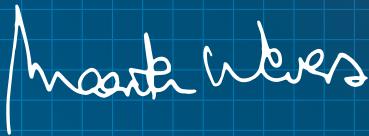


STATEMENT OF INTENT 2014-18



This amended statement is submitted by the Board of the Earthquake Commission (EQC) in accordance with s148 (1) of the Crown Entities Act 2004. It sets out the Board's strategic intentions for EQC to 30 June 2018, as required by the Crown Entities Act 2004.



Board Chair



Commissioner

Presented to the House of Representatives pursuant to Section 149 of the Crown Entities Act 2004.

Date: 20 July 2016



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BACKGROUND

Our origins and the natural disaster damage we cover

The Earthquake Commission (EQC) has its origins in the Earthquake and War Damage Commission (EWDC). The EWDC was established in 1945 to provide New Zealanders with affordable insurance for damage caused by war and earthquakes. EWDC became EQC under the Earthquake Commission Act 1993 (the EQC Act). EWDC assets became part of the Natural Disaster Fund to cover future EQC liabilities. Insurance cover for war damage ceased, and insurance for damage caused by natural disasters was expanded.

Since 1993, EQC has insured residential property (buildings, contents and land) from damage caused by specified natural disasters – namely earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami; and (for land only) storm or flood. EQC also insures for fire caused by any of the above natural disasters.¹ The EQC land insurance cover arrangements are unique in the world.

The nature and scope of EQC's functions

EQC's functions are set out in section 5 of the EQC Act as follows.

The functions of the Commission 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, in accordance with section 112 of the Crown Entities Act 2004.*

The following is an expanded description of these functions and related matters.

Administering natural disaster insurance

Approximately 90 percent of New Zealand residential property owners currently have access to EQC insurance cover as they are the holders of private dwelling and/or personal property (contents) insurance with cover for fire damage.

EQC cover is not available for non-residential property² and owners of such property are generally able to purchase private insurance cover for natural disaster damage.

EQC cover is limited by 'caps' (ie, the maximum amount that EQC is liable for) and subject to excesses. The caps and excess amounts are set in the EQC Act or by regulation. Current caps and excess levels were set in 1993. Reconsideration of what types of limits, caps and excesses should apply is part of the Government's review of the EQC Act.

Private insurance policies typically provide 'top up' cover for natural disaster damage covered by EQC to dwellings and personal property (contents) above the EQC caps.

Cover for natural disaster damage to land is limited to what is available via EQC as further land damage cover is not currently offered by any private insurer in New Zealand. We understand that EQC's comprehensive land cover for the range of natural disasters covered by the EQC Act is unique in the world.

¹ In this document the terms 'natural disaster' and 'natural disaster damage' should be read as they are defined in section 2 of the Earthquake Commission Act 1993.

² However, EQC covers a "residential building" (as defined in the EQC Act), which may include a non-residential component as long as the area of the dwelling or dwellings constitutes 50 percent or more of the total area of the building.



Collecting natural disaster insurance premiums

The premiums (often referred to as 'levies') payable for EQC insurance are collected by private insurers and passed on to EQC. The premium level is set by regulation. The current premium is 15 cents (plus GST) for every \$100 of the relevant amount of private insurance cover purchased for a dwelling or personal property (contents) up to the respective caps of (generally) \$100,000 and \$20,000.

This EQC premium current rate is three times the pre-Canterbury premium of 5 cents (plus GST) for every \$100. The annual premium for a customer who has the full EQC cover is therefore currently \$180 (plus GST) – with \$150 (plus GST) being for dwelling cover and \$30 (plus GST) for contents cover. Regulations prescribe that no premium is payable for EQC land cover.

Administering the Natural Disaster Fund and obtaining reinsurance

We manage the financial risk to the Crown associated with providing natural disaster insurance by administering the Natural Disaster Fund as required by the EQC Act, the Crown Entities Act 2004, and Ministerial direction(s). This includes investing collected premiums and money held in the Natural Disaster Fund in accordance with investment policies.

The value of the Natural Disaster Fund as at 30 June 2016 was \$1.4 billion.

We also transfer the Crown's risk by purchasing reinsurance in the global reinsurance markets. Changes in insurance and financial markets can influence whether and how we meet our strategic intentions.

Events such as the Global Financial Crisis and major offshore natural disasters can affect our investment returns and access to and the cost of suitable reinsurance. The emergence of new risk management products and alternative risk transfer mechanisms, such as catastrophe bonds, may create opportunities to achieve our strategic intentions more efficiently and effectively.

Any changes in the private insurance industry that affect incentives for individuals to take out private insurance³ will have consequences for EQC coverage and our ability to meet our strategic intentions.

Facilitating research and education

We facilitate (including through direct funding and purchasing) research and education initiatives aimed at reducing and preventing natural disaster damage and increasing public awareness about how to manage natural hazard risks. This includes funding support for professional roles such as the Victoria University position of Chair in the Economics of Disasters; and our investments in natural hazards risk management infrastructure such as GeoNet⁴ and MINERVA⁵. We also actively encourage and facilitate collaboration across agency and discipline boundaries – for example through the Natural Hazards Research Platform and New Zealand Lifeline Utilities Groups.

Our research and education functions help communities to avoid, reduce or recover from the effects of natural disasters. These functions are also fundamental to our ability to mitigate the overall financial cost of natural disasters – through helping to minimise the incidence and magnitude of claims and maximising our access to cost-effective reinsurance.

Investing in growing our knowledge of natural disaster risk and risk management is also a key part of making our operating environment more manageable.

