Earthquake Commission
Annual Report 2020-2021

Ka mahia tātou i te mea tika

EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

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

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'THE POTENTIAL FOR TOMORROW DEPENDS ON WHAT WE DO TODAY'

He kupu whakataki nā te Poari me te Tumu Whakarae | From the EQC Board and Chief Executive

It is our privilege to present the *Annual Report of the Earthquake Commission (EQC)—Kōmihana Rūwhenua* for the year ended 30 June 2021.

This year has truly been a turning point for how EQC delivers our unique scheme to, and for, Aotearoa New Zealand.

This annual report shows how we are fulfilling our past, present and future responsibilities through our commitment to Recovery, Resilience, Risk financing and Readiness for any event.

This year, our efforts have also strengthened EQC's systemic contribution to homeowners and communities across the country through our work with the emergency management, resource management and insurance sectors. The EQC Board and management team are exceptionally proud of the scale and depth of our achievements over the past year:

- **We have created a world-first partnership through the Natural Disaster Response Model**, which brings together eight private insurers—representing more than 20 insurance brands—to provide a truly customer-centred response. This new model significantly increases our capability and ability to scale so we can manage future events.

  Under the Natural Disaster Response Model, our customers will have a single point of contact, a streamlined claim process and an easier, clearer and simpler experience.

- **We continue to prioritise resolving Canterbury claims.** In 2020-2021 we saw the 10-year anniversary of the devastating Canterbury earthquakes, which occurred on 4 September 2010 and 22 February 2011. Significant effort during 2020-2021 resulted in major progress resolving claims for the people of Canterbury. By 30 June 2021, 85% of outstanding claims over six months, on hand at 30 June 2020, were settled. This exceeded our target of 75%. Our focus on this critical obligation continues. Our administration of the Government's On-Sold programme, which involved a mailout to 44,000 homeowners in August 2020, resulted in nearly 6,000 applications by the October 2020 application deadline.

- **We have made significant progress responding to and implementing the recommendations from the Public Inquiry into EQC**. This included establishing the Natural Disaster Response Model and working closely with our Treasury colleagues to progress work on changes to the Earthquake Commission Act 1993.

  In June 2021, following a Public Inquiry recommendation and as part of ensuring we deliver better services for our customers, a new National Reference Group was established. It will play a critical role by providing community input into the work we do and helping us ensure the voice and views of our customers are reflected in future event responses.

- **We have continued to develop our relationships with central government policy makers, local government, planning and consent officials, designers, engineers, architects and builders** to support natural hazard resilience and research. EQC spent $21 million on approximately 66 research projects in 2020-2021.

  Work is underway across government to establish how Aotearoa New Zealand can adapt to the impacts of climate change.

  We are collaborating with other agencies to ensure this work will complement and support natural hazard risk management and our efforts to increase New Zealand's resilience to natural disasters.

- **We secured record-high reinsurance cover to support natural disaster insurance remaining accessible and affordable to all New Zealanders.** In June 2021, we secured nearly $7 billion on the international reinsurance market for the 2021-2022 financial year. This was an increase of $750 million from the previous year and provides additional support to the Crown's overall balance sheet.

  Growing the Natural Disaster Fund from premiums and investment income and optimising our reinsurance portfolio on a global basis is critical to achieving accessible and affordable natural disaster insurance. Our reinsurance programme provides financial support following a major natural disaster, supporting us to meet our financial obligations when they fall due.

Strengthening our organisation to support Aotearoa New Zealand

The dedication and unrelenting focus of our people to ensure all New Zealanders are well served by their EQC scheme has been a critical component of our successes over the past year.

Throughout the year, our organisation shape and capability has adapted to support the significant changes in our operating model. These changes were ably guided by a new Executive Leadership Team.

Like all organisations across Aotearoa New Zealand, we have been operating through the uncertainties created by COVID-19. These uncertainties have required us to be agile and adaptive in how we work, both across EQC and with our partners and stakeholders.

Over the year, we embedded new, modern ways of working across the organisation. This included the successful deployment of new technologies and hardware, contributing to a dramatic and positive impact on connectivity and collaboration across our functions and locations; it also created a truly modern workplace.

We have continued our work to create an EQC environment that is authentically diverse and inclusive, making sure our systems and processes are free from bias, responsive to different communities and culturally appropriate. Importantly, we are in the early stages of building our cultural capability and familiarity with Te Ao Māori as we begin delivering on our aspirations over the next four years to strengthen our capability.

Our hands are firmly on the tiller, and we have an eye to the horizon

For the first time in our recent history, this year provided EQC with the ability to look to the future and support the ongoing stewardship of the EQC scheme.

With the reflection and guidance provided by the Public Inquiry, our ongoing commitment to enduring settlements for those affected by the Canterbury earthquake sequence and embracing innovation in our Resilience and Readiness functions, it has been a privilege to chart a course that ensures we are honouring EQC's past, ready for the present, and planning for the future.

He rangi tā matawhāiti, he rangi tā matawhānui.

'A person with narrow vision has a limited horizon
A person with wide vision has plentiful opportunities'

Nā māua noa nei.

We have farewelled, and welcomed new, Commissioners

In late 2020, we farewelled long-serving Board member Alison O'Connell and thanked her for her contribution to EQC. In May 2021, we welcomed Hon Ruth Dyson and Alister James.

More recently, we were deeply saddened by the news that our former Chair, Sir Michael Cullen had passed away. Sir Michael provided outstanding leadership to the Board and EQC during his time as Chair of the EQC Board. Sir Michael was instrumental in supporting the changes and achievements that EQC has made this year and helped chart the path to where we are today.

Mary-Jane Daly
Board Chair

Alastair Hercus
Commissioner

Sid Miller OBE
Chief Executive

13 September 2021

At a glance—overview of 2020-2021

July 2020

New customer code, setting out the experience customers can expect when they have an EQC claim

Northland floods with 374 claims received by EQC

August 2020

Virtual Alpine Fault educating young New Zealanders by providing a virtual field trip around the South Island landscape

September 2020

10-year anniversary of the Canterbury earthquake in Darfield on 4 September

October 2020

Close to **6,000 on-sold applications** received by application deadline, following 44,000 letters being sent to Canterbury homeowners

November 2020

Napier floods with 282 claims received by EQC

November 2020

New Natural Disaster Response Model partnership announced between EQC and eight private insurers

December 2020

Resolution of a number of commercial issues with insurers for Canterbury earthquake claims

February 2021

10-year anniversary of the Canterbury earthquakes on 22 February

March 2021

Te Araroa earthquake with 616 claims received by EQC

May 2021

Recognised for employee wellbeing as a **finalist at the Human Resources New Zealand Awards**

New Commissioners appointed to the Board – Hon Ruth Dyson and Alister James

June 2021

Natural Disaster Response Model commencement

National Reference Group established to support community input into EQC's work

Record-high reinsurance secured for the 2021-2022 year

Significant progress implementing **Public Inquiry** recommendations led by EQC

Supporting Treasury led work on modernisation of the **EQC Act**

Resolution of Canterbury claims, including reducing claims that have been with EQC for more than 12 months (from 289 at 30 June 2020 to 85 at 30 June 2021)

At a glance—financial overview

In 2020-2021, EQC received funding from:

Premium income | This comes from insured homeowners and is paid to EQC via private insurers.

$520 million

Reinsurance claims | In 2020-2021, the amount we received in reinsurance payments was

$556 million

In 2020-2021, EQC paid out funding to:

Claims | Cash paid on claim settlements and handling costs throughout the year was **$714 million**

Crown guarantee fee | Payment to the Crown was **$10 million**

Reinsurance | the cost of purchasing reinsurance was **$190 million**

Operating expenses | covering future event preparation, event response and other operating expenses was **$108 million**

Who we are

Role and purpose

EQC plays a unique role for the people in Aotearoa New Zealand, providing a buffer against the natural disaster risks that come with being residents of our beautiful but shaky isles.

As a Crown entity, we're responsible for assisting the Crown to lower the risks and consequences of catastrophic natural disasters. We are governed by legislation, with our roles and functions outlined in the Earthquake Commission Act 1993 (EQC Act).

These key functions are to:

- provide natural disaster insurance for residential property (residential buildings and residential land) through EQCover for fire insurance policy holders and collect the premiums payable for the insurance provided. Most New Zealand residential property owners have this cover, which is subject to caps (the maximum amount payable) and excesses, as set out in the EQC Act
- administer the Natural Disaster Fund, including its investments, and obtain reinsurance
- fund research and education on natural disasters and ways of reducing risk and building resilience before events happen
- undertake additional functions conferred by Ministerial directions.

Our strategic framework

Our strategic direction through to 2025 is set out in our new *Statement of Intent 2021-2025.* Our previous *Statement of Intent 2018-2022* set the strategic direction for the past three years and is the strategic direction that this document reports on. Our vision, which remains enduring, is "to be the world's leading national natural disaster insurance scheme". Our mission is "to reduce the impact on people and property when natural disasters occur".

The *Statement of Intent 2018-2022* sets out the outcomes and intentions EQC sought to achieve. This sits alongside the *Statement of Performance Expectations 2020-2021*, which set out priorities for the past year and the measures we used to assess our performance.

In 2020-2021 there were two output classes:

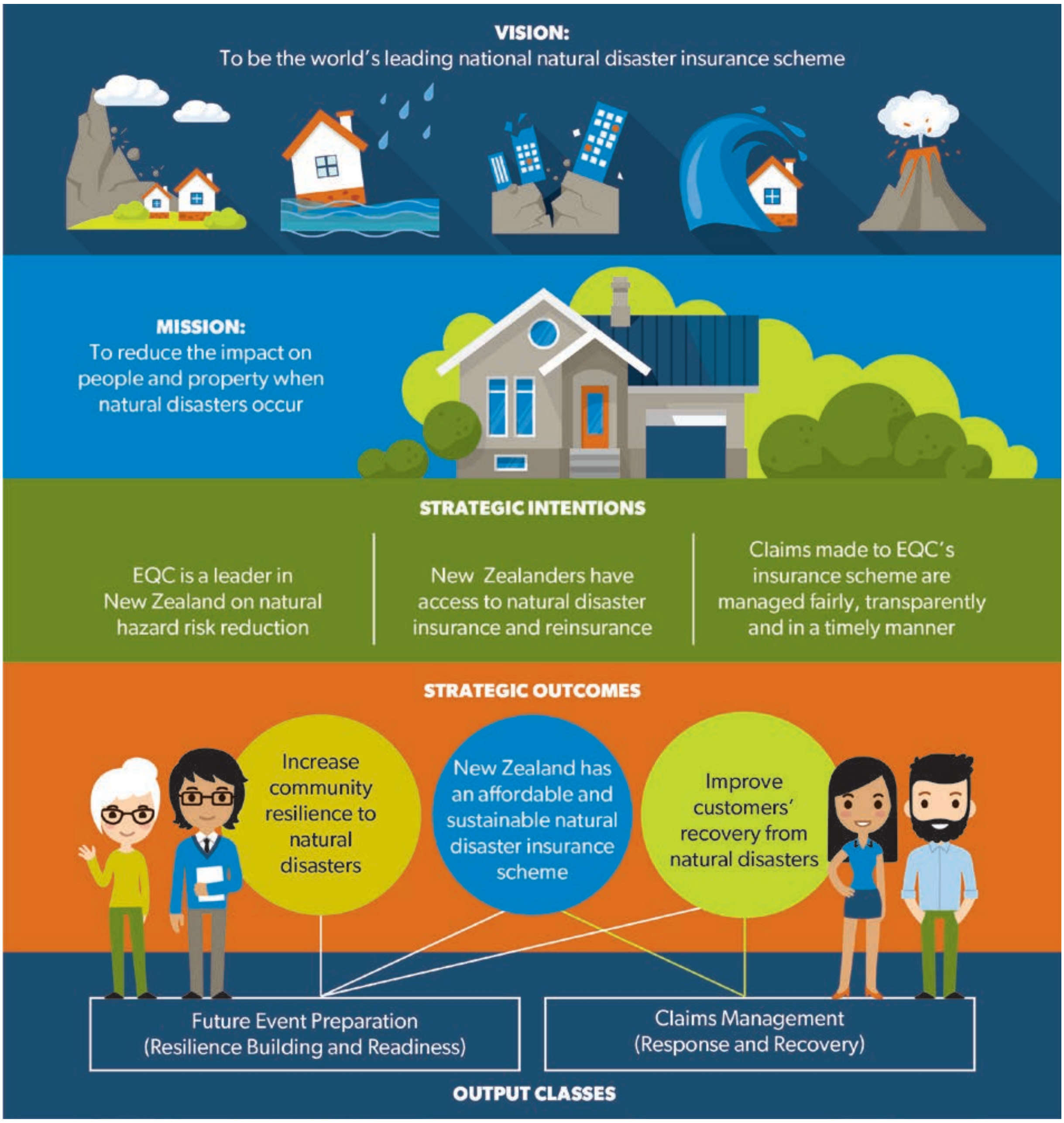
1. Future event preparation (resilience building and readiness)
2. Event response (response and recovery, including Canterbury and non-Canterbury claims).

Alongside these two output classes, there were key activity measures covering:

- purchase of reinsurance
- administration of the Natural Disaster Fund, including rebuilding the fund to the level of the reinsurance deductible
- collection of premiums for the insurance payable under the EQC Act
- optimisation of claims strategies and event management capacity and capability.

Our strategic framework sets out how these output classes will support us to achieve our strategic intentions and outcomes and, ultimately, deliver on our mission and vision.

Strategic framework



For the period 2018-2022 there were three strategic outcomes and three strategic intentions. From July 2021, under the *Statement of Intent 2021-2025*, this shifts to four strategic outcomes and intentions. However, both the previous and current statement of intent documents set out our strategy to achieve our four key roles of Recovery, Resilience, Risk financing and Readiness in the medium-to-long term.

This report describes EQC's performance for 2020-2021 against these four key roles and the associated *Statement of Performance Expectation 2020-2021* measures.

The wider system and environment around us

Our evolving environment

There are a number of external environmental factors that continue to impact how we work and deliver outcomes for our customers and Aotearoa New Zealand. Key external factors are:

- *Climate change:* New Zealand's natural hazard risk profile is becoming more complex as the compounding effect of climate change becomes apparent. This has a potential financial impact on EQC as an insurer of residential land and residential buildings.

  Across government, agencies are working through issues such as managed retreat from at-risk coastlines. In addition, initiatives such as the Government Carbon Neutral Programme will set requirements for government agencies, including EQC.

- **Economic factors:** Global financial and reinsurance markets are grappling with the insurability of increasing natural hazard risks while, at the same, time dealing with the volatility caused by the COVID-19 pandemic. This has the potential to impact financial, insurance and reinsurance markets.

- **Technology:** Increasing digitalisation presents opportunities, but it also poses threats such as cyber security attacks. As an organisation dealing with a significant amount of data and information, staying safe from cyber threats is critical.

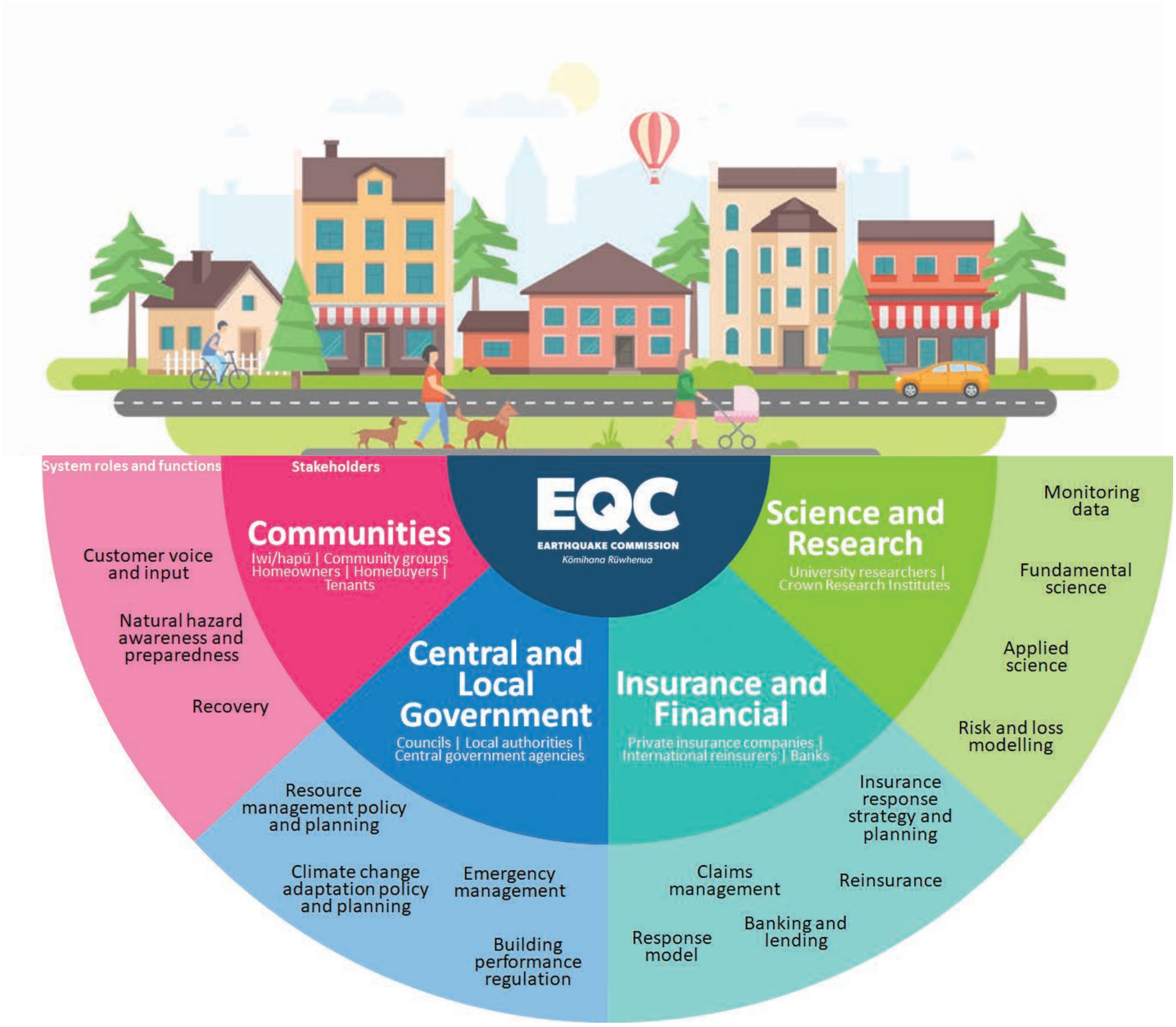
The wider ecosystem and the people we are here for

The people we are here for—customers, homeowners and communities across Aotearoa New Zealand—interact with EQC alongside other agencies and sectors. This means that to perform our roles effectively and deliver for our customers, we need to work closely with communities and engage with our stakeholders and partners.

