Statement of Intent

June 2012 – June 2015

EARTHQUAKE COMMISSION
Kōmihana Rūwhenua

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 2013 and the two succeeding financial years, as required by the Act.

Michael Wintringham

Chairman

Board member

Date: 28 June 2012

Contents

Foreword from the Board Chair

This 2012/13 Statement of Intent is markedly different, in form and content, from previous years. There are two highlights which I draw to readers' attention:

- A new set of demanding performance standards, explicit and measurable, for what the Earthquake Commission (EQC) will achieve for its customers and stakeholders. These set the benchmark for our performance this year.
- Prospective financial statements which assume EQC will pay its customers, directly or through managed repairs, a further $8.7 billion in claims settlements (on top of the estimated $4.1 billion paid out for Canterbury claims and managed repair to date), offset by recoveries of $4.7 billion from our reinsurers.

These are inextricably linked, particularly for the Canterbury earthquakes:

- The better the quality our performance:
  - the less rework required;
  - the higher our customers' satisfaction;
  - the lower our costs per claim; and
  - the sooner we can progress other claims and priorities.
- The faster we settle claims:
  - the sooner we can reduce the costly infrastructure required for claims assessment and processing.
- The lower the costs of administering claims:
  - the greater the confidence of our reinsurers that we are managing their exposure, and the more likely we will be able to obtain affordable, continuing cover; and
  - the better for taxpayers as it will reduce the amount which the Government will eventually have to contribute to meet the final cost of claims.

By 1 July 2012, the beginning of the financial year covered by this Statement of Intent, EQC estimates it will have paid out $4.1 billion in managed repairs and building, land and contents claims for Canterbury, repaired 17,000 houses, carried out 44,000 emergency repairs, and installed 16,000 heating devices.

In 2012/13 those achievements will be near doubled, as land claims are settled and the home repair programme proceeds apace. This is a level of performance of which any organisation should be proud.

Michael Wintringham
Chairman

1. EQC at a glance

1.1 What we do

The Earthquake Commission (EQC) is a Crown entity with statutory responsibilities and functions set out in Section 5 of the Earthquake Commission Act 1993 ('the Act').

These functions are:

a) to administer the insurance against natural disaster damage provided under the Act;
b) to collect premiums payable for the insurance provided under the 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 the 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 the Act;
f) such other functions as may be conferred on it by:
    i. the Act or any other Act; or
    ii. the Minister, in accordance with section 112 of the Crown Entities Act 2004.

In plain language, EQC's core functions are to:

- provide insurance against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunami, natural disaster fire and natural landslip, to residential property which has a contract of fire insurance in force (residential land is also insured against the above hazards as well as storm or flood);
- administer the Natural Disaster Fund (NDF) including obtaining reinsurance; and
- facilitate research and education about matters relevant to natural disaster damage to promote mitigation behaviour by homeowners and relevant authorities.

These core functions – insurance, administration of the NDF, research and public education – are essential for New Zealand to effectively manage the risk of natural disasters.

2. Strategic Direction

2.1 Strategic Framework

The conceptual framework for EQC's assessment of performance:

Stakeholder Expectations
- Customers
- Government
- Reinsurers

Strategic Objectives
- Efficient management and settlement of claims
- Efficient pricing and financing of risk
- Improving the state of knowledge about New Zealand's natural hazards

Outputs
- Customer Services
- Administration of the Act, Insurance Scheme and NDF
- Research
- Public Education

Outcomes
- Communities and authorities prepared for natural hazards
- Recovery of communities affected by natural hazards
- Efficient management of the Crown's assets and liabilities

2.2 Stakeholder Expectations

Stakeholder expectations provide the backdrop against which we set out our objectives, and the measures, standards and other information with which we will measure and assess our performance. The degree to which EQC meets these expectations will determine whether or not it has succeeded in achieving its strategic objectives.

CUSTOMERS

EQC's customers have suffered loss as a result of a natural disaster. The resulting emotional, physical and financial trauma disrupts the normal function of individuals, families and communities.

Customers expect:

- informative, accurate and timely information relating to the lodgement, assessment and settlement of claims;
- timely resolution of claims; and
- consistent and fair resolution of claims.

GOVERNMENT

The Government's fundamental expectations of EQC are set out in legislation and in the Directions we have been given. These Directions are:

- Effective 1 November 2001 – requirements for how EQC should invest and manage the Natural Disaster Fund (NDF), and when EQC should consult with the Minister of Finance.
  This allowed EQC to diversify the investment of NDF to include (up to certain limits) New Zealand Government securities, global equities and New Zealand bank bills.

- Effective 15 September 2010 and expiring on 14 September 2011 – modifies elements of the 1 November 2001 Ministerial Direction.
  This enabled EQC to modify its investment limits in order to maintain the liquidity required to meet claims arising from the Canterbury earthquakes.

- Effective 14 December 2010 – gives EQC additional functions in relation to additional land remediation activities to certain parts of Christchurch and Waimakariri districts.
  This enabled EQC to: investigate options to remediate certain land in these areas to a higher standard than the statutory minimum; prepare a Concept Design Report for land remediation works in "Zone C" land; and carry out work to mitigate lateral spread in Spencerville.

- Effective 22 February 2011 and expiring on 30 April 2011 – gives EQC the ability to undertake inspections of, and emergency works to, residential properties otherwise not covered by the Act, for damage arising from the 22 February 2011 Canterbury earthquake and aftershocks.
  This allowed EQC to undertake inspections of, and carry out emergency works to, uninsured and otherwise ineligible residential premises following the 22 February Canterbury earthquake.

- Effective 18 April 2011 – gives EQC additional functions in relation to entering into and carrying out its roles under a Memorandum of Understanding (MoU) with the Waimakariri District Council relating to certain additional land remediation works in the District.
  This allowed EQC to enter into and carry out the roles and responsibilities set out in a MoU with the Waimakariri District Council and to undertake certain land remediation works in North Kaiapoi, where these were ready to be carried out before the approval of an overall Concept Design Report.

- Effective 15 September 2011 and expiring 14 September 2012 – extends period of modification to original 1 November 2001 Ministerial Direction.
  This enabled EQC to continue to modify its investment limits in order to maintain the liquidity required to meet claims arising from the Canterbury earthquakes.

In addition, the Government issued an Enduring Letter of Expectations to Crown entities on 22 December 2008 that set out expectations of all statutory Crown entities. These expectations are for:

- a more focused, efficient and productive state sector that delivers services differently and more cost effectively;
- informative and accurate financial and non-financial performance information that will enable Crown entities to demonstrate value for money; and
- high quality performance information to enable Ministers to make more informed decisions.

REINSURERS

Reinsurance markets facilitate access to global risk capital, thereby enhancing EQC's ability to meet the cost of natural disaster claims.

Reinsurers expect:

- utmost good faith in the portrayal of New Zealand residential housing in relation to earthquake hazard and the provisions of the Earthquake Commission Act;
- transparency in the reporting, assessment, apportionment and settlement of claims; and
- consistent and timely information relevant to the underwriting of risks and the reporting of losses.

2.3 Strategic Objectives

EQC's activities are guided by its statutory functions, as set out in section 5 of the Act. Broadly speaking, these functions contribute to three key, high level objectives for EQC:

- Efficient management and settlement of claims.
- Efficient pricing and financing of risk.
- Improving the current state of knowledge about New Zealand's natural hazards.

While our priority over the next three or so years will be on the efficient management and settlement of claims, in practise, these objectives are intertwined. For example, an improvement in the current state of knowledge about New Zealand's natural hazards will inform the pricing of the New Zealand risk by international reinsurance companies. The efficient management and settlement of claims can also help the pricing of the New Zealand risk by international reinsurance companies.

