**8,360**	**4,169**	**7,823**
Less items classified as investing activities			
Interest income and gains on investments	(146)	-	(125)
Loss/(gain) on disposal of property, plant and equipment	-	(44)	92
Total items classified as investing activities	**(146)**	**(44)**	**(33)**
Less items classified as financing activities			
Interest expense and amortisation of lease liability	(97)	-	-
Total items classified as financing activities	**(97)**	**-**	**-**
Add/(less) movements in Statement of Financial Position items:			
Premiums receivable	(21,046)	(23,591)	(1,708)
Outstanding reinsurance and other recoveries	96,110	281,519	(399,480)
GST receivable	2,858	2,763	8,722
Prepayments	(183)	(4,536)	378
Trade and other payables	1,132	(15,599)	(26,131)
Provisions	(2,551)	-	3,180
Finance lease liability	105	-	-
Outstanding claims liability	158,274	(555,492)	(113,503)
Unearned premium liability	57,357	50,404	9,925
Unexpired risk liability	(30,212)	-	(6,808)
Net movements in working capital items	**261,844**	**(264,531)**	**(525,425)**
Net cash inflow/(outflow) from operating activities	**115,588**	**5,156**	**(103,481)**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTES INDEX

1. ACCOUNTING POLICIES

Reporting entity

The Earthquake Commission (the Commission) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in and operates in New Zealand. The relevant legislation governing the Commission's operations includes the Crown Entities Act 2004 and the Earthquake Commission Amendment 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 (the Fund) including the arrangement of reinsurance.

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

The reporting period covered by these financial statements is the year ended 30 June 2020. These financial statements were approved by the EQC Board on 30 September 2020.

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 2020. 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. An amended Deed was signed on 28 August 2020 for a further 12 months. 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 EQC 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.

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 ongoing 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.

COVID-19 pandemic

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, on Wednesday 25 March 2020 the New Zealand Government raised its Alert Level to 4 (full lockdown of non-essential services) for an initial four-week period. As a natural disaster insurer, the risks the Commission covers are not affected by COVID-19. In general, the main impact of the COVID-19 lockdown on claims is through short-term delays in completing damage assessments (where these are required). The Commission developed processes to complete a range of assessments remotely during lockdown, to reduce the impact of delays. Claimants' ability to submit claims through the Commission's website was unaffected, though there may have been an impact on claimants' ability to provide the requisite information due to non-availability of on-site visits from their own advisors. Any change in position at balance date due to the COVID-19 lockdown is indistinguishable from the natural variation in claims numbers and payments. Overall, given the short term of New Zealand's lockdown, the Commission has concluded that there is no significant impact on the claims liability or claims paid at 30 June 2020. All other operations (including premiums and reinsurance) remained unaffected with receipts being received as expected. The Commission has performed an impact assessment on its financial statements as a result of COVID-19 and conclude no material impact to its financial results.

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.

Budgets

The unaudited budget figures reported in these financial statements are the financial performance targets that were included in the Commission's 2019/20 Statement of Performance Expectations. Major variances to budget are explained in Note 10.

Standards adopted in the current period

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:

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 and adopted by the Commission in the comparative period. It is effective for reporting periods beginning on or after 1 January 2022. Considering the Commission has adopted PBE IFRS 9, no change is expected on the adoption of PBE IPSAS 41.

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 Statement of Performance Expectations.

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 the Commission 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 with regard to an event, such as details of the earthquake's magnitude and impact in different locations. 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 2020

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 2020. Melville Jessup Weaver also performed actuarial valuations of the Commission's outstanding claims liability for the financial years from 30 June 2011 to 30 June 2019. 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 2020 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 2010-11 Canterbury earthquake sequence. These costs also needed to be attributed or apportioned to one of five identified earthquakes or groups of earthquakes, as the Commission's cap reinstates for each event and the Commission's reinsurance applies to only the Darfield and Lyttelton events. A direct allocation to each earthquake was not always possible, as properties may not have been assessed between events. A number of mathematical approximations have been developed over time to allocate costs when the actual event cause is unclear.

For the Kaikōura event a new stochastic model was developed to simulate potential future costs to the Commission for remaining claims. For currently open claims the future cost was modelled as either a percentage of the case estimate (where available) or a land/building/contents cost per unit. For reopened claims, a number of future reopened claims were allowed for and a cost per reopened unit was modelled.

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% (2019: 85%) probability of sufficiency, ie there is an 85% probability that the net provision will ultimately prove to be adequate to meet the Commission's liabilities from events that have occurred as at 30 June 2020, 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 for Canterbury and Kaikōura events is future development in the cost of existing claims (IBNER) rather than the future notification of further claims.

The volatility of IBNER is partially mitigated by the maximum settlement amounts, which generally applied for each of the Canterbury and Kaikōura 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 has also seen the removal of the $20,000 the Commission covers for contents and an increase in the cap on the Commission residential building cover from $100,000 (plus GST) to $150,000 (plus GST) at the homeowner's next policy renewal date.

Valuation results—outstanding claims liability and risk margin

On a net of reinsurance basis, the outstanding claims liability, including risk margin, has increased to $748 million as at 30 June 2020 (2019: $524 million), mainly due to the increase in the Insurer Finalisation provision made relating to the 2010-11 Canterbury earthquake sequence. Cash spent on claims settlement and handling costs was $308 million in the 2020 financial year; a decrease of approximately $139 million on the 2019 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) decreasing to 47.0% in 2020, down from 85.8% in 2019. In absolute terms the 2020 risk margin is $239 million (2019: $242 million). The size of the risk margin relative to the net outstanding claims liability has decreased due to increased certainty in the outstanding claims provision, in particular relating to progress with Insurer Finalisation negotiations. 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 Kaikōura earthquake

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

Since mid-2019 the Commission has taken over the management of a large proportion of remaining under-cap claims from the majority of participating insurers, although the insurers have retained management of multi-unit buildings, claims with outstanding complaints, and some with other special features, at their discretion. Managing claims in-house provides the Commission with more accurate and up-to-date information for assumption setting going forward. The Commission also manages all new reopened undercap claims.

