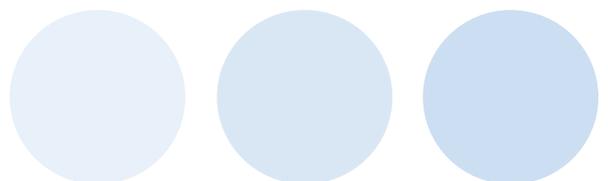


**EQC**

Earthquake Commission  
statement of intent

1 July 2009 - 30 June 2012



# STATEMENT OF INTENT

## 1 July 2009 - 30 June 2012

*This statement is submitted by the Board of the Earthquake Commission in accordance with the Crown Entities Act 2004. It sets out the Board's overall intentions and objectives for the Commission to 30 June 2010 and the two succeeding financial years, as required by the Act.*

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Michael Wintringham  
Chairman

.....

Board Member

Date .....2009



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## Statutory functions

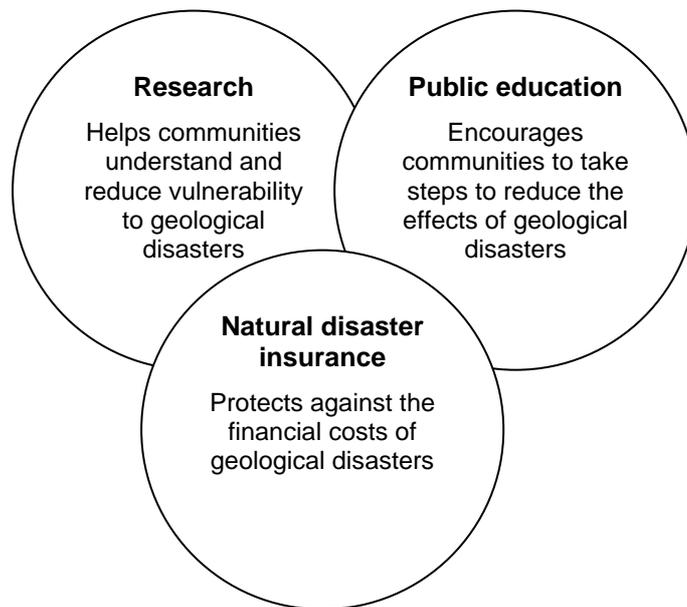
EQC is an independent Crown entity with statutory responsibilities set out in section 5 of the Earthquake Commission Act 1993. Those responsibilities are:

- (a) To administer the insurance against natural disaster damage provided under this Act:*
- (b) To collect premiums payable for the insurance provided under this Act:*
- (c) To administer the Fund and, so far as is reasonably practicable, protect its value, including by the investment of money held in the Fund:*
- (d) To obtain reinsurance in respect of the whole or part of the insurance provided under this Act:*
- (e) To facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act:*
- (f) Such other functions as may be conferred on it by -*
  - (i) This Act or any other Act; or*
  - (ii) The Minister, by written notice to the Commission after consultation with the Commission.*

In plain language, EQC's responsibilities are to:

- Provide insurance of residential property against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips, to properties insured against fire in accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss by any of the above hazards plus storm or flood.
- Administer the Natural Disaster Fund (the Fund), including its investment and reinsurance.
- Facilitate research and education about matters relevant to natural disaster damage and its mitigation.

EQC believes there is a synergy among its three core functions – insurance scheme, research and public education – and they are all essential if New Zealand is to manage the risk of geological disasters effectively.



- Public education enables people to take practical steps to make their homes safer against earthquakes or other disasters. This reduces the impact of disasters on people's lives and affects insurance payout levels.
- The occurrences of natural disasters in New Zealand and overseas provide opportunities for new research and for capturing attention to the message of home safety.
- Research output is used to inform risk management and risk reduction by: guiding land use, building design and construction, disaster readiness and recovery planning. Research based computer models aid decisions about responses to disasters and planning for possible future events, including the pricing of the New Zealand risk by the world's reinsurance companies.

### **Ministerial Direction**

Under section 12 of the Earthquake Commission Act, the Minister of Finance may give written directions in relation to the Commission's functions under the Act.

A Ministerial Direction taking effect as of 1 November 2001 sets out requirements for how the Commission should invest and manage the Natural Disaster Fund, and when the Commission should consult with the Minister of Finance.

## **Reporting to the Minister**

Each quarter EQC will provide Treasury with a report on the performance of the Natural Disaster Fund's investments, and each month an Income Statement of the Commission, including explanations of significant budget variances. Any matters that might affect EQC's ability to carry out its statutory functions or meet the requirements of Ministerial Directions made under the Act will be reported.

Under the terms of the Ministerial Direction of 1 November 2001, the Commission is also required to consult with the Minister of Finance in the following circumstances:

- if it intends to modify the statement of investment policies, standards, and procedures to any substantive degree.
- if it intends to modify the portfolio composition from the following:
  - NZ Government securities;
  - up to a maximum of 35 percent of the market value of the Fund in global equities; and
  - up to a maximum of \$250 million of New Zealand bank bills.
- if it forms the intention to cover its pre-disaster currency exposures (i.e. to hedge against the fluctuating NZ dollar as it affects the value of offshore investments).
- in the event of a major natural disaster likely to involve claims on the Commission in excess of \$250 million, before liquidating any part of the investment portfolio of the Fund apart from the holdings of New Zealand bank bills.

In addition, if the Commission considers at any time that any provision in this direction is inconsistent with another provision in this direction or any other direction under Section 12 of the Earthquake Commission Act 1993 or any provision under that Act it shall advise the Minister of that inconsistency.

## **Process in relation to acquisitions**

EQC is exempted from the restrictions on financial transactions set out in sections 161 to 165 of the Crown Entities Act, which relate to acquisition of securities, borrowing, offering guarantees or indemnities, and derivative transactions.

EQC is bound by:

- sections 96 to 102 of the Crown Entities Act 2003 in relation to acquisition of subsidiaries, shares or other holdings; and
- the Ministerial Direction of 1 November 2001 in relation to investment and management of the Natural Disaster Fund.

Under the Ministerial Direction of 1 November 2001, EQC is required to have a statement of investment policies, standards and procedures, and must consult with the Minister if it intends to modify the statement to any substantive degree.

## **Managing organisational health**

EQC's most important organisational asset is the expertise and experience of its staff. EQC takes pride in having a healthy working environment, and invests sensibly in training and retaining its employees. EQC enjoys a low staff turnover but, to the extent possible for an organisation of 22 staff from several diverse disciplines, long-term succession planning is also undertaken so that expertise can be replaced when staff eventually move on.

New Zealanders rely on EQC to provide efficient claims assessment and settlement in the aftermath of a disaster. EQC has to be prepared to deliver on its statutory functions regardless of where and when a natural disaster strikes. Consequently, some of the challenges facing EQC as an employer are:

- the need to adjust to substantially increased demands on capacity at short notice; and
- the need for staff to work away from home and families under stressful situations.

Additionally, EQC needs to maintain expertise in the management of insurance, reinsurance and investments, as well as technical expertise in disaster response.

For these reasons, organisational health and capacity are of strategic importance to EQC. EQC addresses organisational capacity and readiness to respond to crisis both through good management practices and also through the Catastrophe Response Programme.

EQC has put in place contingency plans for the situation where New Zealand is affected by a major catastrophe, providing for expansion of organisational size at short notice. At its Wellington offices, EQC has extra office space available for immediate expansion of staff numbers. In the event that Wellington is affected by a catastrophe, EQC has established stand-by headquarters in a second location (Manukau City) that can be brought up to capacity within hours.

All of EQC's computer systems are either replicated or available from anywhere on line, so that a Wellington earthquake will not bring down its systems.

EQC has formalised back-up responsibilities for its staff so that if any staff member is incapacitated, there is at least one other staff member who can pick up their responsibilities. EQC has also established arrangements with human resources firms to provide temporary staff if required, and standing contracts with loss adjusters and other sources of claims servicing expertise to provide services as required.

## **Human resources policies**

EQC takes its role as a good employer of 22 staff seriously because human resources are integral to its business. To ensure staff regard EQC as a good employer, the Commission will continue to:

- demonstrate leadership and vision that articulates EQC's values and the importance of its staff;
- provide equal employment opportunities for staff (see below);
- provide opportunities for staff participation in organisational decisions;
- encourage staff to develop to meet their aims and aspirations through internal and external training, coaching and mentoring;
- implement an impartial, transparent employment process and equal opportunities to move up, through and out of the organisation in a positive way;
- provide a comprehensive introduction to the organisation setting out EQC's values and objectives;
- take account of the need for staff to balance work with the rest of their lives;
- utilise performance management practices that are transparent and fair;
- have a transparent, fair, gender neutral remuneration system;
- provide a working environment that is free from all forms of harassment and bullying and provide safe and fair means of dealing with complaints;
- provide a healthy and safe workplace, observing occupational health and safety requirements at the corporate office and as part of the Catastrophe Response Programme, to ensure temporary field offices and claims sites are safe for the Commission's workers.

As an Equal Employment Opportunities (EEO) employer, EQC is committed to the principle of fair and equal treatment for all its staff.

This means that all its decisions about its staff must be free of unfair discrimination based on colour, race, ethnic or national origin, sex, marital status, religious or ethical belief or disability.

EQC will ensure that it does not discriminate on these grounds in deciding what terms or conditions of work, or fringe benefits, or opportunities for training, promotion or transfer it offers to its staff.

EQC will work towards the removal of any barriers it may have to the employment or advancement of suitably qualified disabled people, should the opportunity arise to take such people onto its staff.