OBJECTIVE 1: Efficient management and settlement of claims

New Zealanders rely on EQC to provide efficient claims assessment and settlement in the aftermath of a disaster. EQC has the option to settle claims by payment, replacement or reinstatement. Regardless of how EQC elects to settle, it must deliver levels of service acceptable to claimants and their representatives in local and central government. This involves the timeliness and accuracy of lodging, assessing, quantifying loss, settling and resolving claims.

The timeframe for the settlement of 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 the time needed for land to stabilise to determine loss.

The need to reassess claims undermines confidence in the claims settlement approach and impacts on the efficiency of claims processing by, in effect, increasing claim handling costs through re-work. EQC reduces the incidence of this by educating claimants as to what is needed from them and ensuring assessors are sufficiently trained in the identification of natural disaster damage.

Outputs that contribute directly to this objective are:

- (1) Customer Services
- (2) Administration of the Act, Insurance Scheme and the Natural Disaster Fund
- (4) Public Education.

OBJECTIVE 2: Efficient pricing and financing of risk

Under the 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:

- develop and maintain sufficient capacity (fund assets and reinsurance) to meet the obligations of EQC that arise 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's contribution includes 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 also includes efficient administration and management of the scheme within the parameters set by the Government, including Ministerial Directions under section 12 of the Act.

Recent natural disasters around the globe (including the Canterbury earthquakes), together with the aftermath of the international financial crisis, has increased uncertainty around the pricing of risk. We believe that EQC will continue to access sufficient reinsurance capacity but that a change to the pricing structure is likely. Already, reinsurance contracts have been reduced from three years to one year.

Outputs that contribute directly to this objective are:

- (1) Customer Services
- (2) Administration of the Act Insurance Scheme and the Natural Disaster Fund
- (3) Research.

OBJECTIVE 3: Improving the state of knowledge about New Zealand's natural hazards

One of EQC's functions under the 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.'

Improving the depth and breadth of knowledge of natural hazard risk is successful if it results in the adoption of risk reduction behaviour and enables reinsurers to more effectively price the New Zealand risk. It includes both the application of EQC-funded research to public policy, thereby informing building standards and zoning requirements, and the raising of public awareness leading to tangible changes in behaviour in the home.

Outputs that contribute directly to this objective are:

- (3) Research
- (4) Public Education.

2.4 Outputs

OUTPUT 1: Customer Services

EQC's customer service output is the management of claims arising from natural hazard events, from claim lodgement to validation, assessment and resolution (which includes settlement), delivered in accordance with the Act. Delivering a robust and fair customer service experience ensures public and other stakeholder confidence in the scheme, enabling the recovery of communities affected by natural hazard events.

OUTPUT 2: Administering the Act, Insurance Scheme and Natural Disaster Fund (NDF)

Natural disaster insurance covers residential land, building and contents damaged as a result of a recognised natural hazard event. EQC's liability (excluding GST) extends to $20,000 for contents and $100,000 for dwellings, while land liability is unspecified in the Act, though is limited by area. Coverage is reinstated after each event, provided a current fire insurance policy is in place on the property. EQC's settlement is based on the conditions of the private insurance policy in place at the time of loss. When the loss exceeds EQC's "cap" payout, private insurers assume the balance of the liability (excluding land).

Levy payments, investment strategies and reinsurance coverage enable EQC to grow the pool of funds available to cover its liabilities arising from valid natural hazard claims. The NDF is invested in debt markets and is guaranteed by the Crown to ensure EQC is able to always meet its obligations. This reduces the fiscal impact on the government in the event of a natural disaster, thereby providing assurance to levy payers and the wider market.

OUTPUT 3: Research

EQC-funded and supported research 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 on responses to disasters and planning for possible future events, including the pricing of New Zealand's risk by the world's reinsurance companies.

OUTPUT 4: Public education

EQC's public education programme raises public awareness of the risk of natural hazards in relation to their residential property, enabling people to take practical steps to make their homes safer against natural hazards. This reduces the impact of disasters on people's lives, limits the insured liability and reduces the cost of reinsurance.

2.3 Outcomes

OUTCOME 1: Communities and authorities prepared for natural hazards

EQC's investment in natural hazard research and public education affects policy, standards and practices relating to residential property and its resilience to natural hazard events, while raising natural hazard awareness amongst the public, thereby changing behaviour to prepare for and mitigate the impact of a possible event.

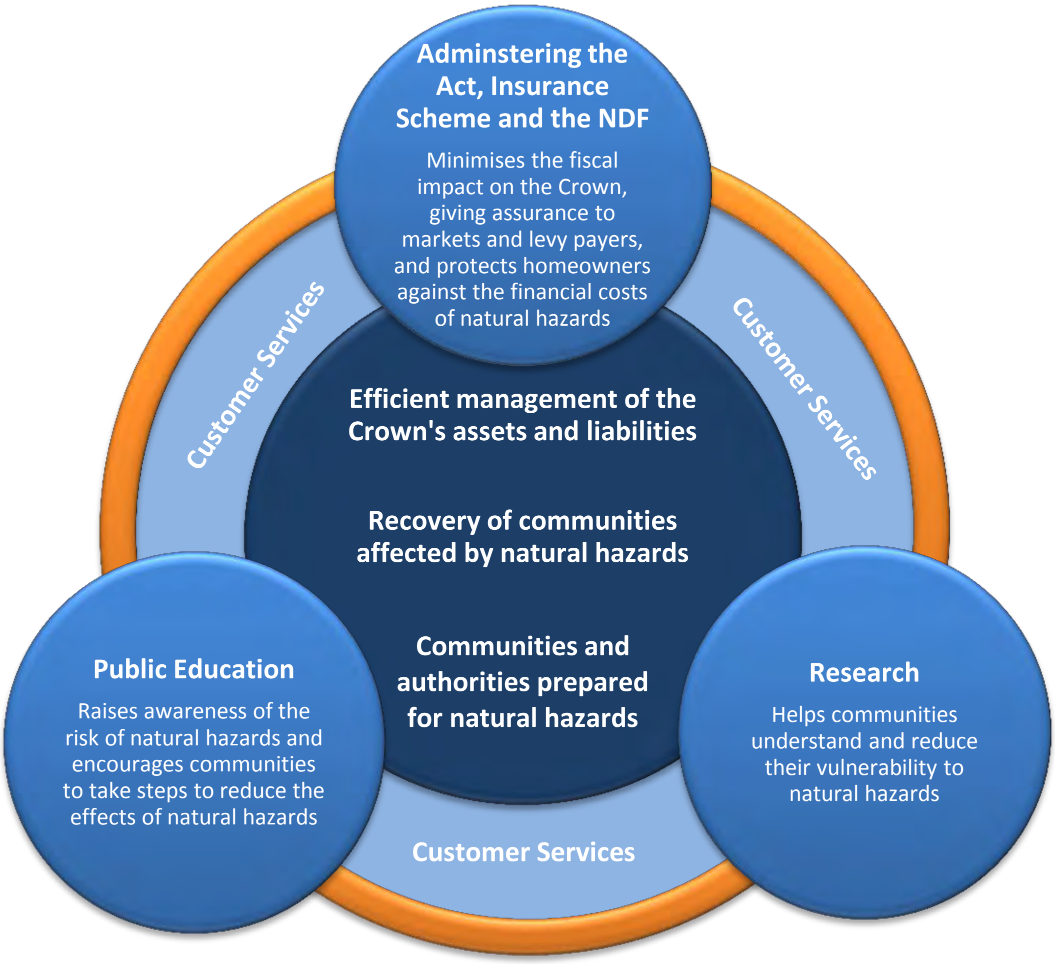
OUTCOME 2: Recovery of communities affected by natural hazards

Effective administration of the insurance scheme, from claim lodgement, to assessment and resolution, is crucial to the recovery of communities affected by natural hazards. EQC must ensure levy payers receive that to which they are entitled under the Act, using the settlement strategy at its discretion – cash settlement or managed repair.