3 For example, pricing of risk, types and levels of coverage provided (e.g., moving away from 'total replacement' to 'sum insured' policies) and excess levels.

4 GeoNet is a distributed network of geophysical instruments and software applications, supported by skilled personnel that facilitate data gathering and dissemination of information about New Zealand natural hazards.

5 MINERVA is a disaster damage model, which combines scientific results from hazard research with the Quotable Value (QV) residential dwelling database of construction types and replacement costs.



Other activities to support the Canterbury recovery

As part of the whole of government response to the devastating effects of the Canterbury earthquakes, our activities have been expanded and/or delivered differently to our historic norms. In particular, in addition to our usual cash payment approach to settling claims, we are also operating a large-scale, managed dwelling repair programme known as the Canterbury Home Repair Programme (CHRP). The CHRP, managed on our behalf by 'Fletcher EQR', is for dwellings with damage generally between \$15,000 and \$100,000 (plus GST) per claim.

Additional EQC activities in Canterbury included:

- facilitating emergency repairs. This has included (pursuant to Ministerial Direction in 2011) a temporary, Crown-funded, expansion of the emergency repair approach to uninsured residential properties;
- identifying, in the course of our rapid assessment work and other customer engagements, households with vulnerable occupants and/or those requiring temporary accommodation support (coordinated by other government agencies) while EQC managed repairs are undertaken;
- implementing the Winter Heat Programme and chimney replacement and insulation initiatives; and
- the collection of geophysical and technical data to support the settlement of EQC claims – which has also been used for some broader recovery activities.

Our statutory status and governance

In accordance with the EQC Act, EQC is governed by a Board of Commissioners (the Board) appointed by and accountable to the Minister Responsible for the Earthquake Commission (the Minister).⁶ EQC is a Crown entity, subject to the Crown Entities Act 2004.

The EQC Board is responsible for exercising the powers and performing the functions contained in the EQC Act and the Crown Entities Act 2004. All decisions relating to the operation of EQC must be made by, or under the authority of, the Board in accordance with these two Acts.

In accordance with the Crown Entities Act 2004, the Board has delegated the day-to-day management and leadership of EQC to the Chief Executive. The Chief Executive is supported by an Executive Leadership Team (ELT). Biographies of the Board Members and the EQC ELT can be found at www.eqc.govt.nz.

As a Crown agent operating under the Crown Entities Act 2004, EQC must give effect to Government policy, including when specifically directed to by the Minister.

Related documents

This Statement of Intent (SOI) should be read in conjunction with our Statement of Performance Expectations (published on the EQC website). The Statement of Performance Expectations sets out the details of what we do to ensure we achieve our strategic objectives. Our performance against the measures in our Statement of Performance Expectations is assessed and reported on annually in our Annual Report (published on the EQC website).

⁶ The meaning of the term 'Minister' in the EQC Act is the Minister of Finance. In December 2011, the Minister of Finance delegated Ministerial powers and responsibilities under the EQC Act to the Minister Responsible for the Earthquake Commission.



OPENING STATEMENT FROM THE BOARD

This Statement of Intent (SOI) sets out the strategic objectives that EQC intends to achieve or contribute to (our 'strategic intentions') for the period to 30 June 2018.

The Board has recently adopted a refreshed Mission for EQC "to reduce the impact on people and property when natural disasters occur" and an associated vision for EQC to be "the world's leading national natural hazard insurance scheme".

Following this the Board updated the strategy for EQC to achieve this Mission and Vision and, along with management, the intended operations to meet that strategy.

During this period our strategic objectives are:

- New Zealanders have access to natural hazard insurance and reinsurance;
- Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely way;
- EQC is a leader in New Zealand on natural hazard risk reduction, delivering improved national resilience to natural hazards.

These objectives, which we expand upon in the following section, are relevant both as we proceed with completing our post-earthquake work in Canterbury, and as we work with others to define our future priorities and organisational design. Through pursuing these objectives EQC is seeking to contribute to national efforts to build New Zealand's resilience to natural disasters covered by the EQC Act.

EQC has been able to contribute significantly to recovery efforts in the wake of the Canterbury earthquake events of 2010/2011. The Canterbury earthquakes are the largest insurance claims project in New Zealand's history and one of the largest ever globally – exactly the sort of events that EQC's predecessor (EWDC) was set up to handle when it was established in 1945.

The resolution of Canterbury earthquake claims for contents, dwelling and land claims has been substantially achieved and the remainder are expected to be completed by the end of 2016.

The Canterbury earthquakes have been the biggest challenge EQC and its EWDC predecessor have faced – much bigger than anything previously envisaged. There have been valid criticisms about the services and information provided by EQC to our customers since the Canterbury events. We accept that our response has fallen short in several respects. We have been working constantly to improve our performance, so we can better meet the expectations of EQC customers and stakeholders.

New Zealand also experienced the 2013 Cook Strait earthquake and the Eketahuna earthquake in January 2014. More recently, on 14 February 2016 the Canterbury region experienced a 5.7 magnitude earthquake. These too were relatively large natural disasters from an insurance perspective. EQC's response to these earthquakes was informed by the many lessons learned from handling the Canterbury disaster.

The worth of EQC's current, core disaster insurance and reinsurance settings and the current Natural Disaster Fund model is notable in terms of:

- delivering financial resources necessary to support individual claimants and their communities to recover from residential property losses;
- helping to manage the Crown's risks, including fiscal and financial risks, related to such property losses; and
- helping to sustain affordability of residential property insurance throughout New Zealand.