EQC recognises the importance of volunteers' contributing to social development, the environment and the economy, and supports staff participating in voluntary community work from time to time, while ensuring that professional obligations are met.

EQC has a confidential Employee Assistance Programme, under which any staff member may seek assistance from a contracted external service provider if non-work issues are affecting work performance.

## **Operating environment**

### ***Disaster Recovery***

The most significant factor in EQC's operating environment is the risk of earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips. Most of the Commission's activities involve the management of this risk through insurance, education and research. Ultimately, EQC's performance will be judged by its ability to provide adequate claims settlements efficiently following natural disasters, although it is not possible accurately to anticipate their occurrence or severity.

EQC has sufficient staff to provide routine services. Without extensive planning and preparation, a large disaster could overwhelm these permanent resources. EQC has pioneered extensive planning to enable it to cope with any reasonably foreseeable natural catastrophe. This activity is called EQC's Catastrophe Response Programme (CRP). Its aims are to:

- Get adequate resources of people, equipment and consumables deployed, including siting in the region of the disaster.
- Set up and maintain the necessary communications and IT systems.
- Establish and maintain liaison with other organisations like territorial authorities, Civil Defence and insurance companies.
- Manage and meet public expectations.
- Get claims settled fairly and expeditiously.

In recent years, the CRP has been tested in real situations, although none has provided the challenge of a large disaster. The largest event (Gisborne) produced 6,000 claims; an earthquake in one of New Zealand's larger cities could generate tens of thousands of claims. Nevertheless, extensive debriefings attended by all involved in disaster events that have occurred are seen as an integral part of EQC's response and have been influential in the continuing development of the CRP.

A feature of EQC's response to recent disasters has been its cooperation with other government agencies to provide a rapid and coordinated response to catastrophe. EQC is working with the Civil Defence and Emergency Management Groups set up by regional authorities after the passing of the Civil Defence and Emergency Management Act 2002, so that areas of mutual interest, such as planning, mitigation and recovery, can be tackled jointly.

### ***Protection of the Natural Disaster Fund***

The Natural Disaster Fund is invested in accordance with a Ministerial direction, issued following consultation with EQC, that allows a maximum of 35% in overseas equities and the rest in fixed interest government and bank securities. Within this framework, EQC has an obligation to invest the Fund on a prudent, commercial basis, and in doing so, manage and administer the Fund in a manner consistent with best practice portfolio management, maximising return without

undue risk to the Fund as a whole, and avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

How EQC will discharge these obligations and responsibilities is set out in a statement of investment policies, standards and procedures (sips), which is reviewed annually and sent to the Minister for approval. The SIPSP contains a statement of EQC's investment beliefs to guide the management and administration of the assets of the Natural Disaster Fund in a consistent manner that reflects the views of the Board, the Statement of Intent and the ministerial direction under which EQC operates. The SIPSP also contains details of EQC's investment objectives and policies, including asset allocation at a strategic level, targeted returns and security of investments.

EQC manages its investments in New Zealand Government Stock within a tight duration range around a benchmark and does not trade in the market. EQC has held forty percent of its overseas equity portfolio passively but decided to transfer this to active management at a time judged optimal in relation to market conditions. EQC considers that active management of its offshore equities will in the long run add value (after costs) and will have contracted seven investment managers to cover the various styles of investing once its offshore equity portfolio is fully actively invested. EQC also utilises domestic and international securities custodians to hold assets on its behalf and report on how managers are complying with their guidelines.

The Board is aware that the Government wishes EQC to have regard for responsible investment, i.e. to supporting good corporate governance practices and to understanding the impact on long term returns of a company's environmental, social and governance policies. EQC has signed the United Nations Principles for Responsible Investing, which provide a menu of possible actions for incorporating responsible investment issues into the mainstream of decision making and ownership practices. Guided by these, EQC has developed its responsible investment policy, standards and procedures, which set out the commission's policies and principles and how it will implement them. EQC has also joined with the other Crown Financial Institutions to resource a joint research capability for responsible investing.

EQC transfers a substantial part of its risk away from the Crown through reinsurance – the process by which insurers spread their liabilities throughout the worldwide insurance market.

Reinsurance is used to make up the capital requirement to meet a maximum loss that is within the realms of probability (e.g. a magnitude 7.4 earthquake on the Wellington fault) and to provide a margin above this to cope with closely occurring disasters or very unlikely events. The purpose of reinsurance is also to control volatility in shorter term claims costs. Reinsurance strengthens EQC's ability to meet its obligations to insured home owners.

EQC has three strategies to minimise reinsurance costs:

- Forward purchasing some of the reinsurance it requires to partially protect the Crown from significant volatility in reinsurance prices.
- Taking a consistent approach to the market and its participants, signalling intentions well in advance, and providing full disclosure with information of high quality, to stabilise premium levels.

- Providing reinsurers with analyses from its own earthquake hazard/dynamic financial analysis suite of computer programs, called Minerva, to ensure that up to date, New Zealand specific underwriting information is considered.

EQC does not expect its reinsurance premium rates to vary greatly during the period of 2009 to 2012 provided the current strategy is maintained and the incidence of global disasters does not worsen significantly in terms of insurance industry losses. Falling investment returns on reinsurers' funds, caused by the world credit and liquidity crisis, is putting upward pressure on premium rates. Countering this trend, increasing residential building costs that worsen EQC's first loss position (because EQC is more likely to pay out higher settlements) and therefore transfer a growing risk to reinsurers, are now easing. Also potentially mitigating cost increases is the local research that is clarifying the risk in Wellington and Auckland and demonstrating that, in the Wellington region in particular, the return period for a major disaster may have been over estimated. This is an important factor in reinsurers' assessment of their risk in New Zealand.

### ***Technological advances***

As in many areas of activity, new technology and research are improving EQC's ability to understand hazards and opening opportunities for new and better monitoring systems. EQC has invested heavily in monitoring technology that provides it with more accurate and immediate information about possible seismic and volcanic events. The Commission has taken a leading role in, and largely funds, the GeoNet project – a hazard monitoring network for New Zealand that can help to give warning of tsunamis and volcanic activity, provide early information about seismic events once they have occurred, and – perhaps most importantly – allow scientists to learn much more about the geological processes that may threaten the safety of people.

Technology has also made it possible for EQC's claims to be processed in a location that is safe from the disasters that could affect New Zealand – the Commission has contracted an Australian-based firm to carry out this work with adequate controls and oversight by New Zealand-based staff.

EQC's Claims Management System is a web-based application that integrates other applications like the building costs database, web-based information transfer and document scanning/management. The system enables access, to those with the necessary authorisations, to claims information from any internet portal. It is intended that this include claimants themselves, once the system has been fully proven and the necessary safeguards have been installed.

EQC has renewed its partnership with Aon Benfield for the development and maintenance of the earthquake hazard model, Minerva. Plans for further improvements include extending the model's application to other perils like tsunami and fire following earthquake.

### ***Social context***

New Zealanders' vulnerability to disasters can be reduced by becoming better informed about the risks faced and taking steps to better control those risks. Two of EQC's functions under the Act address, respectively, learning more about the risks and informing New Zealanders how they can make their homes safer. The latter function presents some challenges:

- The plethora of social marketing messages the public receives.
- Changing and multiplying channels through which the public can access information and entertainment.
- The widening range of "residential buildings" in New Zealand, some presenting new and different risks (for example, high rise apartment blocks).
- Rapidly evolving attitudes to risk in the public's perception of such issues as climate change, global warming and coastal development.
- Widening cultural and ethnic diversity.

These fast-moving developments are accompanied by an equally rapid evolution of public expectations which, if not managed, have the ability to confuse and damage an organisation.

The study of natural hazards and how to make communities safer from them is an international one in which New Zealand has shown leadership. EQC encourages with funding, the participation of New Zealand experts in international conferences and working parties, and enables fact-finding trips to areas affected by recent disasters.

### ***Policy context***

The insurance cover provided in the Earthquake Commission Act dates from 1993, including the monetary amounts for the maximum sums insured and claims excesses. The insurance concepts of the 1993 Act were based on those of the original legislation of 1944. Although the scheme has worked well, the basis of the Government's involvement in natural disaster mitigation and recovery requires periodic review to ensure that it continues to reflect what modern New Zealand society prefers. In recent times, influenced by the aftermath of disasters that have occurred both at home and overseas, public expectations of government action and assistance have changed quite dramatically. Striking the balance between meeting and managing these expectations is now a challenge for all government agencies involved in disaster response and recovery.

Claims against EQC are paid out of the Natural Disaster Fund. If the assets of the Commission (including its reinsurance programme) are not sufficient to meet its liabilities, the Minister shall provide to the Commission (out of public money) such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines. The Government's short- and long-term financial goals assume no serious set-back for the economy caused by natural disasters. It is now generally accepted that – whatever the cause – the world is in an era of climate change, and it is also becoming recognised that seismicity seems to follow a cyclic pattern. Three serious earthquakes occurred in New Zealand during the fifteen years 1848-1863; four occurred between 1929-1942 (thirteen years), and there has been little activity since then. GeoNet is providing data that will better inform scientists, and their increasing understanding of the seismic behaviour of the plate boundary on which New Zealand sits combined with financial and economic analyses will better inform the assumptions on which governments base their plans.

A benchmark of importance to government planning is a sustainable size for the Natural Disaster Fund. Given the liabilities presented by the insurance scheme, the requirement of the Act that EQC be a permanent entity, current assumptions about risk appetite and expenditure incurred to perform EQC's other functions,

EQC has estimated by way of computer modelling that a Fund of about \$7 billion is required if the current reinsurance programme is maintained. That is about \$1.5 billion more than the Fund is at present. Growth in the Fund is predominantly driven by investment income and reduction by large claims events. These factors both defy accurate forecasting, but it could be envisaged that the NDF would reach its sustainable size within six to ten years.