We also need to work closely with agencies across central and local government. As a provider of natural disaster insurance, we are part of the insurance and financial sectors. To perform our role in Resilience and Research, we also work closely with people across the science and research sectors.

It is only when we work collaboratively with our system stakeholders and partners that we can successfully achieve positive outcomes in Recovery, Resilience, Risk financing and Readiness for our customers and Aotearoa New Zealand. The diagram below summarises the broader ecosystem that EQC exists within.

The wider ecosystem



OUR AREAS OF FOCUS AND WHAT WE HAVE ACHIEVED

NGĀ TAKE NUI ME Ā MĀTAU WHAKATUTUKITANGA

We make a difference for people
Ka kōnekeneketia tātou mō ngā tāngata

There were six areas of priority for EQC in 2020-2021, set out in the *Statement of Performance Expectations 2020-2021*. These were:

- implementing the Public Inquiry recommendations and the EQC Act review
- resolving claims, with a focus on claims from the 2010-2011 Canterbury earthquakes
- increasing community resilience
- providing financial resilience
- optimisation of EQC's event management capacity and capability
- building data and analytics capability.

EQC has focused on these priority areas as part of implementing the Public Inquiry recommendations along with performing our roles under the four areas of focus:

- Recovery (resolving claims)
- Resilience (increasing community resilience)
- Risk financing (providing financial resilience)
- Readiness (optimisation of EQC's event management capacity and capability and building data and analytics capability).

Implementing Public Inquiry recommendations and the EQC Act review

The report on the Public Inquiry into the Earthquake Commission, which was released in April 2020, clearly laid out the challenges we faced in responding to the most complex and damaging earthquake sequence that has occurred since EQC's inception in 1945. It shone a light on the way that response was carried out, which too often added to the trauma felt by the residents of Greater Christchurch.

The Government's response to the Public Inquiry's 70 recommendations will help ensure no other community experiences the same stress and uncertainty following a significant natural disaster event.

The report included the following topics, with associated recommendations:

- Fourteen recommendations about **roles and responsibilities**, including greater clarity of EQC's role and interpretation of the EQC Act. (EQC is leading the implementation of one of these recommendations and co-leading implementation of three of these recommendations)
- Twelve recommendations about improving **EQC's approach to claimants**, including treatment of people, communication, and listening to community advice and input (EQC is leading the implementation of 11 of these recommendations)
- Nine recommendations about how **assessment of damage** is carried out after events, including setting processes and roles (EQC is leading the implementation of seven of these recommendations, and co-leading one of these recommendations)
- Five recommendations about **managed repair**, including responsibilities and expectations (other agencies are leading these recommendations)
- Four recommendations about improving the **processes for settling claims**, including the use of cash settlements (EQC is leading the implementation of three of these recommendations and co-leading implementation of the other recommendation)
- Nine recommendations about **data and information management**, including access to information and data systems (EQC is the leading the implementation of five of these recommendations and co-leading implementation of one recommendation)

- Thirteen recommendations about **advance planning and preparedness**, including relationship building, research and risk modelling, and workforce recruitment and training (EQC is leading the implementation of these recommendations)
- Four recommendations about **resolution of disputes** (EQC is leading the implementation of one of these recommendations).

We are well underway with implementing the 41 recommendations for which we are the lead agency. The table below sets out the key actions and initiatives EQC has progressed during 2020-2021 that support implementation of the recommendations we are leading or co-leading.

Key actions and initiatives to implement the Public Inquiry recommendations—EQC led[1]

Establishing a new Natural Disaster Response Model

Addresses 25 recommendations about EQC's approach to claimants, assessment of damage, processes for settling claims, data and information management, advance planning and preparedness, and resolution of disputes.

The Natural Disaster Response Model commenced on 30 June 2021. Changes that address recommendations included:

- establishing partnerships with private insurers
- documenting EQC complaints processes and policies
- developing an events communications plan for communicating to the public and customers after events
- reviewing insurer documentation about how they commit to treating customers and supporting those with the most need
- co-designing an assessment manual for insurers to guide the assessment process when events occur
- establishing ongoing monitoring and assurance activities.

Establishing a new National Reference Group

Addresses one recommendation about EQC's approach to claimants.

From September to November 2020, EQC consulted with a range of government and community agencies on establishing a National Reference Group. EQC sought nominations for group membership from a range of government and community agencies and the membership was confirmed in June 2021.

The group comprises representatives from a range of customer and community groups. It will provide EQC with valuable perspectives and expertise across a range of sectors. It will mean EQC can receive community input into our work to make Aotearoa New Zealand communities more resilient and help people recover more quickly when damage occurs.

The Public Inquiry recommendation that EQC establish a suitable advisory group also stated EQC should establish post-disaster groups in areas affected by events. EQC will consider the process and form for the establishment of these groups later in 2021 and in collaboration with the National Reference Group.

Improved communications and complaints processes

Addresses 10 recommendations about roles and responsibilities, approach to claimants, processes for settling claims, advance planning and preparedness, and resolution of disputes.

EQC and insurers have updated websites, letters and other collateral to improve clarity for claimants about their entitlements under the EQC Act, including the implications of not using cash settlements. Ongoing awareness activity will be delivered through EQC's public education role.

EQC is leading, and has completed, actions to improve its complaints procedures.

Building data and information capabilities

Addresses seven recommendations about data and information management and advance planning and preparedness.

A modern, cloud-based data and analytics platform was implemented prior to the commencement of the Natural Disaster Response Model to enable the secure exchange of data with insurers.

Claimants can access residential property information held by EQC via the Official Information Act process and Work is underway to investigate making information about residential properties more easily available to the public.

Building our research base and increasing resilience

Addresses nine recommendations about processes for settling claims, data and information management, and advance planning and preparedness.

A number of research projects are underway and EQC released its *Research Investment Priorities Statement 2021 – 2023* in May 2021. EQC's public education work continues, including a range of campaigns and initiatives to raise awareness of and preparedness for natural hazards.

Research to understand the impacts of cash settlement of claims in the Kaikōura/Hurunui earthquake, including long-term impact on housing stock quality, has been commissioned.

Developing workforce capabilities and improving how we work

Addresses seven recommendations about EQC's approach to claimants and advance planning and preparedness.

New contractual agreements are in place with key workforces such as insurers, structural and geotechnical engineers, valuers, quantity surveyors and loss adjusters

Business continuity plans have been reviewed.

EQC continues to deliver its employee wellbeing programme. We also provide regular engagement mechanisms for our people, including engagement surveying. A new Core Competency Framework is being embedded in EQC's recruitment processes, performance and development framework, and the EQC induction programme. EQC has provided psychological resilience training to all people leaders to support dealing with people affected by trauma and loss. Work is now underway to roll out psychological resilience and unconscious bias training for all EQC people.

1 Includes recommendations that EQC is leading, plus those EQC is co-leading. Some recommendations are referred to in more than one box.

KPMG independently assesses the implementation of these recommendations, with a review that commenced in July 2021.

Other recommendations that are not being led by EQC

We have also been working closely with other government agencies that are leading responses to the Public Inquiry recommendations. In particular:

- **Modernising the EQC Act**: The Treasury is leading work on the modernisation of the EQC Act and responding to the Public Inquiry recommendations that relate to possible legislative changes. EQC is working closely with the Treasury to progress this work.
- **An improved disputes resolution mechanism**: The Ministry of Business, Innovation and Employment, with the Treasury, is leading work on considering options for a standing dispute resolution service for EQC claims.
- **Determining the future of housing recovery**: The need for the Government to determine which agency should assume the lead for any future housing recovery programme and a framework within which a managed repair programme would operate was a strong theme of the Public Inquiry's findings. A number of agencies across government are, therefore, working together to ensure that there is clarity about roles and responsibilities for housing recovery in the event of a future major natural disaster.

  We are actively supporting this work to accelerate progress where possible. In particular, we are bringing together all previous work and experience from the managed repair programme in Canterbury and the implementation of the Natural Disaster Response Model. This will inform a handover pack that considers lessons, capabilities, construct and operating model options, and high-level implementation. It will be shared once a decision has been confirmed on which agency will be responsible for any future housing recovery programme.

Statement of performance

The sections below provide the results for the measures set out in the *Statement of Performance Expectations 2020-2021*. These results are discussed as part of our four key roles of Recovery, Resilience, Risk financing and Readiness. Key highlights across the four roles are:

- Sustained effort during 2020-2021 as part of our **Recovery** role, resulting in major progress both in resolving claims for the people of Canterbury and delivering good customer outcomes and experiences:
  - Eight of the eleven targets measuring performance managing Canterbury earthquake sequence claims were met. (We were unable to report on one of these measures).
  - Six of the eleven targets measuring EQC's performance managing non-Canterbury earthquake sequence claims were achieved. (We were unable to report on two of these measures). Of the three measures that did not meet the 70% target, these fell just short, with two achieving 69% and the other one achieving 67%.
  - A continued focus on resolving Canterbury claims, including those subject to litigation and in dispute.
  - A focus on improving customer experience, supported by implementing a Customer Code and establishing a National Reference Group to provide community input.
- A focus on our **Resilience** role, with increasing stakeholder confidence seen in our resilience and research activities:
  - Three of the six resilience-related targets were achieved, and of the three that fell short of the target, two of these saw improvements from the previous year.
  - A continued development of our relationships with our system stakeholders to support natural hazard resilience and research.
  - A continued increase in the proportion of New Zealanders who confirm that they have taken action to prepare their homes for natural disasters.
- Achievement of all measures relating to **Risk financing**:
  - An increase in the balance of the Natural Disaster Fund, with the level of premiums collected compared to budget of 104%.
  - Securing record-high reinsurance for the 2021-2022 year.
- Creating a world-first partnership through the Natural Disaster Response Model, as a core part of our **Readiness** role:
  - Meeting the target to increase contingent capacity to manage up to 100,000 claims per year.
  - Implementing a modern, cloud-based data and analytics platform that enables the secure exchange of data with participating private insurers.
  - Improving customer experience by creating a customer-centric model so that customers have a single point of contract for making new EQCover claims.

Statement of performance expectations revenue and expenses

The table below sets out the expected and actual revenues and expenses for the *Statement of Performance Expectations 2020-2021* output classes and key activity measures.

	2020-2021 revenue	2020-2021 expenses
Output One: future event preparation	No revenue associated with Output One	$64.7 million (proposed expenses: $58.5 million)
Output Two: event response	No revenue associated with Output Two	$33.5 million (proposed expenses: $32.8 million). Excluding specific claims handling expense budget
Key activity measures	$520 million ($500 million expected primarily from EQC premiums)	$200 million ($213 million proposed largely relating to the purchase of reinsurance)

How EQC performed | Recovery

What we sought to achieve in 2020-2021

Resolving claims remained our highest priority in 2020-2021. We have continued to work hard to ensure the right processes, procedures and people are in place to enable claims to be resolved in a consistent, efficient and effective way. This includes a specific focus on Canterbury claims.

In our *Statement of Performance Expectations 2020-2021*, our performance against these Recovery objectives was measured as part of the Event Response Output Class. This measures progress against achieving our strategic intention that “claims made to EQC’s insurance scheme are managed fairly, transparently and in a timely manner”.

What we achieved

Summary of performance for 2020-2021

Canterbury earthquake sequence claims | 11 performance measures*

- Achieved target: 8
- Did not achieve target: 2

* Unable to report on 1 measure

Claims relating to other events | 11 performance measures*

- Achieved target: 6
- Did not achieve target: 3

* Unable to report on 2 measures

Resolving claims for the Canterbury earthquake sequence

We made good progress on the resolution of reopened claims related to the Canterbury earthquake sequence. Of the 11 performance measures related to Canterbury claims, eight either met or exceeded their target. A low number of survey responses meant we were unable to report on one measure: the quality of complaints resolution.

For the 2020-2021 financial year we introduced new customer-focused performance measures to ensure we delivered good customer outcomes. We met all these measures, including 76% of surveyed customers agreeing or strongly agreeing that we were responsive to their individuals needs and situation during their recent experience. This exceeded the target of 70%.

A strong customer focus in our operational performance saw positive experiences for Canterbury customers improved from the previous financial year. Through the year we also introduced several new initiatives focused on increasing transparency in our processes and resolving claims in a timely and enduring manner.

At the start of the 2020-2021 financial year, we had 648 Canterbury claims that had been on hand for six months or longer. By the end of the financial year, 549 of these had been settled, representing 85% resolution of this outstanding claim population.

Regarding the two measures that were not met, 74% of claims reopened between 1 January 2020 and 31 December 2020 were resolved within six months, falling below the target of 80%. Twelve percent of claims settled were reopened within six months, falling short of the target of less than 10%, but improving on the previous year's result of 13.8%. Both will be an operational focus for the 2021-2022 financial year. We expect the initiatives mentioned above will assist our progress with this. A change to system-based reporting will mean these measures are able to be monitored more closely and action taken earlier to achieve targets.

In 2020, we also resolved a number of commercial issues with private insurers, achieving our target of completing finalisation of the attribution of correct liabilities for Canterbury claims with private insurers.

For non-Canterbury claims

Of the 11 performance measures related to non-Canterbury claims, there was strong performance in claims being resolved within six months or settled within 90 days of the assessment process being completed (97% and 98% respectively).

Of the five customer-focused performance measures, we exceeded our targets on communications being clear and concise and providing the skills and knowledge to help customers.

For the other three customer-focused measures which were not met, two of the three measures achieved 69%, narrowly missing the target of 70% (or more). These targets measured the percentage of customers who were satisfied with their overall claims experience and those customers who agreed or strongly agreed that EQC (or its partner) were transparent, fair and reasonable in all interactions. For the other measure that fell short of the 70% (or more) target, 67% of surveyed customers agreed or agreed strongly that we were responsive to their individual needs and situation during their recent experience

Initiatives will continue in 2021-2022 in response to these results, with consideration towards generating more timely customer insights and opportunities to improve customer outcomes.

Our objectives to achieve this are:

- responding swiftly to all customers' claims to help them recover from an event
- improving the customer experience and ensuring we are responsive to each customer's individual needs and situation.

Success will mean customers access the cover they are entitled to in a timely manner through a fair process they understand. Claims decisions will be enduring, resulting in fewer claims being reopened, reconsidered or disputed.

This year's results are in the table below.

Statement of performance for settlement of 2010-2011 Canterbury earthquake sequence remedial claims (2020-2021 Output Two)

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
Timeliness			
Outstanding claims over six months old, on hand at 30 June, are settled by 30 June 2021[2]	58%	75%	85%
New claims opened or reopened[3] between 1 January 2020 and 31 December 2020 are resolved within six months	78%	80%	74%
Complete finalisation of the attribution of correct liabilities for Canterbury claims with private insurers	Not completed	30 June 21	Completed
Customer focus—overall			
More than 45% of surveyed customers are satisfied with their overall claims experience	Newly worded measure[4] 49%	>45%	53%
Customer focus—reflecting on their most recent experience			
More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was transparent and fair in all interactions	New measure	>70%	76%
More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was responsive to their individual needs and situation during their recent claims experience	New measure	>70%	76%
More than 70% of surveyed customers indicate that all communications from EQC (or its partner) were clear, concise and confident, and that they were clear on the next steps for their claim	New measure	>70%	73%
More than 70% of surveyed customers agree or strongly agree that EQC (or its partner) acted as experts with the skills, knowledge and desire to help them	New measure	>70%	74%
Timeliness of complaints resolution: • 90% simple complaints completed in 30 working days • 90% standard complaints completed in 60 working days • 90% complex complaints completed in 120 working days	New measure	>90%	98%

2 Timeliness measure adjusted to reflect that the remaining Canterbury claims are the most complex.
3 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required.
4 Continuation of measure 2.1.5 from 2019-20 (measure reworded).