OUTCOME 3: Efficient management of the Crown's assets and liabilities

EQC's investment in natural hazard research and public education affects policy, standards and practices relating to residential property and its resilience to natural hazard events, while raising natural hazard awareness amongst the public, thereby changing behaviour to prepare for and mitigate the impact of a possible event.

Figure 1: OUTPUTS TO OUTCOMES



3. Operating Environment

3.1 Canterbury

The Canterbury earthquakes of 2010-2012 have significantly altered EQC's operating environment. An already complex situation has been further complicated by the ongoing nature of seismic events in the region and the nature of resulting land damage. The response phase is over and the focus is now on claim settlement and long-term recovery.

The Canterbury earthquake events combined are the largest ever insurance event in New Zealand. By June 2012, more than 459,000 claims (consisting of over 689,000 individual insurance exposures and applying to over 170,000 residential properties) had been lodged with EQC, dwarfing the previous largest event of Inangahua in 1968 that produced 10,500 claims. Worldwide, no individual insurer has handled as many claims arising from a single event.

In terms of costs, the Canterbury earthquake events combined are the most expensive insurance event in New Zealand history. The Treasury estimates the value of damage caused by the Canterbury earthquakes at $20 billion, which is about 10 per cent of GDP. To put this in context, the devastating March 2011 earthquake and subsequent tsunami off the north-east coast of Japan is estimated to have caused damage equivalent to around 3 to 5 per cent of Japan's GDP.

In response to the unprecedented nature of the Canterbury events, the Government made a number of policy decisions that will have an on-going impact on the environment within which EQC operates in the short to medium term (the next three to five years). These decisions included:

- The declaration, on 23 February 2011, of a state of national emergency. This was the first time in New Zealand history that a state of national emergency had been declared as a result of a civil defence emergency event.
- The passage of the Canterbury Earthquake Response and Recovery Act 2010 and then the Canterbury Earthquake Recovery Act 2011 to facilitate, co-ordinate, and direct the planning, rebuilding, and recovery work in Canterbury.
- The establishment of the Canterbury Earthquake Recovery Commission and its successor, the Canterbury Earthquake Recovery Authority (CERA) to provide leadership and coordination of the recovery effort in Canterbury.

In response to the Canterbury earthquakes, EQC has cooperated with other agencies to provide a rapid, coordinated response in the immediate aftermath, enabling the community to shift from its initial reaction to longer term recovery. This process has, at times, been fraught with delays and complications arising from the ongoing nature of the earthquakes.

EQC works with the CERA so that areas of mutual interest, such as planning, mitigation and recovery, are addressed jointly. EQC also works with other agencies directly involved in the Canterbury recovery effort including: the Christchurch City Council; the Department of Building and Housing; Housing New Zealand Corporation; the Ministry of Social Development; the Canterbury Earthquake Temporary Accommodation Service (CETAS); the Ministry of Civil Defence and Emergency Management; Inland Revenue; the Department of Internal Affairs; the Ministry for the Environment; the Department of Prime Minister and Cabinet; and the Treasury.

The Government, through the Minister of Finance, made a number of decisions which have had specific impacts on EQC's activities, role and functions. These decisions were:

- the transfer from the Minister of Finance (as the Minister Responsible for the Earthquake Commission) to the Minister for Canterbury Earthquake Recovery of powers, functions and responsibilities in relation to EQC's earthquake recovery work in Canterbury, including, where necessary, Directions to EQC to extend its functions
- the issuing of written Directions extending EQC's role and functions
- the announcement of the Chimney Replacement Programme
- to 'give confidence to affected communities, banks and insurers to rebuild' (CAB Min (10) 36/11), underpinning Government decisions around additional land remediation activities
- agreement to establish a project management office to manage residential repairs to ensure a high standard of repairs while controlling costs in an environment where costs will likely surge.

The combined effect of these decisions has been to expand EQC's role from solely a Crown financial institution, geared to cash settling natural disaster claims, to one that now includes:

- project managing, through a contract with Fletcher Construction, as much as 60 per cent of the physical residential repair and rebuild of Christchurch and affected areas of Canterbury
- designing and supervising additional land remediation activities for work separately funded by the Government
- providing key engineering advice to the Government (as the work done by our geotechnical engineers for our claims requirements has been used for much wider policy purposes)
- a social assistance component to our response through:
    - our identification of vulnerable households and those seeking temporary accommodation;
    - the expansion of our urgent repair approach to include the uninsured (but where the costs of emergency repairs for uninsured premises was funded by the Government); and
    - the Winter Heat Programme.

3.2 New Zealand

As substantial as the Canterbury events are, EQC must maintain an ability to respond to natural hazards nationwide. In the latest financial year, this was illustrated by EQC's response to the significant landslips in Nelson and the earthquake in Picton in December 2011. EQC has leveraged its experience with Canterbury to improve its response to smaller events elsewhere.

3.3 Global

Global events beyond EQC's control can impact on EQC's ability to secure sufficient reinsurance at a price commensurate with the Direction of the Board, to protect the value of the Natural Disaster Fund. In recent years, a concentration of large-scale natural disasters, including earthquakes in Chile, Japan and New Zealand, and flooding in Thailand and Australia, have impacted on reinsurance markets. This uncertainty is an inherent element of EQC's operating environment.

4. Operating Intentions for 2012/13

4.1 Priorities

The Canterbury earthquakes will inevitably dominate EQC's activities for the foreseeable future. Nonetheless, EQC must maintain a readiness and ability to address claims arising from natural hazard events elsewhere in New Zealand.

EQC's priorities for 2012/13 will be:

- settling all eligible claims quickly and accurately, to standards acceptable to the public and necessary to provide confidence to our reinsurers, and in alignment with the social priorities of the Government for the recovery of Canterbury;
- communicating clearly and promptly to claimants and others of EQC's intentions, activities and progress;
- discharging our responsibilities through the contract with Fletcher Construction for the repair and rebuild of a significant proportion of residential properties in Christchurch and affected areas of Canterbury;
- ensuring appropriate progress of the additional land remediation works; and
- replacing EQC's rolling reinsurance cover with new cover on conditions and at a price which is acceptable, given the Government's overall objectives for its balance sheet.

This is a complex task in Canterbury. EQC must account for:

- differing levels of damage to both property and land in areas with differing damage profiles, while accounting for Government policy towards land rehabilitation or retirement options;
- the need to coordinate with CERA, the local authorities and the claims settlement activities of the private insurers;
- the on-going need to prioritise emergency repairs and winter heating needs; and
- the practical requirements of managing and coordinating a large scale residential repair and rebuild programme where the cashflow and broader economic and resource impacts on the Christchurch and wider Canterbury community will also need to be considered.

EQC will also be expected to contribute to wider policy work with information and advice, and to align with the Government's overall recovery plan for Canterbury. In particular, EQC will play a key role in the review of EQC and the scheme to be undertaken by Treasury in mid-late 2012. We anticipate that this wider policy work will include:

- assessing insurance market reaction to the Canterbury events;
- considering EQC's role within the market context in the aftermath of the Canterbury events;
- identifying legislative and operational changes that would improve EQC's response to any future large scale event;
- advice (in conjunction with the Treasury) on the on-going size, structure and investment profile of the NDF; and
- identifying lessons learned from EQC's response to the Canterbury events, applying them to EQC and sharing them with other Government entities and functions.

Discharging our responsibilities to claimants either through cash settlement or managed repair will also necessitate the orderly sell down of NDF assets.[1]

EQC's holdings of government bonds are deemed "non-market". They are sold back to the New Zealand Debt Management Office (NZDMO) so that the NZDMO can manage any resulting re-financing as part of the Crown's overall debt requirements. The sale of the bonds to the NZDMO therefore reduces both debt (liability) and cash (asset) holdings of the NZDMO. EQC will have divested its equity investments by June 2012.