The Crown is the ultimate risk-taker for EQC's liabilities. EQC is aware that the Government is, as a priority, interested in monitoring and assessing the Crown's balance sheet risk resulting from its exposure to financial assets and liabilities. EQC will work with Treasury to ensure the Minister is provided with a regular analysis of EQC's asset/liability profile, in order to arrive at a level of balance sheet risk acceptable to the Government.

This Statement of Intent recognises that the current economic environment requires a period of fiscal austerity. EQC has planned to meet its statutory obligations in as cost-effective a manner as possible, to the extent of deferring activities in the short term where this should not have too adverse an effect on outcomes.

The Government has expressed a broad aim to implement a policy platform which improves the social and economic wellbeing of New Zealanders. The Government also wishes to encourage home ownership. Affordable disaster insurance protection for homes supports these aims, as does a response plan for the fair and efficient settlement of claims following a disaster. EQC has proposed improvements to the statutory insurance scheme, including adjusting the monetary provisions, making the insurance of land more even-handed, and extending the notice time for reporting claims.

In the longer term, EQC proposes a more fundamental reassessment of EQC's role in community recovery, taking account of the needs of modern New Zealand communities and government's responsibility to meet those needs.

## **Delivering outcomes**

EQC's activities are guided by its statutory functions, as set out in section 5 of the Earthquake Commission Act. All of the functions carried out by EQC contribute to two broad outcomes:

- Safer communities and rapid recovery from natural disasters.
- Efficient management of the Crown's assets and liabilities.

In the view of the Commission, EQC's contributions to these two outcomes are complementary and of equal importance. The Crown's liability for welfare payouts after a natural disaster will be increased if New Zealanders are unprepared for the disaster, and decreased if New Zealanders have taken effective steps to prepare for the disaster as a result of EQC's public education activities. By helping to improve the safety and preparedness of New Zealand communities, EQC is also helping to mitigate the Crown's liability in case of a disaster.

## ***Outcome 1: Safer communities and rapid recovery from natural disasters***

In the medium and long terms, EQC's goal is to use research and education to contribute to the improvement in the safety of New Zealanders by increasing their knowledge of, and preparedness for, natural disasters.

EQC's vision for New Zealand includes:

- A population that:
  - has a realistic appreciation of the geological hazards that affect them;
  - is well educated about methods of reducing or preventing disaster damage;
  - is aware of the part EQC plays in securing them against damage to their homes and personal property and of the importance of having adequate insurance on their personal property.
- A society in which the adoption of mitigation measures is widespread.
- A research community that can provide New Zealanders with the best evidence for mitigating or reducing damage from geological disasters, and a natural hazards monitoring network that provides reliable warning of tsunamis and volcanic eruptions, early information about events that have occurred, and the capacity for international class research.

EQC's activities are also directed towards ensuring that in the event of a natural disaster New Zealanders can receive prompt assessment of damage to their property and early settlement of claims. To this end, EQC maintains a Catastrophe Response Programme that aims to ensure that EQC can meet its commitments following even the worst foreseeable disaster.

Other government agencies have a significant shared interest in this outcome. In particular, the Ministry for Civil Defence and Emergency Management plays a leadership role in preparing for and responding to natural disasters. The Civil Defence and Emergency Management Act (2002), supports principles which are relevant to EQC's area of operations:-

- A framework for comprehensive emergency management leading to community resilience and continuity.
- Integration of the functions of mitigation, preparedness, response and recovery.
- A model for an integrated emergency management system by which the activities of the various agencies are co-ordinated and consistent.
- Escalation of response from local through regional to national in accordance with the need. EQC's planning also follows a scaling design.

One of EQC's functions under the Earthquake Commission Act is 'To facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act'. EQC's leadership of the GeoNet project in association with GNS Science and co-funding of research projects like "It's Our Fault", - a reassessment of the hazard presented by the earthquake faults in the Wellington region, and DEVORA, a study of Auckland's volcanic risk, support the Government's goal of building safer communities.

<b>Outcome: Safer communities and rapid recovery from natural disasters</b>			
<b>Impact 1: Enhanced community recovery</b> through delivery of Act entitlements to claimants in the fastest practicable time by means of the catastrophe response programme	<b>Impact 2: Reduction in the Crown's liabilities</b> arising from natural hazard events and <b>improvement in the resilience of communities</b> to natural hazards	<b>Impact 3: Safer communities</b> through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance	
<b>Output:</b> Claims handling (Output 1)	<b>Output:</b> Research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act. (Output 2)	<b>Output:</b> Public education about <ul style="list-style-type: none"> <li>• seismic hazards and methods of reducing or preventing damage.</li> <li>• EQC's role</li> <li>• The importance of home insurance</li> </ul> (Output 3)	<b>Output:</b> Policy advice assistance on natural disaster damage, methods of reducing or preventing natural disaster damage, and government response to disasters. (Output 4)

Schedule of main measures for the three year period 2009-2012

**Impact 1:** Enhanced community recovery through delivery of Act entitlements to claimants in the fastest possible time by means of the Catastrophe Response Programme.

**Comment:** The length of time taken to settle claims can vary from a few days to years. Factors that could cause delays include the availability of specialists like engineers, legal or regulatory issues and, if land or the Act's "imminent loss" provisions are relevant, complexity of the proposed remedy and need for time to elapse to allow land to become sufficiently stable to be worked on.

**Measures:** For claims under the "imminent loss" provisions of the Act, 90% of claimants receive their entitlements within one year of the date of loss.

For other claims, when there are less than 10,000 claims open in total, 80% of claimants receive their entitlements within 90 days of the date of loss (EQC has had no more than 6,000 claims open since it was established in 1993).

**Impact 2:** Reduction in the Crown's liabilities arising from natural hazard events and improvement in the resilience of communities to natural hazards.

**Comment:** Crown liability arises through responsibilities discharged by government entities, for example Land Information New Zealand and the Department of Conservation, both of whom derive benefit from *GeoNet*. EQC's impact on these liabilities, through its

sustenance of science capacity, investment in hazard monitoring research and encouragement of transfer into practice, will manifest itself through reduced damage and disruption following a natural disaster.

Risk is a multiple of hazard and vulnerability. Structures are vulnerable to hazards like earthquakes and volcanic eruptions through their siting, construction and extent of mitigation measures. EQC's requirements for research can be summarised as to (1) assess the hazard; (2) assess the risk posed by the hazard; (3) devise actions to mitigate the risk; (4) develop actions to enhance recovery.

**Measure:** Revised building standards, regulations, local authority requirements, district plans and practitioner guidelines embody relevant EQC funded research results.

**Impact 3:** Safer communities through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance

**Comment:** The prime responsibility for home safety lies with home owners but they need information and guidance on the most effective and prudent measures to take, and on what to expect of EQC should they experience natural disaster damage.

Whilst EQC will maintain a level of nation-wide activity, its concentration will be on regional initiatives because it believes the greater immediacy and directness these convey will have more impact.

**Measures:** The number of New Zealanders or householders in regions which EQC has targeted exceeds the national figures established by on-line survey at 1 October 2008 by ten percentage points by the end of each regional campaign:

At 1 October 2008:	
Level of knowledge about making homes safer	52%
Taken steps to make homes safer	52%
Understand EQC role	72%

The number of insured households exceeds on a national basis the figures established by on line survey at 1 July 2008 by three percentage points by 30 June 2012. These figures were 90% for dwellings and 88% for contents.

Note: there are 1,590,000 dwelling units (as defined by the Earthquake Commission Act) in New Zealand, so an increase of 3% in insurance take-up represents some 47,700 more homes insured.

## **Outcome 2: Efficient management of the Crown’s assets and liabilities**

Under the Earthquake Commission Act, EQC is required to administer the Natural Disaster Fund, protecting its value, and to administer the insurance against natural disaster that is provided by the Act.

In the medium term, EQC’s goals are to:

- build up and sustain sufficient capacity to meet the obligations on EQC that will follow from a natural disaster; and
- manage the insurance scheme efficiently.

These goals link closely with the Government’s long-term outcome of efficient management of the Crown’s assets and liabilities, with particular emphasis on measuring and controlling the Crown’s balance sheet risk. EQC will work with Treasury to ensure that EQC’s outputs support this government outcome.

EQC’s contribution will include policy advice to the Government, when called upon, on how best to manage the Crown’s liability for natural disaster insurance and improve the efficiency of the insurance scheme. It will also include efficient administration and management of the scheme within the parameters set by the Government, including Ministerial Directions under section 12 of the Act.

Recognising the current fiscal environment, EQC will work with Treasury and the Minister to ensure its contribution to the Government’s balance sheet and liquidity within that balance sheet serve the wider interest in the short term, with an impact on EQC’s own operations that is acceptable in that time period.

<b>Outcome: Efficient management of the Crown’s assets and liabilities</b>		
<b>Impact 4: Optimum contribution to community recovery</b> from disaster by development and maintenance of the financial capacity to meet all obligations imposed by the Act.		<b>Impact 5: Fair and equitable application of the insurance against natural disaster</b> under the Earthquake Commission Act .
<b>Output:</b> Policy advice on relevant risk management issues, management of the Natural Disaster Fund to maximise its return without taking undue risks, and terms and conditions of the insurance.  (Output 4)	<b>Output:</b> Administration of the insurance against natural disaster damage provided under the Act including the collection of the premiums payable. (Earthquake Commission Act Section 5(a) and (b)).  (Output 5)	<b>Output:</b> Administration of the Natural Disaster Fund and, so far as is reasonably practicable, protection of its value, including by the investment of money held in the Fund and by obtaining reinsurance. (Earthquake Commission Act Section 5(c) and (d)).  (Output 5)

Schedule of main measures for the three year period 2009-2012

**Impact 4:** Optimum contribution to community recovery from disaster by development and maintenance of the financial capacity to meet all obligations imposed by the Act.