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
Customer focus—reflecting on their most recent experience			
Quality of complaints resolution—75% customer satisfaction with complaints process	New measure	75%	[5]
EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months.	13.8%	<10%	12%

Statement of performance for claims relating to natural disaster events (excluding Canterbury) (2020-2021 Output Two)

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
Timeliness			
Claims lodged between 1 January 2020 and 31 December 2020 are resolved within six months	98% (for claims lodged post 1 Jan 2019)	90%	97%
Claims that have not been settled within six months of lodgement are settled within 90 working days of the assessment process being completed	87%	95%	98%
Customer focus			
More than 70% of surveyed customers are satisfied with their overall claims experience	New measure	>70%	69%
More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was transparent, fair and reasonable in all interactions	New measure	>70%	69%
More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was responsive to their individual needs and situation during their recent claims experience	New measure	>70%	67%
More than 70% of surveyed customers indicate that all communications from EQC (or its partner) were clear, concise and confident and that they were clear on the next steps for their claim	New measure	>70%	78%
More than 70% of surveyed customers agree or strongly agree that EQC (or its partner) acted as experts with the skills, knowledge and desire to help them	New measure	>70%	76%

5 Due to the very low number of survey responses, we were unable to provide a meaningful result for this measure for this financial year.

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
Customer focus			
Timeliness of complaints resolution • 90% simple complaints completed in 30 working days • 90% standard complaints completed in 60 working days • 90% complex complaints completed in 120 working days	New measure	>90%	98% ●
Quality of complaints resolution—75% customer satisfaction with complaints process	New measure	75%	[6]
EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months	8%	<10%	4% ●
Quantity			
All claims are resolved within Board approved claims handling expense budgets for those events	N/A	Within 10% of actual budget	N/A[7]

What we did to achieve these results

A focus on resolving Canterbury claims

We have continued to focus on resolving claims from the Canterbury earthquakes in a responsive, timely and enduring manner. As a result, the number of open Canterbury claims on hand has reduced month-on-month since November 2020. As part of this, we have significantly reduced the number of claims that have been on hand for more than 12 months, from 289 as at 30 June 2020 to 85 as at 30 June 2021 (6.9% of open claims).

During 2020-2021 there was an inflow of 6,941 instances of reopened Canterbury claims[8]. This was offset by 7,267 instances of reopened claims being closed (a net reduction of 326). On 1 July 2020, there were 1,555 claims on hand. On 30 June 2021, 1,229 Canterbury claims remained open.

We have significantly reduced the number of claims that are subject to litigation. At the start of the year, there were 110 claims subject to legal proceedings, and 40 claims with dispute resolution teams. At 30 June 2021, 39 Canterbury claims remained subject to legal proceedings. Other claims that were assigned to dispute resolution teams had reduced to 24.

6 Due to the very low number of survey responses we are unable to provide a meaningful result for this measure for the 2020-2021 year.
7 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. In the approval of budgets, the Board will consider the type of response required, previous costs of similar events and any available benchmarks. There were no events for this financial year for which a specific budget was established by the Board.
8 Referred to as instances of claims, as a claim may be reopened more than once during the year.

Alongside resolving Canterbury claims, we are also administering the Government's On-Sold programme, which allows eligible homeowners of on-sold over-cap properties in Canterbury to, subject to certain criteria, receive an ex-gratia payment from the Crown towards the cost of having their homes repaired. Though not measured as part of our performance measures during 2020-2021, the progress of the On-Sold programme is an important indicator in ensuring Canterbury homeowners do not live in earthquake-damaged homes.

We received nearly 6,000 On-Sold programme applications (also known as expressions of interest) from Canterbury homeowners on or before the On-Sold programme's 14 October 2020 application deadline. This followed a large mailout to 44,000 homes to ensure people were aware of the approaching deadline.

We have made substantial progress in processing received applications and settling qualifying applications.

Supporting all Aotearoa New Zealand for a range of natural disasters

Alongside managing open claims from the Canterbury earthquake sequence, we received 3,806 new natural disaster claims during the year (compared to 2,801 in 2019-2020). Of these non-Canterbury claims, 2,619 were related to earthquakes. The remaining 1,187 claims were related to landslips, storms or floods.

The most significant natural hazard events were:

- the Levin earthquake in May 2020, resulting in 268 claims during the 2020-2021 year
- the Northland floods in July 2020, resulting in 374 claims during the 2020-2021 year
- the Napier floods in November 2020, resulting in 282 claims during the 2020-2021 year
- the Te Araroa earthquake in March 2021, resulting in 616 claims during the 2020-2021 year.

The other claims (2,266) related to smaller landslips, storms, floods and earthquake events over the course of the year.

Improving customer experience

We are focused on providing a great customer experience. The new Natural Disaster Response Model is a central part of this focus and is discussed in the Readiness section of this report.

During 2020-2021, we also developed and implemented a Customer Code, which sets out what customers can expect from us and our partner agencies when we manage a claim for natural disaster damage.

Alongside this, our new National Reference Group, which provides broad community input into our work, will also help ensure we continually improve customer experience.

EQC's **Customer Code** is based on the following principles

- We're committed to high standards of service and will act transparently, with integrity and utmost good faith towards you.
- We'll act in the interests of our customers by treating you honestly and fairly, and fulfilling our duties and obligations to the public under the EQC Act.
- We'll identify and address instances of poor conduct within our company.
- We're committed to ensuring our staff are appropriately trained and skilled to fulfil our responsibilities to you. Their training will include the requirements of the EQC Act, service to the public, collaboration with other public entities and may also include principles of insurance and relevant consumer laws.
- You're entitled to ask for and receive clarification on the terms, conditions and exclusions of the Act cover. We'll communicate clearly and will:

    1. answer your questions accurately and in writing if requested
    2. explain the information you need to give us when you make a claim
    3. explain the importance of you disclosing information that is honest, complete, up to-date and relevant
    4. explain how we will support vulnerable customers
    5. explain the decisions we make accurately, clearly, concisely and effectively in all our interactions with you
    6. take all reasonable steps to help people who have English as a second language.

How EQC performed | Resilience

What we sought to achieve

Increasing community resilience was another priority area for 2020-2021, guided by our *Resilience Strategy for Natural Hazard Risk Reduction 2019-2029*. This strategy focuses on reducing the impact on people and property when natural disasters occur through natural hazard risk reduction and public education. Our aim is for communities to understand the natural hazard risks they face and be able to make informed decisions about how to reduce the impacts.

Under our *Statement of Performance Expectations 2020-2021*, our performance was measured as part of the Future Event Preparation Output Class. This measures progress against achieving our strategic intention "that EQC is a leader in New Zealand on natural hazard risk reduction".

What we achieved

Summary of performance for 2020-2021

Resilience–related targets | 6 performance measures

- Achieved target: 3
- Did not achieve target: 3

Overall, survey responses from resilience and research stakeholders have shown an increasing level of stakeholder confidence across all measures. Our work to improve understanding of natural hazard risk—and to coordinate and collaborate with our stakeholders in natural hazard science and risk management—was reflected in improved year-on-year scores across three measures, with two of the three measures exceeding their targets.

Surveyed stakeholders agreed or strongly agreed that our facilitation and engagement was a positive contribution towards improved understanding of natural hazard risk (91% against the target of 85%) and improved coordination and collaboration in natural hazards risk management (83% against a target of 80%).

We also improved our rating of the quality of outputs (e.g. research), with 84% of stakeholders rating outputs as "of good or excellent quality" compared to 72% last year (though this remains below the 90% target).

Seventy-six percent of surveyed stakeholders found our advice, analysis, modelling and research findings to be relevant and focused on the right issues, which falls below the target of 90% (and lower than the 2019-2020 result of 80%). Stakeholders commented that it is hard to know what the "right issues" are—whether the measure is referring to the right issues for EQC, different stakeholders, or New Zealand[9]. This score was influenced, in part, by 24% of respondents giving this a neutral rating (i.e. neither agree nor disagree) to reflect their uncertainty.

There has been a year-on-year increase in the proportion of New Zealanders who confirm that they have taken action to prepare their homes for natural disasters, with 46% having taken action this year compared to 43% last year.

EQC are playing a fantastic role in that research space; providing funding for research projects and identifying areas that need more focus. We are incredibly grateful for the support they give us.

(SCIENCE/ RESEARCH STAKEHOLDER)

9 Several stakeholders referenced a desire to see more climate change-related research, for example. There was recognition that while this might be "right" for them, it was not necessarily the highest priority for EQC.

This year's results on Output One are in the table below.

Statement of performance for Resilience-related measures (2020-2021 Output One)

	2019-2020 performance	2020-2021 target	2020-2021 performance
Stakeholders surveyed agree or strongly agree that the outputs of EQC's Resilience Strategy (advice, analysis and modelling, and research findings[10])			
to be of good or excellent quality; and	72%	90%	84%
to be relevant and focused on the right issues	80%	90%	76%
Stakeholders surveyed agree or strongly agree that the EQC's facilitation and engagement was a positive contribution towards:[11]			
• improved coordination and collaboration in natural hazards science and research	81%	90%	88%
• improved understanding of natural hazard risk	87%	85%	91%
• improved coordination and collaboration in natural hazards risk management	68%	80%	83%
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	43%	>45%	46%[12]

10 Stakeholders include local government and design, planning, and construction professionals. Surveys are undertaken by an independent organisation.
11 EQC facilitates a number of research forums where various agencies collaborate on natural science hazards and research.
12 Nielson survey on *Public perceptions of EQC and mitigating activities*.

How we achieved these results

Contributing to the reduction in impact of future events by implementing EQC's Resilience Strategy

Our Resilience Strategy sets out a 10-year ambition to play a key role in addressing Aotearoa New Zealand's current and future resilience challenges through a focus on risk reduction actions, which are driven by our research and education mandate. Our focus for 2020-2021 has been on three main areas:

1. A better understanding of New Zealand's natural risk hazards through targeted investment in research and data.
2. Creating a more resilient built environment.
3. Smarter land use planning.

Shifting towards prevention and reducing the effects of disasters before they happen

We are deliberately shifting towards more focus on prevention and reducing the effects of disasters before they happen. This supports our goal of having stronger homes, on better land, served by resilient infrastructure.

Over the past year we have focused on public education to help grow the understanding of natural hazards among Aoteaora New Zealand's young people, including by:

- **virtual learning about natural hazard awareness** through an Alpine Fault field trip for students
- online **what's on our plates** modules that enable anyone to explore New Zealand's active plate boundary.

Resilience will become even more of a priority as our understanding of the implications of climate change grows and we learn more about how this may impact New Zealand's natural hazard profile.

Collaborating to minimise risk

We have had a strong focus on connecting and engaging with people involved in policy and practice to bring them evidence in an accessible way. We have continued to develop our relationship with central government policy makers, local government planning and consent officials, designers, engineers, architects and builders.

Work is underway across government to establish how Aotearoa New Zealand can adapt to the impacts of climate change. We are collaborating with other agencies to ensure this work complements and supports natural hazard risk management and our efforts to increase New Zealand's resilience to natural disasters.

Building our evidence base and funding high-quality research

A key priority of our Resilience Strategy is a renewed focus on the strategic value of data and information for natural hazard risk management.

One of our most important uses of data and models is to inform our loss modelling and the modelling of our reinsurers.

We spent $21 million on research in 2020-2021, including the largest investment in Geonet (including $9.4 million of opex costs) and a $2 million contribution to the National Seismic Hazard Model. During 2020-2021 we funded approximately 66 research projects.

Our *Research Investment Priorities Statement 2021-2023*, released in May 2021, identifies the areas where we are interested in building our evidence base. These are:

- how people perceive and manage risk
- building and infrastructure performance
- land-use management
- governance and economics of disaster risk and disaster risk management
- quantifying the size and frequency of hazards and their impacts.

The three lenses we are keen to have applied to future research are Mātauranga Māori, climate change and social science.

Case study—Cutting-edge research provides cost-effective solutions for seismic strength in higher-risk buildings

Researchers at the University of Auckland are in a race against time to find the most efficient and cost-effective ways to strengthen walls of buildings at higher risk of earthquake damage. Over 100 multi-storey buildings in Wellington's CBD are identified as well below modern code requirements, so the EQC-funded research by Dr Enrique del Rey Castillo, PhD student Victor Li and Dr Rick Henry is considered urgent.

Lead researcher Dr del Rey Castillo says that reinforced concrete buildings built before 1982 are considered a particular problem compared to modern buildings, as their thin and slender walls can be at higher risk of buckling and collapsing in an earthquake.

"Technically it's called 'axial failure'. It can still happen in a newer building, as we saw in Christchurch's Grand Chancellor Hotel, but pre-1982 design methods mean the risk is higher in those older buildings," says Dr del Rey Castillo. "And right now there is no guidance on how they should be strengthened."

The University of Auckland engineers have been wrapping danger spots on at-risk walls in carbon fibre and testing whether this solution can bring the walls up to modern earthquake performance standards. "We've already tested 56 different combinations of concrete, steel and carbon fibre to see when and how they break. This gave us the data we needed to model how to strengthen a particular wall. We are now testing these ideas in the lab with four-metre-high walls loaded with the weight of several storeys," says Dr del Rey Castillo.

He adds that his team has had a lot of support from industry players such as Concrete NZ, Mapei, Sika, Holmes and BBR Contech, who are all extremely interested in the research and in helping to ensure that the testing will deliver real-world results.

"Once we finish this series of tests, we will model how the strengthening has affected the whole building, to make sure that the weakness hasn't just shifted to another part of the structure," he says. Dr del Rey Castillo says that once the testing and modelling is completed, the team will draft guidelines and equations for engineers to use, so they can choose the most effective and cost-efficient fix for their particular problem wall.

What our research and resilience stakeholders have told us

Our annual stakeholder survey helps us understand how our resilience stakeholders perceive our activities. The 2020-2021 stakeholder survey delivered key insights about our natural hazards resilience work. An independent firm, Research First, held in-depth interviews with respondents. There were 74 survey responses this year from a mix of stakeholder interviews and an online survey.

Key themes from the survey responses were:

- Stakeholders believe we are well positioned to be a leader in natural hazards insurance both because of our experience with major events and the research and modelling we carry out.
- Our contribution to research is well recognised and appreciated, with many stakeholders mentioning in particular our support for GeoNet, the National Seismic Hazard Model and RiskScape, (a natural hazard risk modelling tool).
- Many stakeholders feel we are in a good position to play a leading role in bringing resilience organisations together across the system.
- There is strong support for our efforts in risk mitigation and prevention, with stakeholders saying there is more work to be done, particularly in educating the public about what they can do to minimise the impact of a natural disaster.
- Stakeholders asked for more regular updates on the research and projects we are supporting to reduce the impact of natural hazards.
- Many stakeholders praised EQC and our resilience team for our achievements in resilience research and for moving from being perceived only as "an insurer" to being natural hazard and risk management experts.

How EQC performed | Risk financing

What we sought to achieve

Ensuring financial resilience continued to be an area of priority during 2020-2021. The EQC scheme ensures New Zealanders have access to natural disaster insurance and reinsurance, and this is the key focus of our Risk financing function.

We provide financial resilience to the broader Crown balance sheet through our Risk financing strategy. This is primarily achieved through the purchase of reinsurance and planning for the rebuild of the Natural Disaster Fund.

This supports our strategic intention to ensure "New Zealanders have access to natural disaster insurance and reinsurance".

What we achieved

Summary of performance

Risk financing-related targets | 4 performance measures

- Achieved target: 4

We achieved all measures relating to our Risk financing, including achieving record-high reinsurance cover in June 2021, for the 2021-2022 year.

The level of premiums we collected for the Natural Disaster Fund compared to budget was 104%, exceeding the target for 2020-2021. In addition, the balance of the Natural Disaster Fund increased to $301 million by 30 June 2021, an increase of $121 million from 30 June 2020, and $218 million higher than the budget included in our *Statement of Performance Expectations 2020-2021*. This reflected higher proceeds from reinsurance claims relating to resolving a number of commercial issues with insurers, lower claims costs, and some timing variances relating to reinsurance premium payments in June.

The table below sets out results for 2020-2021.

Statement of performance for Risk financing measures 2020-2021—Key Activity Measure One | A reinsurance programme that supports EQC's delivery of affordable residential natural disaster insurance protection

	2019-2020 performance	2020-2021 target	2020-2021 performance
Quality			
Reinsurance protection is obtained on terms that assure continuity of coverage for all perils, at rates that are lower than the Crown's cost of capital	Achieved	1 June 2021	Achieved
Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2021-2022	Achieved	By March 2021	Achieved
Timeliness			
An annual review of EQC's Risk Financing Strategy is conducted	New Measure	30 June 2021	Achieved

Statement of performance for Risk financing measures 2020-2021—Key Activity Measure Two | Managing the Natural Disaster Fund

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
The level of premiums collected compared to annual financial budget	101.4%	>97.5%	104%

How we achieved these results

Securing record-high reinsurance cover

Our purchase of reinsurance transfers an agreed amount of natural disaster risk to offshore capital providers, which reduces the concentration of Aotearoa New Zealand's financial exposure to future natural disaster events.

Reinsurers have shown their confidence in our approach through a significantly higher amount of reinsurance cover for the 2021-2022 year at nearly $7 billion, an increase of $750 million on the previous renewal. Our successful renewal takes account of the Crown's risk appetite perspectives.