Other communities are, and will likely be, affected by natural hazard events. Severe weather events across the North Island and in Nelson, alongside other earthquake activity during the 2011-12 financial year are reminders that EQC must maintain the capability and flexibility to respond efficiently and effectively to any other natural hazard events, including earthquakes, volcanic eruption, hydrothermal activity, tsunami and natural landslips.

4.2 Risk Management

Risk management is, to a large degree, EQC's core business. Risk management is a critical business discipline that reduces uncertainty in the achievement of statutory functions and business objectives, while strengthening and complementing other corporate governance initiatives.

EQC's Board, management and staff are guided by the principles that risk management:

- creates and protects value;
- is an integral part of all organisational processes, including decision making;
- is dynamic, iterative and responsive to change;
- facilitates continual improvement of the organisation; and
- is transparent and inclusive and tailored to EQC's requirements.

EQC's Risk Management Policy and supporting framework have been established to:

- ensure proper risk governance;
- focus on what matters most;
- plan for rather than to react to risk;
- integrate risk management into EQC's structure, policies, processes and procedures;
- provide assurance that key risks are adequately managed;
- share knowledge and facilitate continuous business improvement;
- ensure the quality of decisions; and
- achieve cost and resource savings.

Key organisational risks that EQC's Risk Management Policy and framework support include:

- The expanded capacity of the claim handling systems and its resilience to operational pressures.
- Accounting for the costs of the Canterbury earthquakes in a way which will satisfy our Parliament and reinsurers, while meeting the expectations and needs of our customers.

[1] Under the Ministerial direction of 15 September 2010, a maximum of 35 per cent of the market value of the fund can be held in global equities. EQC also has a target allocation of the fund between government securities, global equities and bank securities.

- Effectively recruiting employees with the necessary skills to meet the vastly different needs of EQC and its stakeholders than those that existed pre-4 September 2010.

4.3 Evaluation

UMR Research has been commissioned by EQC to undertake a regular survey to determine the level of claimant satisfaction with EQC's claim handling process. The survey is a telephone-based survey to claimants who had their claim settled in the previous month, and the analysis is undertaken at quarterly intervals.

This information is intended as an input to future response planning and to the development and on-going refinement of EQC's public education programmes.

5. Organisational Health and Development

5.1 Our changing environment

CONTEXT

Since the Canterbury earthquake on 4 September 2010 and subsequent aftershocks and new events, EQC has had to respond to a massive increase in claim lodgements, assessments and settlements. In response, EQC established a number of site offices in Christchurch and rapidly engaged a large number of temporary staff to assist with the EQC response to the Canterbury events.

CATASTROPHE RESPONSE PROGRAMME (CRP)

New Zealanders rely on EQC to provide efficient claims assessment and settlement in the aftermath of a disaster. This means the challenges facing EQC include:

- adjusting to substantially increased demands at short notice, such as the need for assessors;
- maintaining expertise in the management of insurance, reinsurance and investments, alongside technical expertise in disaster response; and
- the need for staff and contractors to work away from home and families in stressful and sometimes hazardous conditions.

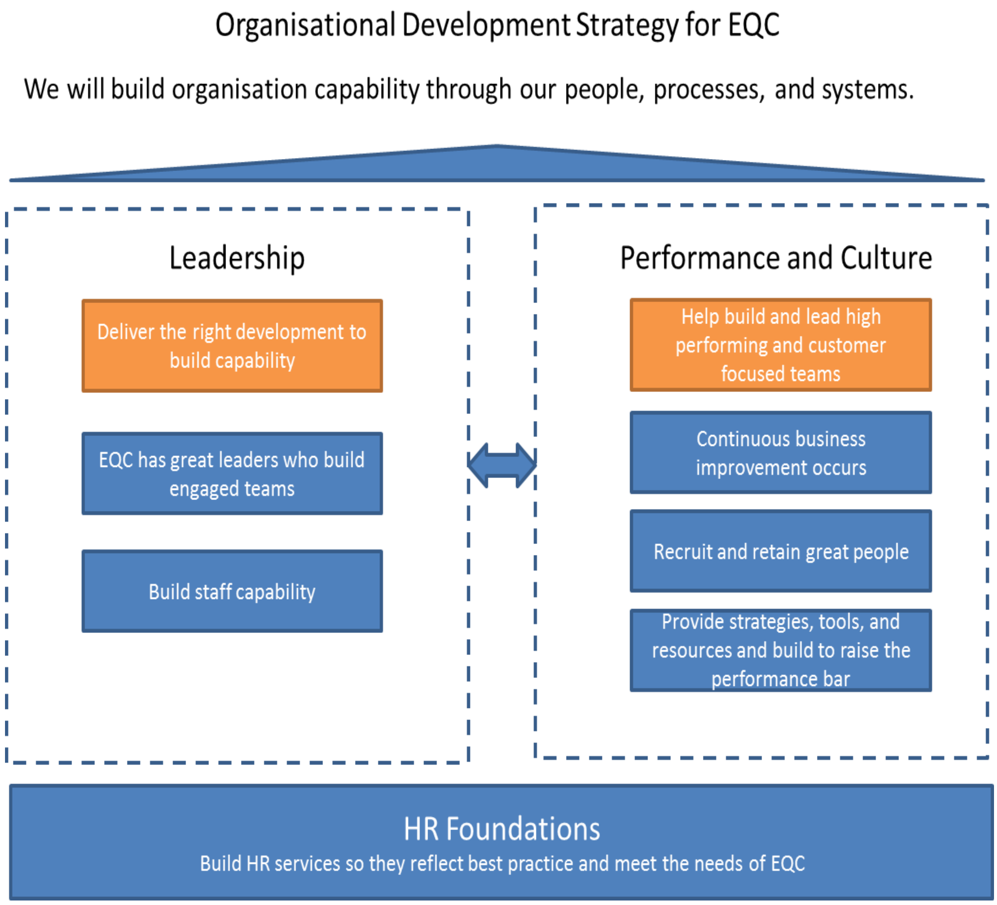
For these reasons, organisational health and capability are of strategic importance to EQC. EQC addresses organisational capability and readiness to respond to crisis through robust management practices and the Catastrophe Response Programme.

5.2 Our people

Human resources are integral to EQC achieving its objectives, complying with statutory obligations and enabling the recovery of communities affected by natural disasters. To ensure that staff regard EQC as a good employer, we will continue to:

- demonstrate leadership and vision that articulates EQC's values and makes a difference to the lives of New Zealanders;
- provide equal employment opportunities for staff, as an Equal Employment Opportunities (EEO) employer;
- encourage staff to develop through internal and external training, coaching and mentoring;
- provide opportunities for staff participation in organisational decisions;
- take account of the need for staff to balance work with their personal lives;
- utilise performance management practices that are transparent and fair;
- provide a working environment that is free from all forms of harassment and provide safe, timely and fair means of resolving internal complaints;
- provide a healthy and safe workplace, observing occupational health and safety requirements at the corporate office and as part of the CRP, to ensure temporary field offices and claims sites are safe for our staff; and
- provide a confidential Employee Assistance Programme available to any staff member.

The Organisational Development (OD) Strategy supports EQC's strategic plan and goals. This Strategy is intended to evolve along with the direction and needs of EQC. It forms a basis for future decision making for our people and is a guide to achieving the highest standards of staff performance. The OD Strategy is aimed at building a scalable operating model, one that meets business requirements and can expand to respond to events and then contract again. It also has a particular focus on developing our leadership, culture and performance.



LEADERSHIP

OBJECTIVE: To develop strong and effective leaders

Good leadership provides better role clarity which leads to an outcome-focussed, high performance culture. Leadership is not just for those in management roles – all employees have leadership capability and this is critical following natural disasters. We will deliver the right development to build capability.