**Comment:** EQC administers the Natural Disaster Fund and is required by its Act to protect its value. It does this by investing the Fund in accordance with criteria agreed with its Minister, which includes a Statement of Investment Policies Standards and Procedures, and by reinsuring offshore part of the liability that would arise from a major disaster. Should the Fund and its reinsurance be not sufficient to meet the liabilities of the Commission, S.16 of the Act enables the Minister to provide to the Commission out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines.

**Measure:** The probability of EQC's having to call on the Minister to meet a deficiency in the Fund under S.16 of the Act is maintained or improved during the period to 30 June 2012. EQC's modelling software computes a probability of the Fund's falling to zero as .09% on the basis of the investment and reinsurance programmes in place at 1 July 2008.

**Impact 5:** Fair and equitable application of the insurance against natural disaster under the Earthquake Commission Act

**Measures:** There have been no findings by the Ombudsman or Courts on the basis that the Act is being applied unfairly or inequitably.

Any premium avoidance schemes coming to light have been investigated and settled.

All claims are certified as coming under valid subsisting insurance coverage

# Operating intentions and performance

## Output 1: Claims handling

*This output comprises the maintenance of EQC's state of readiness to meet the requirements of the Crown for the compensation of residential property owners following a natural disaster and the incorporation of this readiness, so far as is possible, into normal daily operations.*

<b>Outcome: Safer communities and rapid recovery from natural disasters</b>			
<b>Impact 1:</b> Enhanced community recovery through delivery of Act entitlements to claimants in the fastest possible time by means of the Catastrophe Response Programme.	<b>Impact 2: Reduction in the Crown's liabilities</b> arising from natural hazard events and <b>improvement in the resilience of communities</b> to natural hazards	<b>Impact 3: Safer communities</b> through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance	
<b>Output:</b> Claims handling. (Output 1)	<b>Output:</b> Research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act. (Output 2)	<b>Output:</b> Public education about <ul style="list-style-type: none"> <li>• seismic hazards and methods of reducing or preventing damage.</li> <li>• EQC's role</li> <li>• The importance of home insurance</li> </ul> (Output 3)	<b>Output:</b> Policy advice assistance on natural disaster damage, methods of reducing or preventing natural disaster damage, and government response to disasters. (Output 4)

## Description

The EQC insurance scheme provides compensation to the extent of the cost of repairing or replacing property damaged by an insured peril, up to the maximum amounts set out in the Act. The procedure is commenced by the registration of a claim by the owner of damaged property. The claim then goes through a handling process to establish entitlement and amount, and settlement is made.

Catastrophe events make EQC prone to sudden surges in claims activity. In years when there is no significant event, EQC can expect to receive a few thousand claims but there could be tens of thousands of claims following a single major catastrophe.

To manage the potential for this wide variation of claim numbers, EQC has an extensive Catastrophe Response Programme for securing the services and facilities it anticipates it will need to handle claims efficiently. EQC's catastrophe response is effected mainly through external organisations on agreed terms. EQC documents its expectations of each organisation and controls performance through agreed standards of service.

The Programme features out-sourcing claims administration to an organisation that is capable of expanding and contracting the required resources as necessary. An added safeguard is that this service operates from Brisbane, so is immune from the effects of any New Zealand disaster.

The programme itself, and many aspects of the response EQC will make to a disaster, are supported by several computer applications that provide analysis and insight. These include the Claims Management System, the Minerva earthquake hazard model, and the Logjam systems dynamics model.

## Operating Environment

The rate of settlement of claims following a natural event is dependant upon the resources that can be marshalled to investigate and handle the claims. EQC has identified possible bottlenecks in claims settlement relating to EQC's area of responsibility. These constraints will affect even quite localised events and in a large disaster, could stretch out a community's recovery over several years. Possibly the severest constraint will be the limited number of properly trained loss adjustors available to the Commission. EQC has reserved the services of a cadre of up to twenty loss adjustors on a priority basis through its retained loss adjustor scheme. In 2009, EQC will launch an initiative under which financial support is provided to loss adjusting firms that recruit and train new entrants to the industry.

A Catastrophe Response will be successful if:

- All claimants were able to lodge claims with EQC within the statutory period.
- Claims were settled within a time frame acceptable to the public and in accordance with the Earthquake Commission Act.
- Claims were settled to standards of individual and overall fairness acceptable to the public.
- Essential office services were maintained at a level commensurate with a standard of operational efficiency acceptable to the Board.
- The welfare of staff has been attended to so that the risks of over-long working hours and excessive stress have been avoided.

An external review of the Catastrophe Response Programme is due to be completed by 30 June 2009, to provide confidence that the Programme will achieve its objectives and to make recommendations for improvements (if any).

EQC's challenges and risks	EQC's response
An ability to assess rapidly the requirements of an EQC response to a natural disaster occurrence.	<ul style="list-style-type: none"> <li>• Development of computer applications that provide the analysis and insights to enable the necessary assessments and decisions to be made (EQC has an earthquake hazard and analysis model, a systems dynamics model and a web-based claims management system).</li> </ul>
Limited numbers of loss adjusters, engineers, valuers and other specialists required to process claims.	<ul style="list-style-type: none"> <li>• Agreements with loss adjusting firms, and other service providers, in Australia and New Zealand, for the provision of specified numbers of people in a disaster.</li> <li>• Support for New Zealand loss adjusting firms to recruit and train new entrants to the industry</li> <li>• A cadre of loss adjusters retained on a guaranteed minimum income.</li> </ul>
EQC's ability to estimate the amount needed to meet claims could be hampered by the effect on construction costs of post event demand surge.	<ul style="list-style-type: none"> <li>• Funding of research into the likelihood and extent of post event demand surge and its possible effect on EQC's claims costs.</li> </ul>

## Operating intentions and performance measures for Output 1: Claims handling

What EQC will do	Why EQC will do it	Annual activities to achieve Impact 1
Ensure that , by means of the Catastrophe Response Programme, all claims handling challenges will be met	Particularly following a major catastrophe, it will not be possible to set up systems for managing claims handling without planning. EQC must try to ensure its systems are prepared for major disasters as well as more routine events	<ul style="list-style-type: none"> <li>Adherence to the Programme's plans and schedules to maintain its effectiveness (e.g. schedules for document maintenance, testing and training).</li> <li>Keeping settlement times within the limits set by the Impact measure.</li> </ul>

## Output 2: Research

Outcome: Safer communities and rapid recovery from natural disasters			
<b>Impact 1:</b> Enhanced community recovery through delivery of Act entitlements to claimants in the fastest possible time by means of the Catastrophe Response Programme.	<b>Impact 2: Reduction in the Crown's liabilities</b> arising from natural hazard events and <b>improvement in the resilience of communities</b> to natural hazards		<b>Impact 3: Safer communities</b> through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance
<b>Output:</b> Claims handling. (Output 1)	<b>Output:</b> Research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act. (Output 2)	<b>Output:</b> Public education about <ul style="list-style-type: none"> <li>seismic hazards and methods of reducing or preventing damage.</li> <li>EQC's role</li> <li>The importance of home insurance</li> </ul> (Output 3)	<b>Output:</b> Policy advice assistance on natural disaster damage, methods of reducing or preventing natural disaster damage, and government response to disasters. (Output 4)

Through its advocacy of, and investment in, science and engineering research, EQC contributes to hazard assessment and disaster prevention in New Zealand. Disaster preparedness and a reduction in hazard risk reduce the Crown's liabilities ,protect its assets and help to make New Zealand communities more resilient. . Research into construction and engineering solutions can also have economic spin-offs and contribute to a knowledge-driven economy.

## Description

EQC fosters relevant research in the fields of earth science, civil engineering, architectural design, building technologies, social science and emergency management. EQC is one of few public agencies that both *invests* in research capabilities and *purchases* research outputs to meet national needs in critical areas of research and application. Several elements define EQC's unique contributions to research capability building and output in New Zealand:

- Capacity to invest in core infrastructure to support research, including databases, enabling technologies, students and academic learning.
- Boundary-spanning programmes across institutions, disciplines and sectors
- Programmes that support knowledge and technology transfer from basic research to professional practice.
- Research investment that is strongly focused on informing public policy and providing evidential bases for strategic actions in land use planning, civil defence readiness, training and capability development.

Research is facilitated through:

- Support for research projects:
  - Funding through a competitive grants programme, a student grants programme and other direct commissions;
  - Leadership of funding consortia and user groups in connection with major projects like the studies into the Wellington region's earthquake vulnerability ("It's our fault") and the risk posed by Auckland's underlying volcanic field ("DEVORA").
- Capability building:
  - Sponsorship of faculty teaching positions at the universities of Canterbury (earthquake engineering), Victoria (seismology) and Massey (social science);.
  - Sponsorship of Fulbright NZ to enable scholarships in studies related to natural disasters and their effects on communities to be pursued by outstanding New Zealand students in the USA;
  - Financial support for the University of Auckland Institute of Earth Science and Engineering;
  - Participation in the planning and strategy development of other government funding agencies and programmes, including the Foundation for Research, Science and Technology and the Ministry of Research, Science and Technology, as requested by them.
- The Science to Practice Programme
  - Support for the activities of Standards NZ, the NZ Society for Earthquake Engineering (including its overseas disaster fact-finding programme), national and local lifelines groups, and other relevant organisations, conferences and publications.
  - Engagement with local government and private sector organisations to encourage transfer and uptake of information and knowledge
- The design, operation and maintenance of the GeoNet hazard monitoring system – a major research equipment facility.