As part of our annual reinsurance processes, we provide significant loss modelling information to reinsurers, allowing the international reinsurance market to assess and price New Zealand's risk. Our ongoing commitment to funding high-quality research that feeds directly into loss models has helped retain international confidence in insuring the New Zealand residential housing market.

Ensuring we are prepared for the future

Under the EQC Act, we are required to administer the Natural Disaster Fund and, so far as is reasonably practicable, protect its value, including through the investment of money held in the fund.

One of the EQC Board's objectives is to rebuild the financial resources of this fund that were exhausted because of the Canterbury earthquakes. Over the course of 2020-2021, resolving commercial issues with insurers also removed significant uncertainty in terms of potential financial liabilities.

Over the coming three to four years, in the absence of any significant natural disaster event, the Board expects to see a steady growth in the Natural Disaster Fund because of lower claims costs, reduced capital expenditure, and an ongoing focus on the efficient delivery of services provided by EQC.

Our Risk Financing Strategy aims to ensure we have the financial resources available to meet our financial liabilities under the EQC Act when they fall due. In May 2021, the Board discussed the refresh of our Risk Financing Strategy, supporting:

- the retention of a strong reinsurance programme
- a focus on ensuring EQC's premiums reflect the cost of the scheme
- a clear and efficient mechanism for accessing the Crown guarantee
- a medium-term focus on an investment strategy for the Natural Disaster Fund.

Given the critical role it plays in allowing EQC to meet all its obligations, the Risk Financing Strategy will be reviewed on an annual basis, including discussions with the Treasury to understand the Crown's current risk appetite.

How EQC performed | Readiness

What we sought to achieve

Optimising our natural disaster event management capacity and capability has been a further priority for 2020-2021. This is the focus of the Natural Disaster Response Model, which aims to improve the delivery of a seamless service to New Zealanders in the event of a natural disaster.

Improving data and analytics supports this focus, as we cannot deliver a seamless service for New Zealanders without timely exchange of reliable data between all parties involved. Highly capable information systems, partnerships, and information sharing agreements are all necessary to achieve these outcomes.

Along with our role in Recovery, Readiness supports EQC's strategic intention to ensure "claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

Summary of performance

Readiness-related targets | 2 performance measures

- Achieved target: 1
- Did not achieve target: 1

From 30 June 2021 we now have contingent capacity to manage up to 100,000 claims per year (previously EQC and our partners had capacity to manage 50,000 natural disaster claims annually). This is due to implementing our Natural Disaster Response Model, which went live on 30 June 2021. This met our target for 2020-2021.

Through implementing the model, we also established data sharing agreements and implemented a modern, cloud-based data and analytics platform that enables the secure exchange of data with participating private insurers.

The target of exchanging of claims and policy data with at least 80% of the private insurance market was not met by 31 December 2020. However, policy data was received from all insurers under the Natural Disaster Response Model before 30 June 2021. Claim data was enabled by 30 June 2021, though not received during 2020-2021 as the model commenced on 30 June 2021.

The table below sets out results for 2020-2021.

Statement of performance for Readiness measures 2020-2021—Key Activity Measure Three |Transformation—customer and claims management capability

	2019-2020 performance	2020-2021 target	2020-2021 performance (as at 30 June)
EQC is able to demonstrate, through scenario testing, that the event response model has capacity to manage 100,000 claims annually by 30 June 2021	50,000 claims annually by June 2020 (target was achieved)	30 June 2021	Achieved
Exchange of claims and policy data with at least 80% of private insurance market to inform more accurate and timely insights and decisions for Resilience, Readiness, Response, and Recovery	New measure	31 December 2020	30 June 2021

How we achieved these results

Establishing a globally unique partnership with insurers

The Natural Disaster Response Model between EQC and eight private insurers, announced in November 2020, is key to ensuring EQC and our partners are prepared for the next big event. The eight private insurance companies, representing more than 20 insurance brands, are AA Insurance, Chubb, FMG, Ando (Hollard), IAG, MAS, Vero and Tower.

We've worked closely with these private insurers and the Insurance Council of New Zealand to develop and implement the new model. It builds on a partnership that EQC and private insurers used in 2016 after the Kaikōura earthquake, whereby customers lodged a single claim with their private insurer. This provided a faster and easier settlement process than the dual lodgement with EQC and the private insurer required for the Canterbury response.

If a natural disaster occurs after 30 June 2021, customers have a single point of contact for making new EQCover claims—their private insurer. EQC will continue to manage Canterbury claims and other current claims, along with on-sold applications, claims that we are managing on behalf of Southern Response, and claims made by customers for future events where their private insurer has not signed up to be part of the model.

We have provided, and will continue to provide, private insurers with training, guidance and access to subject matter experts to ensure they manage and settle EQC claims in accordance with the EQC Act.

Partnering to make it easier for New Zealanders

For our customers, the new model means a single point of contact, a streamlined claim process and an easier, clearer, simpler experience.

We have developed a comprehensive assurance framework that will monitor performance and compliance of the Natural Disaster Response Model in accordance with internationally accepted standards. Alongside this, we will undertake a range of measures including conducting customer experience surveys on aspects such as customer satisfaction, claims timeliness and claims quality.

We will continue to deliver our services in accordance with our Customer Code, which is based on the Fair Insurance Code. As EQC's agent, private insurers will be bound by the same standards and will also have to comply with the Fair Insurance Code in their interactions with customers.

Sharing data and information

This Natural Disaster Response Model has been enabled by establishing data sharing agreements, standards, and technology to exchange data and information between EQC and private insurers. It requires accurate and timely sharing and validation of large amounts of data between EQC and private insurers. This has required a major change in EQC's approach to data collection, storage, transfer and governance.

As part of the Natural Disaster Response Model, private insurers will share data related to claims and exposures with EQC directly through a modern, cloud-based data and analytics platform implemented during 2020-2021. Understanding where insured homes are located will mean we can better model Aotearoa New Zealand's exposure to, and understanding of, natural hazard risks.

Testing preparedness for future events

EQC's own reviews, and the findings from the Public Inquiry, have confirmed that we need to incorporate learnings from past large-scale events to prepare for the next one. In March 2021 we completed a functional event response exercise to test our plans and procedures, which enabled us to assess our ability to respond effectively after an event.

We incorporate learnings from previous natural disaster events and expertise from our resilience investments and data to inform our scenario planning and testing. The results and insights can then be shared with our partners to, ultimately, improve the experience and outcomes for our customers.

ORGANISATION AND GOVERNANCE

TE KŌMIHANA ME TANA KĀWANATANGA

We're always learning
Ka ako tonu tātou

Organisation

Our people are our most valuable asset | He tangata, he tangata, he tangata

To be successful and deliver great outcomes for our customers we need diverse, high-performing teams that put customers at the heart of what we do. To support this, we are committed to a culture and working environment within which our people can thrive and their wellbeing is supported.

Over the year, we embedded new and modern ways of working across the organisation. This included the successful deployment of new technologies and hardware, which contributed to a dramatic, positive impact on connectivity and collaboration across EQC's functions and locations and created a truly modern workplace.

We listened to our people's feedback about the benefits of a greater mix of in-office and at-home working and implemented the option for all people working at EQC to be able to work from home two days per week.

Our engagement survey results continue to demonstrate a sustained shift in internal engagement and culture, showing an increase in overall engagement from 63% in February 2020 to 73% in February 2021. Survey results consistently show high levels of support for our ongoing wellbeing programme and reflect the high level of care and support provided by our people leaders. These leaders are, in turn, supported through our leadership development programme and regular EQC leadership forums. In May 2021, we were recognised for our ongoing employee wellbeing programme as a finalist at the annual Human Resources New Zealand (HRNZ) Awards.

Over the coming year, we will continue to sustain the strengths of our culture while looking to mature in some areas that will be required to enable full delivery of our *Statement of Intent 2021-2025*. This includes continuing to build our partnering mindset across the organisation and continuing to improve our inclusive culture.

Our organisational values guide everything we do at EQC

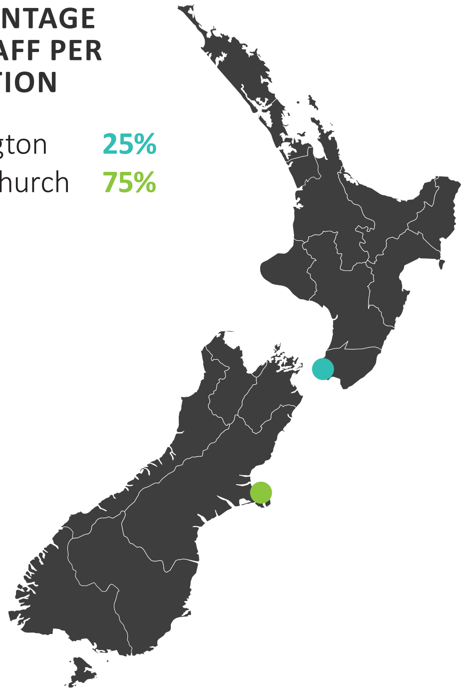
TOTAL NUMBER OF EMPLOYEES

As at 30 June 2021– employees (Permanent and Fixed Term)

310

PERCENTAGE OF STAFF PER LOCATION

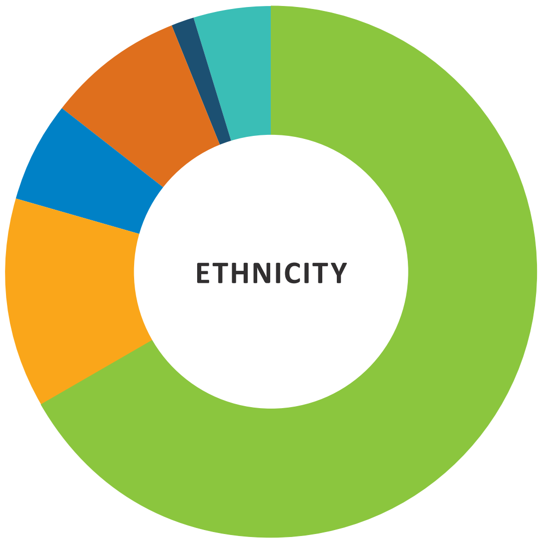
Wellington	25%
Christchurch	75%



Age range - years

10%	18-29
30%	30-39
30%	40-49
22%	50-59
8%	60-69

The average age of people working at EQC is **43** (similar to the average age for all public sector employees of **44**)



NZ European	66.8%
British, Irish/Other European	12.6%
Maori/Samoan/Tongan/Other Pacific Peoples	6.1%
Chinese/Filipino/Korean/Indian/Other Asian	8.3%
Latin American/African	1.6%
Other/Undisclosed	4.5%

Gender

49% Male

51% Female

	Male	Female
Executive Leadership team	5	4
People leaders	30	44

Supporting diversity and inclusion

We are committed to creating an EQC environment that is authentically diverse and inclusive, making sure our systems and processes are free from bias, responsive to different communities and culturally appropriate.

We are committed to Te Kawa Mataaho, the Public Service Commission's Papa Pounamu work programme that sets out five priority areas of focus to create a positive impact in the workplace. This year we commenced a review of our people-related policies and practices to identify and address bias and discrimination and began preparations to confidently sign an Accessibility Charter and to attain the YWCA GenderTick. We regularly monitor for gender pay gaps and use the annual remuneration review to make improvements. Our job evaluation practices follow the Public Service Commission guidelines to ensure transparency, equitability, and gender neutrality. Our overall gender pay gap by remuneration band is 1.86% in comparison to 5.8% for the public sector.

As part of our goal to build more inclusive and responsive leadership and strengthen engagement, in 2020 we created an internal Culture Champion Network to encourage engagement with the "One EQC" culture and related cultural initiatives across the organisation.

We are in the early stages of building our cultural capability and familiarity with Te Ao Māori as we begin delivering on our aspirations over the next four years to strengthen our capability. Te Kawa Mataaho (the Public Service Commission) and Te Arawhiti (the Office for Crown Māori Relations) have developed a framework called Whāinga Amorangi to help public sector agencies and Crown entities develop this capability. All public sector agencies and Crown entities are expected to develop Whāinga Amorangi organisational plans for 2021-2022 and register these with Te Arawhiti.

Specific future focus areas include strengthening our Māori-Crown relations through implementing our Whāinga Amorangi plans and increasing our cultural capability for the wide range of communities we serve. All people leaders received training in unconscious bias and the Executive Leadership Team and strategy group undertook learning in Te Reo. All EQC people will receive this training in the new financial year.

Our good employer approach

The Human Rights Commission sets out seven key elements of what being a good employer looks like. The table below outlines our key actions against these seven elements.

Element	Actions taken during 2020-2021
Leadership, accountability and culture	• Launched the leaders' development programme • Regular leadership forums were held that brought together leaders from across EQC to focus on specific themes such as psychological resilience and culture • Engagement surveys undertaken with increased participation and scores
Recruitment, selection and induction	• Robust policies and processes to ensure transparency, fairness and confidentiality are embedded and maintained • Induction programme refreshed • Review of recruitment process to remove the possibility of built-in bias commenced and will be completed in 2021-2022

Element	Actions taken during 2020-2021
Employee development, promotion and exit	• Performance and development framework continued to guide performance and planning • Professional development continued to be offered to employees as a key aspect of our employee value proposition • Significant learning and development provided, with a strong emphasis on preparing for implementation of the Natural Disaster Response Model
Flexibility and work design	• Enhanced flexibility including the ability to work from home up to two days per week • Upgraded information technology and collaboration solutions • Recognised for employee wellbeing as a finalist at the HRNZ Awards
Remuneration, recognition and conditions	• Remuneration benchmarked against third-party New Zealand data, following Public Service Commission guidelines • Recognition Programme launched in direct response to engagement survey results, including an annual Chief Executive's Award and year-round Employees' Choice Awards • Employee value proposition improved with a new People Promise—range of benefits including a professional development fund and a wellbeing fund
Harassment and bullying prevention	• Zero tolerance of any form of harassment or bullying • Standards of integrity and conduct and related policies maintained • Alignment of our Protected Disclosures Policy with guidance released by the Public Service Commission • Speak Up Policy and supporting framework
Safe and healthy environment	• Health, Safety, Security and Wellbeing Strategy approved by the Board in May 2021 • Quarterly critical risk dashboard reporting for the Board • Stocktake of the organisations that EQC funds or sponsors was undertaken to determine the health and safety obligations and any assurance mechanisms that are in place or may need to be developed in the next year • Psychological resilience training delivered to all people leaders

Data and technology transformation

Becoming a more data-driven organisation is a significant part of our overall transformation. In October 2020 our technology systems were joined by the new Data and Analytics platform, designed to be the single aggregation point of all data from our systems and partner organisations. This 'data hub' is a modern, cloud-based platform built on a 'hub and node' architecture, with different EQC business functions accessing and analysing this data through different activity 'nodes.'

To enable the Natural Disaster Response Model, we implemented a data exchange based on open integration and industry security standards to facilitate the exchange of data with partners. Data is exchanged with partners based on an industry-defined data model to ensure consistency.

We have also invested substantially in modernising and simplifying our technology systems. This includes collaboration and productivity tools that enabled us to function effectively during the global pandemic, improvements to digital records management, a new Financial Management System and an upgrade of our Claims Management System.

The successful deployment of modern technologies and hardware across the organisation has also improved how we work, with MS Teams functionality having a dramatic and positive impact on the connectivity and collaboration across our business groups and office locations, including working from home.

Environmental impact

In December 2020, the Government announced the establishment of the Carbon Neutral Government Programme to accelerate emissions reduction in the public sector and be carbon neutral by 2025. This will require public sector agencies to measure and publicly report on their emissions and to offset any they cannot cut by 2025.

While a decision is yet to be confirmed whether Crown entities will need to meet the same requirements as the public sector, we are working towards being able to monitor and report on our emissions in subsequent annual reports. We will then set targets to reduce emissions by 2025.

Governance and leadership

The EQC Board is the governing body of EQC

The Board has 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 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 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.

There are eight Commissioners on the EQC Board. The Board Chair is Mary-Jane Daly. On 30 November 2020, Alison O'Connell retired from the Board. Alister James and Hon Ruth Dyson joined the Board on 1 May 2021. The profiles of the current members of the Board are below.