The EQC scheme is unique internationally and has, in the Board's view, proven its value to New Zealand – particularly during the last six years. Canterbury and New Zealand more broadly have been very well served by the very high levels of residential and commercial insurance in the community and the associated reinsurance. It's the extent of this insurance penetration and the nature of our insurance markets and legislation that has arguably been the biggest enabler of the Canterbury recovery to date.

The tragic events in Canterbury and subsequent events have provided the impetus to revisit current national



arrangements for natural hazard risk management – including the role that EQC might play in future arrangements. We are pleased to be contributing to work currently being led by the Civil Defence Emergency Management and Environment Ministries in that regard.

In the EQC Board’s view, a more consistent, coherent and coordinated approach to natural hazard risk management at the national level would assist in ensuring that:

- future losses experienced by New Zealand communities are reduced as far as possible; and
- private insurers and global reinsurers can continue to price New Zealand’s natural hazard risk appropriately and provide ongoing insurance cover.

Key factors influencing our future strategic direction will be the outcome of the EQC Act Review, changes in global reinsurance and capital markets, changing customer service models in the insurance sector, and our desire to continue to improve how we respond to the needs and expectations of different groups of EQC customers and other key stakeholders.

Over the next few years, we will be striving to maintain and increase the value EQC delivers for New Zealanders. We will pursue continuous improvements in the following areas:

- a customer focussed approach to the delivery of EQC’s functions, with systems, processes and communications designed around customers and other stakeholders and clear measurements of customer/stakeholder satisfaction;
- organisational capacity that is fit for purpose and scalable, and builds a stronger, more capable and agile EQC; and

- strategic and operational approaches that are coherent, well aligned and ensure outcomes and performance are appropriately measured and understood.

EQC will also ensure it makes an appropriate contribution to the Better Public Services Programme, in particular ‘improving interactions with government’ and ‘result area 10’ which is focused on enabling New Zealanders to complete their transactions with the Government easily in a digital environment.

To sum up, in the Board’s view, EQC continues to be at a ‘flex-point’. While EQC has contributed substantially to Canterbury earthquake recovery efforts, we must not forget, or fail to follow through on, what we have learned. We need to make what we know works work even better and assist the EQC Act Review to address the problems we have found. We also believe EQC is well-placed to contribute to work being led by a range of other entities in central and local government, and the private sector, that will inform decisions and actions around our future national approach to natural hazard risk reduction.

Sir Maarten Wevers, KNZM
Board Chair



OUR STRATEGIC INTENTIONS

We will continue to make a significant contribution to building New Zealand's resilience to the impact of natural disasters. The following is a summary description of the three strategic objectives that collectively make up our 'strategic intentions'.

New Zealanders have access to natural hazard insurance and reinsurance

To help communities protect what they value from the threat of natural disaster damage covered by EQC, we play a significant role in managing the Crown's financial exposure to a natural disaster. EQC will do this through efficiently managing the Natural Disaster Fund and procuring an adequate level of reinsurance (as well as maintaining the confidence of international disaster financing markets).⁷ Through this we will be able to inform the domestic private insurance market in their provision and pricing of insurance policies that cover natural disaster damage.

The Crown, through the EQC Act, has guaranteed a level of cover to levy payers when it comes to a natural disaster. Natural disasters create a significant financial liability for the Crown as a whole, both with respect to claims under the EQC scheme and other associated recovery costs.

The costs of the Canterbury earthquake series are forecast to substantially deplete the NDF. However, it is not expected that EQC will need to draw on the government guarantee to settle any Canterbury claims. Rebuilding EQC's financial resilience and the buffer we provide for the Crown will take time as we use current operating surpluses to fund Canterbury expenditure. During this period, the government guarantee ensures that the costs of any future claims can be met, but meeting these costs would divert funding from other government and community priorities.

⁷ EQC is subject to Ministerial powers of direction, including in relation to the mix of Natural Disaster Fund investments and reinsurance. Under section 12 of the EQC Act, the Minister may take account of the Crown's wider financial position and risk management settings in directing EQC.

Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely way

There were significant lessons learned from EQC's response to the unprecedented events in Canterbury. There are a large number of things that we have done well, but there have also been some valid criticisms about the services we have provided to our customers. We will continue to focus on improving our organisational performance so that we can better meet the expectations of our customers.

We will help individual claimants and their communities recover from future natural disasters, including through:

- Understanding what the needs and expectations of customers from EQC are in their individual circumstances;
- Consistently making claim settlements that are timely, accurate and that take careful account of customers' needs;
- Interacting early with community organisations to support claimants; and
- Operating a service model which is scalable, responsive and efficient.

We will also take steps to increase understanding of EQC cover and what owners of insured residential property can expect from EQC in the event they need to make a claim.

EQC is a leader in New Zealand on natural hazard risk reduction, delivering improved national resilience to natural hazards

We will undertake research and provide information about natural disaster hazards and risks and avoidance and reduction techniques so that those communities can plan and act to reduce vulnerabilities. We will assist with ensuring that the right systems and tools are available nationally for effective natural hazard risk management. Examples of these include EQC's funding of GeoNet and the Canterbury geotech database.

In assuming a leadership role in risk reduction activities, we will contribute to improving the state of knowledge about New Zealand's natural hazards, facilitate a greater awareness of actual risks among stakeholders and decision makers at both national and local levels and encourage and support actions to increase resilience.



OUR INTENDED OPERATIONS

Our operating environment

Our operating environment is unpredictable. Natural disasters can occur at any time and in any location and the magnitude of their impact cannot be predicted easily.

We therefore intend to maintain and develop an operating model that allows us to respond quickly, sensitively, flexibly and cost-effectively to a variety of disaster events, so we can meet the reasonable needs and expectations of our customers and other stakeholders.