## Operating Environment

GeoNet is funded at the level of ~\$8 million annually under a 10-year agreement (commenced in 2001) with the Crown Research Institute, GNS Science. All data generated by GeoNet are made freely available. GeoNet underpins civil defence readiness and will inform EQC's and the country's disaster response and recovery planning following a large earthquake, tsunami or volcanic eruption.

Following the international review of the GeoNet project in 2008, and the completion of the first ten year agreement, a new phase of the project will commence. During the period of this Statement of Intent, the direction and funding basis for the future will be negotiated between EQC, GNS Science and other stake holders.

EQC from time to time purchases research to address specific operational needs. New findings in hazard research are incorporated into EQC's hazard assessment model, Minerva, which in turn informs assessments of liability for financial protection purposes and analyses the likely results of actual and scenario events.

Advances in understanding seismic behaviour and the wealth of data available from GeoNet have together made opportune new assessments of hazards in our two largest conurbations. EQC is providing funding support of up to 50% of the cost of the "It's Our Fault" project, a six year collaboration of scientific institutions led by GNS Science to reassess the earthquake and tsunami hazard in the Wellington region. EQC is also working with other parties to fund and progress the DEVORA project that will re-evaluate the volcanic risk in Auckland. A proposal is expected in 2009 for a multi-year programme to assess and mitigate the threat of Alpine earthquakes to South Island communities.

Many New Zealand communities are vulnerable to landslips. EQC is facilitating a programme of work to identify factors that affect the quality of decisions for the use of landslip prone land.

The establishment of a virtual centre of research excellence on time-variable aspects of earthquake and volcanic hazard underscores EQC's support for research that will link physical and statistical modelling of these hazards in New Zealand, leading to a better understanding and improved estimation.

<b>EQC's Challenges and Risks</b>	<b>EQC's Response</b>
The significant variability in land-use planning and practice throughout New Zealand (a strategic review of GeoNet in 2004 identified this issue).	Support for both a Standards NZ Hazard Management Standard and the identification of practical ways to improve planning for the management and use of landslip vulnerable land.
Sustenance of national capacity for timely and high quality science research for risk assessment and mitigation.	Contract with GNS Science for the support for the national hazard monitoring system GeoNet . Funding of the:  Leicester Steven Lectureship in Engineering at Canterbury University  Institute of Earth Science and Engineering at Auckland University  EQC Fellowship in Natural Hazards Planning at Massey University  EQC Fellowship in Seismic Studies at Victoria University

<b>EQC's Challenges and Risks</b>	<b>EQC's Response</b>
Achieving a desired return on the investment of research funds	Control of transaction costs and encouragement of collaboration across enterprise boundaries and other government Vote boundaries.
Transforming research outputs to social outcomes	A Science to Practice programme fosters the transfer and uptake of science research by end users.
Enabling the intensive research opportunity presented by disasters, at home and overseas.	Internal decision and funding systems are sufficiently robust and flexible to respond to urgent needs.

### **Operating intentions and performance for Output 2: Research**

<b>What EQC will do</b>	<b>Why EQC will do it</b>	<b>Annual activities to achieve Impact 2</b>
Invest in high quality and relevant research projects that contribute to understanding geological hazards, the built environment, and natural disaster readiness and recovery.	The knowledge derived from this research will help to alleviate the impact of natural hazard events and improve ability to recover from them.	<ul style="list-style-type: none"> <li>• A 2009/10 competitive funding round that meets the budget and timetable approved by the Board</li> <li>• Previous round projects proceeding or completed on time and budget and meeting their objectives.</li> <li>• All other projects on time and budget and meeting their objectives.</li> </ul>
Encourage the transfer and uptake of research to achieve social outcomes and utilise relevant research in EQC's own operations.	EQC's research investment will pay dividends if it contributes to safer communities and reduces the pricing of New Zealand risk by global reinsurance companies.	<ul style="list-style-type: none"> <li>• All partners in the Science to Practice programme meeting the conditions under which EQC support is provided.</li> <li>• Standards NZ projects receiving EQC funding being on time and budget and meeting their objectives.</li> </ul>
Invest in the development and maintenance of geophysical risk assessment and mitigation research capacity, in New Zealand.	This will help to ensure that the necessary research capability is maintained to meet particular New Zealand needs.	<ul style="list-style-type: none"> <li>• The Capability Building programmes meeting contracted requirements for teaching, research and public activities.</li> <li>• GeoNet meeting contracted requirements for maintenance, development and timely provision of data and hazard warning information</li> </ul>

### Output 3: Public education

<b>Outcome: Safer communities and rapid recovery from natural disasters</b>			
<b>Impact 1:</b> Enhanced community recovery through delivery of Act entitlements to claimants in the fastest possible time by means of the Catastrophe Response Programme.	<b>Impact 2: Reduction in the Crown's liabilities</b> arising from natural hazard events and <b>improvement in the resilience of communities</b> to natural hazards	<b>Impact 3: Safer communities</b> through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance	
<b>Output:</b> Claims handling. (Output 1)	<b>Output:</b> Research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act. (Output 2)	<b>Output: Public education about</b> <ul style="list-style-type: none"> <li>• seismic hazards and methods of reducing or preventing damage.</li> <li>• EQC's role</li> <li>• The importance of home insurance</li> </ul> (Output 3)	<b>Output:</b> Policy advice assistance on natural disaster damage, methods of reducing or preventing natural disaster damage, and government response to disasters. (Output 4)

*This output reflects EQC's functions under Section 5(1)(e) of the Earthquake Commission Act: "facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act."*

This output also indirectly contributes to the Government's outcome of *Efficient management of the Crown's assets and liabilities* because the Crown's fiscal risk is reduced as more households take precautions against damage from seismic events.

#### **Description**

EQC sponsors major permanent exhibitions on seismic hazards at the Museum of New Zealand Te Papa Tongarewa and Auckland War Memorial Museum. These popular exhibitions publicise information about damage mitigation in the home. In addition, the Commission routinely sponsors other public exhibitions to raise awareness of natural disaster issues and the role of EQC, and educate the public about ways to mitigate the effects of natural disasters.

In order to reach a wide section of the population and induce long-term change in social attitudes to disaster preparedness, EQC makes use of social marketing campaigns about the geological hazards with which New Zealanders live and their vulnerability to these hazards. Small degrees of attitudinal change could have a significant effect on New Zealand's disaster preparedness: there are often quite simple steps to make homes and their contents safer from damage.

Whilst continuing with the country-wide scope of some activities, EQC will also pursue regionally focussed campaigns as it believes these could result in more marked improvements to home safety in the area targeted. These campaigns will feature partnerships with local organisations. EQC is piloting an initiative with Kapiti District Council and will utilise this experience in designing and planning other regional campaigns in 2009/10.

On both national and regional bases, EQC supports teaching in schools about natural perils and making homes safer from their effects. The annual primary schools exercise designed to raise awareness at a young age will be integrated into the regional programme. Teaching resources and support for virtual field trips will be continued as a nation-wide activity.

EQC is aware of concern that the financial situation of families may lead them to allow their insurance policies, on which EQC cover depends, to lapse in order to save the premium expense. EQC proposes to discuss with the insurance industry ways to counter this trend.

### **Operating environment**

EQC's social marketing and education messages are delivered in an environment that is characterised by several challenges and risks requiring well-researched responses. These are set out in the following table:

<b>EQC's challenges and risks</b>	<b>EQC's response</b>
Experience in New Zealand and overseas is that public expectations, including expectations of EQC are developing rapidly	Cognisance of public expectations and attempts to influence them where appropriate.
Communications methods and habits are changing rapidly.	Use of modern ways of communicating, including use of new media such as the Internet and innovative use of old media such as its exhibitions at Te Papa and Auckland Museum.
The public tends to downplay the risk of disasters affecting them and fails to take proper action to prepare.	Due consideration of the research that has been done into achieving behavioural change in society.
The public is swamped with advertising and social marketing messages and EQC's message may not attract attention.	Identification of "trigger points" at which EQC's mitigation message will be particularly apposite to New Zealand families.  A regional focus to make EQC's message more direct and immediate in the area targeted.
The opportunity for grabbing the public's attention provided by the news of a disaster occurrence at home or overseas should be recognised and prepared for.	EQC's decision and funding systems will remain sufficiently robust and flexible to respond to urgent needs.

## Operating intentions and performance for Output 3: Public education

EQC will continue its public education efforts by working with partners who have similar public education responsibilities, for example museums, schools, local authorities, the Ministry of Civil Defence and Emergency Management, the Ministry of Education and Crown Research Institutes GNS Science and NIWA.