Actions we will take to achieve this objective include:

- developing a leadership framework and competencies;
- introducing regular seminars/networking for managers on relevant topics;
- introducing mentoring and coaching for success or managing improved performance frameworks;
- identifying training and professional development options around leadership competencies;

- including leadership performance measures for all managers in their performance agreements;
- ensuring all managers have a professional development plan; and
- introducing performance feedback initiatives such as 360 degree feedback for leaders.

PERFORMANCE AND CULTURE

OBJECTIVE: Create a culture where high performance and great customer service is the norm

Developing a performance management strategy will help build and guide a high performing and engaged team where performance is maximised within the context of EQC's customer service approach. We will manage our workforce to ensure risks are minimised and strategic objectives are achieved within budget and on schedule. This will ensure that organisational performance and change management meets the future requirements of EQC.

Actions we will take to achieve this objective include:

- delivering a performance management system that is meaningful and easy to use;
- surveying attitudes towards leadership, training and development, recognition and reward, teamwork, communication and cooperation, common purpose, culture and values;
- identifying and addressing pay disparity issues;
- better managing the ratio between employees and short-term staff; and
- introducing tools, templates and resources for changing and improving our people capability, processes and frameworks, to enhance the customer experience.

HR FOUNDATIONS

OBJECTIVE: Develop HR services so that they reflect best practice and met the needs of EQC

The delivery of our HR services and processes is fundamental to the wellbeing of employees. These systems and processes are based on EQC's vision and values. EQC will comply with all our legal obligations including having a safe and healthy workplace.

Actions we will take to achieve this objective include:

- implementing a career centre to recruit top talent using best practice to ensure we have the skills and capabilities for the future needs of EQC;
- introducing a comprehensive induction programme providing a strategic and operational context for all people who work for EQC;
- developing a remuneration framework that reflects the needs of EQC and is competitive with the market;
- complying with Health and Wellbeing policy, processes and legal requirements;
- developing comprehensive, flexible, principle-based and easy-to-understand policies and procedures that are adhered to by all EQC employees; and
- developing a robust, best-practice individual performance management system where objectives and behaviours link to the strategic direction of EQC and salary progression is tied to performance.

HEALTH & SAFETY

Health, Safety and Wellbeing is a critical factor in the delivery of our organisational priorities and the Executive Leadership Team has committed to the following objectives:

OBJECTIVE (short-term): enter into ACC Workplace Safety Management Practices (WSMP) Programme at Primary Level
OBJECTIVE (long-term): Achieve "zero harm" in the workplace

Actions we will take to achieve these objectives include:

- providing training to all managers on their responsibilities under the Health and Safety in Employment Act;
- providing training to members of the Health and Safety Committee;
- developing standard operating procedures for field staff;
- evaluating the health and safety policies and procedures of third party providers;
- developing and setting Key Performance Indicators for managers, staff, and contractors; and
- achieving primary level ACC WSMP.

6. Forecast Statement of Service Performance

6.1 Output 1: Customer Services

EQC's operating environment is both dynamic in the unpredictability of events for which it provides cover, and complex in the nature of the damage and subsequent loss. As an agency that is designed to scale-up rapidly in response to large events, the quantity of claims handled can vary dramatically, from a few thousand during "normal years", to hundreds of thousands following catastrophes like the Canterbury earthquakes. The rate of settlement of claims following a natural event is dependent upon the resources that can be marshalled to investigate and handle the claims.

The customer service experience is almost entirely related to claims handling. The purpose of claims handling is to repair, replace or reinstate property or land damaged by an insured peril, up to the maximum amounts set out in the Act. This involves:

- lodgement – receiving a claim from the owner of damaged residential property;
- validation – establishing entitlement;
- assessment – quantifying loss; and
- resolution – settlement (by payment, replacement or reinstatement/repair) and closure.

This must be done in an efficient and fair manner in accordance with the Act. Efficient claims handing and settlement minimises the costs faced by levy payers and by international reinsurers. Fair claims handling and settlement in accordance with the Act ensures that claimants and the general public have confidence in the scheme and its administration, and that third parties who also have a financial interest in the claim (for example mortgage holders, private insurers, reinsurers) can have certainty about their costs and risks – and price this accordingly.

We will be successful if:

- customers are provided with the necessary information and tools to enable them to lodge claims with EQC within the statutory period;
- claims are assessed and resolved within a timeframe and to standards of fairness acceptable to the public and reinsurers and in accordance with the Act;
- customer satisfaction improves for the service delivered and exceeds the State Services Commission, KiwiCount survey average for that time period;
- EQC constructively engages with key stakeholders in the delivery of customer services;
- EQC's customer services are cost efficient; and
- EQC demonstrates containment of repair costs and high quality repairs for the Canterbury Home Repair Programme (CHRP).

This Output contributes to the achievement of:

- Objective 1: Efficient management and settlement of claims.
- Objective 2: Efficient pricing and financing of risk.

Output 1 has a budgeted expenditure of $13.4 million (non-Canterbury) and $255.8m (Canterbury) for 2012-13. The costs of the Canterbury event have been accounted for in EQC's liability for this event.

OUTPUT 1 MEASURE: QUANTITY

MEASURE			TARGET 2012-13	TARGET 2013-14	TARGET 2014-15
Lodgement	Lodgement of claims after 90 day deadline		<1%	<1%	<1%
Assessment	For events with fewer than 10,000 claims, loss is quantified within 90 days of claim lodgement		90%	92%	95%
	For events with 10-100,000 claims, loss is quantified within 180 days of claim lodgement		90%	92%	95%
	For events with over 100,000 claims, loss is quantified within 270 days of claim lodgement		90%	92%	95%
Resolution	Non-Canterbury claims	Claims are settled within one year of quantification of loss	100%	100%	100%
	Canterbury Claims	Urgent repairs completed within 10 days of validation	95%	95%	95%
		Proportion of repairs costing more than $50,000 resolved	100%	-	-
		Proportion of contents claims resolved	100%	-	-
		Proportion of dwelling claims resolved	40%	65%	90%
		Proportion of land claims resolved	90%	98%	100%

OUTPUT 1 MEASURE: QUALITY

MEASURE		TARGET 2012-13	TARGET 2013-14	TARGET 2014-15
Lodgement	Claims validated within 10 days of receipt	85%	90%	92%
	Rate of declinature due to claim invalidity	15%	12%	10%
Assessment	Reassessment arising from customer dispute where variance is found to be greater than 10 per cent	15%	13%	10%
	Average Variance between EQC's "Assessed Claim Value" and quoted repair/replacement costs	20%	20%	20%
Resolution	Compliance with building regulations on first post-repairs inspection	100%	100%	100%
	Disputes resolved prior to third-party mediation	95%	96%	97%
Overall	Customer satisfaction – average rating	70%	72%	75%

OUTPUT 1 MEASURE: COST

MEASURE		TARGET 2012-13	TARGET 2013-14	TARGET 2014-15
Overall	Claims handling costs	$255m	$171m	$118m
	Claims handling costs as a proportion of claims paid	10%	9%	8.5%
CHRP	Labour costs	Change in rates are no more than 1.5 times that of the corresponding annual CPI rate		
	Materials costs	Change in costs are no more than 1.2 times that of the corresponding annual PPI rate		
	PMO cost managed within budget	100%	100%	100%
	Repair cost managed within assessed cost	100%	100%	100%

6.2 Output 2: Administration of the Act, Insurance Scheme and NDF

This output involves administration of the Natural Disaster Fund (NDF), including collection of the premiums payable, 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.

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

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.

The sell-down of EQC's investments in international equities will be complete by the end of 2011-12.[2] A return to equity investments is not forecast to resume within the lifespan of this SOI. Consequently, performance measures relating to investment performance are not applicable for the time being. Premium income from the EQC Levy (which itself was increased from 1 February 2012) now accounts for a substantially larger proportion of income than previously.