Mary-Jane Daly - Board Chair
BCom, MBA, GAIDC, CMinstD
Mary-Jane has a strong background in insurance, banking and finance in a variety of roles in New Zealand and the United Kingdom. Mary-Jane has been on the EQC Board since 14 March 2014 and was appointed Chair in 2020. She is an Independent Director of Kiwibank Limited, Kiwi Property Group Limited, Fonterra Shareholders Fund 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. **Term ends: 30 June 2022**

Erica Seville
PhD, BE (hons), CMInstD, hon FBCI
Erica was appointed to the EQC Board on 1 July 2018 and is the Chair of the People and Culture sub-committee. She brings a strong focus on building EQC's broader resilience as well as preparing for our role during a natural disaster recovery. Erica is the co-founder of Resilient Organisations, Chair of Response and Recovery Aotearoa New Zealand (RRANZ), and a member of the Regenerative Recovery Advisory Group for Queenstown Lakes. Erica was a Principal Investigator with QuakeCoRE and has led several major research programmes in disaster management, economic and business recovery, and insurance efficacy. She was a member of the Resilience Expert Advisory Group, providing advice to the Australian Government on critical infrastructure resilience issues. Erica has PhD in risk management. **Terms ends: 30 June 2024**

Alastair Hercus
BA (Hons), LLB, CMInstD
Alastair was appointed to the EQC Board on 1 March 2020 and is the Chair of the Audit and Risk committee. 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, Chair of Co-operative Life Ltd and a Director of Invercargill Airport Ltd. 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. **Terms ends: 30 June 2022**

Emma Dobson

Emma is a New Zealander who has returned after many years working at a senior level with Westpac in Australia. She was appointed to the EQC Board on 1 March 2020. Her career includes 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. **Term ends: 28 February 2023**

Fiona Wilson
MSc, BSc, Grad Dipl Appl Stats, CMInstD
Fiona, originally from Australia but 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 on 1 March 2020. **Term ends: 28 February 2023**

Scott Lewis
BBS, FIAA, FNZSA, CMInstD
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 Canterbury earthquakes 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. He is also the Vice President of the NZ Society of Actuaries. Scott was appointed to the EQC Board on 1 March 2020. **Term ends: 28 February 2023**

Alister James
QSO, LLB
Alister is a Christchurch barrister with significant public sector governance experience. His active involvement in the community and voluntary sector was recognised by his appointment as a Companion of the Queen's Service Order in 2004. Alister was a Christchurch City councillor for twenty years and a member and former Chair of the Canterbury District Health Board. Other previous roles include British Honorary Consul, Deputy Chair of the State Housing Appeal Authority, Director and Chair of Christchurch City Holdings Limited, Chair of the Nga Hau e Wha Christchurch National Marae and, until recently, independent Chair of the Greater Christchurch Public Transport Joint Committee. Alister is the Chair of Southern Response Earthquake Services and joined the EQC Board on 1 May 2021. **Term ends: April 2024**

Hon Ruth Dyson
Ruth Dyson has had a lengthy political career, serving as President of the New Zealand Labour Party from 1988 to 1992 and as a Member of Parliament from 1993 to 2020 representing the electorates of Lyttleton, Banks Peninsula and Port Hills. She was a Cabinet Minister between 1999 and 2008, serving as Minister for Social Development, ACC, Labour, Disability Issues and Senior Citizens, amongst other roles. She has a strong public policy background and a track record of working for her constituents following the Canterbury earthquakes. She was Opposition spokesperson for earthquake recovery, Chief Whip and Assistant Speaker prior to her retirement. Ruth joined the EQC Board on 1 May 2021. **Term ends: April 2023**

Board committees

There were two Board committees during 2020-2021:

- **The Audit and Risk Committee** supports the Board in delivering its responsibilities for audit, reporting and risk assurance. Alastair Hercus is the Chair. Other members on the committee are Emma Dobson, Scott Lewis, and Hon Ruth Dyson. Alison O'Connell was a member before retiring from the Board. Mary-Jane Daly is an ex-officio member.
- **The People and Culture Board Committee** supports the Board in delivering its responsibilities for people, culture, remuneration, healthy, safety, security and wellbeing. Erica Seville is the Chair. Other members on the committee are Fiona Wilson and Alister James. Mary-Jane Daly is an ex-officio member. Alastair Hercus was a member of this committee until May 2021.

In addition to these two committees, a temporary subcommittee was established to oversee EQC's contribution to the EQC Act modernisation work programme. This committee provided governance for EQC as it worked with the Treasury to develop advice on the policy proposals that were considered by the Minister Responsible for the Earthquake Commission. Mary-Jane Daly chaired this subcommittee. Other members on the committee were Erica Seville, Alastair Hercus and Scott Lewis.

The table below sets out committees, members and attendance for 2020-2021.

Board member	Board (18 meetings)	Audit and Risk Committee (7 meetings)	People and Culture Board Committee (5 meetings)	Act modernisation subcommittee (6 meetings)
Mary-Jane Daly, Chair	18 (18)	7 (7)	5 (5)	6 (6)
Erica Seville	18 (18)		5 (5)	6 (6)
Emma Dobson	18 (18)	7(7)		
Alastair Hercus	18 (18)	7 (7)	4 (4)	5 (6)
Scott Lewis	17 (18)	7 (7)		6 (6)
Fiona Wilson	18 (18)		5 (5)	
Hon Ruth Dyson—from 1/05/2021	3 (3)	1 (1)		
Alister James—from 1/05/2021	2 (3)		1 (1)	
Alison O'Connell—until 30/11/2020	8 (9)	3 (4)		

Over the past year, the Board has had a specific focus on EQC's strategic direction

During the first half of 2021 the Board had strategy discussions to determine EQC's future strategic direction for the medium-to-long term and inform the *Statement of Intent 2021-2025*. In forming its strategy, the EQC Board considered the strategic decisions already made over the past 18 months. These included the introduction of the Natural Disaster Response Model, investment in enhanced information and analytics systems and steps to improve the resolution of Canterbury claims.

The Board also took account of the need to remain flexible to the expectations that are set each year by the Government, and it took into account other environmental drivers such as legislative reform, insurance market trends and climate change.

EQC's strategy includes a focus on four key areas: the enduring resolution of Canterbury claims; sharing information to reduce or prevent damage from natural hazards and build community resilience; rebuilding the Natural Disaster Fund; and embedding and enhancing the Natural Disaster Response Model to be ready to support impacted communities when a natural disaster occurs.

EQC's Executive Leadership Team leads our organisation

The Executive Leadership Team's key roles are to:

- provide advice to the EQC Board to assist them in exercising their duties
- implement the strategic direction set by the EQC Board
- define organisational and business strategies and policies
- build organisational capability
- manage the organisation's performance

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

Since 1 July 2020, the Executive Leadership Team has been at full capacity, leading across the delivery and supporting functions of EQC. The Chief Executive and nine members of the Executive Leadership Team are responsible for EQC's four areas of focus—Recovery, Resilience, Risk financing and Readiness along with EQC's supporting functions—Strategy, Finance, People and Culture, Data, Performance and Reporting.

The members of EQC's Executive Leadership Team are:

- **Sid Miller**
  Chief Executive of EQC

- **Josh Lindsay**
  Chief Readiness Officer

- **Tina Mitchell**
  Chief Strategy Officer

- **Fraser Gardiner**
  Chief Financial Officer

- **Jo Horrocks**
  Chief Resilience and Research Officer

- **Jaron Shaw**
  Chief Data Officer

- **Kate Tod**
  Head of Canterbury Claims

- **Hamish Wall**
  Head of Performance and Reporting

- **Pip Andrews**
  Head of On-Solds

- **Kate Antonievich**
  Chief People Officer (interim)

Governance of the Natural Disaster Response Model

In addition to existing governance structures, the Natural Disaster Response Model establishes a governance structure specific to the model that functions across strategic (chief executives), executive (senior leadership) and relationship (operational leadership) levels that are enduring and will enable continued communication and relationships between appropriate decision makers.

The EQC Board will maintain governance and oversight of EQC's statutory responsibilities.

An assurance framework covers the obligations on insurers and EQC in accordance with the provisions of the Natural Disaster Response Agreement. EQC will receive regular assurance monitoring.

Three lines of defence to managing risk

Our risk management framework involves actively understanding and managing risks to achieve our strategic outcomes and ensuring improved planning and decision making in programmes and projects. We have adopted the principles of risk management set out in the international standard for risk management, ISO 31000. The Natural Disaster Response Model assurance framework is also built in accordance with the seven principles set out under ISO 9001.

The roles and responsibilities for risk management follow the internationally accepted 'three lines of defence' model. This gives people at EQC primary responsibility for identifying and managing risks within their teams and ensuring risk management is an integral part of all business activities.

Management engages regularly with our Board and the Audit and Risk Committee to identify a wide range of risks and appropriate controls and actions required to manage them. The internal risk and assurance team provide an independent view to the Audit and Risk Committee and management on EQC's current and emerging risk landscape, relative to the Board-approved risk appetite.

FINANCIAL STATEMENTS

PŪRONGO PŪTEA

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Ka pai kē atu ngātahi tātou


NEW ZEALAND HALF PENNY
1947

Statement of responsibility

The ECQ Board is responsible for the preparation of EQC's 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 2021 fairly reflect the financial position and operations of EQC.

Signed on behalf of the EQC Board:

Mary-Jane Daly
Board Chair
13 September 2021

Alastair Hercus
Commissioner
13 September 2021

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF THE EARTHQUAKE COMMISSION'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2021

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 53 to 101, that comprise the statement of financial position as at 30 June 2021, 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 18 to 33.

In our opinion:

- the financial statements of the Commission on pages 53 to 101:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2021; 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 18 to 33:
  - presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2021, 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 13 September 2021. 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

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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 58 and 86 indicate that at 30 June 2021, 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 not provided any funds under this deed in the 2020/21 financial year.

Uncertainties associated with the outstanding claims liability

Note 2 on pages 60 to 74 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 Kaikoura earthquakes.

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.

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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.

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- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Commissioners is responsible for the other information. The other information comprises the information included on pages 1 to 17, 34 to 48 and 103, 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 Ethica Standard 1 : *International 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.

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

Statement of comprehensive revenue and expense
For the year ended 30 June 2021

	NOTE	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Earned premiums				
Premiums	3	520,232	500,439	446,258
Outward reinsurance premium expense		(189,863)	(203,343)	(174,207)
Net earned premium revenue		**330,369**	**297,096**	**272,051**
Underwriting movements				
Reinsurance and other recoveries	6	219,672	1,358	(19,519)
Claims (expense)/reduction	7	21,813	2,223	(470,431)
Unexpired risk liability reduction	18	-	-	30,212
Total underwriting movements		**241,485**	**3,581**	**(459,738)**
Surplus/(deficit) from insurance activities		571,854	300,676	(187,687)
Other operating revenue				
Crown guarantee	4	-	-	115,000
Other revenue	5	10,753	-	2,960
Total other operating revenue		**10,753**	**-**	**117,960**
Other operating expense				
Future event preparation		(64,715)	(58,467)	(37,098)
Event response		(33,461)	(32,826)	(36,577)
Other expenses	5	(10,100)	-	(2,335)
Total other operating expense	**8**	**(108,276)**	**(91,293)**	**(76,011)**
Investment activities				
Investment revenue		1	-	146
Interest on cash balances		567	1,200	1,219
Total revenue from investment activities		**568**	**1,200**	**1,365**
Crown underwriting fee	19	(10,000)	(10,000)	(10,000)
Net (Deficit)/Surplus		**464,898**	**200,583**	**(154,373)**
Total comprehensive revenue/(expense) for the year		**464,898**	**200,583**	**(154,373)**

The accompanying notes form part of these financial statements.

Statement of changes in equity
For the year ended 30 June 2021

	NOTE	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Equity				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings				
Opening balance at 1 July (deficit)		(2,189,720)	(1,845,717)	(2,035,347)
Total comprehensive revenue/(expense) for the year		464,898	200,583	(154,373)
Closing balance at 30 June (deficit)		**(1,724,821)**	**(1,645,134)**	**(2,189,720)**
Closing balance as at 30 June		**(224,821)**	**(145,134)**	**(689,720)**

The accompanying notes form part of these financial statements.

Statement of financial position
As at 30 June 2021

	NOTE	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Equity				
Capitalised reserves	11	1,500,000	1,500,000	1,500,000
Retained earnings		(1,724,821)	(1,645,134)	(2,189,720)
Total equity		**(224,821)**	**(145,134)**	**(689,720)**
Assets				
Bank		300,702	82,922	179,850
Premiums receivable		102,286	96,871	98,919
Outstanding reinsurance and other recoveries	6	198,744	119,831	528,984
GST receivable		5,038	222	3,436
Prepayments		2,285	849	1,637
Outward reinsurance expense asset		-	35,438	31,304
Property, plant and equipment	13	2,355	1,719	10,527
Held for sale	14	9,935	-	-
Intangible assets	15	17,297	15,628	12,463
Total assets		**638,642**	**353,480**	**867,120**
Liabilities				
Trade and other payables	16	(56,151)	(26,495)	(26,739)
Finance lease liability	9	(85)	-	(105)
Provisions	17	(3,966)	(2,054)	(2,386)
Outstanding claims liability	2	(530,494)	(206,224)	(1,262,986)
Unearned premium liability	3	(272,767)	(263,840)	(264,624)
Unexpired risk liability	18	-	-	-
Total liabilities		**(863,463)**	**(498,613)**	**(1,556,840)**
Net liabilities*		**(224,821)**	**(145,134)**	**(689,720)**

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

The accompanying notes form part of these financial statements.

Statement of cash flows
For the year ended 30 June 2021

	NOTE	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Cash flows from operating activities				
Cash was provided from:				
Interest		568	1,200	1,219
Premiums		525,008	499,480	482,569
Reinsurance and other recoveries		562,174	193,248	83,421
Crown guarantee		-	-	115,000
On-sold agreement receipts*		35,977	12,612	3,383
Other revenue*		2,752	1,903	7
Net GST		(1,602)	7,941	2,859
Cash was applied to:				
Outward reinsurance		(140,438)	(205,031)	(176,515)
Crown underwriting fee	19	-	(10,000)	(10,000)
Claims settlements and handling costs		(713,835)	(369,575)	(307,754)
Employees and other operating expenses		(65,985)	(68,207)	(57,671)
GeoNet operating expenses		(11,418)	(13,510)	(10,315)
Research grants*		(3,941)	(6,564)	(4,444)
On-sold agreement settlement and handling costs*		(49,457)	(12,000)	(5,283)
Southern Response agreement handling costs		(3,555)	-	(887)
Net cash inflow/(outflow) from operating activities		**136,248**	**31,498**	**115,588**
Cash flows from investing activities				
Cash was provided from:				
Sale of investments		-	-	146
Cash was applied to:				
Purchase of property, plant and equipment	13	(5,384)	(1,000)	(2,336)
Purchase of intangibles	15	(9,925)	(7,630)	(6,176)
Net cash outflow from investing activities		**(15,309)**	**(8,630)**	**(8,366)**
Cash flows from financing activities				
Cash was applied to:				
Interest on finance lease liabilities		(68)	-	(8)
Payment of finance lease expense		(19)	-	(10)
Net cash outflow from financing activities		**(87)**	**-**	**(18)**
Net increase/(decrease) in bank		**120,852**	**22,868**	**107,204**
Add opening bank		179,850	60,054	72,646
Closing bank		**300,702**	**82,922**	**179,850**

* Budget numbers in the Statement of Performance Expectations have been separated in this Statement of cash flows to align with related actuals.

The accompanying notes form part of these financial statements.

Statement of cash flows (continued)
For the year ended 30 June 2021

Reconciliation of surplus/(deficit) for the year to net cash inflow/outflow from operating activities

	NOTE	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Surplus/(deficit) for the year		**464,898**	**200,583**	**(154,373)**
Add non-cash items:				
Depreciation and amortisation		8,858	6,369	7,963
Impairment		-	-	397
Total non-cash items		**8,858**	**6,369**	**8,360**
Less items classified as investing activities				
Interest income and gains on investments		-	-	(146)
Total items classified as investing activities		**-**	**-**	**(146)**
Less items classified as financing activities				
Interest expense and amortisation of lease liability		(57)	-	(97)
Total items classified as financing activities		**(57)**	**-**	**(97)**
Add/(less) movements in Statement of Financial Position items:				
Premiums receivable		(3,368)	(959)	(21,046)
Net movement in reinsurance		361,554	191,654	96,110
GST receivable		(1,603)	7,940	2,858
Prepayments		(648)	(1,688)	(183)
Trade and other payables		29,411	(240)	1,132
Provisions		1,579	(275)	(2,551)
Finance lease liability		(19)	-	105
Outstanding claims liability		(732,492)	(374,499)	158,274
Unearned premium liability		8,143	2,612	57,357
Unexpired risk liability		-	-	(30,212)
Net movements in working capital items		**(337,451)**	**(175,455)**	**261,844**
Net cash inflow/outflow from operating activities		**136,248**	**31,498**	**115,588**

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Accounting policies

Reporting entity

EQC 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 EQC's operations includes the Crown Entities Act 2004 and the Earthquake Commission Act 1993 (EQC Act). EQC's ultimate parent is the New Zealand Government.

EQC'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 manage the Natural Disaster Fund including the arrangement of reinsurance.

EQC 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 2021. These financial statements were approved by the Board on 13 September 2021.

Basis of preparation

Statement of compliance

The financial statements of EQC 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 EQC's claims liabilities indicate that total liabilities exceed its assets after accounting for reinsurance as at 30 June 2021.

The Crown has entered into a Deficiency Funding Deed with EQC to meet its obligation under Section 16 of the EQC Act to ensure that EQC 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 initial 12 month extension of the original deed, with expiry now 27 August 2022. Section 16 states "If the assets of EQC (including the money in the Fund) are not sufficient to meet the liabilities of EQC, the Minister shall, without further appropriation than this section, provide to EQC out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines".

The Board has, therefore, adopted the going concern assumption in preparing these financial statements.

Measurement base

The financial statements have been prepared on a historical cost basis modified by the measurement of insurance liabilities and reinsurance recoveries at present value of expected future receipts/ payments.

