



## MP for Wigram

Minister of Energy and Resources

Minister Responsible for the Earthquake Commission

Minister for Greater Christchurch Regeneration

Minister of Research, Science and Innovation

20 DEC 2018

Hon Sir Michael Cullen KNZM  
Chair  
Earthquake Commission  
PO Box 790  
WELLINGTON 6140

Dear Sir Michael

## ANNUAL LETTER OF EXPECTATIONS

I look forward to working with you on the challenges facing the Earthquake Commission (EQC) in the coming year. Your considerable leadership, government and business experience will greatly assist EQC to achieve its strategic and operational objectives.

I am writing to set out my expectations of the EQC in the 2019/20 financial year and to outline the business planning process (see Annex 1).

### Expectations for EQC

EQC should give regard to the following expectations:

- *Customer Service Focus:* It is 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.
- *Public Inquiry into EQC:* I expect EQC to engage with the Inquiry in an open and positive manner, contributing its experience, expertise and insights to assist the Inquiry to fulfil its terms of reference. I expect that the Board will ensure that sufficient resource is made available to enable effective engagement with the Inquiry and to respond to information requests.
- *Proposed Canterbury Earthquake Insurance Tribunal (CEIT):* It is my expectation that EQC will engage with the proposed CEIT in a positive and effective manner in order to enable the CEIT to effectively resolve outstanding Canterbury earthquake cases.
- *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 in the future. 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 pilot to Kaikoura claims, as appropriate, to prepare for responding to future natural disaster events.

- *Kaikoura Claims Settlement:* It is my expectation that EQC will meet its targets of completing all outstanding claims (excluding claims in litigation) from the Kaikoura earthquake by 30 June 2019. 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 2019/20 financial year.
- *Canterbury Completion:* I expect EQC to make every effort to ensure the completion of all Canterbury claims it currently has on hand, and that any reopened claims 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 2019/20 financial year, I also expect EQC to complete finalisation of the attribution of private insurer and reinsurer liabilities for the Canterbury claims. If it becomes clear to the Board that litigation or any other factors will extend the attribution timeframe, I expect to be informed of this development as soon as the Board believes this to be the case.
- *Greater Christchurch Claims Resolution Service (GCCRS):* I expect EQC to participate fully in the GCCRS initiative that was established to assist with the resolution of outstanding Canterbury claims. EQC is expected to have business processes in place to monitor and report on GCCRS interactions.
- *Significant Legal Issues (both actual and potential):* I expect EQC to continue to update and engage with Crown Law and the Treasury with respect to any significant legal issues, including the progress of test cases. I also expect EQC to continue to develop its dispute resolution strategy to be more focussed on finding other solutions to settling claims rather than litigation proceedings.
- *EQC Act Legislative Review:* I expect EQC to engage with Treasury officials and contribute to the review of the EQC Act in a timely manner. The current Bill proposes high priority changes to the EQC Act that are important to have in place should a further significant natural disaster occur. The changes are not expected to have any bearing on the Public Inquiry into EQC and are expected to become law in early 2019. After the Inquiry into EQC has reported its findings and recommendations, a second EQC Amendment Bill will then be proposed to complete the full EQC Act reform package.
- *Implementing the 2019 EQC Amendment Act:* At the time of writing, I expect the EQC Amendment Bill, introduced in early 2018, to be enacted in early 2019. I expect EQC to have systems in place in response to Part 1 of the Amendment Act (improved information sharing and extended claims lodgement deadlines) prior to this LOE taking effect. I expect EQC to implement Part 2 of the Amendment Act (extending contents cover and increasing the monetary cap on EQC building cover to \$150,000 plus GST) through the 2019/20 year, working with insurers as necessary to ensure a smooth transition and inform affected policyholders of the changes to EQC cover.
- *Resilience and Education:* I expect EQC to continue to invest in science, research and education to encourage more resilient practices to manage natural hazard risk which would help New Zealanders take practical steps to protect their homes in anticipation of natural disaster events.
- *Crown Guarantee Funding:* I recognise that EQC may require further funding under the Crown Guarantee during the 2019/20 financial year (under section 16 of the EQC Act). It is my expectation that EQC will continue to engage collaboratively with Treasury officials to ensure the Crown Guarantee funding, if required, is managed in an efficient and effective manner.

- *EQC Risk Financing Framework:* It is my expectation that EQC will continue to engage and collaborate with Treasury officials to progress the risk financing framework during the 2019/20 financial year.
- *Transformation of the Organisation:* I expect EQC to continue its transformation as an organisation with an improved customer experience focused on resilience to, and readiness for, natural disasters 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 Direction issued in July 2015. I also expect EQC to develop a comprehensive strategy for rebuilding the NDF that aligns with the risk financing framework that is being progressed.
- *Diversity:* Consistent with Government support for increased diversity and gender balance on Boards, I expect EQC to support diversity and inclusion in the workplace and in leadership.
- *Monitoring, Reporting and Risk Management:* I expect the Board 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 expected to continue to monitor EQC's performance against its Statement of Performance Expectations (SPE) targets and report to both the 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 the Treasury:* It is my expectation that EQC continues to engage and consult with the Treasury across material strategic issues, risks and influences on financial performance and that the 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 critical for the good stewardship of EQC that an open and effective dialogue is maintained between the Board and the Treasury. This should span all areas of potential shareholder interest, from strategic and risk profile direction through to material operational matters, and it is my expectation that the relationship extends across the whole of the Board.
- *'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.

## **Other Matters**

I refer to Output Class Two (Customer Services) in the 2017/18 Annual Report where not all of the performance targets were achieved. I expect EQC to have strategies and processes in place to make sure that the performance targets for financial year 2018/19 and financial year 2019/20 are achieved.

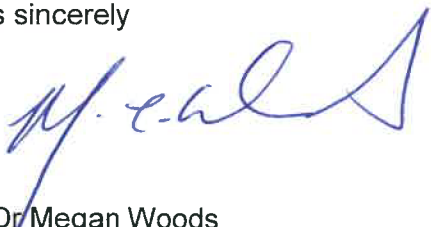
## Engagement

The 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 the 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 on 04 9(2)(a) in the first instance or Shelley Hollingsworth, Manager Commercial Performance on 04 9(2)(a) at the Treasury.

I would like to congratulate the Board and management for the work you have done to improve the culture of the organisation with regards to customer service and the focus on resolving outstanding Canterbury claims.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Woods', written in a cursive style.

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 2019/20*

<i>Due Date</i>	<i>Key Action</i>
February/March	The Treasury to discuss the Letter of Expectations (LOE) with the Board
30 April	Board submit draft Statement of Performance Expectations (SPE) to the Minister and the Treasury
28 June	Board delivers final SPE 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 **30 April 2019**.

Entities subject to the Crown Entities Act 2004 are required to provide the Minister with a draft Statement of Intent (SOI) at least once in every three-year period. As EQC's last SOI (dated 26 June 2018) set out the Board's strategic intentions for EQC to 30 June 2022, a new SOI is not required for the 2019/20 financial year.

The final SPE should be delivered to the Minister on or before Friday **28 June 2018**.

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