As a result, EQC will increase its focus on forecasting, monitoring and compliance to ensure premium income increases as expected. EQC has identified a number of risk areas regarding the calculation of premiums that has been further supported by the Canterbury Event. Any variation from the expected income would warrant further investigation by EQC, including assessment of the assumptions underpinning forecast income.

EQC bases its forecast premium income on an average increase of housing stock of one per cent per annum, based on Statistics New Zealand's Mean Estimated Private Dwellings, with a June 2011 base of 1,735,000 dwellings. It is also assumed that there is static uptake by households of home and contents insurance, paying full premiums.

Operationally, this output is managed through:

- monitoring revenue receipts;
- coordinating and monitoring stakeholder relationships;
- provision of information and guidance on levy calculation to the Insurance Industry; and
- improving the collection and quality of levy payer information.

The key determinants of premium income are:

- the amount of housing stock; and
- insurance coverage.

Ultimately, we will be successful in our administration of the Act, Insurance Scheme and the NDF if:

- EQC's forecast gross premium (EQC levy income) meets targets;
- EQC's administration of the scheme and management of any claims against the scheme, together with EQC's research output, reduces the pricing of the New Zealand risk by the world's reinsurance companies; and

---

[2] The investment of the NDF 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.

- EQC is able to renew its reinsurance programme so that, together with the NDF assets, this is sufficient to meet the maximum probable loss.

This Output contributes to the achievement of:

- Objective 2: Efficient pricing and financing of risk.

Output 2 has a budgeted expenditure of $141.9 million for 2012-13. This includes the $10 million paid to the Crown for the Crown Guarantee.

OUTPUT 2 MEASURE: QUANTITY

MEASURE		TARGET		
		2012-13	2013-14	2014-15
EQC Levy	Forecast Gross Premiums	$277.4m	$280.2m	$283.0m
Reinsurance	Amount secured per event with reinstatement	$2.5 billion	$2.5 billion	$2.5 billion
	Ratio of capital against reinsurance for all but probably maximum loss event	1:2	1:2	1:2

OUTPUT 2 MEASURE: QUALITY

MEASURE		TARGET		
		2012-13	2013-14	2014-15
EQC Levy	Collection of Gross Premiums declared by insurers and brokers	100%	100%	100%
Reinsurance	Coverage	Nationwide coverage for the perils covered in the EQC Act		

OUTPUT 2 MEASURE: COST

MEASURE		TARGET		
		2012-13	2013-14	2014-15
EQC Levy	Premium collection costs as a percentage of premium collected	<0.2%	<0.2%	<0.2%
Reinsurance	Cost of securing	EQC obtains sufficient reinsurance at a price commensurate with the direction provided by the Board to protect the value of the Fund.		

6.3 Output 3: Research

EQC's investment in science capacity and hazard monitoring research is to encourage the transfer and uptake of knowledge into practice, thereby mitigating risk, raising awareness and reducing damage, disruption and loss of life following a natural disaster. Active investment in this field of research combines with EQC's transparency with the insurance market as to risk in New Zealand to maintain and strengthen relationships with international reinsurers.

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 being to (1) assess the hazard; (2) assess the risk posed by the hazard; (3) devise actions to mitigate the risk; and (4) develop actions to enhance recovery.

We will be successful in our research funding if:

- the body of knowledge of natural hazard risk in New Zealand is strengthened;
- revised building standards, regulations, local authority requirements, district plans and practitioner guidelines embody relevant EQC-funded research results; and
- international catastrophe loss models embody relevant EQC-funded research results with corresponding reduction of uncertainty associated with New Zealand natural disaster risk.

This Output contributes to the achievement of:

- Objective 2: Efficient pricing and financing of risk.
- Objective 3: Improving the state of knowledge about New Zealand's natural hazards.

Output 3 has a budgeted expenditure of $14.2 million for 2012-13.

OUTPUT 3 MEASURE: QUANTITY

MEASURE		TARGET		
		2012-13	2013-14	2014-15
Research Capability	Biennial grants	All grant applications of sufficient merit are awarded funding within budget constraints		
	Post-Graduate students	All post-graduate applications of sufficient merit are awarded funding within budget constraints		
	Scholarships and Awards offered on merit	4	4	4
Science-to-Practice	Post-disaster investigation reports and lessons learned published within 12 months of event	100%	100%	100%
	Funded reports are presented in sector print media and/or presented at conferences or stakeholder workshops	100%	100%	100%

OUTPUT 3 MEASURE: QUALITY

MEASURE		TARGET 2012-13	TARGET 2013-14	TARGET 2014-15
Research Capability	Completed research supports at least one peer-reviewed, academic paper or report within one year of completion	90%	90%	90%
	Completed research is published in a peer-reviewed, academic journal within one year of completion	80%	80%	80 %
	GeoNet achieves all contracted objectives	100%	100%	100%
	Research grants meet all contracted objectives	100%	100%	100%
	University-specific grants meet all contracted objectives	100%	100%	100%
Science-to-Practice	Funded activities achieve all contracted objectives	Demonstrated collaboration with local government		
		Demonstrated collaboration across agencies and professional disciplines		
	Engineering Lifelines Programme	Participation of utility providers and local government in annual technical forum		

OUTPUT 3 MEASURE: COST

MEASURE	TARGET ($, 000s) 2012-13	2013-14*	2014-15*
GeoNet	9,217	9,068	9,164
Research Capability	998	998	998
Science-to-Practice	1,202	1,177	977

*Note that funding for future years is indicative only and is assessed and approved by the Board annually on the basis of merit and prevailing priorities.

6.4 Output 4: Public Education

The main purposes of EQC's public education activities are:

- to improve the levels of knowledge of and activity by New Zealanders to make their homes safer from natural perils; and
- to improve the levels of understanding of EQC's role.

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 to mitigate the risk of damage and physical harm, and what to expect of EQC should they experience natural disaster damage.

EQC's legislation does not permit EQC to carry out mitigation activities for home owners, so EQC cannot directly affect levels of disaster mitigation activity. Instead, EQC pursues nationwide and regional education initiatives. The immediacy and directness these convey, improve New Zealanders' knowledge of mitigation activities and of EQC. One of the primary features of EQC's public education efforts has been its focus on school children, who can more effectively transfer newly acquired knowledge into their homes, thereby influencing homeowner behaviour.

In the aftermath of the Canterbury earthquakes, EQC recognises an opportunity to harness the lessons learnt and, alongside increased public interest in natural hazards, to reconsider and enhance its public education efforts.

Consequently, a review of EQC's public education efforts will be undertaken in the first half of the 2012-13 financial year. This review will identify opportunities and methodologies to enhance public awareness, leading to a longer term strategy to genuinely influence public behaviour in mitigating natural hazard risk and interacting with EQC. This will impact on future activities. Consequently, the targets established for 2013-2015 should be considered indicative of a steady-state only.

We will be successful in our public education activities if:

- New Zealanders are aware of earthquake safety and natural hazard mitigation measures; and
- home-owners understand EQC's role, should they experience natural disaster damage.

This Output contributes to the achievement of:

- Objective 1: Efficient management and settlement of claims.
- Objective 3: Improving the state of knowledge about New Zealand's natural hazards.

Output 4 has a budgeted expenditure of $1.8 million for 2012-13.