The total cost of the Kaikōura 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 Kaikōura 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 $655 million, an increase of $7 million compared to 30 June 2019. To date payments of $628 million (including claims handling expenses) have been made, leaving an outstanding central estimate claims expense of $27 million. There is an additional $7 million risk margin associated with the event as at 30 June 2020 (2019: $17 million). The primary driver of the increase in the estimated cost is an increase in the case estimate for one large multi-unit building in Wellington. Smaller increases in the estimated costs are due to a larger allowance for reopened claims and an increased allowance for underestimation of case costs.

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

The Kaikōura 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 table below summarises the sensitivity of the estimated outstanding claims liabilities for the Kaikōura event to each of the assumptions used in the model. The assumptions are all shown as relative movements of +/-10%.

Item	2020	2019	How determined	Sensitivity/impact on OCL
Claim cost as % of case estimate	144%	n/a	Based on historical analysis of adequacy of case estimates	+10%: +$3.8 million -10%: -$1.5 million
Average claims size*				
• Land	$7,750	$10,000	Recent experience	+10%: +$1.1 million
• Building	$14,000	$8,500**/$48,000*		-10%: +$1.4 million
• Contents	$7,500	$5,000		
Number of future reopened claims	0.5% of all claims by number	4% of closed claims to date	Recent trends	+10%: +$0.8 million -10%: +$1.3 million
Proportion finalising non-zero				
• Land	61%	85%	Recent experience	+10%: +$0.5 million
• Building	61%	40-100%		-10%: -$0.2 million
• Contents	61%	50%		

The sensitivities above highlight that the only significant parameters in the model are the claims cost as a percentage of case estimates and the proportion of claims finalising non-zero. If a parameter was significant, it would produce results that are above and below the outstanding claims liability; the fact that some parameters do not illustrate that the random variation in the model is greater than the impact of varying these assumptions.

* Per single unit property.

** Per dwelling in a multi-unit building.

Progress with the 2010-11 Canterbury earthquake sequence

During the 2020 financial year the Commission continued to settle thousands of reopened claims arising from the 2010-11 Canterbury earthquake sequence. The Commission also progressed discussions on insurer finalisation, which is the process of determining a wash up of historic claim costs with each private insurer in respect of settlement differences for overcap claims. The insurer finalisation project seeks to understand and quantify both differences in the apportionment of settlement payments to the separate earthquake events and any under- or over-payments by the Commission. The apportionment of the insurer finalisation component of the outstanding claims liability to the Canterbury earthquake sequence is informed by the findings of detailed expert reviews and the Commission's current understanding of private insurers' views.

Although it has now been 10 years since the Canterbury earthquake sequence began, there still remains a level of uncertainty associated with the valuation of the outstanding claims liability, insurer finalisation and reinsurance recoveries. Due to the ongoing contribution from reinsurance, the numbers for the Canterbury earthquake 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 2010-11 Canterbury earthquake sequence increased by $434 million to $11,841 million in the 2020 financial year. This was driven by a $413 million increase in the estimated total buildings claims costs, a $4 million increase in the estimated land claims costs and a $17 million increase in claims handling expenses. As a result of work undertaken in respect of insurer finalisation and a reapportionment of claims costs away from the September 2010 earthquake compared to the Commission's view as at June 2019, expected reinsurance recoveries have decreased by $30 million.

The total associated risk margin for the 2010-11 Canterbury earthquake sequence has increased by $3 million to $226 million (2019: $223 million). As a proportion of the net claims liability (after reinsurance and discounting) this is 49% in 2020, which is a significantly lower proportion than the level seen in 2019 (98%) due to the reduced uncertainty in the elements left outstanding.

The key components of the outstanding claims liabilities for the 2010-11 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 regard to Canterbury building claims have focussed 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 2020, the Commission had approximately 1,600 outstanding reopened claims.

During the 2020 financial year the Commission has increased the gross central estimate ultimate expense for building claims by $413 million. After allowing for reinsurance, the net impact is an increase of $463 million.

The main elements driving the change in the liability are:

- revisions to the estimated scenarios for Insurer Finalisation, based on further engagement with insurers and a revised range of potential settlement scenarios
- increases to the assumed number of future reopened claims and the duration over which they will occur
- changes to the apportionment of expected future costs to the various events, with flow-on to reinsurance recoveries
- increases in claim handling expenses allowances, reflecting the increased workflow projections.

The reopened claims numbers and Insurer Finalisation each have a wide range of possible outcomes that 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 Commission's most recent interactions 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, such as cracking and undulation, are easily seen by looking at the land. 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 2020 the Commission has materially completed settlements of land claims to Green Zone properties. The exception to this are those claims subject to the Hight Court litigation, which was 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 increased by approximately $4 million to $604 million in the 2020 financial year. As at 30 June 2020 the gross outstanding claims liability is $89 million.

For the purpose of the actuarial valuation, various potential scenarios for litigation outcomes have been modelled, these scenarios were updated during the 2020 financial year to reflect the Commission's discussions with insurers.

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 20% 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 2020, 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 costs of managing the more complex remaining claims and bringing the programme of work to completion are higher. The reforecast has resulted in an increase of $17 million to the gross ultimate claims handling expenses ($15 million on a net of reinsurance basis), with the ultimate claims handling costs now estimated to be $1,747 million, an increase from $1,730 million at 30 June 2019. As at 30 June 2020 $1,646 million has been paid.

