



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

- 4 DEC 2019

Dear Sir Michael

2020/21 SHAREHOLDER EXPECTATIONS FOR THE EARTHQUAKE COMMISSION

I am writing to outline the matters that I expect the Board of the Earthquake Commission (EQC) to address in the business planning process for the 2020/21 financial year.

The Government remains committed to resolving key long term challenges facing the country including stimulating sustainable and inclusive economic development, supporting thriving and sustainable regions, preserving our natural capital (particularly in view of climate change), leveraging technology to boost productivity, and promoting a fair society for all New Zealanders.

A key objective of the Government is the resolution of outstanding Canterbury earthquake claims in a fair, timely and enduring manner.

This letter contains the following information:

- my specific expectations for EQC;
- general expectations for the Crown's commercial entities (where applicable); and
- the timeline for the 2020/21 business planning process and governance information (Annex 1).

Expectations for EQC

Overall 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 and with empathy. Settlements are to be of an enduring nature, with the number of settled claims required to be reopened kept to a minimum. I also expect EQC to release information requested by customers regarding their claims without undue delay.
- *Public Inquiry into EQC:* I expect EQC to respond to the findings and recommendations of the Inquiry in an open and positive manner. I also expect that, where appropriate, the findings and recommendations of the Inquiry will be taken into account when setting and reviewing strategy.

- *EQC Act Review:* It is my expectation that EQC will continue to engage with Treasury officials and contribute to the review of the EQC Act in a timely manner. I intend that there be a comprehensive review of the EQC Act following the Public Inquiry. Initial policy work on that is already underway. In addition, I intend to introduce a small EQC amendment bill in mid-2020, focussed on amending the current provisions regarding the use of dwelling space to determine if a mixed-use building is a residential building for the purposes of the EQC Act. The scope of the 2020 Bill may be extended if the Public Inquiry makes, and the government accepts, any recommendations for urgent legislative change.
- *Readiness Strategy:* I recognise that significant work has been carried out on EQC's Readiness Strategy, and processes have been put in place to allow EQC to manage events resulting in up to 50,000 claims in a 12-month period. I understand that EQC is engaging with government agencies, insurers and other private entities to develop contractual arrangements that would increase capacity to enable the management of around 100,000 claims in a 12-month period. It is my expectation that EQC will also develop robust contingency plans to manage significant natural hazard events that result in well over 100,000 claims. I understand that a substantial investment in IT systems and enablement functions will be required to ensure that EQC can scale-up in response to significant events. I expect the Board to closely monitor the selection, deployment and expenditure on IT systems and enablement functions and, if required, consult independent experts to ensure that these IT systems and enablement functions are fit for purpose and that resources are applied responsibly.
- *Resilience and Education:* I expect EQC to continue to implement its Resilience Strategy and to invest in science, research and education, with the goal of encouraging better practices in natural hazard risk management, and helping inform New Zealanders of practical steps that can be taken to protect their families and their homes from harm caused by natural disasters. I am aware that EQC has a workstream underway for ongoing investment in, and development of, its loss modelling capability to enable its reinsurance programme. I expect EQC to continue to keep Treasury informed of its progress in implementing this capability.
- *Insurance Access and Affordability:* I expect EQC to engage with the Treasury, reinsurers, insurance companies and other stakeholders to investigate options that would promote access to affordable insurance for all residential property owners throughout New Zealand.
- *EQC Risk Financing Framework:* It is my expectation that EQC will continue to develop its risk modelling and financial modelling to enable it, in consultation with Treasury officials, to develop an appropriate overall risk financing framework. This will include the development of an array of options to rebuild the Natural Disaster Fund in a variety of scenarios and environments. My expectation is that the value of the fund is to be protected and, until I direct otherwise, the assets are to be managed in line with the Ministerial Direction issued in July 2015. I understand that after 30 June 2020 EQC may not require further funding under section 16 of the EQC Act, however, if this is not the case I expect to be informed as soon as this is determined by the Board.

- *Monitoring, Reporting and Risk Management:* I expect the Board to actively monitor, evaluate and manage EQC's operational and financial risks. EQC is facing a number of significant operational and organisational challenges, accordingly, the Board needs to be confident that the management and systems capability and capacity is in place to execute the Board's overall strategy and manage the related complex financial risks. I want to be kept informed of the challenges EQC is facing, how the challenges are being managed, and of any relevant capability and capacity issues. I also expect to be 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 the Board and senior management of EQC will continue to engage and consult with the Treasury across material strategic issues, risks and influences on operational and 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 consultation with the Treasury.