Our intended operations over the period of this SOI are outlined below.

Completing our contribution to the Canterbury recovery

We are committed to efficiently and effectively completing our contribution to the Canterbury recovery. 'Completing Canterbury' will remain a key strategic priority and driver of our operations for as long as is necessary to get the job done. During the remainder of 2016 we expect to resolve residual claims and complete any outstanding managed repair work. There will still be work for EQC in Canterbury into 2017, as we complete our drainage work and retain an ability to resolve any remediation or warranty issues raised by our customers.

There will also be a significant amount of 'non-claims' work arising from Canterbury to complete (e.g., winding-up the Canterbury Home Repair Programme (CHRP) infrastructure, arranging for secure storage of all relevant data and EQC customer information held by CHRP, and completing close-out of CHRP claims). Our operational capacity and capability will therefore contract in some areas (e.g., claims assessment) and may expand in others (e.g., legal and policy advice).

Working with and for our customers and other stakeholders

Our customers: EQC claimants and premium payers

Our claimants have experienced loss from a natural disaster. The resulting impact on their lives, families and communities can be immense. Settling claims quickly, with certainty and sensitivity is paramount. We understand that the Government and our customers have high expectations of us in this regard.

We have already applied many lessons from Canterbury to improve our customer service in responding to subsequent, relatively large natural disasters. We will continue to build on these improvements for the benefit of future claimants.

We also have in mind our customers who pay EQC premiums, but have not yet suffered a loss from natural disaster damage. We will ensure that we manage our premium income appropriately, to be sure those customers can benefit from EQC natural disaster insurance if and when needed.

The Crown

EQC has been established to manage the Crown's large financial risk from natural disaster damage to residential property. The Crown guarantee provided for in Section 16 of the EQC Act means the Crown will meet the cost of claims that cannot be met from reinsurance contracts and the Natural Disaster Fund. We will therefore deliver prudent financial risk management to manage any future potential cost to the Crown from EQC claims beyond what is met out of the Natural Disaster Fund.

Under the Crown Entities Act 2004, the Minister Responsible for EQC can direct EQC to undertake additional functions. We will consider how our organisational design and culture can enable us to deliver the capacity and capability we need to undertake new functions efficiently and effectively.



Our strategic intentions and our operational approach are guided by the Government's four key priorities, namely:

- responsibly managing the Government's finances;
- building a more competitive and productive economy;
- delivering better public services; and
- rebuilding Canterbury.

In the broader economic context, we contribute to building a more competitive and productive economy by facilitating the efficient functioning of insurance markets through better assessment and pricing of risk, and the purchase of reinsurance in global insurance markets. By striving for cost-effectiveness in service delivery, we aim to minimise the impact of EQC premiums on households and the wider economy.

Reinsurers

The purchase of reinsurance is a key element of our current financial risk management approach. Maintaining the confidence of reinsurers is critical in ensuring that we can access adequate reinsurance at a reasonable/competitive price; and that the underwriting of New Zealand household risks continues without certain perils or geographic areas being excluded. Reinsurers need to be assured that New Zealand is competently and effectively managing natural disaster risk and the cost of insurance claims. We will be working to maintain our very positive working relationship with our reinsurers to ensure we continue to achieve favourable terms for our reinsurance policies in the post-Canterbury market.

Private insurers

Building and maintaining positive and constructive relationships with private insurers plays a key role in ensuring we can achieve our strategic intentions. We rely on private insurers to collect and pass on EQC premiums and to provide/validate information about our mutual customers' insurance policies when a claim is made.

During the claim management process, as the first loss insurer, we must work closely with private insurers when claims exceed, or are likely to exceed, EQC caps to ensure claimants receive their full entitlements under the EQC Act.

Participating in the review of the EQC Act

The outcome of the EQC Act Review will have implications for EQC and its operations. The Review is drawing on lessons from the Canterbury earthquakes and other events since the passing of the EQC Act in 1993. We see the review as an opportunity to reaffirm what is working well and improve what is less effective.

A Discussion Document was released by Treasury in July 2015 seeking public submissions on the EQC Act Review. The Discussion Document focussed on a number of key proposals in a preferred reform package including:

- the types of property EQC insures, including the structure and extent of EQC cover;
- the pricing of EQC's insurance;
- the institutional structure and design of EQC, including its roles; and
- the financial management of the Crown's risk exposure and how it should be financed.

Public submissions have now closed. We will continue to participate in the Review through the provision of information and advice from our experience of working with the current legislation.

Overall, while there is room to improve the EQC Act in terms of increasing clarity and reducing complexity, we believe the Act has performed well and is fundamentally sound.



MANAGING OUR FUNCTIONS AND OPERATIONS TO MEET OUR STRATEGIC INTENTIONS

We have identified the following six operating priorities that we will focus on over the next four years to meet our strategic intentions.

1. Canterbury completion targets have been met
2. EQC is easy to do business with
3. EQC is a leader for a risk aware New Zealand
4. EQC underpins an efficient insurance market in New Zealand

Supported by the following:

5. Our staff are engaged and our organisation is adaptive and well run
6. EQC invests in the networks and partnerships that are integral to the delivery of our outcomes.

Canterbury completion targets have been met

Completing our work in Canterbury for our customers will continue to be our number one priority. As well as resolving outstanding claims by the end of 2016, this includes establishing the right systems and processes to meet on-going remedial responsibilities associated with CHRP home repairs and resolving any outstanding litigation. As well as customer claims resolution we will also focus on the administrative and financial closure that needs to occur following settling customer claims. This includes determining where the final costs lie between EQC, insurers and reinsurers.