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

Item	2020	2019	How determined	Sensitivity/ impact on OCL
Current claims: (excluding categories below)				
• Average cash settlement	$40,000	$42,000	Based on recent experience	±10%: ±$5 million
• Percentage non-nil payment	100%	98%		±10%: ±$5 million
Current drainage claims:				
• Average cash settlement amount	Now included in the "current claims" category	$15,000	Based on recent experience	
• Percentage non-nil payment		100%		
Current construction claims:				
• Average cash settlement	Included within reopened building claims	Included within reopened building claims		
• Percentage non-nil payment				
Current Southern Response claims:				
• Average cash settlement	$62,000	$82,000	Based on recent experience	±10%: ±$0.2 million
• Percentage non-nil payment	100%	100%		±10%: ±$0.2 million
Current dispute resolution claims:				
• Average cash settlement	$82,000	$105,000	Based on recent experience	±10%: ±$2 million
• Percentage non-nil payment	100%	100%		±10%: ±$2 million
Reopened building claims:				
• Number reopening after June	7,471 to December 2023	18,400 to December 2023	Based on analysis of past and current trends	Claims continue ± six months: ± $57 million
• Percentage non-nil payments	70%	66%		Nil claim rate is ± 5%: ± $15 million
• Average non-nil payment	$40,000	$42,000		Average cost ± $5,000: ± $26 million

Summary of key sensitivities and methodologies for calculated Canterbury liabilities

Provision	2020	2019	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	Provision is based on findings from progress to date and 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 ± $70 million
Land litigation	Provision is based on a weighted average of a range of different outcome scenarios	Provision 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 -$81/+$157 million
Claims handling expenses				±10%: ±$10 million (±$7 million on a net of reinsurance basis)

Economic assumptions used in the actuarial valuation

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

	2020	2019
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	0.22% to 0.63%	1.1% to 1.4%
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:

	2020	2019
Weighted average term to settlement	0.82 years	0.92 years
Claims handling expenses as a percentage of claims paid	16.1%%	16.4%

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 2020, 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 2020 and 30 June 2019.

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 to the claims liability of $3.5 million.

Assumption	Movements in variable	Impact on net outstanding claims liability	
		2020 $(000)	2019 $(000)
Claims inflation rate	+1.0%	+3,500	+12,300
	-1.0%	-3,700	-12,500
Discount rate	+1.0%	-5,900	-4,300
	-1.0%	+5,900	+4,700
Demand surge: probability of surge event	x1.5	+17,600	+25,000
Demand surge: surge severity	x1.5	+35,200	+50,000
Overall weighted average term to settlement	+0.5 years	-900	-2,900
	-0.5 years	+500	+1,000
Overall claims handling expense ratio	+1.0%	+7,400	+9,500
	-1.0%	-7,400	-10,200

Unexpired risk reserve

Premium liabilities are an estimate of the total value of net liabilities associated with the run-off of the Commission's unexpired risks as at 30 June 2020. Premium liabilities comprise several components:

- the net of reinsurance cost of future claims arising from unexpired risks
- the claims handling expenses for the future claims arising from unexpired risks
- the cost of policy administration for the run-off of unexpired risks
- the cost of reinsurance cover for the unexpired risks.

The estimate is set at a 75% probability of adequacy and discounted for the time value of money.

If the premium liabilities exceed the unearned premium reserve (UPR), an additional unexpired risk reserve is required to make up the extent of the shortfall. As at 30 June 2020 the UPR was greater than the premium liabilities and there is therefore no requirement to hold an unexpired risk reserve.

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
OUTSTANDING CLAIMS LIABILITY			
Central estimate of outstanding claims liability	(918,174)	(156,951)	(732,161)
Claims handling expenses	(107,739)	(11,352)	(144,227)
Risk margin	(239,272)	(56,322)	(242,269)
Gross outstanding claims liability	**(1,265,185)**	**(224,626)**	**(1,118,657)**
Discount	2,199	1,097	13,945
Discounted outstanding claims liability	**(1,262,986)**	**(223,529)**	**(1,104,712)**
Outstanding claims liability	**(1,262,986)**	**(223,529)**	**(1,104,712)**
Current	(960,810)	(191,152)	(610,047)
Non-current	(302,176)	(32,377)	(494,665)
	(1,262,986)	**(223,529)**	**(1,104,712)**
RECONCILIATION OF MOVEMENT IN OUTSTANDING CLAIMS LIABILITY			
Outstanding claims liability at 1 July	(1,104,712)	(739,891)	(1,218,215)
Claims (expense)/reduction	(470,431)	73,228	(302,101)
Non-cash items in claims expense	865	2,455	2,037
Claims payments during the year	307,754	407,961	446,696
Claims handling expense in trade and other payables	3,538	32,718	(33,129)
Outstanding claims liability at 30 June	**(1,262,986)**	**(223,529)**	**(1,104,712)**

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 Kaikōura earthquake, in addition to the costs incurred in other events.

2020	Actual 2020 $(000)	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	-	-	-	-
Nine years later	-	-	-	-
Current estimate of ultimate claims expense	**-**	**-**	**-**	**-**
Cumulative payments	-	-	-	-
Outstanding claims liability (undiscounted)	**-**	**-**	**-**	**-**
Discount to present value	-	-	-	-
Outstanding claims liability (discounted)	**-**	**-**	**-**	**-**
2010-11 Canterbury event risk margin				
KAIKŌURA EARTHQUAKE				
Ultimate claims expense estimate				
At end of incident year	-	-	-	(544,022)
One year later	-	-	-	(615,947)
Two years later	-	-	-	(648,432)
Three years later	-	-	-	(655,200)
Current estimate of ultimate claims expense	**-**	**-**	**-**	**(655,200)**
Cumulative payments	-	-	-	628,451
Outstanding claims liability (undiscounted)	**-**	**-**	**-**	**(26,749)**
Discount to present value	-	-	-	45
Outstanding claims liability (discounted)	**-**	**-**	**-**	**(26,704)**
2016 Kaikōura event risk margin				
OTHER EVENTS				
Other claims (expected to be settled within a year)				
Other risk margin				
Outstanding claims liability (85% probability of adequacy, discounted)				

Actual 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
-	-	-	-	(457,557)	(10,986,273)	n/a
-	-	-	-	n/a	(11,383,580)	n/a
-	**-**	**-**	**-**	**(457,557)**	**(11,383,580)**	**(11,841,137)**
-	-	-	-	426,875	10,433,151	10,860,026
-	**-**	**-**	**-**	**(30,682)**	**(950,429)**	**(981,111)**
-	-	-	-	87	2,027	2,114
-	**-**	**-**	**-**	**(30,595)**	**(948,402)**	**(978,997)**
						(226,302)
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	**-**	**-**	**-**	**-**	**-**	**(655,200)**
-	-	-	-	-	-	628,451
-	**-**	**-**	**-**	**-**	**-**	**(26,749)**
-	-	-	-	-	-	45
-	**-**	**-**	**-**	**-**	**-**	**(26,704)**
						(7,468)
						(18,013)
						(5,502)
						(1,262,986)

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			
KAIKŌURA 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 Kaikōura event risk margin			
OTHER EVENTS			
Other claims (expected to be settled within a year)			
Other risk margin			
Outstanding claims liability (85% probability of adequacy, discounted)			

Settlement of outstanding claims liability

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

	2021 $(000)	2022 $(000)	2023 $(000)	2024 $(000)	Total $(000)
Outstanding claims liability – central estimate	771,624	144,936	80,580	26,574	1,023,714
Risk Margin	189,186	27,422	15,800	6,864	239,272
Total outstanding claims liability	**960,810**	**172,358**	**96,380**	**33,438**	**1,262,986**

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)

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. 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.