Functional and presentational currency

These financial statements are presented in New Zealand dollars, which is the functional currency of EQC, 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 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 because of the outbreak and spread of COVID-19. As a natural disaster insurer, the risks EQC covers are not affected by COVID-19. In general, the main impact of the COVID-19 relates to lockdown and any potential impact on claims is through short-term delays in completing damage assessments (where these are required). Any change in position at balance date due to the COVID-19 lockdown is indistinguishable from the natural variation in claims numbers and payments. EQC has also streamlined its response to any previous or future potential lockdowns with remote working for its staff and operations. Overall, given the short term of New Zealand's lockdown to date and EQC's response to these, EQC has concluded that there is no significant impact on the claims liability or claims paid at 30 June 2021 (2020: nil impact) due to prior or potential future lockdowns due to COVID-19. All other operations (including premiums and reinsurance) remained unaffected with receipts being received as expected.

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

EQC 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.

EQC 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 EQC's *Statement of Performance Expectations 2020-21*. Major variances to budget are explained in Note 10.

Standards adopted in the current period

The IFRIC (IFRS Interpretations Committee) released principles on determination of treatment of SaaS (Software-as-a-Service) to assist buyers of data transformation technology. EQC has applied appropriate accounting treatment in line with these principles.

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 EQC 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 EQC in the comparative period. It is effective for reporting periods beginning on or after 1 January 2022. No changes are 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 2022. This was deferred from the original effective date of 1 January 2021. It is unlikely the application of PBE FRS 48 will have a significant impact on EQC's S*tatement of Performance Expectations*.

Standard not yet issued

Leases

IPSASB has issued an Exposure Draft for lessees based on IFRS 16. This is expected to be issued next year and is likely to apply within two to three years from date of issue. Currently PBE IPSAS 13 is applied to treatment of leases.

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 2023. A not-for-profit equivalent Standard was issued in July 2019, however there is currently no equivalent PBE Standard applicable to EQC. It is understood that the External Reporting Board will be considering the applicability for PBEs. EQC has not assessed the effects as there is currently no relevant standard in place.

2. Insurance liabilities

EQC 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, tsunami, flood and storm damage to residential land, and fires resulting from these events. Due to New Zealand's high level of insurance penetration and the mandatory nature of EQC cover, EQC has a balanced, diversified portfolio covering the vast majority of New Zealand homes. EQC 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, EQC recognises a liability in respect of outstanding claims, including amounts in relation to claims reported but not yet paid, claims incurred but not reported (IBNR), claims incurred but not enough reported (IBNER) and costs, including claims handling expenses. EQC also assesses the adequacy of the unearned premium liability and calculates any resulting unexpired risk liability. EQC engages independent professional actuaries to undertake a valuation of outstanding claims and an assessment of the unexpired risk liability on a six-monthly basis.

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 EQC and the actuaries gather greater levels of information, for example in the case of an earthquake such as details of the earthquake's magnitude and impact in different locations, and patterns start to emerge in the cost of claims as customers receive their entitlement under the EQC Act. In the case of the 2010-11 Canterbury earthquake sequence, court judgments and policy decisions by the Government over time have also affected the nature and value 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 2021

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. The effective date of the valuation report is 30 June 2021. The actuaries considered that overall the information and data supplied to them 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 EQC'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 2021 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). As at 30 June 2021 three separate models were used, one to estimate the Canterbury earthquake sequence liabilities, another to model Kaikōura liabilities and a model to estimate liabilities from all other claims.

An aggregate stochastic frequency/severity simulation model was used to calculate the estimated ultimate claims costs for the Canterbury earthquake sequence. Costs for this also need to be attributed or apportioned to one of five identified earthquakes or groups of earthquakes, as EQC's cap reinstates for each event and EQC's reinsurance applies only to 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 stochastic model is used to simulate potential future costs to EQC 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 models for both Canterbury and Kaikōura claims allow for some claims to close without a payment being made.

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. EQC's Board has chosen to adopt a risk margin of 85% (2020: 85%) probability of sufficiency (ie. there is an 85% probability that the net provision will ultimately prove to be adequate to meet EQC's liabilities from events which have occurred as at 30 June 2021), 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 also saw the removal of the $20,000 EQCover for contents and an increase in the cap on EQC residential building cover from $100,000 + GST to $150,000 + 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 decreased to $379 million as at 30 June 2021 (2020: $748 million). This large decrease is mainly due the payments made for Insurer Finalisation, the process of determining a wash-up of historic Canterbury claim costs with several private insurers in respect of settlement differences for overcap claims. During the past year EQC reached agreements and completed settlements relating to Insurer Finalisation with Suncorp Group Limited, IAG New Zealand Limited.

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 value of the risk margin as a proportion of the net outstanding claims liability (EQC's liability after accounting for reinsurance recoveries and discounting) decreasing to 36% in 2021, down from 47% in 2020. In absolute terms the 2021 risk margin is $100 million (2020: $239 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, largely due to completing insurer finalisation, which reduces the uncertainty around litigation decisions. The specific issues related to each part of the liability are discussed in more detail in the related sections below.

Progress with the 2010-11 Canterbury earthquake sequence

During the 2021 financial year EQC continued to settle thousands of reopened claims arising from the Canterbury earthquake sequence and reached agreements on insurer finalisation. The insurer finalisation project sought to understand and quantify both differences in the apportionment of settlement payments to the separate earthquake events and any under- or over-payments by EQC. The apportionment of the insurer finalisation component of the outstanding claims liability to the Canterbury earthquake sequence was informed by the findings of detailed expert reviews and EQC's understanding of private insurers' views.

Although it is now more than ten years since the Canterbury earthquake sequence began, there remains a level of uncertainty associated with the valuation of the outstanding claims liability. 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 Canterbury 2010-11 earthquake sequence increased by $107 million to $11,948 million in the 2021 financial year. This was driven by a $114 million increase in the estimated total buildings claims costs, a $16 million increase in claims handling expenses and a $23 million decrease in the estimated land claims costs. Expected reinsurance recoveries have increased by $221 million.

The total associated risk margin for the Canterbury 2010-11 earthquake sequence has decreased by $133 million to $93 million (2020: $226 million). As a proportion of the net claims liability (after reinsurance and discounting) this is 36% in 2021, which is a lower proportion than the level seen in 2020 (49%) due to the reduced uncertainty in the elements left outstanding.

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

Canterbury buildings claims liability

EQC'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. Finalisation agreements have now been reached with the four large private insurers and the focus is now on reopened 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 2021, EQC had approximately 1,200 reopened claims outstanding.

During the 2021 financial year EQC has increased the gross central estimate ultimate expense for building claims by $114 million. After allowing for reinsurance and other movements, the net impact across the year is a decrease in the net ultimate claims including claims handling expense (CHE) of $114 million.

The main elements driving the change in the liability are:

- actual settlements for Insurer Finalisation being different to the amount provisioned as at 30 June 2020
- apportionment of Insurer Finalisation settlement to the various events, with flow-on to reinsurance recoveries resulting in an increase in total reinsurance recoveries
- increases to the assumed number of future reopened claims and the duration over which they will occur
- increases in claim handling expenses allowances, reflecting the increased workflow projections.

The reopened claims assumption has been based on both current and past trends and discussions with management and claims handling staff.

Canterbury land claims liability

The series of earthquakes Canterbury experienced from September 2010 caused several types of land damage. Some types of damage are easily seen by looking at the land, such as cracking and undulation. These types of damage are known as visible land damage. Other types of land damage are more complex and cannot easily be seen. These types of damage are Increased Flooding Vulnerability (IFV) and Increased Liquefaction Vulnerability (ILV). It is the first time anywhere in the world that these types of land damage have been recognised as insured damage.

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

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

As at 30 June 2021 EQC has completed the vast majority of land settlement claims to Green Zone properties as land litigation settlements were included in the insurer finalisation agreements reached. There is, however, a small component relating to ongoing payments to customers regarding open and future reopened claims.

The central estimate of the gross ultimate land claims costs decreased by $23 million to $581 million in the 2021 financial year. As at 30 June 2021 the gross outstanding claims liability is $3 million.

The main element driving the reduction in gross ultimate land claims costs is the settlement of land litigation claims as part of the Insurer Finalisation settlement. The actual settlement was $19 million less than the amount provisioned as at 30 June 2020.

For the purpose of the actuarial valuation, the amounts paid in respect of land claims over the past 18 months were considered together with how these payments related to the number of properties with open land exposures. The outstanding liability is based on an estimated number of open claims going forward and the average cost per open claim.

Reinsurance recoveries

EQC 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, reinsurable claims handling expenses, and the structure and amount of EQC's remaining reinsurance cover. In approximately 2% of modelled scenarios, EQC will reach the limit of the available reinsurance. Claims on EQC'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, EQC incurs claims handling expenses including personnel, technology, and professional expertise costs. As at 30 June 2021, EQC has revised its estimate of the total claims handling expenses that may be required to settle ongoing reopened claims. The lower cost has been rolled forward in the current forecast; however the total provision has increased by $24 million as a result of the increase in the predicted number of future reopened claims and an 18 month extension to the settlement period.

The reforecast has resulted in an increase of $16 million to the gross ultimate claims handling expenses ($4 million on a net of reinsurance basis), with the ultimate claims handling costs now estimated to be $1,763 million, an increase from $1,747 million at 30 June 2020. As at 30 June 2021 $1,678 million has been paid.

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

Item	2021	2020	How determined	Sensitivity/ Impact on OCL
Current claims (excluding categories below)				
Average cash settlement	$37,000	$40,000	Based on recent experience	±10%: ±$3.8 million ±10%: ±$3.85 million
Percentage non-nil payment	100%	100%		
Current Southern Response claims				
Average cash settlement	All SRES MOU claims have been settled to EQC sum insured cap.	$62,000		
Percentage non-nil payment	100%	100%		
Current dispute resolution claims				
Average cash settlement	$67,000	$82,000	Based on recent experience	±10%: ±$0.4 million ±10%: ±$0.4 million
Percentage non-nil payment	100%	100%		
GCCRS *(i)*				
Average cash settlement	$51,000	$62,000	Based on recent experience	±10%: ±$1.1 million ±10%: ±$1.1 million
Percentage non-nil payment	100%	100%		
Under cap portion of OnSold *(ii)*				
Average cash settlement	$60,000	$62,000	Based on recent experience	±10%: ±$1.4 million ±10%: ±$1.4 million
Percentage of non-nil payment	100%	100%		

Item	2021	2020	How determined	Sensitivity/ Impact on OCL
Claims Assurance				
Average cash settlement	$37,000	Previously included with 'Current Claims'	Based on recent experience	±10%: ±$0.4 million ±10%: ±$0.4 million
Percentage of non-nil payment	75%			
Reopened building claims				
Number reopening after June	11,510 to December 2025	7,471 to December 2023	Based on analysis of past and current trends	Claims continue ± 10%: ± $24.9 million
Percentage non-nil payments	60%	70%		Nil claim rate is ± 10%: ± $41.4 million Average cost ± $10,000: ± $69.1 million
Average non-nil payment	$36,000	$40,000		
Claims handling expenses				±10%: ±$8.6 million (±$5.5 million on a net of reinsurance basis)

(i) Greater Christchurch Claims Resolution Service.

(ii) A number of On-sold programme properties currently allocated to the on-solds Team may accrue EQC liability from any remaining cap payment, disregarded costs or temporary accommodation costs. A separate allowance has been made within the open claim provision to more clearly allow for this liability.

Progress with the November 2016 Kaikōura earthquake

For the 2016 Kaikōura earthquake, EQC signed a Memorandum of Understanding with a number of private insurers to manage the majority of EQC's dwelling and contents claims on its behalf. EQC reimbursed the insurers for the claims settlement (which is made in accordance with the EQC Act) and the insurers' respective handling costs. EQC 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 EQC has taken over the management of a large proportion of remaining undercap claims from the majority of participating private insurers, although the private insurers have retained management of multi-unit buildings, claims with outstanding complaints, and some with other special features, at their discretion. EQC also manages all new reopened undercap claims.

The total cost of the Kaikōura event is estimated to be less than EQC'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 $664 million as at 30 June 2021, an increase of $9 million compared to 30 June 2020. To date payments of $652 million (including claims handling expenses) have been made, leaving an outstanding central estimate claims expense of $12 million. There is an additional $4 million risk margin associated with the event as at 30 June 2021 (2020: $7 million). The primary driver of the increase in the estimated cost is an increase in the paid amounts and estimates for a small number of Wellington apartment building claims.

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%.

Sensitivity to key Kaikōura valuation assumptions

Item	2021	2020	How determined	Sensitivity/ Impact on OCL
Claim cost as % of case estimate	Case estimate > $25,000: 44% Case estimate < $25,000: 69%	144%	Based on historical analysis of adequacy of case estimates	+10%: +$0.3 million
				-10%: -$0.1 million
Average claims size* Land	$7,500	$7,750	Recent experience	+10%: +$0.3 million
Building	$14,000	$14,000		-10%: -$0.2 million
Contents	$7,500	$7,500		
Number of future reopened claims	0.2% of all claims by number	0.5% of all claims by number	Recent trends	+10 claims: +$0.2 million
				-10 claims: -$0.2 million
Proportion finalising non-zero				
Land	60%	61%	Recent experience	+10%: +$0.4 million
Building	60%	61%		-10%: -$0.3 million
Contents	60%	61%		

Economic assumptions used in the actuarial valuation

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

	2021	2020
Claims inflation rate per annum	2.5%	2.5%
Discount rate per annum	0.38% to 0.97%	0.22% to 0.63%
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:

	2021	2020
Weighted average term to settlement	1.87 years	0.82 years
Claims handling expenses as a percentage of claims paid	15.3%	16.1%

Processes used to determine economic assumptions

Claims inflation rate: The claims inflation rates were set having regard to the Treasury's published CPI assumptions as at 30 June 2021, 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 the Treasury's published discount rates as at 30 June 2021 and 30 June 2020.

Demand surge: Demand surge percentage is based on information from material and labour cost indices, discussions with EQC'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 $4.2 million.

Assumption	**Movements in variable**	**Impact on net outstanding claims liability**	
		2020 $(000)	2021 $(000)
Claims inflation rate	+1.0%	+4,200	+3,500
	-1.0%	-4,400	-3,700
Discount rate	+1.0%	-6,800	-5,900
	-1.0%	+7,300	+5,900
Demand surge: probability of surge event	x1.5	+7,800	+17,600
Demand surge: surge severity	x1.5	+15,600	+35,200
Overall weighted average term to settlement	+0.5 years	-1,200	-900
	-0.5 years	+1,500	+500
Overall claims handling expense ratio	+1.0%	+2,800	+7,400
	-1.0%	-2,900	-7,400

Unexpired risk reserve

Premium liabilities are an estimate of the total value of net liabilities associated with the run-off of EQC's unexpired risks as at 30 June 2021. 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 2021 the UPR was greater than the premium liabilities and there is, therefore, no requirement to hold an unexpired risk reserve.

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Outstanding claims liability			
Central estimate of outstanding claims liability	(349,117)	(168,496)	(918,174)
Claims handling expenses	(87,147)	(10,530)	(107,739)
Risk margin	(100,339)	(29,207)	(239,272)
Gross outstanding claims liability	**(536,603)**	**(208,233)**	**(1,265,185)**
Discount	6,109	2,008	2,199
Discounted outstanding claims liability	**(530,494)**	**(206,224)**	**(1,262,986)**
Outstanding claims liability	**(530,494)**	**(206,224)**	**(1,262,986)**
Current	(173,383)	(110,321)	(960,810)
Non-current	(357,111)	(95,903)	(302,176)
	(530,494)	**(206,224)**	**(1,262,986)**
Reconciliation of movement in outstanding claims liability			
Outstanding claims liability at 1 July	(1,262,986)	(739,891)	(1,104,712)
Claims (expense)/reduction	21,813	2,223	(470,431)
Non-cash items in claims expense	794	2,455	865
Claims payments during the year	713,835	369,575	307,754
Claims handling expense in trade and other payables	(3,950)	159,414	3,538
Outstanding claims liability at 30 June	**(530,494)**	**(206,224)**	**(1,262,986)**

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.

2021	Actual 2021 $(000)	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	-	-	-	-	-
Ten 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)
Four years later	-	-	-	-	(663,843)
Current estimate of ultimate claims expense	-	-	-	-	(663,843)
Cumulative payments	-	-	-	-	651,790
Outstanding claims liability (undiscounted)	**-**	**-**	**-**	**-**	**(12,053)**
Discount to present value		-	-	-	11
Outstanding claims liability (discounted)		**-**	**-**	**-**	**(12,042)**
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
-	-	-	-	(459,291)	(11,383,580)	n/a
-	-	-	-	n/a	(11,488,944)	n/a
-	**-**	**-**	**-**	**(459,291)**	**(11,488,944)**	**(11,948,235)**
-	-	-	-	432,977	11,100,588	11,533,565
-	**-**	**-**	**-**	**(26,314)**	**(388,356)**	**(414,670)**
-	-	-	-	391	5,677	6,068
-	**-**	**-**	**-**	**(25,923)**	**(382,679)**	**(408,602)**
						(92,952)
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	n/a
-	-	-	-	-	-	(663,843)
-	-	-	-	-	-	651,790
-	**-**	**-**	**-**	**-**	**-**	**(12,053)**
-	-	-	-	-	-	11
-	**-**	**-**	**-**	**-**	**-**	**(12,042)**
						(3,961)
						(9,510)
						(3,426)
						(530,494)

2020	Actual 2021 $(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)	**(984,402)**	**(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)

Settlement of outstanding claims liability

The table below reflects how EQC expects the outstanding claims liability to be settled:

	2022 $(000)	2023 $(000)	2024 $(000)	2025 $(000)	Total $(000)
Outstanding claims liability – central estimate	141,881	96,536	68,494	123,243	430,155
Risk margin	31,502	22,786	16,385	29,666	100,339
Total outstanding claims liability	**173,383**	**119,322**	**84,879**	**152,909**	**530,494**

3. Gross earned premiums

Premium income represents premiums, net of discounts, collected and paid to EQC 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, EQC receives declarations provided by insurance companies and brokers that all premiums collected have been distributed to EQC.