As we complete our work in Canterbury we need to effectively manage the transition of the current organisation to a level of capability that is appropriate to the post-Canterbury circumstances. We have plans in place and we are constantly refining our implementation approach to ensure the transition to the 'future EQC' is as smooth as practicable (see further information under the '*Our staff are engaged and our organisation is adaptive and well run*' heading below).

We will use our experience in Canterbury to build a stronger, more capable and resilient organisation. We will make further improvements to our organisational design and business systems for the benefit of customers and other stakeholders – on top of what we have already

done to improve information management, customer service, claims handling and processing.

In participating in the review of the EQC Act, we will continue to highlight technical and legal complexities that arose in Canterbury and had not previously been encountered. Litigation and other Court processes that are necessary to achieve legal clarity are costly and time consuming for our customers, other affected stakeholders and EQC.

We will therefore seek and advocate for amendments to the Act to deliver greater clarity which will significantly enhance our ability to meet our strategic intentions.

Geophysical and technical data collected from Canterbury will be used in research and education on natural hazard risk management for many years to come both nationally and internationally. EQC also has the opportunity to continue work that will inform natural hazard and risk reduction efforts in New Zealand and internationally.

EQC is easy to do business with

EQC claimants expect a high quality customer experience. Our premium payers expect us to undertake our business cost-effectively and with appropriate transparency. We will act to ensure that such expectations are met, including making improvements to our systems and processes where we know that reasonable customer expectations were not met fully in the past.

To meet our strategic intentions, our customer-focussed approach will involve:

- prompt, fair and accurate claims handling and resolution;
- ensuring the privacy of customers;
- proactive, accurate, timely, and user friendly customer communication (via numerous channels, making the most of developments in technology where appropriate);
- providing certainty, transparency and accountability with regards to our policies, systems and processes;
- ensuring our most vulnerable claimants are given priority; and
- clear performance measures and monitoring of customer satisfaction.



As noted earlier, as part of our contribution to the Better Public Services programme, we will develop our systems to enable our customers to complete their EQC transactions more easily in a digital environment. Expected benefits include a reduction in the amount of customer effort required to access our services, increased customer satisfaction and greater uptake of entitlements by eligible customers.

EQC is a leader for a risk aware New Zealand

New Zealand is a geologically active country exposed to a number of natural hazards. EQC plays a leadership role to ensure New Zealand has an appropriate level of risk awareness with respect to associated natural hazards. We want to add more value to the outputs we deliver by further contributing to work on effective natural hazard and risk management at the national level. We will continue to support and advise others leading work to ensure that New Zealand communities take action to avoid and/or reduce the impact of natural disasters.

We believe the contribution we have to make on the international hazard and risk reduction platform will have value for New Zealand as a whole. It will present opportunities for investment in New Zealand's knowledge, science and technology.

We will contribute to efforts to ensure a more integrated and well-coordinated approach by engaging across the different government sectors and with the local authorities who have devolved local leadership responsibilities through legislation such as the Resource Management Act 1991, the Building Act 2004 and the Civil Defence Emergency Management Act 2002.

EQC is well positioned to make a positive contribution to national leadership in natural disaster risk management because:

- we can develop the knowledge we hold about natural hazards and risks for wider use (i.e., at both national and community levels);
- we have a sound understanding of the 4Rs of international emergency management practice described in the text box below (noting that EQC's focus is primarily on risk reduction and recovery along with readiness in terms of our own operational systems and capabilities);

- we have established relationships and partnerships with key New Zealand stakeholders and government agencies involved in natural hazard risk management;
- we have many existing international connections that will be invaluable in informing our national approach;
- our legislation enables us to take a strong lead role through our research and education functions;
- our relatively independent governance and funding arrangements allow us to maintain a clear and continuous focus on natural disaster risk management and associated decision-making without the distractions of other 'priorities of the day'; and
- we have learnt a lot from our experience in Canterbury that can be used to improve natural disaster risk management across the whole of New Zealand.

The '4Rs' of emergency management as they apply in the context of the EQC Act and EQC cover for residential property are:

Risk reduction means identifying and analysing long-term risks to residential property from natural hazards, taking steps to eliminate these risks if practicable, and, if not practicable, reducing the magnitude of their impact and the likelihood of their occurring.

Readiness means developing operational systems and capabilities before a disaster happens.

Response means actions taken immediately before, during, or directly after an emergency to save lives and property, and to help communities recover.

Recovery means the coordinated efforts and processes used to bring about the immediate, medium-term, and long-term holistic regeneration of a community following an emergency.

EQC underpins an efficient insurance market in New Zealand

Nation-wide financial resilience to natural hazard risk contributes to an efficient insurance market in New Zealand. The guarantee of EQC's liabilities is the



Crown's contribution to this resilience. Competitive pricing and financing of risk associated with natural disaster insurance is necessary to ensure the Crown's natural disaster liabilities are managed efficiently, including by accessing adequate reinsurance.

The costs of the Canterbury earthquake series are forecast to substantially deplete EQC's reserves (the Natural Disaster Fund) and reinsurance lines in place at the time. A focus on rebuilding EQC's financial resilience through an agreed risk financing strategy will reduce the Crown's direct financial exposure.

We will maintain our good relationships with reinsurers and demonstrate competency in managing natural disaster risk and reducing the cost of claims by:

- investing in expanding our knowledge and information on risk and portrayal of New Zealand's natural hazards; and
- continuously improving the transparency of claims assessment, apportionment and settlement processes.

We will also continuously improve our forecasting and monitoring of premium income by strengthening our relationship with private insurers.