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Gross written premiums	516,015	502,794	406,365
Less rebate to insurers	(12,400)	(12,263)	(9,851)
	503,615	**490,531**	**396,514**
Movement in unearned premium liability	(57,357)	(50,404)	(9,925)
Premiums	**446,258**	**440,127**	**386,589**
Unearned premium liability at 1 July	(207,266)	(206,853)	(197,341)
Deferral of premiums on contracts written in the period	(264,624)	(257,257)	(207,266)
Earning of premiums written in previous periods	207,266	206,853	197,341
Unearned premium liability at 30 June	**(264,624)**	**(257,257)**	**(207,266)**

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. OTHER REVENUE

Other revenue represents reimbursements received from the Crown and Southern Response Earthquake Services (SRES) in relation to the Ministerial directions and corresponding agency agreements entered into during the year plus other nominal amounts.

On 7 October 2019 the Commission entered into an agreement with the Crown that allowed owners of on-sold over-cap properties in Canterbury to apply for an ex gratia Government payment to have their homes repaired. This process is facilitated by the Commission and reimbursed in full by the Crown in arrears after each quarter end, resulting in the revenue offsetting the expenses in full.

On 11 October 2019 the Commission entered into an agreement with SRES whereby the Commission acts as agent in managing SRES' remaining customers. The costs incurred in fulfilling this contract, plus an overhead margin, are reimbursed in arrears after each quarter end; resulting in a margin of $0.6m.

2020	On-sold agency agreement	Southern Response agency agreement	Other	Total
Reimbursement of claims handling expenses	1,448	1,506	-	2,954
Other	-	-	6	6
	1,448	**1,506**	**6**	**2,960**
Claims handling expenses	(1,448)	(887)	-	(2,335)
	-	**619**	**6**	**625**

During the year there was also ex gratia payments totalling $3.8 million (2019: $Nil) paid out to qualifying owners of on-sold properties on behalf of the Crown.

The agreements were entered into during the year, therefore there are no comparatives.

6. 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 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Gross reinsurance recoveries	(29,522)	-	467,739
Movement in discount	10,003	4,055	(7,770)
Total discounted reinsurance and other recoveries	**(19,519)**	**4,055**	**459,969**

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Gross reinsurance receivable	519,056	113,754	630,335
Discount	(1,240)	(668)	(11,242)
Discounted reinsurance receivable	**517,816**	**113,087**	**619,093**
Other recoveries			
Sundry receivables (i)	6,466	1,359	6,657
Less: provision for impairment	(1,236)	-	(5,690)
Aon (ii)	5,938	-	7,601
Total other recoveries	**11,168**	**1,359**	**8,568**
Total outstanding reinsurance and other recoveries	**528,984**	**114,446**	**627,661**
Current	387,332	114,446	256,480
Non-current	141,652	-	371,181
	528,984	**114,446**	**627,661**
RECONCILIATION OF MOVEMENT IN OUTSTANDING REINSURANCE AND OTHER RECOVERIES			
Outstanding reinsurance and other recoveries at 1 July	627,661	395,305	226,677
Reinsurance and other recoveries recognised in the year	(19,519)	4,055	459,969
Reinsurance and other recoveries received during the year	(79,158)	(284,914)	(58,985)
Outstanding reinsurance and other recoveries at 30 June	**528,984**	**114,446**	**627,661**

i) Majority of sundry receivables relate to receipts for the outstanding On-sold Agency Agreement and Southern Response Agency Agreement reimbursement (2019: majority related to invoices for the Canterbury Home Repair Programme excesses).

(ii) Aon is the Commission's reinsurance broker; it manages the collection of reinsurance monies on behalf of the Commission. The other recoveries relate to activity that was performed in June 2020 for which the Commission had requested a reinsurance recovery but had not yet been received.

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
RECONCILIATION OF MOVEMENTS IN THE PROVISION FOR IMPAIRMENT			
Provision for impairment at 1 July	(5,690)	-	(3,908)
Impairment expense in the year	(1,357)	-	(1,782)
Utilised during the year (iii)	5,811	-	-
Provision for impairment at 30 June	**(1,236)**	**-**	**(5,690)**

(iii) During the 2019/20 financial year the outstanding Canterbury Home Repair Programme excesses were written off by the Commission.

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. The estimated value of reinsurance recoveries is calculated using the same stochastic process as for the ultimate claims costs. Under approximately 20% of scenarios the Commission's costs for the Darfield earthquake will exceed the total of the Commission's reinsurance programme for that event. This means that the expected reinsurance recoveries are less than the expected claims costs for this event.

At 30 June 2020, the total actuarial valuation of reinsurance recoveries decreased by $29.5 million to $4,601 million. This decrease 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 account for changes to interest rates, payment patterns and settlement periods. At 30 June 2020, the discount for the outstanding reinsurance recoveries was decreased by $10 million to $1.2 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:

	2020 Expected loss rate	2020 Gross $(000)	2020 Impairment $(000)	2020 Net $(000)	2019 Expected loss rate	2019 Gross $(000)	2019 Impairment $(000)	2019 Net $(000)
Not past due	11.0%	11,198	(1,233)	9,965	9.6%	8,471	(810)	7,661
Past due 1-30 days	0.0%	-	-	-	0.0%	-	-	-
Past due 31-60 days	0.0%	-	-	-	0.0%	-	-	-
Past due 61-90 days	0.0%	260	-	260	0.0%	-	-	-
Past due > 90 days	0.3%	946	(3)	943	84.3%	5,787	(4,880)	907
Total		**12,404**	**(1,236)**	**11,168**		**14,258**	**(5,690)**	**8,568**

7. 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 2019/20 financial year is $470 million (2019: $302 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 $31 million (2019: $20 million).