What EQC will do	Why EQC will do it	Annual activities to achieve Impact 3
Publicise the geological hazards with which New Zealanders live, their vulnerability to these disasters, and ways of reducing that vulnerability.	If New Zealanders are prepared for disasters, they increase their and the community's resilience and also reduce the Crown's liability under the Act.	<ul style="list-style-type: none"> <li>• Sponsorships for museums and other exhibitions that meet set targets including visitor numbers and brochure distribution.</li> </ul>
Publicise the role EQC has in responding to natural disasters and place this in the context of the total community recovery effort.	Misunderstanding or misrepresentation of EQC's role following a disaster event will hamper the Commission's response, delay the settlement of claims and affect community recovery.	<ul style="list-style-type: none"> <li>• One regionally based campaign with local partners</li> </ul>
Encourage New Zealanders to insure their homes against fire.	Homes that are not insured against fire are not covered by EQC's insurance, and EQC is not able to help them recover in the event of a natural disaster.	<ul style="list-style-type: none"> <li>• Production of one virtual field trip for school students</li> </ul>

## Output 4: Policy advice

*This output includes the provision of policy advice to the Government on issues related to EQC's statutory functions, including:*

- *natural disaster damage*
- *methods of reducing or preventing natural disaster damage*
- *government response to disasters*
- *relevant risk management issues*
- *management of the Natural Disaster Fund and protection of its value*
- *terms and conditions of the insurance.*

<b>Outcome: Safer communities and rapid recovery from natural disasters</b>			
<b>Impact 1:</b> Enhanced community recovery through delivery of Act entitlements to claimants in the fastest possible time by means of the Catastrophe Response Programme.		<b>Impact 2: Reduction in the Crown's liabilities</b> arising from natural hazard events and <b>improvement in the resilience of communities</b> to natural hazards	<b>Impact 3: Safer communities</b> through Improved levels of knowledge and activity of New Zealanders to make their homes safer from natural perils, understand EQC's role and take out adequate insurance
<b>Output:</b> Claims handling. (Output 1)	<b>Output:</b> Research in fields relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Earthquake Commission Act. (Output 2)	<b>Output:</b> Public education about <ul style="list-style-type: none"> <li>• seismic hazards and methods of reducing or preventing damage.</li> <li>• EQC's role</li> <li>• The importance of home insurance</li> </ul> (Output 3)	<b>Output:</b> Policy advice assistance on natural disaster damage, methods of reducing or preventing natural disaster damage, and government response to disasters. (Output 4)

<b>Outcome: Efficient management of the Crown's assets and liabilities</b>		
<b>Impact 4: Optimum contribution to community recovery</b> from disaster by development and maintenance of the financial capacity to meet all obligations imposed by the Act.		<b>Impact 5: Fair and equitable application of the insurance against natural disaster</b> under the Earthquake Commission Act .
<b>Output:</b> Policy advice on relevant risk management issues, management of the Natural Disaster Fund to maximise its return without taking undue risks, and terms and conditions of the insurance. (Output 4)	<b>Output:</b> Administration of the insurance against natural disaster damage provided under the Act including the collection of the premiums payable. (Earthquake Commission Act Section 5(a) and (b)). (Output Class 5)	<b>Output:</b> Administration of the Natural Disaster Fund and, so far as is reasonably practicable, protection of its value, including by the investment of money held in the Fund and by obtaining reinsurance. (Earthquake Commission Act Section 5(c) and (d)). (Output Class 5)

## Description

EQC has a strategic role in promoting, through the provision of robust policy advice to decision-makers, the adoption of policies that help to build safer communities and contribute to the efficient management of the Crown's assets and liabilities.

EQC operates in at least three highly specialised fields: hazard mitigation, disaster insurance/reinsurance and funds investment. In order to ensure that its

policy advice is robust, accurate and evidence-based EQC invests in world-leading research and invests in staff who have the relevant expertise.

### **Operating environment**

Treasury wishes to enhance its monitoring capability of the Crown Financial Institutions (CFI's) to include more detailed analysis of the asset/liability profile of each entity. As one of the CFI's, EQC will assist in this and consult The Treasury during the preparation of any policy advice relating to EQC's statutory functions or finances.

EQC maintains a liaison with the other CFI's. Some policy areas lend themselves to a joint or collaborative approach.

A number of government departments carry responsibilities for people and homes affected by natural disasters, for example Housing New Zealand Corporation, Ministry for the Environment and Ministry of Social Development. EQC can assist these departments in the development of the relevant policy.

EQC manages a large insurance scheme that covers most New Zealand residential properties. Any proposed changes to the coverage of the scheme or the way it is managed are likely to have significant effects for the insurance market in New Zealand and may also have effects for local and central government.

### **Operating intentions and performance for Output 4: Policy advice**

EQC will work closely with Treasury, MCDEM, GNS Science, local government and other agencies to identify policy gaps or issues relating to its statutory functions and ensure that the Government is fully informed of any risks or opportunities that require addressing.

EQC will encourage the adoption of evidence-based policy in fields that relate to its statutory functions and will provide the Minister and Treasury with policy advice on matters related to its statutory functions as required.

<b>What EQC will do</b>	<b>Why EQC will do it</b>	<b>Target</b>
Provide prompt and robust advice to the Minister, The Treasury, and other government agencies as required.	This output will help to strengthen the Government's understanding of risks and vulnerabilities that could affect the resilience of New Zealand communities, the effectiveness of recovery from natural disaster and the Crown's assets and liabilities.	All requests for participation in policy preparation met within agreed timelines so that EQC input is reflected in completed policy papers

## **Output 5: Administration of the Act Insurance Scheme and the Natural Disaster Fund**

*This output involves administration of the Fund, including collection of the premiums payable, and, so far as reasonably practicable, protection of the Fund's value through the investment of money held in the Fund and reinsurance in respect of the whole or part of the insurance provided under the Act. This output reflects EQC's functions as set out in section 5(1)(a), (b), (c) and (d) of the Act.*

<b>Outcome: Efficient management of the Crown's assets and liabilities</b>		
<b>Impact: Optimum contribution to community recovery</b> from disaster by development and maintenance of the financial capacity to meet all obligations imposed by the Act.		<b>Impact: Fair and equitable application of the insurance against natural disaster</b> under the Earthquake
<p><b>Output:</b> Policy advice on relevant risk management issues, management of the Natural Disaster Fund to maximise its return without taking undue risks, and terms and conditions of the insurance.</p> <p>(Output Class 4)</p>	<p><b>Output:</b> Administration of the insurance against natural disaster damage provided under the Act including the collection of the premiums payable. (Earthquake Commission Act Section 5(a) and (b)).</p> <p>(Output 5)</p>	<p><b>Output:</b> Administration of the Natural Disaster Fund and, so far as is reasonably practicable, protection of its value, including by the investment of money held in the Fund and by obtaining reinsurance. (Earthquake Commission Act Section 5(c) and (d)).</p> <p>(Output 5)</p>

### **Description**

Premium is collected on behalf of the Commission by insurance companies via the fire insurance policies they issue or renew or, in rare cases, directly by the Commission for cover issued under S.22 of the Act.

The investment of the Fund is controlled through a Statement of Investment Policies, Standards and Procedures, which is approved by the Minister. EQC appoints several international funds management companies to manage its global equities portfolio, and has appointed custodians to administer both the domestic and off-shore portfolios.

To date, both the investment and reinsurance strategies have been predicated on the need to grow the Fund. The fortuity of few disaster events has enabled the Fund to grow to a size that now prompts consideration of its optimal or sustainable balance. This is an amount that, with reinsurance, would provide an acceptable probability of being sufficient to meet all EQC's liabilities. A decision on this amount and its achievement would influence EQC's reinsurance and investment strategies.

EQC places a large reinsurance programme with reinsurance companies and Lloyd's syndicates. This cover protects the Fund against a payout that would threaten its viability following a major natural disaster. The programme is placed through, and with advice from, reinsurance brokers.

### **Operating environment**

To ensure EQC receives the correct premium amounts, spot checks are made by EQC on insurance company records and audit reports are obtained on the integrity of their computer systems. A help facility is available for the computation of correct premiums.

Inflation in building costs (labour and materials) which has been in double figures per annum for several years, is a direct driver of EQC's risk. This risk increases proportionately with the inflation figure, the maximum sum insured having only a minor influence because most of the repair costs EQC faces through its claims settlements are within this cap. Thus EQC's overall liability, risk to the Natural Disaster Fund and reinsurance premiums are increasing with no commensurate increase in its premium income.

The Fund's investments, besides cash and bank bills, are New Zealand government stock and overseas publicly-traded equities. EQC does not trade its Government stock in the market. Returns are therefore influenced by fixed interest rates on the domestic financial market, the performance of overseas share markets and the value of the New Zealand dollar. Under an agreement with Treasury, EQC can sell back to the Debt Management Office its government stock at pre-disaster values (i.e. EQC has a free put option with the DMO).

EQC does not carry a currency hedge on its overseas equity portfolio because it takes the view that it would be required to liquidate these assets, apart from routine portfolio rebalancing, only following an event large enough to itself affect the value of the New Zealand dollar. If EQC wished to hedge the currency risk, it would be required to consult the Minister.

The Natural Disaster Fund is incorporated into the Crown's balance sheet. The Fund can therefore affect the size of the balance sheet and its liquidity. In the current fiscal environment, EQC recognises the importance of considering these overall effects in its planning and budgeting, to the extent of deferring non-essential expenditure in the first twelve months of this Statement of Intent.

In a manner congruous with CFI's, EQC is required to administer its funds in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community. Whilst each CFI is an independent body, EQC supports and participates in collaborative servicing and resource provision, in order to place each CFI in a position to make its own decisions. EQC has completed its own Responsible Investment Policy, Standards and Procedures and has become a signatory to the United Nations Principles for Responsible Investment document.