Our staff are engaged and our organisation is adaptive and well run

We will build and develop our organisational capability to ensure it is fit for purpose and puts us in the best position to achieve our strategic intentions. To do this we will concentrate on transforming to an organisation where:

- **People** – we have the skills and expertise required to deliver on organisational priorities and our workforce is highly engaged and productive
- **Relationships** – we have strong relationships with domestic and international partners (governmental, private, and other sector groups).
- **Systems** – The way we operate our business and the tools we use to achieve and deliver our objectives are fit-for-purpose and enable fast, efficient, and effective delivery.

It is critical that EQC maintains itself in a state of constant readiness – so it can deliver services to an appropriate

standard after any natural disaster (regardless of the type, scale or location of the disaster).

This means developing and maintaining our capability to:

- scale and modify our responses in a timely manner as appropriate for different types of natural disasters (e.g., in terms of magnitude and duration);
- deal with multiple disaster events simultaneously;
- provide appropriate levels of certainty, transparency and accountability to our customers and other stakeholders;
- deliver high quality strategy, policy, legal and operational advice;
- develop leaders that deliver results with people;
- embed an organisational culture based on excellent customer service, competency, integrity and trust; and
- manage change and risk quickly and effectively.

Through our strategic review activities we will ensure that our outcomes and performance requirements are clear, appropriate, well understood, measured and continue to be reported.

Key elements of work that we are already undertaking around how best to organise EQC post-Canterbury from structural, resourcing and management perspectives include:

- documenting lessons learned about the operation of the EQC Act in Canterbury;
- determining an operating model that is scalable;
- streamlining our claims processes; and
- considering options for improving our claims management software and associated information technology platforms.

EQC invests in the networks and partnerships that are integral to the delivery of our outcomes

We cannot achieve our strategic intentions alone. Our experiences in Canterbury and subsequent events have highlighted how important our network and partnership relationships are. Our investments are not simply



financial, collaborations and external engagements of a non-financial nature offer opportunities to help enhance NZ's natural hazard resilience and to realise mutual benefit. We will:

- actively engage, talking to the right people at the right time to achieve meaningful impact;
- invest in strategic relationships, both internal and external. We will seek to engage at the right level, in a deliberate, well-coordinated way, and form deep partnerships; and

- continue to build on the mutual respect and trust we have with our stakeholders to further develop and maintain constructive and collaborative working relationships.

In addition to EQC customers, our key stakeholders include government departments, private insurers, reinsurers, local government, research institutions and community organisations.

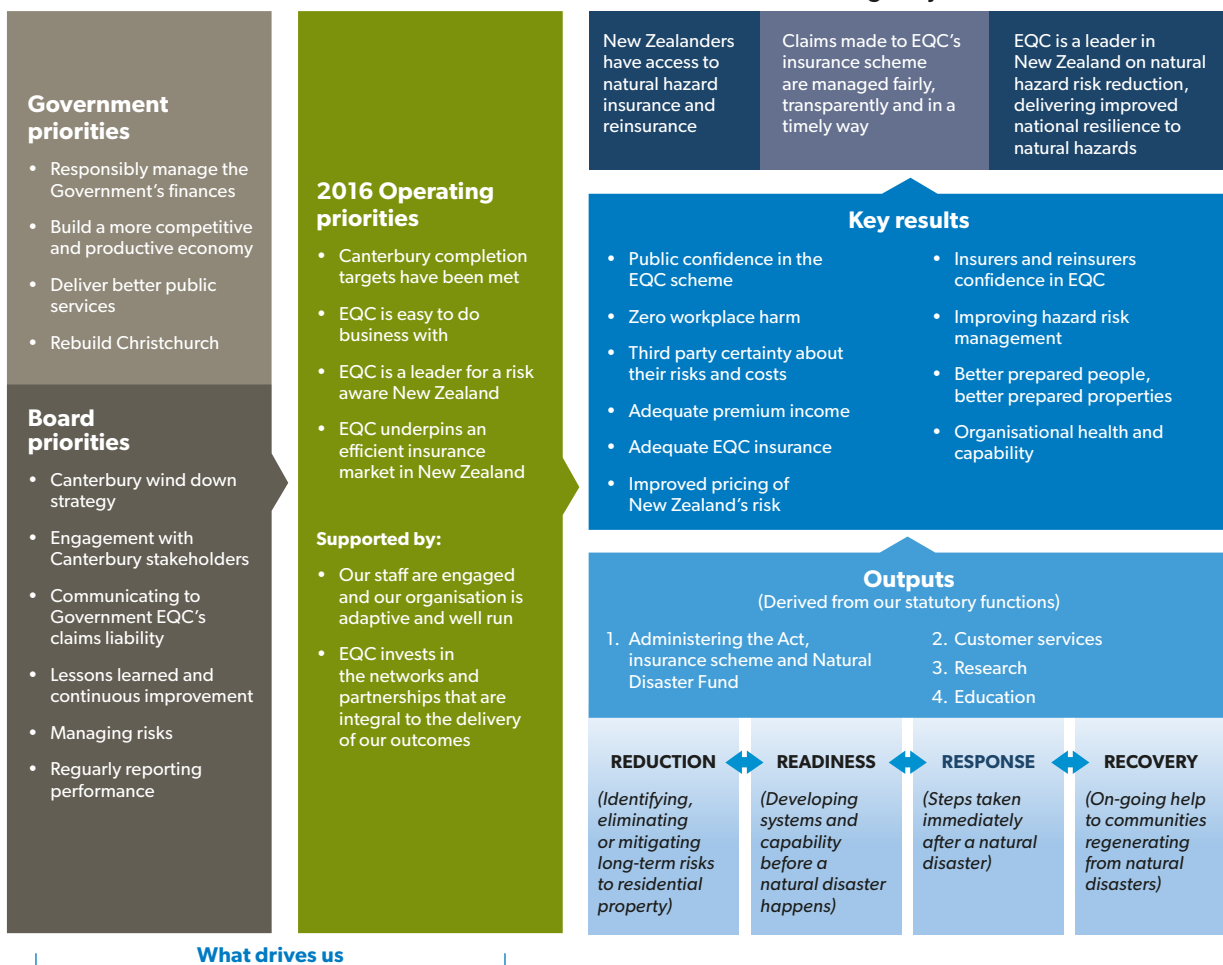
Figure One illustrates how our outputs and operating priorities are aligned to the achievement of our strategic objectives.