Summary	2020 Current year $(000)	2020 Prior years $(000)	2020 Total $(000)	2019 Current year $(000)	2019 Prior years $(000)	2019 Total $(000)
Gross claims expense - undiscounted	(30,804)	(428,048)	(458,852)	(22,615)	(276,685)	(299,300)
Discount – on total outstanding claims	40	(11,619)	(11,579)	76	(2,877)	(2,801)
Gross claims expense - discounted	**(30,764)**	**(439,666)**	**(470,431)**	**(22,539)**	**(279,562)**	**(302,101)**

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 Kaikōura earthquake.

Canterbury claims handling expenses incurred by expense type	Actual 2020 $(000)	Actual 2019 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE		
Amortisation of intangibles	(179)	(179)
Fees paid to the auditor		
Audit fees (refer note 8)	(146)	(153)
Bad debts	(604)	(1,782)
Call centres and claims management - third party	(605)	(675)
Claims administrators and contractors (i)	(14,223)	(11,241)
Claims assessment fees	(383)	(997)
Depreciation	(82)	(76)
Employee remuneration and benefits	(17,019)	(21,826)
Engineers and consultants	(8,832)	(14,917)
Office rental	(677)	(1,881)
Onerous lease (ii)	-	(418)

(i) Additional costs were incurred as the Commission engaged third-party claim managers to assist with the Canterbury response, offsetting employee remuneration and benefits and engineers and consultants.

(ii) The Commission continues to review the size and scale of its event response.

Canterbury claims handling expenses incurred by expense type	Actual 2020 $(000)	Actual 2019 $(000)
2010-11 CANTERBURY EARTHQUAKE SEQUENCE		
Other costs	(5,313)	(6,348)
Restructuring costs (ii)	(830)	(1,215)
Superannuation contribution costs	(474)	(583)
Travel and accommodation	(293)	(759)
Canterbury claims handling expenses incurred	**(49,660)**	**(63,050)**

(ii) The Commission continues to review the size and scale of its event response.

Kaikōura claims handling expenses incurred by expense type	Actual 2020 $(000)	Actual 2019 $(000)
2016 KAIKŌURA EARTHQUAKE		
Fees paid to the auditor		
Audit fees (refer note 8)	(25)	(26)
Call centres and claims management - third party	(13)	(22)
Claims administrators and contractors	(107)	(855)
Claims assessment fees	(23)	(163)
Employee remuneration and benefits	(187)	(694)
Engineers and consultants	(203)	(759)
Infrastructure costs (iii)	(430)	(4,743)
Office rental	-	(77)
Other costs	(2)	(183)
Restructuring costs	-	(284)
Superannuation contribution costs	(5)	(10)
Travel and accommodation	(4)	(28)
Kaikōura claims handling expenses incurred	**(999)**	**(7,844)**

(iii) The infrastructure costs represent reimbursement of claims handling expenses to private insurers for managing the Commission claims. The closing of Kaikōura claims was transferred back to the Commission during the 2019/20 financial year.

8. OPERATING COSTS (EXCLUDING CLAIMS EXPENSE AND CANTERBURY AND KAIKŌURA 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	NOTE	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Advertising and publicity		(568)	(900)	(437)
Amortisation of intangibles		(3,548)	(3,718)	(3,479)
Fees paid to the auditor				
Audit fees*		(137)	(164)	(128)
Commissioners' fees		(277)	(306)	(290)
Consultants and contractors		(9,472)	(12,730)	(16,980)
Depreciation		(4,154)	(451)	(3,700)
Employee remuneration and benefits		(25,017)	(24,037)	(16,191)
Gain/loss on disposal		-	-	(92)
Grants for research		(4,104)	(3,955)	(3,584)
GeoNet operating costs (i)		(11,709)	(12,908)	(10,558)
Impairment of WIP		(397)	-	(389)
Office rental		(920)	(701)	(791)
On-sold agreement claims handling expenses	5	(1,448)	-	-
SRES agreement claims handling expenses	5	(887)	-	-
Onerous lease		(179)	-	(704)
Public inquiry (ii)		(1,315)	-	(1,550)
Sponsorship		(340)	(433)	(358)
Superannuation contribution costs		(384)	(625)	(520)
Technology costs		(7,077)	(7,861)	(7,231)
Restructuring costs (iii)		(851)	-	(2,768)
Other administration costs		(3,228)	(3,288)	(3,740)
Total operating costs (excluding claims expense and claims handling expense)		**(76,011)**	**(72,077)**	**(73,490)**

(i) The overall spend for GeoNet is in line with the signed agreement; however there was a lower operating spend in the 2019/20 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. This team remained throughout the 2019/20 financial year.

(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 2020 $(000)	Actual 2019 $(000)
Audit of the financial statements	(308)	(275)
Additional audit fee for the 2017/18 financial statements	-	(27)
Other services	-	(5)
Total fees paid to auditors	**(308)**	**(307)**

9. 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 2020 $(000)	Actual 2019 $(000)
OPERATING COMMITMENT		
Not later than one year	191,146	143,932
Later than one year but not later than two years	23,597	24,563
Later than two years but not later than five years	-	22,516
Total reinsurance commitments	**214,743**	**191,011**

Museums

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

	Actual 2020 $(000)	Actual 2019 $(000)
OPERATING COMMITMENT		
Not later than one year	43	394
Later than one year but not later than two years	43	-
Later than two years but not later than five years	43	-
Total museum commitments	**129**	**394**

Research grants

The Commission provides discretionary grants for natural hazards research and research dissemination. Discretionary grants are those where the Commission has no obligation to award on receipt of the grant application. These grants 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 2020 $(000)	Actual 2019 $(000)
OPERATING COMMITMENT		
Not later than one year	1,860	1,747
Later than one year but not later than two years	1,485	-
Later than two years but not later than five years	1,485	-
Total research grant commitments	**4,830**	**1,747**