EQC manages the Natural Disaster Fund in an environment that is characterised by a number of risks and challenges over which it has little or no control. Limitations on allowable asset classes and the ratio of onshore : offshore balances are also constraints, set by Ministerial direction after consultation with EQC. In order to meet these risks and challenges, the following responses are planned:

<b>EQC's challenges and risks</b>	<b>EQC's response</b>
<p>Investment of the Fund to protect its value and maintain standards of international best practice (including with regard to responsible investing), is a complex task requiring specialised knowledge, wide-ranging expertise and constant vigilance.</p>	<p>Employment of the necessary expertise on staff to be able to manage and control, with assistance from professional advisers, the custodians, investment managers and other specialists who can ensure required standards are achieved and maintained.</p>
<p>Building costs may continue to increase, albeit at a slower pace, resulting in higher payouts for EQC, and increased risk to the Fund.</p> <p>The maximum sums insured under the Act have not been adjusted since the Act's inception in 1993, compromising their original purpose.</p>	<p>Making the case for the maximum sums insured (the "caps") on EQC's cover to be adjusted to account for these inflationary trends and stabilise EQC's liability.</p>
<p>Reinsurance costs and the financial security of EQC's reinsurers are influenced by external factors like major disasters overseas and the performance of the financial markets.</p>	<ul style="list-style-type: none"> <li>• Management of the potential volatility of reinsurance pricing by forward purchasing and, if competitive, alternative risk transfer products.</li> <li>• Management of counterparty credit risk by applying a minimum claims paying ability rating of A (Standard and Poors) over the entire programme, limiting capacity provided by companies rated A- , market surveillance and analysis by EQC's reinsurance brokers, and maintaining the ability under the reinsurance agreements in some circumstances to replace reinsurers on downgrading.</li> </ul>

## Operating intentions and performance for Output 5: Administration of the Act Insurance Scheme and the Natural Disaster Fund

What EQC will do	Why EQC will do it	Annual activities to achieve Impacts 4 and 5
Place a reinsurance programme for the protection of the Natural Disaster Fund and review it annually to ensure it continues to provide optimum value and achieves the objectives set for it.	Reinsurance strengthens EQC's ability to meet its obligations to insured home owners. It distributes part of the catastrophe risk away from New Zealand to protect the Fund and the Crown against the full economic impact of a natural disaster in New Zealand.	Negotiation of a reinsurance programme that reduces the net risk to the Natural Disaster Fund and the Crown. <i>(Computer modelling shows the reinsurance programme for 2008/9 year reduces the risk of the Fund falling to zero by 80% and of falling below \$2m by 50%, compared to having no reinsurance in place.)</i>
Invest the Natural Disaster Fund in accordance with the Ministerial Direction that came into force on 1 November 2001	EQC is tasked with protecting the value of the Natural Disaster Fund, which is a significant national resource. It seeks to maximise the value of the fund without taking undue risks.	<ul style="list-style-type: none"> <li>• Investment performance that achieves targets set in the Statement of Investment Policies, Standards and Procedures.</li> <li>• EQC compliance with its asset allocation strategy and investment managers' compliance with their agreements</li> <li>• EQC's investment management costs in line with international peers</li> <li>• EQC management and administration of the Fund in a manner consistent with best practice portfolio management, maximising return without under risk to the Fund as a whole</li> </ul>
Avoid prejudice to New Zealand's reputation as a responsible member of the world community	EQC is accountable for actions arising from its Responsible Investment Policy.	EQC acting in accordance with its Responsible Investment Policy Standards and Procedures and including in its annual report comment on the extent to which social, ethical and environmental issues have been considered in EQC's investment process and EQC's proxy voting policy.
Ensure that correct premiums are being paid by insurance companies.	Insurance companies are required by law to pay premiums to EQC. This money goes into the Natural Disaster Fund, providing us with the resources to meet the cost of natural disasters.	EQC validation of the premiums paid to it by insurance companies, and investigation and resolution of discrepancies or qualified audits.

## Prospective Financial Statements

### Prospective Statement of Comprehensive Income For the Year Ending 30 June 2010

	<b>2010 Budget</b>
	<b>\$(000)</b>
Gross earned premiums	87,842
Outwards reinsurance premium expense	(38,750)
<b>Net earned premium revenue</b>	<b>49,092</b>
<b>Claims Expense</b>	<b>(8,649)</b>
<b>Surplus from Underwriting Activities</b>	<b>40,443</b>
Public education	(3,054)
Research (excluding GeoNet)	(2,803)
GeoNet programme	(8,250)
<b>Total other operating costs</b>	<b>(14,107)</b>
Investment income	326,351
Investment costs	(13,972)
<b>Investment income net of costs</b>	<b>312,379</b>
Crown underwriting fee	(10,000)
<b>Net surplus for the year</b>	<b>328,715</b>
Other Comprehensive Income	0
<b>Total Comprehensive Income</b>	<b>328,715</b>

### Prospective Statement of Movements In Equity For the Year Ending 30 June 2010

	<b>2010 Budget</b>
	<b>\$(000)</b>
<b>Natural Disaster Fund</b>	
Issued Capital	
Opening balance as at 1 July	1,500,000
Movement for the year	0
Closing balance as at 30 June	1,500,000
Retained Earnings	
Opening balance as at 1 July	4,247,905
Net surplus for the year	328,715
Closing balance as at 30 June	4,576,620
<b>Closing balance as at 30 June</b>	<b>6,076,620</b>

**Prospective Balance Sheet  
as at 30 June 2010**

**2010 Budget  
\$(000)**

**Natural Disaster Fund**

Capitalised Reserves	1,500,000
Retained Surplus	4,576,620

**Total Equity**

**6,076,620**

**Assets**

Cash & cash equivalents	10,739
Investments	6,120,445
Premiums receivable	17,000
Prepayments	6,574
Property, plant and equipment	14,697
Intangible assets	2,459

**Total assets**

**6,171,914**

**Liabilities**

Trade and other payables	3,817
Provision for employee entitlements	177
Outstanding claims liability	15,593
Unearned premium liability	42,707
Unexpired risk liability	33,000

**Total liabilities**

**95,294**

**Net Assets**

**6,076,620**

**Prospective Statement of Cash Flows  
as at 30 June 2010**

	<b>2010 Budget</b>	
	<b>\$(000)</b>	
<b>Cash flows from operating activities</b>		
<b>Cash was provided from:</b>		
Premiums	87,842	
Interest received	230,791	
Dividends received	30,000	
		348,633
<b>Cash was applied to:</b>		
Outward reinsurance	38,750	
Crown underwriting fee	10,000	
Claims		
Employees and other operating expenses	25,753	
GeoNet operating expenses	5,600	
Research grants	2,195	
		82,298
<b>Net cash inflow from operating activities</b>		<b>266,335</b>
<b>Cash flows from investing activities</b>		
<b>Cash was provided from:</b>		
Maturity and sale of investments	656,000	
		656,000
<b>Cash was applied to:</b>		
Purchase of investments	916,441	
Purchase of property, plant and equipment	3,370	
Purchase of intangibles	250	
		920,061
<b>Net cash outflow from investing activities</b>		<b>(264,061)</b>
<b>Net increase in cash and cash equivalents held</b>		<b>2,274</b>
<b>Add opening cash and cash equivalents brought forward</b>		<b>8,465</b>
<b>Ending cash and cash equivalents carried forward</b>		<b>10,739</b>

<b>Expenditure</b>	<b>2010 Budget</b>
	<b>\$(000)</b>
Advertising and publicity	1,460
Amortisation	389
Fees to the Auditor	
Audit of the financial statements	87
Assurance services provided by auditor	14
Catastrophe response programme*	5,763
Commissioners' fees	186
Depreciation	2,790
Employee benefits	2,294
Grants for earthquake research	2,240
GNS Science GeoNet operating costs	5,600
Investment and custodial expenses - third party	12,597
Office rental	447
Sponsorships	1,040
Other expenses	1,821
<b>Total Operating Expenditure Excluding Re-insurance</b>	<b>36,728</b>
Claims Settlements	0
<b>Total Operating Expenditure Excluding Re-insurance</b>	<b>36,728</b>

\* excludes depreciation, amortisation and employee benefits.

# Statement of Accounting Policies for the Year ended 30 June 2010.

## Reporting Entity

The Earthquake Commission (“the Commission”) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. As such, the Commission’s ultimate parent is the New Zealand Crown.

The Commission’s primary objective is to provide compensation to New Zealand residential property owners following a natural disaster as opposed to that of making a financial return. Accordingly, for purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), it has chosen to designate itself a public benefit entity.

The reporting period covered by these Prospective Financial Statements is the year ended 30 June 2010. These Prospective Financial Statements were approved by the Board on 2 April 2009.

## Basis of Preparation

### *Measurement Base*

The measurement base applied is historical cost modified by the revaluation of certain assets and liabilities as identified in this Statement of Accounting Policies.

### *Functional and Presentation currency*

These Prospective Financial Statements are presented in New Zealand dollars, which are the functional currency of the Commission, and are rounded to the nearest thousand dollars.

### *Statement of Compliance*

These Prospective Financial Statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

### *Judgements and estimations*

The preparation of Prospective Financial Statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The 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).

### *Critical Judgements in Applying Accounting Policies*

Assumptions that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year have been made with respect to investments and claims liabilities and are outlined in the disclosures attached to these prospective financial statements.

## **Significant Accounting Policies**

### ***Insurance***

#### *Premium Income*

Premium income is recognised using the 24ths rule to approximate the contract period over which the premiums are earned. Premiums not earned in the Statement of Comprehensive Income at balance date are disclosed in the Balance Sheet as unearned premiums. Premiums receivable are reported net of applicable discounts.

#### *Insurance Recoveries*

Reinsurance and non-reinsurance recoveries received or receivable are recognised as revenue in the Statement of Comprehensive Income.

#### *Reinsurance*

Premiums ceded to reinsurers are recognised by the Commission as reinsurance expense in profit or loss from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk.