Figure One: EQC's Strategy Map

External Operating Environment

Medium term environment: Softening reinsurance and capital markets; Shift in pricing of catastrophe bonds; Increasing cost of private insurance. New Zealand's overall arrangements for managing natural disaster hazards and risks.

Shorter term environment: EQC Act, stakeholder, customer, insurer, reinsurer expectations.



Longer term environment: Unpredictable natural disaster events; Housing & demographic changes in New Zealand.



ENSURING ORGANISATIONAL HEALTH AND CAPABILITY

As outlined below, we will ensure our organisational health and capability by paying close attention to and investing to deliver continuous improvements in:

- organisational development;
- change management;
- enterprise business technology; and
- risk management and monitoring.

Organisational development

Our organisational development approach will focus on developing strong effective leaders, building engaged teams, and providing individuals with the right development opportunities. We want to support an organisational culture where high performance and outstanding customer service are the norm.

The variable nature of our workload means we need to be able to tap into pools of talented people with the right skills and experience at short notice. We will apply our experience and relationships built during our Canterbury work programme to do this more effectively in the future.

EQC staff sometimes confront hazardous situations and environments when undertaking their role. The health and safety of our people is paramount to EQC. We have implemented the 'Safe 6' and 'officeSafe' programmes and are committed to achieving a 'zero harm' workplace. Our Board Health and Safety Committee plays an important role in the monitoring of trends and initiatives across EQC.

Change management and continuous improvement

Our change management and continuous improvement arrangements will help to ensure that we:

- achieve a whole of organisation view of change and continuous improvement;
- minimise anxiety by engaging with our people throughout the process of change;
- facilitate executive level prioritisation and approval for when significant activities continue, cease or commence;
- have effective integration of change across EQC; and
- use a project management approach to facilitate change.

This will help us ensure consistency across change and continuous improvement processes that focus directly on meeting our strategic intentions.

These arrangements will also support our approach to implementing EQC's post-Canterbury downsizing plans and the transition to the 'future EQC'.

Enterprise business technology

We will work and invest, as appropriate, to ensure our enterprise business technology systems are fit for purpose. Technology systems are critical to enabling us to complete our tasks effectively, work productively with stakeholders (e.g., private insurers), and so meet the needs and expectations of our customers and other stakeholders (including by meeting Government



standards relating to information security and ensuring the privacy of customers).

We will establish systems capable of 'ramping up' in times of intense, large-scale activity as well as being cost effective during 'business as usual'. We will also ensure that data security is central to the design of our systems and ingrained in the approach we take to our day-to-day activities.

Our current 'Information Strategy' sets out the plans and programmes required to ensure we can operate effectively and efficiently in a changing environment.

The principles underlying the strategy are:

- any place, any time – accessing core systems remotely;
- elastic capability – scalable systems that enable a quick response to an event;
- digital first – where possible capture data electronically at source to enable ease of reporting, storage and retrieval;
- leveraging existing solutions – using government shared solutions and infrastructure; and
- Industry standard – choosing products and suppliers that are commonly used, enabling systems scaling, EQC and insurer interoperability.

We will also employ third party verification of enterprise business technology to confirm resilience and scalability.

Risk assessment and management

To support achieving our strategic intentions we focus on actively understanding and managing the

risks to achieving our objectives. This requires us to fully understand both our appetite and tolerance for risk, along with the nature and extent of the risks (and opportunities) when developing appropriate risk-management responses.

The EQC Board and the Board's Audit and Risk Committee support risk management practice and policies by providing organisation-wide oversight and guidance of risk management. The EQC Executive Leadership Team (ELT) is collectively responsible and accountable for risk assessment and management. The ELT is supported by governance committees providing oversight of risk and opportunities in their areas of focus.

Our risk management framework extends risk identification and mitigation to all levels of EQC's activities. The framework is consistent with the Risk Management Standard ISO:3100:2009.

Current EQC risk management practices have been progressively developed over the past six years. They are based on a sound, fit-for purpose, point-in-time "foundation" developed at the same time we responded to the Canterbury events.

As EQC evolves, we will continue our current strategy of enhancing risk management capabilities that reference a recognised enterprise risk management (ERM) capability model to simultaneously improve:

- risk management practices (such as, improved information flows across the business to enable timely decisions on increasingly complex issues; and embedding risk management into business practices); and
- risk behaviours (to develop greater organisational capability and agility to meet future challenges).



ASSESSING OUR PERFORMANCE

Our Statement of Performance Expectations (published on the EQC website) describes what we do to meet our strategic intentions and how we measure our performance. Listed below is an overview of some of the key results we expect to see by focusing on our operating priorities.

Public confidence in the scheme

Our customers and other stakeholders express confidence in the EQC scheme and our ability to meet our legislative responsibilities. Our level of service delivery consistently meets or exceeds their expectations.