Claims management system

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

	Actual 2020 $(000)	Actual 2019 $(000)
OPERATING COMMITMENT		
Not later than one year	2,495	1,859
Later than one year but not later than two years	155	1,859
Later than two years but not later than five years	-	155
Total claim management system commitment	**2,650**	**3,873**

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 2020 $(000)	Actual 2019 $(000)
CAPITAL COMMITMENT		
Not later than one year	3,986	2,306
Later than one year but not later than two years	-	2,409
	3,986	4,715
OPERATING COMMITMENT		
Not later than one year	9,761	10,602
Later than one year but not later than two years	-	10,855
	9,761	**21,457**
Total GNS Science commitments	**13,747**	**26,172**

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 2020 $(000)	Actual 2019 $(000)
OPERATING COMMITMENT		
Not later than one year	1,835	2,576
Later than one year but not later than two years	977	1,440
Later than two years but not later than five years	1,938	2,835
Later than five years	-	84
Total building lease commitment	**4,750**	**6,935**

Finance leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Commission. Assets held under a finance lease are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Commission also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset.

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

	Actual 2020 $(000) Minimum payment	Actual 2020 $(000) Present value of payment	Actual 2019 $(000) Minimum payment	Actual 2019 $(000 Present value of payment
Not later than one year	30	19	-	-
Later than one year but not later than two years	30	22		
Later than two years but not later than five years	74	64	-	-
Total finance lease commitment	**134**	**105**	**-**	**-**
Less amounts representing finance charges	(29)	-	-	-
Present value of minimum lease payment	**105**	**105**	**-**	**-**

10. MAJOR BUDGET VARIANCES

Statement of Comprehensive Revenue and Expense

Gross earned premiums

The gross earned premiums were slightly higher than budget, resulting from conservative budget assumptions.

Outward reinsurance premium expense

Reinsurance expense was lower than the level assumed in the budget. This was due to the structure of the confirmed programme.

Reinsurance and other recoveries

Reinsurance and other recoveries were lower than the budget, resulting from a reduction in the expected level of reinsurance recoveries from the 2010-11 Canterbury earthquake sequence.

Claims (expense)/reduction

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

Unexpired risk liability reduction/(increase)

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

Other operating revenue

Crown funding received from Treasury of $115 million (per Section 16 of the EQC Act) that was not included in the budget.

Other operating expenses

Higher operating expenses were primarily due to higher costs associated with the insurer response model and Data & Analytics project. Other expenses relate to costs incurred managing the on-sold over-cap programme on behalf of the Crown and managing Southern Response's remaining claims, which are reimbursed to the Commission.

Investment activities

Interest received from banking providers on Crown funding.

Statement of Financial Position

Bank

Settlement of the Canterbury liability has not occurred at the rate assumed in the budget, resulting in a higher cash balance. In addition, Crown funding was received from Treasury (per Section 16 of the EQC Act) that was not included in the budget.

Reinsurance and other recoveries

The reinsurance receivables balance is $415 million higher than budget, primarily as a result of the increase in the gross ultimate for Canterbury (partially offset by changes in the discounting).

Trade and other payables

Trade and other payables are $3 million higher than budget. This is primarily a result of accruals in relation to monies still owing to insurers for handling Kaikōura claims whereas the budget assumed that Kaikōura would have been materially finished by 30 June.

Outstanding claims liability

The outstanding claims liability is $1,039 million higher than budgeted. This is primarily due to Kaikōura and Canterbury settlements being made at a slower rate than anticipated and an increase in the gross ultimate costs for these events.

Statement of Cash Flows

Crown guarantee

Crown guarantee relates to funding received from Treasury of $115 million (per Section 16 of the EQC Act) that was not included in the budget.

Purchase of Intangibles

2019/20 had higher capital investment occurring during the year, compared to level assumed in the budget.

11. NATURAL DISASTER FUND

The Natural Disaster Fund is managed 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".

Capitalised reserves

Capitalised reserves are made up of 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, while remaining a going concern.

Commission solvency

The Commission has exposure to liabilities estimated to be in excess of its current level of assets. In the event that the Commission's assets are insufficient to meet its liabilities, the Crown, under Section 16 of the EQC Act, is obliged to provide, by way of grant or advance, sufficient funds to meet the shortfall (refer also Note 1). The Crown has provided $115 million as a grant in the 2019/20 financial year to meet this obligation (2019: $125 million).

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. Financial assets are initially measured at fair value and include directly attributable transaction costs. They are measured subsequently at either amortised cost or fair value, depending on their classification. 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 initially recognised at fair value and include 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. Financial liabilities subsequently measured at amortised cost include trade and other payables, provisions and finance lease liability.

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 (premiums receivable and sundry 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 for non-insurance assets.

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.

Finance lease

Assets held under a finance lease are initially measured at the fair value of the leased at the commencement of the lease. The Commission also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset. They are subsequently measured at amortised cost using the effective interest method, on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Credit rating

The Commission is not required to have a credit rating.

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 2020 $(000)	Actual 2019 $(000)
COUNTERPARTIES WITH CREDIT RATINGS		
Bank		
AA-	179,850	72,646
	179,850	**72,646**
Reinsurance recoveries		
AA+	3,038	-
AA	21,683	59,408
AA-	226,471	137,970
A+	176,715	318,011
A	31,216	84,641
A-	64,631	26,664
	523,754	**626,694**
Premiums receivable		
AA-	50,269	40,170
A+	11,143	8,363
A	8,313	6,462
A-	29,084	22,766
Other	110	111
	98,919	**77,872**
COUNTERPARTIES WITHOUT CREDIT RATINGS		
Sundry receivables	**5,230**	**967**

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 most trade payables outstanding at balance date will be settled within 12 months (2019: 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	2-10 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	4-10 years

2020	Non-Canterbury Furniture and equipment $(000)	Non-Canterbury Leasehold improvements $(000)	Non-Canterbury Computer hardware $(000)	Canterbury Furniture and equipment $(000)
COST				
At 1 July 2019	409	2,043	900	576
Additions	-	-	467	-
Transfer	-	-	1,365	-
Disposals	-	(10)	(173)	-
Impairment	-	-	-	-
At 30 June 2020	**409**	**2,033**	**2,559**	**576**
ACCUMULATED DEPRECIATION				
At 1 July 2019	(80)	(717)	(569)	(550)
Depreciation charge	(59)	(522)	(646)	(21)
Disposals	-	10	173	-
Transfer	-	-	-	-
At 30 June 2020	**(139)**	**(1,229)**	**(1,042)**	**(571)**
Carrying amounts at 30 June 2020	**270**	**804**	**1,517**	**5**

Finance lease assets

The carrying value of property, plant and equipment held by the Commission under finance leases at 30 June 2020 is $0.1 million (2019: $Nil) and is included within Non-Canterbury Computer Hardware. This relates to printing equipment leased by the Commission. Additions during the year totalled $0.1 million (2019: $Nil).