OUTPUT 4 MEASURE: QUANTITY

MEASURE	DESCRIPTION	TARGET		
		2012-13	2013-14	2014-15
Public Awareness	Participating schools in Regional Schools Programme	40	40	40
	Number of students participating in Virtual Field Trips	2,700	2,700	2,700
	Student participation in EQC Schools Fund (Te Papa visits)	500	500	500

OUTPUT 4 MEASURE: QUALITY

MEASURE	DESCRIPTION	TARGET		
		2012-13	2013-14	2014-15
Public Awareness	Student understanding of natural hazard safety in the home (average test score)	80%	80%	80%
	Secondary student understanding of EQC role in natural disaster recovery (average test score)	80%	80%	80%

OUTPUT 4 MEASURE: COST

MEASURE	DESCRIPTION	TARGET		
		2012-13	2013-14	2014-15
Public Awareness	Regional Schools Programme	$80,000	$80,000	$80,000
	Virtual Field Trips	$32,500	$32,500	$32,500
	EQC Schools Fund (Te Papa visits)	$15,000	$15,000	$15,000

7. Prospective Financial Statements

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

	Budget 2013 $(000)
Earned premium	
Gross earned premiums	240,347
Outward reinsurance premium expense	(130,000)
Net earned premium revenue	**110,347**
Underwriting costs	
Reinsurance and other recoveries	64,000
Claims expense	(207,000)
Catastrophe Response Programme	(13,432)
Movement in unexpired risk liability	30,175
Total underwriting costs	**(126,257)**
(Deficit)/surplus from underwriting activities	**(15,910)**
Other Operating Costs	
Public Education	(1,781)
Research (excluding GeoNet)	(4,999)
GeoNet Programme	(9,235)
Total operating costs	**(16,014)**
Investment Activities	
Investment income	54,299
Risk Funding costs	(1,756)
Interest on cash balances	6,933
Surplus from investment activities	**59,476**
Crown underwriting fee	**(10,000)**
New (deficit)/surplus for the year and total comprehensive income	**17,552**

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Budget 2013 $(000)
Capitalised reserves	
Opening balance at 1 July	1,500,000
Movement for the year	
Closing balance at 30 June	**1,500,000**
Retained earnings	
Opening balance at 1 July	(3,068,345)
New (deficit)/surplus for the year and total comprehensive income	17,552
Closing Balance at 30 June	**(3,050,793)**

PROSPECTIVE STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Budget 2013 $(000)
Natural Disaster Fund	
Capitalised reserves	1,500,000
Retained earnings	(3,050,793)
Total equity	**(1,550,793)**
Assets	
Cash in bank	389,881
Premiums receivable	58,599
Reinsurance and other recoveries	1,602,631
Other receivables	96,574
Prepayments	23,944
Investments	1,487,665
Property, plant and equipment	23,647
Intangible assets	6,554
Total assets	**3,689,495**
Liabilities	
Trade and other payables	29,941
Provision for employee entitlements	467
Outstanding claims liability	5,001,000
Unearned premium liability	140,938
Unexpired risk liability	67,942
Total liabilities	**5,240,288**
New (liabilities)/assets	**(1,550,793)**

PROSPECTIVE STATEMENT OF CASH FLOWS
For the year ended 30 June 2013

	Budget 2013 $(000)
Cash flows from operating activities	
Cash was provided from:	
Interest	114,461
Premiums	269,942
Dividends	
Reinsurance and other recoveries	2,509,000
Net cash flow from GST	-
Cash was disbursed to:	
Outward reinsurance	(141,622)
Crown underwriting fee	(10,000)
Claims settlements and handling costs	(3,638,837)
Employees and other operating expenses	(17,449)
GeoNet operating expense	(5,810)
Research grants	(2,675)
Net cash flow to GST	(54,930)
Net Cash (outflow)/inflow from operating activities	**(977,920)**
Cash flows from investing activities	
Cash was provided from:	
Sale of investments	499,000
Sale of property, plant and equipment	-
Cash was applied to:	
Purchase of investments	-
Purchase of property, plant and equipment	(3,678)
Purchase of intangibles	(3,767)
Net Cash (outflow)/inflow from investing activities	**491,555**
Net (decrease)/increase in cash	**(486,365)**
Add Opening Cash Brought Forward	876,246
Ending cash carried forward	**389,881**

Note 1
PROSPECTIVE OPERATING EXPENDITURE EXCLUDING CLAIMS COSTS
For the year ended 30 June 2013

	Budget 2013 $(000)
Advertising and Publicity	814
Fees paid to the auditor	
Audit of the financial statements	120
Commissioners' Fees	230
Depreciation and amortization of intangibles	5,268
Employee remuneration and benefits	4,205
Grants for earthquake research	2,675
GeoNet Operating Costs	5,810
Investment and Custodial Expenses – third party	237
Office Rental	350
Sponsorships	680
Other administration cost	10,813
Total operating expenditure excluding claims costs	31,202
Expenditure grouped by function	
Catastrophe response programme	13,432
Public education	1,781
Research (excluding GeoNet)	4,999
GeoNet Programme	9,235
Risk funding costs	1,756
Total expenditure by function excluding claims costs	**31,202**

Note 2
CLAIMS EXPENSE

	2013 Current Year $(000)	2013 Prior Years $(0000	2013 Total $(000)
Gross claims – undiscounted	50,000		50,000
Movement in discount		157,000	157,000
Gross claims discounted	**50,000**	**157,000**	**207,000**

Statement of Accounting Policies For the year ended 30 June 2013
Notes to the financial statements

Accounting Policies

REPORTING ENTITY

The Earthquake Commission (EQC) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. EQC's ultimate parent is the New Zealand Crown. EQC's primary objectives are to administer the insurance against natural disaster damage as provided for under the Earthquake Commission Act 1993 (the Act), facilitate research and education about matters relevant to natural disaster damage, and to manage the Natural Disaster Fund including the arrangement of reinsurance. Accordingly, for purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), it qualifies as a public benefit entity.

The reporting period covered by these prospective financial statements is the year ending 30 June 2013.

BASIS OF PREPARATION

Measurement Base

The financial statements have been prepared on a historical cost basis modified by the measurement of financial instruments at fair value through surplus/(deficit), and the measurement of insurance liabilities and reinsurance recoveries at present value as set out below.

Functional and Presentational Currency

These financial statements are presented in New Zealand dollars, which are the functional currency of EQC, and are rounded to the nearest thousand dollars.

Going Concern

The latest actuarial estimates of EQC's claims liabilities, net of reinsurance, indicate that total liabilities, net of reinsurance, exceed its assets. The Crown has confirmed, in writing to EQC, its intention to meet its obligation under Section 16 of the Act, to ensure that EQC can meet all its liabilities as they fall due. Section 16 states: 'If the assets of the Commission (including the money for the time being in the Fund) are not sufficient to meet the liabilities of the Commission, the Minister shall, without further appropriation than this section, 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 Board has therefore adopted the going concern basis in preparing these financial statements.

Statement of Compliance

These 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. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Accounting Judgements and Major Sources of Estimation

The preparation of 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised (if the revision affects only that period) or in the period of the revision and future periods (if the revision affects both current and future periods).

The actuarial judgements and estimations involved in measuring insurance liabilities and reinsurance recoveries are key areas of estimation where the assumptions made may have a significant effect on the financial statements, with a significant risk of material adjustment in future periods. The magnitude and number of Canterbury earthquakes have resulted in a higher than usual level of uncertainty associated with this measurement.

SIGNIFICANT ACCOUNTING POLICIES

Insurance

Premium Income
Premium income is recognised using the 24ths method to approximate the contract period over which the premiums are earned. The underlying assumption of the 24ths method is that all premiums booked during a particular month can be approximated by an annual policy that incepts during the middle of the month. Premiums not earned at balance date are disclosed in the Statement of Financial Position as unearned premium liability. Premiums receivable are reported net of discounts paid to collecting agencies.

Reinsurance Premiums
Premiums paid to reinsurers are recognised by EQC as reinsurance premium expense in surplus/(deficit) from the attachment date over the period of indemnity of the reinsurance contract, in accordance with the expected pattern of the incidence of risk. Prepaid reinsurance premiums are included in prepayments in the Statement of Financial Position.

Reinsurance and Other Recoveries
Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that EQC can recover under its reinsurance contracts and other recoveries comprises reimbursement of expenditure incurred on behalf of other parties (predominantly Crown or Crown entities).