Zero workplace harm

The appropriate policies, systems, training and guidance are in place to eliminate all serious workplace injuries resulting in zero harm to our staff and contractors.

Third party certainty about their risks and costs

Positive, constructive relationships are complemented with appropriate systems, processes and documentation so private insurers and reinsurers have certainty about the costs and risks for them from the settlement of EQC claims.

Adequate premium income

EQC premium income is adequate to effectively manage the Crown's liability from natural disaster insurance and to rebuild the Natural Disaster Fund within a suitable timeframe.

Adequate EQC insurance

EQC insurance, through the purchase of private insurance, covers most New Zealand residential properties, including properties in locations at greatest risk from natural hazards.

Pricing of New Zealand's risk

The strength of our ability to manage natural hazard risk and the cost of insurance claims is consistently reflected in reduced pricing and/or improved terms for our reinsurance contracts (all other things remaining equal).

Insurers and reinsurers confidence in EQC

Feedback from private insurance companies and global reinsurers confirms they are confident in our ability to manage the financial risks of natural disasters and the costs of claims, and that the research we facilitate makes a valuable contribution to this.

Improving hazard and risk management practices

The knowledge held by individuals, communities and national organisations about natural hazard risk continues to grow and is reflected in better decisions, behaviours and approaches to hazard and risk management and lower costs of claim settlement.

Better prepared people, better prepared properties

Property owners have a good understanding of the natural disaster risk facing their property, and take appropriate action to protect their property from potential damage.



BOARD DIRECTORY

The Earthquake Commission Act 1993 requires the Commission to have a board of between five and nine members, including a chairperson. Board members are appointed by the Minister Responsible for the Earthquake Commission. The Board members and their term expiry dates are outlined below.

SIR MAARTEN WEVERS – CHAIR KNZM, BSC, BA (HONS)

Sir Maarten joined the Board of EQC in June 2013, and took up the role of Chair in August that year. He was previously High Commissioner to Papua New Guinea and Ambassador to Japan, and General Manager, Government Business, at New Zealand Post. Sir Maarten served as Chief Executive of the Department of the Prime Minister and Cabinet between 2004 and 2012, to Prime Ministers Helen Clark and John Key. He is a trustee of the Fred Hollows Foundation of New Zealand, a member of the Investment Advisory Panel for the Primary Growth Partnership, and a member of the Ministry of Social Development Audit Committee. Sir Maarten is also Registrar of Pecuniary and Other Specified Interests of Members of Parliament.

Term ends: 31 May 2019

MARY JANE DALY – DEPUTY CHAIR BCOM, MBA

Mary Jane Daly was appointed to the EQC Board in March 2014. She was formerly Executive General Manager at State Insurance. Prior to this she was Chief Financial Officer for IAG New Zealand having joined the company in October 2006. Before joining IAG, Mary Jane spent four years with Fonterra as Group Treasurer and Risk Manager. She has a strong background in banking and finance with extensive experience in a variety of roles both in New Zealand and the UK. She is an Independent Director of the New Zealand Green Building Council, the Airways Corporation of New Zealand and TSM NZ Limited.

Term ends: 28 February 2017

DR ALISON O'CONNELL – COMMISSIONER MA, MSC, PHD, FIA

Alison is a researcher and policy adviser who was appointed to the EQC Board in September 2013. Before moving to Christchurch in 2006, she was Chief Executive of the Pensions Policy Institute in London. Having trained as an actuary, her risk management skills are complemented by experience in strategy consulting gained at Swiss Re and McKinsey.

Term ends: 30 June 2018

PAUL KIESANOWSKI – COMMISSIONER BCOM, CA

Paul Kiesanowski was appointed to the EQC Board in March 2014. He is a former partner of KPMG. Paul brings strong financial management skills, risk management and assurance over a career working with a large number of clients. Mr Kiesanowski is also a Director of New Zealand Red Cross, a Trustee of the Red Cross Foundation, and a Director of The Red Bus Company.

Term ends: 28 February 2017

ROGER BELL – COMMISSIONER MINSTD, FIINZ, CIP

Roger Bell was appointed to the EQC Board in August 2013. As past Chief Executive of Vero Insurance, he has a passion for organisational excellence. He has recently retired from the Board of the New Zealand Business Excellence Foundation having served as a Director for 11 years and as Chairman. He is a Fellow (by examination) of the Australia & New Zealand Institute of Insurance & Finance, and has completed the Executive Program at the University of Michigan Business School. Roger is also a strong advocate for animal welfare as a Director/Deputy Chairman of SPCA Auckland.

Term ends: 30 June 2018

GORDON SMITH – COMMISSIONER

Gordon Smith was appointed to the EQC Board in October 2011. He is a former Chief Executive Officer of Farmers' Mutual Group and holds four directorships in New Zealand. Gordon has considerable experience in banking, finance and insurance. He owns an independent business consultancy that works with a wide variety of companies in the areas of strategic direction, business growth and enhanced profitability and is Managing Director of a niche general insurance company.

Term ends: 30 June 2017

TIM HURDLE – COMMISSIONER BCOM

Tim Hurdle was appointed to the EQC Board in July 2016 and is the General Manager Strategy at Downer New Zealand Ltd. He worked as Senior Ministerial Adviser to the Minister for Canterbury Earthquake Recovery from 2010 to 2013. Tim has previously worked for IAG New Zealand on insurance public policy issues and regulatory reforms. He is currently the Chair of the Partnership Board of Wellington ICT Graduate School and is a previous Chair of the Regulatory Committee of the Insurance Council of New Zealand.

Term ends: 30 June 2019





EARTHQUAKE COMMISSION

Kōmihana Rūwhenua

New Zealand Government