2019	Non-Canterbury Furniture and equipment $(000)	Non-Canterbury Leasehold improvements $(000)	Non-Canterbury Computer hardware $(000)	Canterbury Furniture and equipment $(000)
COST				
At 1 July 2018	252	1,420	640	610
Additions	-	-	162	6
Transfers	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**

	GeoNet					
Computer hardware $(000)	Buildings $(000)	Computer equipment $(000)	Other equipment $(000)	**Total $(000)**	Work in progress $(000)	**Total $(000)**
1,965	728	3,972	39,481	**50,074**	657	**50,731**
-	4	79	1,078	**1,628**	823	**2,451**
-	(49)	411	(363)	**1,364**	(1,364)	**-**
(1,157)	-	-	-	**(1,340)**	-	**(1,340)**
-	-	-	-	**-**	(116)	**(116)**
808	**683**	**4,462**	**40,196**	**51,726**	**-**	**51,726**
(1,920)	(447)	(3,299)	(30,724)	**(38,306)**	-	**(38,306)**
(45)	(27)	(685)	(2,228)	**(4,233)**	-	**(4,233)**
1,157	-	-	-	**1,340**	-	**1,340**
-	27	(160)	133	**-**	-	**-**
(808)	**(447)**	**(4,144)**	**(32,819)**	**(41,199)**	**-**	**(41,199)**
-	**236**	**318**	**7,377**	**10,527**	**-**	**10,527**

	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	-	-	-	**1028**	(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**

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 amortised 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 amortisation, if no impairment loss had been recognised.

2020	Non-Canterbury		Canterbury			
	Software $(000)	Claims management system v8 $(000)	Software $(000)	**Total $(000)**	Work in progress $(000)	**Total $(000)**
COST						
At 1 July 2019	10,178	12,223	3,431	**25,832**	419	**26,251**
Additions	-	-	-	**-**	6,176	**6,176**
Transfer	1,850	-	-	**1,850**	(1,850)	**-**
Impairment	-	-	-	**-**	(282)	**(282)**
At 30 June 2020	**12,028**	**12,223**	**3,431**	**27,682**	**4,463**	**32,145**
ACCUMULATED AMORTISATION						
At 1 July 2019	(7,954)	(5,180)	(2,819)	**(15,953)**	-	**(15,953)**
Amortisation charge	(1,061)	(2,487)	(181)	**(3,729)**	-	**(3,729)**
At 30 June 2020	**(9,015)**	**(7,667)**	**(3,000)**	**(19,682)**	**-**	**(19,682)**
Carrying amounts at 30 June 2020	**3,012**	**4,556**	**431**	**8,000**	**4,463***	**12,463**

* The majority of the WIP balance at year end relates to phase one of the Commission's information and analytics project.

2019	Non-Canterbury			Canterbury			
	Software $(000)	Claims management system v4 $(000)	Claims management system v8 $(000)	Software $(000)	**Total $(000)**	Work in progress $(000)	**Total $(000)**
COST							
At 1 July 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.

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; where it is probable that expenditure will be required to settle the obligation; and where 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 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Trade payables and accruals	(20,932)	(18,107)	(20,060)
Tax on reinsurance	(5,807)	(5,260)	(5,546)
	(26,739)	**(23,367)**	**(25,606)**

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 and a provision for two onerous leases.

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
Provisions at 1 July	(4,938)	(1,886)	(1,758)
Created during the year	(3,352)	(2,017)	(6,856)
Utilised during the year	4,378	1,886	3,532
Released during the year	1,526	-	144
Provisions at 30 June	**(2,386)**	**(2,017)**	**(4,938)**

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 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
CALCULATION OF DEFICIENCY			
Cost of future claims from unexpected risks, undiscounted – central estimate	140,790	143,598	144,682
Administration and reinsurance costs for unexpired risks	107,535	109,942	111,141
Reinsurance recoveries, undiscounted	(15,377)	(19,165)	(16,581)
Net premium liabilities, undiscounted – central estimate	**232,948**	**234,374**	**239,241**
Discounting	(334)	(1,097)	(2,226)
Net premium liabilities, discounted – central estimate	**232,614**	**233,277**	**237,015**
Risk margin	-	-	462
Net premium liabilities	**232,614**	**233,277**	**237,477**
Unearned premium liability	(264,624)	(257,257)	(207,266)
Net deficiency/(surplus)	**(32,009)**	**(23,978)**	**30,212**

	Actual 2020 $(000)	Unaudited budget 2020 $(000)	Actual 2019 $(000)
UNEXPIRED RISK LIABILITY			
Unexpired risk liability balance at 1 July	(30,212)	(39,129)	(37,020)
Movement for the year	30,212	39,129	6,808
Unexpired risk liability at 30 June	**-**	**-**	**(30,212)**

Legislation recognises that the Commission's premiums may be inadequate to meet its liabilities in any one year. It does so by enabling the Commission to set aside any surplus, free of fax, in the Natural Disaster Fund and, in the case of a severe natural disaster (that exceeds both the Fund and reinsurance recoveries) by providing for a Crown guarantee.

