



06 MAR 2018

Hon Dame Annette King DNZM
Chair
Earthquake Commission
PO Box 790
WELLINGTON 6140

Dear Annette

ANNUAL LETTER OF EXPECTATIONS

I am writing to set out my expectations of the Earthquake Commission (EQC) in the 2018/19 financial year and to outline the business planning process (see Annex 1).

Expectations for EQC

EQC should give regard to the following expectations:

- *Proposed Inquiry into EQC:* I expect EQC to engage with any Inquiry that may be established prior to or during the 2018/19 financial year in an open and positive manner. I expect that the Board will ensure that sufficient support is available to enable effective engagement with any Inquiry and to respond to information requests.
- *Kaikoura Claims Settlements:* It is my expectation that EQC will meet its current targets of completing the first-time settlement of all outstanding claims from the Kaikoura earthquakes by 30 June 2018. However, if there are still outstanding claims after this date, then I expect to receive specific reporting (including customer satisfaction ratings) on the progress of these outstanding claims until they are resolved in the 2018/19 financial year. I recognise that EQC is trialling a new approach with private insurers to respond to the Kaikoura earthquakes and I expect a detailed report on the Board's review of this pilot.
- *Better managing future claims:* I expect EQC to work with the wider insurance industry to ensure that if another significant natural disaster event were to occur, there is a commitment to ensuring that appropriate mechanisms are put in place as a priority to ensure that claims can be resolved in an efficient and timely manner, prior to any legislative change that may be made. Recognising that each event will have unique characteristics and will require a response appropriate to the circumstances, I expect the Board will keep collaboration with the insurance industry under ongoing review and will draw on the lessons learned from the current pilot approach to Kaikoura claims, as appropriate, to prepare for responding to future natural disaster events.
- *Canterbury Completion:* I expect that the EQC Board and management will implement the recommendations made by Christine Stevenson, independent Ministerial advisor, at the earliest opportunity, and will provide me with regular reporting on progress with implementation of the recommendations and the outcomes achieved. I expect EQC to make every effort to ensure the completion of all Canterbury claims it currently has on hand in the 2018/19 financial year, and that any reopened claims that are made during the coming year will be dealt with fairly, efficiently, quickly and with empathy. I expect to receive specific reporting, including customer satisfaction ratings, on the progress of unresolved or disputed claims and any remedial or call-back claims arising during the year, as well as any changes in the timeframes for resolution. During the 2018/19

financial year, I also expect EQC to work actively to finalise the attribution of private insurer and reinsurer liabilities for the Canterbury claims. I understand that there may be circumstances that could affect the timeframes for insurer and reinsurer finalisation, including litigation. I expect to be kept informed by the Board on this process at regular intervals, including if the Board believes the timeframes for attribution are to be extended.