Reinsurance and other recoveries received or receivable on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and/or claims incurred but not enough reported (IBNER) are recognised as revenue in surplus/(deficit). They are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

Claims Expenses
Claims expenditure represents payments for claims, claims handling costs and the movement in the liability for outstanding claims.

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. The expected future payments include those in relation to claims reported but not yet paid, IBNR, IBNER and claims handling costs.

The outstanding claims liability, comprising all unpaid claims and claims handling expenses related to claims incurred prior to the end of the reporting period, is valued in accordance with the Professional Standard No 4 (General Insurance Business) of the New Zealand Society of Actuaries.

Unexpired Risk Liability
At balance date, EQC assesses the adequacy of the unearned premium liability by applying the liability adequacy test. The liability adequacy test determines whether EQC's unearned premiums at balance date are sufficient to cover future claims arising from existing contracts.

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, with an additional risk margin to allow for the inherent uncertainty in the central estimate, exceeds the value of the unearned premium, the deficiency is recognised in net surplus/(deficit) and recorded in the Statement of Financial Position as an unexpired risk liability.

Assets Backing Insurance Liabilities

All assets of EQC back its insurance liabilities in accordance with Section 13(3) of the 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'.

Grant Payments

EQC provides discretionary grants for earthquake research and research dissemination. Discretionary grants are those where EQC has no obligation to award on receipt of the grant application and are recognised as expenditure when the 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 surplus/(deficit).

Taxation

EQC is exempt from the payment of income tax in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

Goods and Services Tax (GST)

The Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and Commitments (note 22) are exclusive of GST. The Statement of Financial Position is also exclusive of GST, except that 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 receivables or payables as appropriate.

Investments

Interest
Interest income is accrued using the effective interest method.

Dividends
Dividend income from investments is recognised when EQC'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

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

Non-Derivative Financial Instruments
Non-derivative financial instruments comprise investments in equity and debt securities, premiums receivable, other receivables, cash, 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.

Financial Instruments 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 EQC manages such instruments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in surplus/(deficit) 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 surplus/(deficit).

Cash at bank
Cash comprises cash balances, cash in transit and bank call deposits. The carrying amount of cash approximates its fair value.

Investments
All investment assets held by EQC 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.

Derivative Financial Instruments
EQC uses derivative financial instruments to economically hedge its exposure to foreign exchange risks arising from investment activities. In accordance with its treasury policy, EQC does not hold or issue derivative financial instruments for trading purposes.

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.

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 plus transaction costs. They are subsequently measured at amortised cost using the effective interest 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 EQC'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 surplus/(deficit).

Other Financial Assets
Other non-derivative financial assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest 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 method. Payables with duration of less than 12 months are not discounted.

Property, Plant and Equipment

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

Additions
The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that future economic benefits or service potential associated with the item will flow to EQC and the cost of the item can be measured reliably. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are included in surplus/(deficit).

Subsequent Costs
Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to EQC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in surplus/(deficit) as they are incurred.

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

The GeoNet assets, comprising buildings, computer equipment and other equipment, remain the property of EQC and are included in EQC's property, plant and equipment in the Statement of Financial Position.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in surplus/(deficit) 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. The estimated useful lives of different classes of property, plant and equipment are reviewed annually and are typically as follows:

Furniture and equipment	3-12 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years
Canterbury event furniture, equipment and motor vehicles*	3 years

* Canterbury event assets are capitalised and amortised over their useful lives, which is currently estimated to be 2-3 years.

The remaining useful lives and residual values are reviewed annually.

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 surplus/(deficit) when incurred. EQC does not undertake development of new products or processes other than software referred to below.

Software Acquisition and Development

Software development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and EQC 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 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:

Computer software applications and licences	1-9 years

Impairment of Non-Financial Assets

The carrying amounts of EQC'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 surplus/(deficit).

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 EQC would, if deprived of the asset, replace its remaining future economic benefits or service potential.

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

Liabilities (Other than Insurance)

EQC recognises a liability when there is a present obligation (legal or constructive) as the result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the obligation. Where the timing or amount of the obligation is uncertain the obligation is recognised as a provision.

Employee Entitlements
Employee entitlements to salaries and wages, annual leave, long service leave and other similar benefits are recognised in surplus/(deficit) when they accrue to employees. Employee entitlements to be settled within 12 months are reported at their undiscounted nominal value. The liability for long service leave is calculated based on the present value of likely future entitlements accruing to employees, based on years of service, years to entitlement and the likelihood that employees 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 disclosed when a possible obligation arises from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of EQC. A contingent liability is also disclosed when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to EQC, or the amount of the obligation cannot be measured with sufficient reliability.

Comparatives

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

Budgets

The budget figures are derived from the 2012-15 Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ IFRS, using accounting policies that are consistent with those adopted by EQC 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 the KiwiSaver and the State Sector Retirement Savings Scheme (SSRSS) are accounted for as defined contribution superannuation schemes and are recognised as an expense in surplus/(deficit) on an accruals basis.

Cost Allocation

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

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.

Standards, Amendments and Interpretations Issued that are not yet effective and have not been Early Adopted

There are currently no Standards, Amendments and Interpretations Issues that would have a material effect on the financial statements of EQC that are issued but not yet Effective and have not been Early Adopted.

DISCLOSURES IN RELATION TO PROSPECTIVE FINANCIAL STATEMENTS

Major assumptions underlying the prospective financial statements

- Cash returns of 2.5% per annum.
- Weighted average yields New Zealand Government Stock

	Current Redemption Yield	June 2013 Market Yield
New Zealand Government Stock	5.77%	3.98%
New Zealand Government Inflation Indexed Stock	5.19%	1.50%

- Claims costs directly related to the occurrence of major events, and the claims they produce, have not been forecast. $50 million per annum has been provided for other claims settlements and fees.
- Growth in the residential housing stock of 1% per annum.
- No change in Government policy in respect of Crown Fees, Taxation or Dividend.
- Reinsurance costs are based on Management estimates prior to the 2012/13 round of negotiations.
- Annual cost increases of 2% per annum on general operating costs.
- Estimates for Canterbury events claim expenses, liabilities and cash flows are based on the December 2011 actuarial update prepared by Melville Jessup Weaver, issued 29 March.
- The following actuarial assumptions were used in determining the claims liability at that date:

Weighted average term to settlement	0.4 to 1.8 years
Claims inflation rate per annum	2.5%
Demand surge per annum	0% to 10%
Discount rate per annum	2.44% to 3.55%
Risk margin	14%
Claims handling expense ratio	7%

- The central estimate value plus net risk margin has been used for claims cash flows.

Purpose of prospective financial statements

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

Degree of uncertainty attaching to prospective financial statements

(a) Return rates on New Zealand Government Securities are based on data provided by the New Zealand Treasury but actual results are subject to market variables.

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

(c) Some key sources of actuarial uncertainty in relation to Canterbury estimates include: the impact of multiple events on Commission coverage, severe land damage, a complex claims environment from both an engineering and legal perspective, and the potential for construction costs to exceed expectations.

Factors that may lead to material differences between prospective financial statements and the actual financial results prepared in future reporting period.

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

(c) Movements in the domestic fixed interest market could impact future actual financial returns.

(d) Changes in any of the actuarial assumptions noted above could result in changes to EQC's Claims Liability.

(e) Reinsurance premiums are based on estimates made prior to renewal of contracts for the 2012-13 year and actual premiums paid may differ from estimates due to changes in rates charged by reinsurers and levels of cover achieved.

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 18 May 2012.

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 2013

Output Class	Revenue	Expenditure
1: Claims handling and the Catastrophe Response Programme	Nil	$13.4million
2: Research	Nil	$14.2million
3: Public Education	Nil	$1.8million
4: Risk Funding	$301.7million	$141.9million