The risk margin on premium liabilities for 2020 is 0% (2019:0.2%). The Commission has adopted a 75% probability of adequacy for the premium liability balance. The risk margin for 2020 is $0 (2019: $0.4 million) 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	
		2020 $(000)	2019 $(000)
Discount rate	+1.0%	-1,032	-1,800
	-1.0%	+1,060	+1,900
Base inflation	+1.0%	+3,162	+1,900
	-1.0%	-3,115	-1,900
Future claims handling expense ratio	+1.0%	+1,406	+1,900
	-1.0%	-1,406	-1,000
Average term to settlement	+0.5 years	+1,245	-1,400
	-0.5 years	-1,015	+1,100

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 up to a maximum of $300 per dwelling.

Reinsurance programme

The Commission limits its exposure to very large-scale natural disasters through the purchase of reinsurance with the objectives of:

- minimising the overall cost to secure mandated protection to New Zealand homeowners
- varying the reinsurance agreement terms and conditions as appropriate should the Crown determine a different risk profile under the natural disaster insurance scheme
- minimising the risk of default among reinsurers by limiting its exposure to any one reinsurer or related group of reinsurers by applying the following policies:
    - setting a target for the overall programme at placement that achieves a weighted average score of Standard and Poor's (S&P) financial strength rating of A or better
    - normally placing reinsurance with organisations that have the following security ratings:
        - S&P: AAA to A- (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
    - ensuring that any one reinsurer does not hold more than 25% of the total reinsurance programme.

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 2020 (2019: $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 through research and 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 2020, 120 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 2020.

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 2020 $(000) Remuneration	Actual 2020 FTE	Actual 2019 $(000) Remuneration	Actual 2019 FTE
Commissioners	274	7	294	7
Executive Leadership Team	2,419	6	2,830	8
	2,693	**13**	**3,124**	**15**

In addition to the above, and in accordance with confidential contractual agreements, payments totalling $133,292 were made upon cessation of three individuals' employment (2019: $484,943 for three individuals).

The related party transactions below are within the Commission's normal course of business and are at arm's length. They are GST exclusive.

In the 2019/20 financial year the Commission purchased services of $1,148,350 (2019: $1,114,171) from Kiwi Property Group Limited, a company of which M Daly is a Director. The services purchased related to office rental management fee, which includes the payment of rent and other monies payable under the relevant leases to be paid to Investec Property Limited. The Commission purchased services of $38,928 (2019: $Nil) in the year from Resilient Organisation Limited, an organisation of which E Seville became a Director in the 2019/20 financial year. The services purchased related to health and safety.

During the financial year, none (2019: 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 the Commission personnel paid more than $100,000 cash and cash equivalents during both the 2018/19 and 2019/20 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 2020	Actual 2019
100-110	20	33
110-120	32	40
120-130	28	30
130-140	16	12
140-150	3	7
150-160	7	8
160-170	4	4
170-180	7	2
180-190	2	-
190-200	1	2
200-210	-	3
210-220	1	1
230-240	1	-
250-260	1	-
270-280	-	1
280-290	-	1
300-310	-	1
320-330	1	-
340-350	-	1
350-360	-	1
370-380	1	-
410-420	-	1
420-430	1	-
440-450	1	-
500-510	-	1
	127	**149**

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

In addition to the above, and in accordance with confidential contractual agreements, 123 (2019: 50) payments totalling $3,103,686 (2019: $2,027,654) were made during the year upon cessation of an individual's employment.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to the KiwiSaver and the State Sector Retirement Savings Scheme (SSRSS) are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Statement of Comprehensive Revenue and Expense on an accruals basis.

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 2020 $(000)	Actual 2019 $(000)	
M Cullen	70	45	Term concluded 30 June 2020
M Daly	44	45	Appointed 14 March 2014, as Chair 1 July 2020
A King	-	26	Term concluded 31 October 2018
T Hurdle	-	36	Term concluded 30 June 2019
P Kiesanowski	25	36	Term concluded 29 February 2020
T Ferrier	25	35	Term concluded 29 February 2020
A O'Connell	35	36	Appointed 1 September 2013
A Hercus	10	-	Appointed 1 March 2020
E Dobson	10	-	Appointed 1 March 2020
F Wilson	10	-	Appointed 1 March 2020
S Lewis	10	-	Appointed 1 March 2020
E Seville	35	35	Appointed 1 July 2018
	274	**294**	

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

There were no significant events after balance sheet date that warranted inclusion in the financial statements or separate disclosure.

2019: The New Zealand Government announced two forthcoming Ministerial directions where the Commission is to act as agent for the New Zealand Government for on-sold over-cap properties in Canterbury and Southern Response Earthquake Services Limited for settling their remaining customers.

School programme at Hīnātore Learning Lab, 2016.
Photograph by Michael O'Neill. Te Papa.

MINISTERIAL DIRECTIONS

Ministerial directions to the Commission that remained current as at 30 June 2020 were:

- **Effective 30 October 2001** – specific section of this direction (para v to viii) continues in force, requiring the Commission to produce and comply with a Statement of Investment Policies, Standards and Procedures.
- **Effective 19 December 2012** – a direction allowing the Commission to pay out on building damage apportioned to unclaimed events.
- **Effective 2 December 2013** – a direction amending the direction effective 19 December 2012 such that no excess applies in respect of the unclaimed event.
- **Effective 27 July 2015** – a direction to ensure the Commission invests the Natural Disaster Fund (NDF) only in New Zealand Government stock and bank deposits. The direction also includes requirements to notify the Minister when the NDF reaches certain financial limits.
- **Effective 20 October 2015** – a direction allowing the Commission 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 the Commission'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 earthquake sequence.
- **Effective 17 October 2019** – a direction to administer the support package established by the Crown for qualifying owners of on-sold properties.
- **Effective 1 November 2019** - a direction for the Earthquake Commission may act as agent for Southern Response Earthquake Services Limited (SRES), for the purpose of administering open insurance claims against SRES in respect of damage arising from the Canterbury Earthquakes, being claims that exceed, or may exceed, the cap.

In performing the additional function under this direction, the Commission must act in accordance with the terms and conditions of the agency agreement dated 21 October 2019 between the Commission and SRES (as varied by agreement between the parties from time to time following consultation with the Minister).

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). The Commission 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 the Commission's finance system.

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

EQC

EARTHQUAKE COMMISSION

Kōmihana Rūwhenua