#### *Claims*

Claims expenditure includes claims settlements and claims handling costs.

#### *Claims Liability and Unearned Premium Liability*

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, with an additional risk margin to allow for the inherent uncertainty in the central estimate.

At balance date, the Commission assesses the adequacy of the unearned premium liability. Where the current estimate of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts, plus an additional risk margin, exceeds the value of the unearned premium, the deficiency will be recognised in profit or loss and recorded in the Balance Sheet as unexpired risk liability.

#### *Assets Backing Insurance liabilities*

All assets of the Commission back its insurance liabilities in accordance with section 13(3) of the Earthquake Commission Act 1993, which states, "All money in bank accounts established by the Commission, and all investments and other assets of the Commission, shall be deemed to form part of the Fund."

### ***Grants***

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

### ***Foreign Currency***

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction. 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 denominated in foreign

currencies, are recognised in the Statement of Comprehensive Income, except when deferred in equity when hedge accounting is applied.

### ***Taxation***

The Commission is exempt from the payment of income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided for.

### ***Goods and Services Tax (GST)***

The Statement of Comprehensive Income, Statement of Movements in Equity, Statement of Cash Flows and commitments note are exclusive of GST. The Balance Sheet is also exclusive of GST, except for trade payables and premiums receivable, which are GST inclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between output GST and input GST, is included in payables or receivables (as appropriate).

### ***Investments***

#### ***Interest***

Interest income is accrued using the effective interest rate method.

#### ***Dividend***

Dividend income from investments is recognised when the Commission's rights as a shareholder to receive payment have been established.

#### ***Realised Gains and Losses***

Income from investments includes realised gains and losses on all investments, including currency gains and losses, and gains and losses on the sale of investments.

#### ***Unrealised Gains and Losses***

Income from investments includes unrealised gains and losses on all investments, including currency gains and losses.

### ***Financial Instruments***

#### ***Non-Derivative Financial Instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, premiums receivable, cash and cash equivalents, and trade and other payables.

Non-derivative financial instruments at fair value through profit or loss are recognised initially at fair value. Instruments not at fair value through profit or loss are recorded at fair value plus attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Commission's contractual rights to the cash flows from the financial assets expire or if the Commission transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Commission commits itself to purchase or sell the asset. Financial

liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

#### *Financial Assets at Fair Value through Profit or Loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Commission manages such instruments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### *Cash and Cash Equivalents*

Cash and cash equivalents comprise cash balances, cash in transit and bank call deposits. The carrying amount of cash and cash equivalents approximates their fair value.

#### *Investments*

All investment assets held by the Commission back insurance liabilities and are therefore designated at fair value through profit or loss.

Fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, fair values for initial recognition and, where appropriate, subsequent measurement are established by using valuation techniques.

#### *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are recognised initially at fair value, being the present value of estimated future cash flows. They are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Receivables with duration of less than 12 months are not discounted.

Impairment losses are assessed by an evaluation of the recoverable amount. The recoverable amount of the Commission's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). All individual receivables that are considered significant are subject to this approach. The impairment charge is recognised in the Statement of Comprehensive Income.

#### *Other Financial Assets*

Other non-derivative financial assets are measured at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

#### *Trade and Other Payables*

Payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Payables are recognised initially at fair value, being the present value of estimated future cash flows. They are subsequently measured at amortised cost using the effective interest rate method. Payables with duration of less than 12 months are not discounted.

### *Derivative Financial Instruments*

The Commission uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from investment activities. In accordance with its treasury policy, the Commission does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value, and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

### *Hedging*

The Commission has not elected to apply hedge accounting to any derivatives for the period ending 30 June 2008.

## **Property, Plant and Equipment**

### **Overview**

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses.

GNS Science administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under a 10-year agreement with the Commission. The services performed by GNS Science include the purchase, testing, installation and commissioning of capital equipment on behalf of the Commission.

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of the Commission at all times and are included in the Commission's property, plant and equipment in the Balance Sheet.

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Comprehensive Income in the period in which the transaction occurs.

### **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. Typically, the estimated useful lives of different classes of property, plant and equipment are as follows:

Furniture and equipment	10 years
Leasehold improvements*	9–12 years
Motor vehicles	5 years
Computer and other electronic equipment	3 years
GeoNet buildings (mostly shelters)	25 years
GeoNet computer equipment	3 years
GeoNet equipment other than computer equipment	8 years

\* The cost of leasehold improvements is capitalised and amortised over the unexpired period of the lease or the estimated remaining lives of the improvements, whichever is shorter.

### **Intangible Assets**

Intangible assets are recorded at cost less accumulated amortisation and accumulated impairment losses.

### *Research and Development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific knowledge or understanding, is recognised in profit or loss when incurred. The Commission does not undertake development of new products or processes other than software referred to below.

### *Software Acquisition and Development*

Software development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Commission intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over the following useful lives.

Acquired computer software licenses	1–3 years
Claims management system	9 years

### ***Impairment of Non-financial Assets***

The carrying amounts of the Commission's non-financial 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 in profit or loss.

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 depreciated 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 and where the Commission would, if deprived of the asset, replace its remaining future economic benefits or service potential.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a 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 depreciation or amortisation, if no impairment loss had been recognised.

### ***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 rental expense.

## **Liabilities**

The Commission 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.

### *Employee Entitlements*

Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in the Statement of Comprehensive Income 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 staff, based on years of service, years to entitlement, the likelihood that staff will reach entitlement and contractual entitlements information.

### *Other Liabilities and Provisions*

Other liabilities and provisions are recorded at the estimated fair value of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their discounted value. The increase in a discounted provision due to the passage of time is recognised as a finance cost.

## **Contingent Liabilities**

A contingent liability is recognised when a possible obligation arises from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission. A contingent liability is also recognised when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to the Commission, or the amount of the obligation cannot be measured with sufficient reliability.

## **Changes in Accounting Policies**

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.

There have been no accounting policy changes in these prospective financial statements beyond those arising from the initial application of NZ IFRS.

## **Commitments**

Future payments are disclosed as commitments at the point a contractual obligation arises, to the extent that there are equally unperformed obligations.

## **Comparatives**

When 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 impracticable to do so.

## **Budgets**

Budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by the Commission for the preparation of the Financial Statements.

When presentation or classification of items in the Financial Statements is amended or accounting policies are changed voluntarily, budget figures are restated to ensure consistency with the current period unless it is impracticable to do so.

### **Superannuation Scheme**

#### *Defined Contribution Scheme*

Obligations for contributions to Kiwisaver and the State Sector Retirement Savings Scheme are accounted for as defined contribution superannuation schemes and are recognised as an expense in the Statement of Comprehensive Income as incurred.

### **Cost Allocation**

Expenditure of the Commission is allocated across its four main functions: claims, research, education and investment management. Expenditure is allocated to these functions by directly attributing costs as far as possible and by apportioning indirect costs based on the number of full time equivalents employed in each function.

### **Segment Reporting**

The Commission is not required to provide segment reporting as it is a public benefit entity. Nevertheless, information is presented for material economic activities undertaken.

### **Related Parties**

Transactions with other Crown entities entered into on an “arm’s length” basis are excluded from the definition of related party transactions on the basis of the exemption provided to public benefit entities. Any transactions not conducted on an arm’s length basis will be disclosed in the Financial Statements.

## **Disclosures in relation to prospective financial statements**

### **1) Major assumptions underlying the prospective financial statements**

Return on Global equity investments of 9.85% per annum

90 day Treasury bill yields of 3.0% per annum.

90 day bank bill yields of 3.5% per annum

Government Stock yields of 4.0% per annum

Claims costs directly related to the occurrence of major events and the claims they produce, have not been forecast.

Growth in the residential housing stock of 2% per annum.

No change in Government policy in respect of Crown Fees, Taxation or Dividend.

Reinsurance costs remain the same as the 2009 budget.

The number of contracted loss adjusters totals 20; 17 in EQC's contractor scheme plus 3 in the new entrants scheme.

### **2) Purpose of prospective financial statements**

These prospective financial statements have been prepared for internal management purposes and for inclusion in the Statement of Intent.

### **3) Degree of uncertainty attaching to prospective financial statements**

(a) The assumed returns for investments (provided by investment advisers) are based on long run returns. Over the short-term, the actual returns achieved can be significantly different.

(b) No estimate for claims, or costs directly associated with them, has been made, due to the high level of uncertainty in any estimate.

### **4) Factors that may lead to material difference between prospective financial statements and the actual financial results prepared in future reporting period.**

(a) The occurrence of earthquakes or other natural disasters covered by EQC will significantly impact on future actual financial statements.

(b) Movements in international equity markets and domestic fixed interest market will significantly impact on future actual financial statements.

(c) Movements in the New Zealand dollar against other currencies (particularly the USD) will significantly impact on future actual financial statements.

### **Cautionary Note**

Actual financial results achieved for the period covered are likely to vary from the information presented, and the variations may be material.

### **Responsibility and Approval**

The prospective financial statements were approved by the Board of EQC on 2 April 2009.

The Board of EQC is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Actual financial results are not incorporated in the prospective financial statements. EQC does not intend to update the prospective financial statements subsequent to presentation.

**FRS42**

These prospective financial statements comply with FRS42.

Statement of Service Performance for the year ending 30 June 2009

Output Class	Revenue	Expenditure
1: Claims handling and the Catastrophe Response Programme	Nil	\$8.6million
2: Research	Nil	\$11.1million
3: Public Education	Nil	\$3.1million
4 and 5: Policy Advice and Management of the Natural Disaster Fund	\$414.2	\$62.7million