Canterbury-Specific Expectations

- *Canterbury Completion:* I expect EQC to make every effort to ensure the resolution of all Canterbury claims it currently has on hand, including the remaining over-cap claims that EQC is managing as an agent for Southern Response. The risks pertaining to claims settlements, dispute resolution and operational activities relevant to the 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 Canterbury claims liabilities as soon as they become apparent.
- *On-sold Over-cap Policy:* I expect the EQC Board to monitor the implementation of the support package in accordance with the On-sold Canterbury Properties Services Agreement and the content of my letter sent to the Board on 7 October 2019. In addition, I expect EQC to educate policyholders that they are responsible for the content and extent of claims lodged with EQC. It is also my expectation that EQC will run a comprehensive campaign to remind the purchasers of properties that they are responsible for ensuring that they are aware of any building damage prior to purchasing a property, and that they are not to rely on insurance inspections carried out by EQC as a guarantee of the soundness of any property.
- *Resolution Services:* I expect EQC to continue to encourage claimants to make use of dispute resolution services, including the Greater Christchurch Claims Resolution Service and the Canterbury Earthquake Insurance Tribunal. It is my expectation that EQC will continue to cooperate fully with such services.
- *Insurer Finalisation:* Should Insurer Finalisation of the attribution of the Canterbury claims not be complete by 30 June 2020, I expect EQC to complete the process during the 2020/21 financial year. 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.
- *Reinsurance:* I am aware that EQC is having ongoing engagement with reinsurers in relation to its Canterbury liabilities. I expect EQC to continue to keep Treasury well informed about these discussions, and I expect to be informed if the Board believes that there may be financial implications for the Crown.
- *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 affecting or likely to affect EQC.

General Expectations

Collectively we need to consider how EQC can contribute to the Government's objectives, both through what EQC delivers and how it delivers it. To help achieve this an enduring letter of expectations (ELOE), which replaces the previous enduring letter of expectations from 2012, was sent to EQC on 15 October 2019. The ELOE focusses on Ministers' expectations for seamless Government, board role and integrity, workforce matters, Māori Crown relationships, and entities applying a wellbeing approach to their work, including the need to address climate change. Nothing in this letter supersedes the recent ELOE.

Although some of the general expectations are highlighted below, the full expectations for the Crown's commercial entities are contained in the Owner's Expectation Manual (OEM). The OEM, including updates, can be found on the Treasury's website:

<https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that both directors and management of EQC will be familiar with the OEM to ensure Ministers' expectations are being met.

- *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.
- *Governance – Board Evaluations*: Board evaluations help Boards improve performance and contribute to advice to responsible Ministers on Board composition. A full, independent Board evaluation is expected to be undertaken at least every three years, with a more limited interim evaluation between those times. Information should also be provided on investment in director development.
- *Executive Pay*: I acknowledge that it is the Board's role to set the executive team's remuneration. I expect that the remuneration will be appropriately linked to performance, and set at a level sufficient to attract and retain the necessary skills to enable Crown entities to operate as successful businesses and to be as efficient as comparable businesses that are not owned by the Crown.

Ministers are, however, also mindful of the Government's focus on raising pay levels for those on low and middle incomes. To this end, we expect Boards to take a conservative approach with respect to executive remuneration and to have robust processes in place to support, and publicly justify, the decisions made. Responsible Ministers will be focused on the transparency of executive remuneration, and expect to see this reflected in EQC's annual reports.

- *Wellbeing Focus*: I expect EQC to be cognisant of the Government's focus on wellbeing. I am aware that the Board has already taken steps in this area with a focus on employee wellbeing and I encourage EQC to continue to develop reporting frameworks that recognise this focus. I am supportive of the reporting frameworks (such as Integrated Reporting) being adopted, to varying degrees, across the Crown's commercial entities, which are increasingly being used by companies internationally.
- *'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 2018/19 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 2019/20 and financial year 2020/21 are achieved.

Engagement

The Treasury is continuing its focus on engaging closely with entities across the Crown's portfolio to better understand 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 (Principal Advisor, Commercial Performance) on [REDACTED] or Lee Goodman (Analyst, Commercial Performance) on [REDACTED]. Alternatively, you can contact Shelley Hollingsworth (Manager, Commercial Performance) on [REDACTED] 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, as well as ensuring EQC is well placed to respond to future natural hazard events.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson', is written over a horizontal line.

Hon Grant Robertson
Minister Responsible for the Earthquake Commission

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

Annex 1

Timetable for the Business Planning Process for 2020/21

<i>Due Date</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations (LOE) with the Board
30 April	Board to submit draft Statement of Performance Expectations (SPE) to the Minister and the Treasury
30 June	Board to deliver 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 2020**.

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 2020/21 financial year.

The final SPE should be delivered to the Minister on or before Tuesday **30 June 2020**.

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