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 and are expected to be receipted within 12 months.

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Gross written premiums	541,634	519,698	516,015
Less discount to insurers	(13,259)	(12,675)	(12,400)
	528,375	**507,023**	**503,615**
Movement in unearned premium liability	(8,143)	(6,584)	(57,357)
Premiums	**520,232**	**500,439**	**446,258**
Unearned premium liability at 1 July	(264,624)	(257,257)	(207,266)
Deferral of premiums on contracts written in the period	(272,767)	(263,840)	(264,624)
Earning of premiums written in previous periods	264,624	257,257	207,266
Unearned premium liability at 30 June	**(272,767)**	**(263,840)**	**(264,624)**

4. Crown guarantee

Crown guarantee revenue represents the amount EQC has received under the EQC Deficiency Funding Deed. The amounts received are classified as non-exchange transactions and are recognised when received or receivable. A revolving loan facility was entered into with the Crown on 24 December 2020 and was terminated effective 11 May 2021.

5. Other revenue

Other revenue represents reimbursements received from the Crown and Southern Response in relation to the Ministerial directions and the respective services and agency agreements reimbursements received during the year plus other nominal amounts.

On 7 October 2019 EQC 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 EQC 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 EQC entered into an agreement with Southern Response whereby EQC acts as agent in managing Southern Response's 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 $0.6 million.

The claims handling expenses are included within operating expenses, refer Note 8.

2021	On-sold agency agreement $(000)	SRES agency agreement $(000)	Other $(000)	Total $(000)
Reimbursement of claims handling expenses	8,600	2,138	-	10,738
Other	-	-	15	15
Total other revenue	**8,600**	**2,138**	**15**	**10,753**
Claims handling expenses	(8,600)	(1,500)	-	(10,100)
	-	**638**	**15**	**653**

2020	On-sold agency agreement $(000)	SRES agency agreement $(000)	Other $(000)	Total $(000)
Reimbursement of claims handling expenses	1,448	1,506	-	2,954
Other	-	-	6	6
Total other revenue	**1,448**	**1,506**	**6**	**2,960**
Claims handling expenses	(1,448)	(887)	-	(2,335)
	-	**619**	**6**	**625**

During the year there were also ex-gratia payments totalling $40.9 million (2020: $3.8 million) paid out to qualifying owners of on-sold properties on behalf of the Crown. Applications were received during the period August 2019 through to October 2020 and will continue to be settled as claims are processed.

6. Reinsurance and other recoveries

Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that EQC 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.

The below represents amounts that form part of the Statement of Comprehensive Revenue and Expense:

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Gross reinsurance recoveries	220,523	-	(29,522)
Movement in discount	(852)	1,358	10,003
Total discounted reinsurance and other recoveries	**219,672**	**1,358**	**(19,519)**

The below represents amounts that form part of the Statement of Financial Position:

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Gross reinsurance receivable	183,344	116,887	519,056
Discount	(2,092)	(987)	(1,240)
Discounted reinsurance receivable	**181,252**	**115,900**	**517,816**
Other recoveries			
Sundry receivables *(i)*	19,326	3,931	6,466
Less: provision for impairment	(1,834)	-	(1,236)
Aon *(ii)*	-	-	5,938
Total other recoveries	**17,492**	**3,931**	**11,168**
Total outstanding reinsurance and other recoveries	**198,744**	**119,831**	**528,984**
Current	90,124	119,831	387,332
Non-current	108,620	-	141,652
	198,744	**119,831**	**528,984**

(i) The majority of sundry receivables relate to receipts for the outstanding on-sold agency agreement and Southern Response agency agreement reimbursement (2020: Majority related to receipts for the outstanding on-sold agency agreement and Southern Response agency agreement reimbursement).

(ii) Aon Benfield are EQC's reinsurance brokers who manage the collection of reinsurance monies on behalf of EQC. The other recoveries relate to activity that was performed in June 2021 for which EQC had requested a reinsurance recovery but had not yet been received.

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Reconciliation of movement in outstanding reinsurance and other recoveries			
Outstanding reinsurance and other recoveries at 1 July	528,984	310,269	627,661
Reinsurance and other recoveries recognised in the year	219,672	1,358	(19,519)
Reinsurance and other recoveries received during the year	(549,912)	(191,796)	(79,158)
Outstanding reinsurance and other recoveries at 30 June	**198,744**	**119,831**	**528,984**
Reconciliation of movements in the provision for impairment			
Provision for impairment at 1 July	(1,236)	-	(5,690)
Impairment expense in the year	(597)	-	(1,357)
Utilised during the year *(iii)*	-	-	5,811
Provision for impairment at 30 June	**(1,833)**	**-**	**(1,236)**

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

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 2% of scenarios EQC's costs for the Darfield earthquake will exceed the total of EQC'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 2021, the total actuarial valuation of reinsurance recoveries increased by $222 million to $4,822 million. This increase was passed through reinsurance and other recoveries within the Statement of Comprehensive Revenue and Expense.

Cash flow projections for reinsurance recoveries are discounted for the time value of money. The discount is reassessed at the end of each financial year to account for changes to interest rates, payment patterns and settlement periods. At 30 June 2021, the discount for the outstanding reinsurance recoveries was decreased by $0.6 million to $1.8 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. EQC 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. EQC 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:

	2021 Expected loss rate	2021 Gross $(000)	2021 Impairment$ (000)	2021 Net $(000)	2020 Expected loss rate	2020 Gross $(000)	2020 Impairment$ (000)	2020 Net $(000)
Not past due	11.0%	18,975	(1,833)	17,142	11.0%	11,198	(1,233)	9,965
Past due 1-30 days	0.0%	-	-	-	0.0%	-	-	-
Past due 31-60 days	0.0%	45	-	45	0.0%	-	-	-
Past due 61-90 days	0.0%	9	-	9	0.0%	260	-	260
Past due > 90 days	0.3%	297	-	297	0.3%	946	(3)	943
Total		**19,326**	**(1,833)**	**17,493**		**12,404**	**(1,236)**	**11,168**

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 payable for the 2020-21 financial year is $22 million (2020: $470 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 occur 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 $42 million (2020: $31 million).

Summary	2021 Current year $(000)	2021 Prior year $(000)	2021 $(000)	2020 Current year $(000)	2020 Prior year $(000)	2020 $(000)
Gross claims expense - undiscounted	(36,415)	54,283	17,868	(30,804)	(428,048)	(458,852)
Discount – on total outstanding claims	31	3,914	3,945	40	(11,619)	(11,579)
Gross claims expense - discounted	**(36,384)**	**58,197**	**21,813**	**(30,764)**	**(439,666)**	**(470,431)**

Claims handling expenses are costs incurred by EQC 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 2016 Kaikōura earthquake:

Canterbury claims handling expenses incurred by expense type	Actual 2021 $(000)	Actual 2020 $(000)
2010-11 Canterbury earthquake sequence		
Amortisation of intangibles	(179)	(179)
Fees paid to the auditor		
Audit fees (Note 8)	(140)	(146)
Bad debts	(260)	(604)
Call centres and claims management - third party	(903)	(605)
Claims administrators and contractors	(9,141)	(14,223)
Claims assessment fees	(133)	(383)
Depreciation	(18)	(82)
Employee remuneration and benefits	(12,429)	(17,019)
Engineers and consultants	(5,122)	(8,832)
Office rental	(644)	(677)
Other costs	(2,413)	(5,313)
Restructuring costs *(i)*	(14)	(830)
Superannuation contribution costs	(357)	(474)
Travel and accommodation	(170)	(293)
Canterbury claims handling expenses incurred	**(31,923)**	**(49,660)**

(i) EQC continues to review the size and scale of its event response.

Kaikōura claims handling expenses incurred by expense type	Actual 2021 $(000)	Actual 2020 $(000)
2016 Kaikōura earthquake		
Fees paid to the auditor		
Audit fees (refer Note 8)	-	(25)
Call centres and claims management - third party	-	(13)
Claims administrators and contractors	-	(107)
Claims assessment fees	-	(23)
Employee remuneration and benefits	(91)	(187)
Engineers and consultants	(114)	(203)
Infrastructure costs *(ii)*	-	(430)
Other costs	-	(2)
Superannuation contribution costs	(2)	(5)
Travel and accommodation	-	(4)
Kaikōura claims handling expenses incurred	**(207)**	**(999)**

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

8. Operating costs (excluding claims expense and Canterbury and Kaikōura claims handling expense)

The operating costs of EQC are allocated across future event preparation and claims management. 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 2021 $(000)	Unaudited budget 2020 $(000)	Actual 2020 $(000)
Advertising and publicity		(551)	(884)	(568)
Amortisation of intangibles		(4,913)	(5,443)	(3,548)
Fees paid to the auditor				
Audit fees**		(163)	(132)	(137)
Commissioners' fees		(261)	(297)	(277)
Consultants and contractors*		(14,398)	(13,877)	(16,162)
Depreciation		(3,382)	(926)	(4,154)
Employee remuneration and benefits*		(15,200)	(15,942)	(10,121)
Gain/loss on disposal		(223)	-	-
Grants for research		(6,158)	(5,309)	(4,104)
GeoNet operating costs (i)		(9,432)	(13,510)	(11,709)
Impairment of WIP		-	-	(397)
Office rental		(945)	(921)	(920)
Onerous lease		(57)	-	(179)
Public inquiry *(ii)*		-	-	(1,315)
Sponsorship		(465)	(540)	(340)
Superannuation contribution costs		(443)	(395)	(384)
Technology costs		(11,596)	(12,544)	(7,077)
Restructuring costs		(118)	-	(851)
Outsourced service providers* *(iii)*		(9,314)	(6,440)	(3,333)
Project costs* *(iv)*		(17,623)	(11,290)	(4,872)
Other administration costs		(2,934)	(2,843)	(3,228)
On-sold agreement claims handling expenses (v)	5	(8,600)	-	(1,448)
SRES agreement claims handling expenses *(v)*	5	(1,500)	-	(887)
Total operating costs (excluding claims expense and claims handling expense)		**(108,276)**	**(91,293)**	**(76,011)**

* *These costs have been reclassified into different categories for the comparative 2019-20 financial year driven by an increased level of project activity noted in (iv) below, warranting a new cost category. As a result, comparative figures have been restated to ensure consistency in reporting for both the 2019-20 financial year, including the restatement of contractor costs in the 2019-20 financial year from employee remuneration and benefits to consultants and contractors, and the unaudited budget. Total operating costs have not changed for neither comparative nor the output class expenses. The majority of the budgeted project expenses were previously in the consultants and contractors expense type.*

(i) Overall GeoNet spend is in line with the signed agreement; however, lower operating spend in the 2020-21 financial year compared to the budget was offset by higher capital expenditure.

(ii) EQC established a team in the 2018-19 financial year to respond to the Public Inquiry into the Earthquake Commission announced on 13 November 2018. This team remained throughout the 2019-20 financial year with the response to the Public Inquiry delivered through existing functions in the 2020-21 financial year.

(iii) Outsourced service provider costs relate to outsourced IT functionality as well as third party agency costs.

(iv) Project costs reflect the acceleration of a programme to modernise EQCs technology and data systems, the implementation EQC's operating model and continued development of a new loss modelling platform.

(v) Costs incurred managing the On-sold over-cap programme on behalf of the Crown and managing Southern Response's remaining claims are reimbursed to EQC.

** Total audit fees include payments to EY for the following:	Actual 2021 $(000)	Actual 2020 $(000)
Audit of the financial statements	(303)	(308)
Total fees paid to auditors	**(303)**	**(308)**

9. Commitments

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

Reinsurance contracts

EQC has signed contracts for reinsurance in the international market.

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	215,584	191,146
Later than one year but not later than two years	24,196	23,597
Later than two years but not later than five years	-	-
Total reinsurance commitments	**239,780**	**214,743**

Museums

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

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	405	43
Later than one year but not later than two years	380	43
Later than two years but not later than five years	40	43
Total museum commitments	**825**	**129**

Public education

EQC provides sponsorship for other public education across New Zealand. EQC regularly reviews the contracts.

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	200	-
Later than one year but not later than two years	-	-
Later than two years but not later than five years	-	-
Total public education	**200**	**-**

Research grants

EQC provides discretionary grants for earthquake research and research dissemination. Discretionary grants are those where EQC has no obligation to award on receipt of the grant application and are recognised as expenditure when the contract is executed to ensure the performance criteria, on which approval of the grant was based, are met.

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	4,558	1,860
Later than one year but not later than two years	2,222	1,485
Later than two years but not later than five years	-	1,485
Total research grant commitments	**6,780**	**4,830**

Claims management system

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

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	4,035	2,495
Later than one year but not later than two years	1,500	155
Later than two years but not later than five years	-	-
Total claims management system commitment	**5,535**	**2,650**

GNS Science

EQC has a contract with GNS Science for the development and implementation of a seismic monitoring and reporting network (GeoNet). Due to the transfer of assets to GNS Science, these commitments have now been combined to show as operating commitments only. Funding has been agreed until 30 June 2022.

	Actual 2021 $(000)	Actual 2020 $(000)
Capital commitment		
Not later than one year	-	3,986
Later than one year but not later than two years	-	-
	-	**3,986**
Operating commitment		
Not later than one year	11,958	9,761
Later than one year but not later than two years	-	-
	11,958	**9,761**
Total GNS Science commitments	**11,958**	**13,747**

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.

EQC has various leases on premises in Wellington and Christchurch and the below commitment represents EQC's anticipation for lease terms expected to be renewed.

	Actual 2021 $(000)	Actual 2020 $(000)
Operating commitment		
Not later than one year	2,031	1,835
Later than one year but not later than two years	1,559	977
Later than two years but not later than five years	2,902	1,938
Later than five years	798	-
Total building lease commitment	**7,290**	**4,750**

Finance leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to EQC. 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. EQC also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit.

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

	Actual 2021 $(000) Minimum payment	Actual 2021 $(000) Present value of payment	Actual 2020 $(000) Minimum payment	Actual 2020 $(000) Present value of payment
Not later than one year	30	22	30	19
Later than one year but not later than two years	30	24	30	22
Later than two years but not later than five years	43	39	74	64
Total finance lease commitment	**103**	**85**	**134**	**105**
Less amounts representing finance charges	(18)	-	(29)	-
Present value of minimum lease payment	**85**	**85**	**105**	**105**

10. Major budget variances

Statement of Comprehensive Revenue and Expense

Gross earned premiums

The gross earned premiums were higher than budget, reflecting additional insured properties.

Outward reinsurance premium expense

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

Reinsurance and other recoveries

Reinsurance and other recoveries were higher than budget, reflecting an increase in the expected level of reinsurance recoveries from the Canterbury earthquake sequence following the insurer finalisation settlements and an increase in the central estimate for the September 2010 Canterbury event.

Claims (expense)/reduction

Claims expense is favourable to budget due to the lower number of small events and higher amortisation of risk margin, which was partly offset by an increase in the central estimate for the Canterbury and Kaikōura events.

Other operating expenses

Higher operating expenses were mainly due to the acceleration of a programme to modernise EQC's technology and data systems, the implementation of EQC's operating model and continued development of a new loss modelling platform. Other expenses relate to costs incurred managing the On-Sold programme on behalf of the Crown and managing Southern Response's remaining claims, which are reimbursed to EQC.

Investment activities

Interest received from banking providers on Crown funding.

Statement of Financial Position

Bank

A slower rate of settlement of the Canterbury liability, higher reinsurance recoveries and the timing of reinsurance premium payments have resulted in a higher cash balance.

Reinsurance and other recoveries

Reinsurance receivables balance is $79 million higher than budget, due mainly to the increase in the gross ultimate for Canterbury (partially offset by changes in the discounting).

Held for sale

Assets held for sale relate to fixed assets that were transferred to GeoNet on 1 July 2021.

Trade and other payables

Trade and other payables are $30 million higher than budget. This is due to timing of payments for the Crown guarantee and quarterly reinsurance premiums, which were budgeted to be paid by 30 June 2021.

Outstanding claims liability

The outstanding claims liability is $324 million higher than budgeted. This is due primarily 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

Reinsurance and other recoveries

Reinsurance recoveries received are higher due to the insurer finalisation payments during the year.

Crown guarantee

No drawdowns under the Crown guarantee occurred during the financial year.

Claims settlements and handling costs

Higher claim payments due to finalisation payments made during the year to private insurers.

Outward reinsurance

Outward reinsurance payments were below budget due to timing of 4th quarter reinsurance premiums that occurred after 30 June 2021.

Purchase of property, plant and equipment

There was higher capex spend on property, plant and equipment as the transfer of GeoNet assets occurred later than 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 EQC, and all investments and other assets of EQC, shall be deemed to form part of the Fund”.

Capitalised reserves

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

Capital management

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

EQC 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

EQC has exposure to liabilities estimated to be in excess of its current level of assets. In the event that EQC'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 $0 as a grant in the 2020-21 financial year to meet this obligation (2020: $115 million).