- *Customer Service Focus:* I reiterate my expectation that all claims (whether they are disputed claims, call-backs or claims resulting from new natural disasters) will be dealt with fairly, efficiently, quickly and with empathy. I also expect EQC to release information requested by customers regarding their claims without undue delay.
- *EQC Act Legislative Review:* I also expect EQC to continue to engage with Treasury officials and contribute to the review of the EQC Act in a timely manner, recognising that a two stage approach is being taken to the legislative amendment of the EQC Act. This approach comprises an initial EQC Act Amendment Bill in 2018 that proposes high priority changes to the EQC Act that are important to have in place should a further significant natural disaster occur and that are expected to have little or no bearing on the proposed Inquiry into EQC. After the proposed Inquiry into EQC has reported its findings and recommendations, a second EQC Act Amendment Bill will then be proposed to complete the reform package.
- *EQC Risk Financing Framework:* It is my expectation that EQC will continue to engage and collaborate with Treasury officials to progress the new risk financing framework, with a view towards implementation of the framework within the 2018/19 financial year.
- *Crown Guarantee Funding:* I recognise that a call on the Crown Guarantee under section 16 of the EQC Act may occur during the 2018/19 financial year. It is my expectation that EQC will continue to engage collaboratively with Treasury officials to ensure the Crown Guarantee funding, if required, is implemented and managed in an efficient and effective way.
- *Transformation of the Organisation:* I support the Board's mission for EQC to reduce the impact on people and property when natural disasters occur and expect EQC to continue its transformation as an organisation with an improved customer experience that is focused on resilience to, and readiness for, specified natural hazard perils through its insurance and other functions. This includes developing its role in risk modelling around natural disaster risk and its impact on the Crown.
- *Natural Disaster Fund (NDF) Management:* It is my expectation that EQC will continue to manage the NDF in line with the ministerial directive issued in July 2015. Should there be any change to the ministerial directive that results in a broader investment mandate for the NDF, then expectations consistent with those given by the Minister of Finance to all other Crown Financial Institutions will be communicated to EQC.
- *Monitoring, Reporting and Risk Management:* I expect the Board to continue to actively engage and manage EQC's operational and financial risks. The risks pertaining to claims settlements, dispute resolution and operational activities relevant to the Kaikoura and Canterbury earthquakes are of particular interest to me. In this regard, I would appreciate your continued efforts to keep Treasury officials apprised of any material movements in the liabilities of these significant events as soon as they become available. The Board is also expected to continue to monitor EQC's performance against its Statement of Performance Expectations (SPE) targets and report to both Treasury and me on a regular basis. This reporting should continue to facilitate an independent assessment of how EQC is performing, including specifying challenges EQC is facing and how EQC is managing them. I also want to remain informed of any developments with respect to changes and risks around the overall insurance and reinsurance markets.
- *Consultation with Treasury:* It is my expectation that EQC continues to engage and consult with Treasury across material strategic issues, risks and influences on financial performance and that Treasury will be able to provide me with an independent view on related advice put forward by EQC. In this regard, when providing advice to me, please ensure that you provide reasonable time for Treasury consultation as appropriate.

- *Board Relationship:* I consider it to be critical for the good stewardship of EQC that an open and effective dialogue is maintained between the Commission and Treasury including at Board level. This should span all areas of potential shareholder interest, from strategic and risk profile direction through to material operational matters.
- *'No Surprises' Policy:* I expect you to maintain a 'no surprises' policy and to inform me well in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

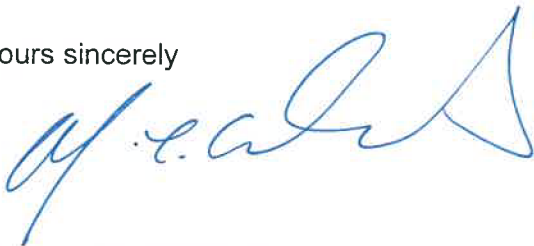
Engagement

Treasury is continuing its focus on engaging closely with entities across the entire Crown portfolio to gain a better understanding of the strategic issues, risks and influences on entities' financial performance. In light of this continued emphasis on close engagement, I would like the Board to continue to work closely with Treasury as EQC works to achieve its strategic goals.

If you have any questions or require further clarification on any of my expectations, please contact Lars Piepke at the Treasury on [REDACTED] in the first instance.

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Yours sincerely



Hon Dr Megan Woods
Minister Responsible for the Earthquake Commission

cc: Sid Miller, Chief Executive, Earthquake Commission, PO Box 790, Wellington 6140

Annex 1

Timetable for the Business Planning Process for 2018/19

<i>Due Date</i>	<i>Key Action</i>
February/March	The Treasury to discuss the Letter of Expectations (LOE) with the Board
1 May	Board submits draft Statement of Performance Expectations (SPE) and Statement of Intent (SOI) to the Minister and the Treasury
29 June	Board delivers final SPE and SOI to the Minister and the Treasury

All entities are expected to provide the Minister with a draft SPE, consistent with the expectations as detailed in this letter, by **1 May 2018**.

Entities subject to the Crown Entities Act 2004 are required to provide the Minister with a draft SOI at least once in every three year period. As EQC's last SOI (dated 20 July 2016) set out the Board's strategic intentions for EQC to 30 June 2018, a draft SOI that sets out the Board's strategic intentions for EQC from 1 July 2018 to 30 June 2022 is required by **1 May 2018**.

The final SPE and SOI should be delivered to the Minister on or before **29 June 2018**.

The Minister and Treasury should be alerted as soon as possible if any of these deadlines cannot be met.