12. Financial instruments

A financial instrument is recognised if EQC 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 EQC'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 EQC's contractual rights to the cash flows from the financial asset expire or if EQC 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 EQC 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 EQC'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 EQC'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 are subsequently measured at amortised cost, on the basis of EQC'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. Premiums receivable and sundry receivables are recognised at amortised cost and the reinsurance receivable is an insurance asset measured at fair value.

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 EQC's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Impairment of financial assets

EQC 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 EQC 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. EQC 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 EQC 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.

Credit rating

EQC is not required to have a credit rating.

Credit risk

EQC limits its exposure to very large-scale natural disasters through the purchase of reinsurance. EQC is exposed to the credit risk of a reinsurer defaulting on its obligations. Note 18 explains how EQC minimises the risk of default.

EQC 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 2021 $(000)	Actual 2020 $(000)
Counterparties with credit ratings		
Bank		
AA-	300,702	179,850
	300,702	**179,850**
Reinsurance recoveries		
AA+	1,159	3,038
AA	8,276	21,683
AA-	86,442	226,471
A+	67,450	176,715
A	11,915	31,216
A-	24,669	64,631
	199,911	**523,754**
Premiums receivable		
AA-	50,269	50,269
A+	11,143	11,143
A	8,313	8,313
A-	29,084	29,084
Other	110	110
	98,919	**98,919**
Counterparties without credit ratings		
Sundry receivables	**17,492**	**5,230**

The Insurance Prudential Supervision Act 2010 (IPSA) repealed the Insurance Companies (Ratings and Inspection) Act 1994 from 7 March 2012. The IPSA does not require EQC to obtain a licence and, therefore, EQC is not obliged by the current insurance legislation to hold a rating.

Liquidity risk

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

EQC's financial liabilities consist of claims payable, provisions, and trade and other payables. It is expected that the majority of trade payables outstanding at balance date will be settled within 12 months (2020: 12 months).

13. Property, plant and equipment

EQC'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 EQC 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 EQC 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.

Finance leases

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

Lease liabilities

EQC also recognises the associated lease liability at the inception of the finance lease at the same amount as the capitalised leased asset. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit.

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 on the next page:

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

14. Assets held for sale (GeoNet)

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

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of EQC as at 30th June 2021; however, an agreement was entered into with GNS Science to transfer the assets as at 1 July 2021. These assets are reclassified at net book value as held for sale in the Fixed Asset Register and are included under held for sale in the Statement of Financial Position.

In the 2022 financial statements, the ownership of these assets will be transferred to GeoNet under common control accounting principles and a loss on sale of $9.9 million will be reflected in the Statement of Comprehensive Revenue and Expenses.

2021	Non-Canterbury			Canterbury	
	Furniture and equipment $(000)	Leasehold improvements $(000)	Computer hardware $(000)	Furniture and equipment $(000)	Computer hardware $(000)
Cost					
At 1 July 2020	**409**	**2,033**	**2,559**	**576**	**808**
Additions	16	41	849	-	-
Transfer	-	-	163	-	-
Disposals	-	(412)	(208)	-	(218)
Impairment	-	-	-	-	-
At 30 June 2021	**425**	**1,661**	**3,362**	**576**	**590**
Accumulated depreciation					
At 1 July 2020	**(139)**	**(1,229)**	**(1,042)**	**(571)**	**(808)**
Depreciation charge	(35)	(201)	(850)	(2)	-
Disposals	-	201	197	-	218
Transfer	-	-	-	-	-
At 30 June 2020	**(174)**	**(1,229)**	**(1,695)**	**(573)**	**(590)**
Carrying amounts at 30 June 2021	**251**	**432**	**1,517**	**3**	**-**

Held for Sale			GeoNet					
Buildings $(000)	Computer equipment $(000)	Other equipment $(000)	Buildings $(000)	Computer equipment $(000)	Other equipment $(000)	Total $(000)	Work in Progress $(000)	Total $(000)
-	**-**	**-**	**683**	**4,462**	**40,196**	**51,726**	**0**	**51,726**
-	-	-	-	-	4,315	**5,221**	163	**5,384**
683	4,462	44,511	(683)	(4,462)	(44,511)	**163**	(163)	**-**
-	-	-	-	-	-	**(838)**	-	**(838)**
-	-	-	-	-	-	**-**	-	**-**
683	**4,462**	**44,511**	**-**	**-**	**-**	**56,727**	**-**	**56,272**
-	**-**	**-**	**(447)**	**(4,144)**	**(32,819)**	**(41,199)**	**-**	**(41,109)**
-	-	-	(26)	(123)	(2,162)	**(3,401)**	-	**(3,401)**
-	-	-	-	-	-	**615**	-	**615**
(473)	(4,267)	(34,981)	473	4,267	34,981	**-**	-	**-**
(473)	**(4,267)**	**(34,981)**	**-**	**-**	**-**	**(43,984)**	**-**	**(43,984)**
210	**195**	**9,530**	**-**	**-**	**-**	**12,287**	**-**	**12,287**

Finance lease assets

The carrying value of property, plant and equipment held by EQC under finance leases at 30 June 2021 is $0.1 million (2020: $0.1 million) and is included within Non-Canterbury computer hardware. This relates to printing equipment leased by EQC. Additions during the year totalled $0.1 million (2020: $0.1 million).

2020	Non-Canterbury			Canterbury	
	Furniture and equipment $(000)	Leasehold improvements $(000)	Computer hardware $(000)	Furniture and equipment $(000)	Computer hardware $(000)
Cost					
At 1 July 2019	**409**	**2,043**	**900**	**576**	**1,965**
Additions	-	-	467	-	-
Transfers	-	(10)	1,365	-	-
Disposals	-	-	(173)	-	(1,157)
Impairment	-	-	-	-	-
At 30 June 2020	**409**	**2,033**	**2,559**	**576**	**808**
Accumulated depreciation					
At 1 July 2019	**(80)**	**(717)**	**(569)**	**(550)**	**(1,920)**
Depreciation charge	(59)	(522)	(646)	(21)	(45)
Disposals	-	10	173	-	1,157
Transfer	-	-	-	-	-
At 30 June 2020	**(139)**	**(1,229)**	**(1,042)**	**(571)**	**(808)**
Carrying amounts at 30 June 2020	**270**	**804**	**1,517**	**5**	**-**

15. Intangible assets

EQC'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. EQC 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 EQC has control of the use of the asset and 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.

GeoNet					
Buildings $(000)	Computer equipment $(000)	Other equipment $(000)	Total $(000)	Work in Progress $(000)	Total $(000)
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)	**-**
-	-	-	**(1,340)**	**-**	**(1,340)**
-	-	-	**-**	(116)	**(116)**
683	**4,462**	**40,196**	**51,726**	**-**	**51,726**
(447)	(3,299)	(30,724)	**(38,306)**	-	**(38,306)**
(27)	**(685)**	**(2,228)**	**(4,233)**	**-**	**(4,233)**
-	-	-	**1,340**	-	**1,340**
27	(160)	133	**-**	**-**	**-**
(447)	(4,144)	(32,819)	**(41,199)**	**-**	**(41,199)**
236	**318**	**7,377**	**10,527**	**-**	**10,527**

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 EQC 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 EQC'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
- EQC 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.

2021	Non-Canterbury		Canterbury			
	Software $(000)	Claims management system v8 $(000)	Software $(000)	Total $(000)	Work in Progress $(000)	Total $(000)
Cost						
At 1 July 2020	**12,028**	**12,223**	**3,431**	**27,682**	**4,463**	32,145
Additions	-	-	-	**-**	9,925	9,925
Transfer	14,171	-	-	**14,171**	(14,171)	**-**
Impairment	-	-	-	**-**	-	**-**
At 30 June 2021	26,199	12,223	3,431	41,853	218	42,070
Accumulated amortisation						
At 1 July 2020	(9,015)	(7,667)	(3000)	(19,682)	-	(19,682)
Amortisation charge	(2,426)	(2,487)	(179)	**(5,092)**	-	(5,092)
At 30 June 2021	(11,441)	(10,154)	(3,179)	(24,774)	-	(24,774)
Carrying amounts at 30 June 2021	14,758	2,069	252	17,079	218	17,296

2020	Non-Canterbury Software $(000)	Non-Canterbury Claims management system v8 $(000)	Canterbury 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 EQC's information and analytics project.

16. Trade and other payables

EQC recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain, the obligation is recognised as a provision. Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore, the carrying value of trade and other payables approximates their fair value.

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Trade payables and accruals	(49,867)	(20,579)	(20,932)
Tax on reinsurance	(6,284)	(5,916)	(5,807)
	(56,151)	**(26,495)**	**(26,739)**

17. 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 and a provision for employee benefits.

	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Provisions at 1 July	(2,386)	(2,017)	(4,938)
Created during the year	(4,541)	(2,054)	(3,352)
Utilised during the year	2,648	2,017	4,378
Released during the year	313	-	1,526
Provisions at 30 June	**(3,966)**	**(2,054)**	**(2,386)**

18. Unexpired risk liability reduction

At balance date, EQC 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 EQC's unearned premiums at balance date are sufficient to cover future claims arising from existing contracts.

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

The unexpired risk liability was determined as follows:

Calculation of deficiency	Actual 2021 $(000)	Unaudited budget 2021 $(000)	Actual 2020 $(000)
Cost of future claims from unexpected risks, undiscounted – central estimate	142,365	142,366	140,790
Administration and reinsurance costs for unexpired risks	115,473	114,300	107,535
Reinsurance recoveries, undiscounted	(17,305)	(16,261)	(15,377)
Net premium liabilities, undiscounted – central estimate	**240,532**	**240,404**	**232,948**
Discounting	(867)	(2,008)	(334)
Net premium liabilities, discounted – central estimate	**239,665**	**238,396**	**232,614**
Risk margin	-	-	-
Net premium liabilities	**239,665**	**238,396**	**232,614**
Unearned premium liability	(272,767)	(263,840)	(264,624)
Net deficiency/(surplus)	**(33,101)**	**(25,443)**	**(32,009)**
Unexpired risk liability			
Unexpired risk liability balance at 1 July	-	-	(30,212)
Movement for the year	-	-	30,212
Unexpired risk liability at 30 June	**-**	**-**	**-**

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

The risk margin on premium liabilities for 2021 is 0% (2020:0%). EQC has adopted a 75% probability of adequacy for the premium liability balance. The risk margin for 2021 is $0 (2020: $0) because the distribution of potential claims is heavily skewed and, as a consequence, the central estimate (mean) outcome is greater than the 75th percentile.

Sensitivity analysis

In earlier versions of the annual report, sensitivity analyses were carried out on economic assumptions, including inflation, discount rates and demand surge. The result of these analyses produced results that were relatively immaterial compared to the key parameters detailed above. Consequently, these analyses have not been reproduced for this valuation.

19. Insurance risks

EQC 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

EQC 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 EQC'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, EQC 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 2021 (2020: $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

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

Outward reinsurance premium expense

Premiums paid to reinsurers are recognised by EQC 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.

20. Contingent liabilities

A contingent liability is disclosed when a possible obligation arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of EQC. 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 EQC or the amount of the obligation cannot be measured with sufficient reliability.

EQC received approximately 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 2021, 45 open litigation cases are currently in EQC's dispute resolution process. The expectation of costs from disputes and litigation under the EQC Act has been considered by the actuaries in deriving the outstanding claims liability as at 30 June 2021.

21. Related party transactions

EQC 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 EQC includes 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 EQC are:

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

In the 2020-21 financial year EQC purchased services of $843,308 (2020: $1,148,350) 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. EQC purchased services of $34,743 (2020: $38,928) in the year from Resilient Organisations Limited, an organisation of which E Seville is a Director. The services purchased related to a health and safety research project.

During the financial year, none (2020: none) of EQC's employees, was a close family member of key management personnel. The terms and conditions of their employment arrangement were no more favourable than EQC would have adopted if there were no relationship to key management personnel.

	Actual 2021 $(000) Remuneration	Actual 2020 $(000) FTE	Actual 2020 $(000) Remuneration	Actual 2020 $(000) FTE
Commissioners	254	7	274	7
Executive Leadership Team	3,331	10	2,419	6
	3,585	**17**	**2,693**	**13**

In addition to the above, and in accordance with confidential contractual agreements, payments totalling $79,382 were made upon cessation of employment (2020: $133,292).

22. Employee remuneration

The table below represents the number of EQC personnel paid more than $100,000 cash and cash equivalents during both the 2019-20 and 2020-21 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 EQC. The data in the table below has not been annualised, so where an employee started or ended employment with EQC partway through either of the years, only the remuneration during the relevant period is shown. These timing differences mean direct comparisons cannot be made in a particular pay bracket between the two years.

In line with direction from the State Services Commission, EQC's Chief Executive and Commissioners voluntarily took a 20% decrease in remuneration for the period between 1/05/2020 and 31/10/2020.

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

$(000)	Actual 2021	Actual 2020
100-110	13	20
110-120	25	32
120-130	35	28
130-140	19	16
140-150	12	3
150-160	3	7
160-170	6	4
170-180	3	7
180-190	5	2
190-200	2	1
200-210	2	-
210-220	1	1
230-240	1	1
250-260	1	1
280-290	1	-
300-310	1	-
320-330	-	1
330-340	2	-
370-380	-	1
420-430	1	1
440-450	-	1
	133	**127**

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, 3 (2020: 123) payments totalling $142,384 (2020: $3,103,686) 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 that are recognised in the Statement of Comprehensive Revenue and Expense when they accrue to employees. Employee entitlements to be settled within 12 months are reported at their undiscounted nominal value. The liability for long-service leave is calculated based on the present value of likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach entitlement and contractual entitlements information.

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

	Actual 2021 $(000)	Actual 2020 $(000)	
M Cullen	-	70	Term concluded 30 June 2020
M Daly	66	44	Appointed 14 March 2014, Chairperson 1 July 2020
P Kiesanowski	-	25	Term concluded 29 February 2020
T Ferrier	-	25	Term concluded 29 February 2020
A O'Connell	13	35	Term concluded 30 November 2020
A Hercus	33	10	Appointed 1 March 2020
E Dobson	33	10	Appointed 1 March 2020
F Wilson	33	10	Appointed 1 March 2020
S Lewis	33	10	Appointed 1 March 2020
E Seville	33	35	Appointed 1 July 2018
R Dyson	5	-	Appointed 1 May 2021
A James	3	-	Appointed 1 May 2021
	253	**274**	

Indemnity and insurance disclosure

EQC 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.

EQC effected and maintained Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year, in respect of the liability or costs of any Board member or employee.

23. Events after balance sheet date

In July 2021, EQC entered into an agreement to transfer Geonet assets to GNS for $1, creating a loss on sale of $9.9 million to be recorded in the 2022 financial year. These assets are currently classified under 'Held for Sale' in the 2021 financial statements (Note 14).

2020: There were no significant events after balance sheet date that warranted inclusion in the financial statements or separate disclosure.

APPENDIX

HE TĀPIRINGA ATU ANŌ

Our mission: To reduce the impact on people and property when natural disasters occur.

Ministerial directions

Ministerial directions to EQC, current as at 30 June 2021 are:

Topic of direction	Description	Date of direction
Investments	Specific section of this direction (para v) continues in force, requiring EQC to produce and comply with a Statement of Investment Policies, Standards and Procedures.	30 October 2001
Damage apportioned to unclaimed events	A direction allowing EQC to make payment in relation to building damage apportioned to events that formed part of the Canterbury earthquake sequence, even where the insured person did not notify EQC of damage for each event in the sequence.	19 December 2012
Amendment to previous direction	A direction amending the direction effective 19 December 2012 such that no excess applies in respect of the unclaimed event.	2 December 2013
Natural Disaster Fund investment policies	A direction to ensure EQC invests the Natural Disaster Fund only in New Zealand Government stock and bank deposits. The direction also includes requirements to notify the Minister when the Fund reaches certain financial limits.	27 July 2015
Land damage apportioned to unclaimed events	A direction allowing EQC to pay out on land damage apportioned to events that formed part of the Canterbury earthquake sequence, even where the insured person did not notify EQC of damage for each event in the sequence.	20 October 2015
Replacing certain storm water and sewerage services and structures under the Canterbury earthquake sequence	A direction to pay the amount of the damage to, or replace or reinstate (at EQC's option), any 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.	9 August 2016 this directive expired on 30 June 2021
Administering the On-sold programme	A direction to administer the support package established by the Crown for qualifying owners of on-sold properties.	7 October 2019
Acting as agent for Southern Response Earthquake Services Limited (SRES)	A direction to EQC that EQC may act as agent for SRES For the purposes 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, EQC must act in accordance with the terms and conditions of the agency agreement dated 21 October 2019 between EQC and SRES (as varied by agreement between the parties from time to time following consultation with the Minister).	21 October 2019

Directions to support a whole-of-government approach, current as at 30 June 2021 are:

New Zealand Business Number	A direction from the Minister of State Services and the Minister of Finance sets out requirements for agencies to implement the NZBN. EQC records NZBN numbers as part of new supplier registration. Our finance system has a searchable NZBN field. Existing suppliers have had their NZBN numbers updated wherever possible.	10 May 2016

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

EARTHQUAKE COMMISSION
Kōmihana Rūwhenua