



EARTHQUAKE COMMISSION'S

# STATEMENT OF INTENT

2018–22



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This statement is submitted by the Board of the Earthquake Commission (EQC) in accordance with section 139 of the Crown Entities Act 2004. It sets out the Board's strategic intentions for EQC to 30 June 2022, 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: 26 June 2018



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## CITATION

Earthquake Commission (2018).  
Statement of Intent 2018-22.  
Wellington: Earthquake Commission

Published by:

Earthquake Commission  
Komihana Ruwhenua  
Wellington, New Zealand.

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# CHAIR'S STATEMENT

EQC's mission is to reduce the impact on people and property when natural disasters occur. The challenge for EQC in achieving this is supporting New Zealanders in a rapidly changing environment against a backdrop of large earthquakes and extreme weather events.

Since stepping into the role of Interim Chair, I have been focused on understanding the challenges and the complexity involved in providing a world-class natural disaster insurance scheme. EQC's continued ability to secure reinsurance against a recent backdrop of multiple international disasters shows the importance of EQC's information and research.

EQC is evolving rapidly under its new leadership, and the organisation's focus on our customers is, rightly, being strengthened. The need for an increased focus on customers is most evident with the resolution of the remaining claims from the Canterbury earthquakes. EQC is implementing a new way of working with these customers, and has established a new business unit focused on resolving their claims. I am monitoring this progress closely. Finding a resolution for the people caught in disputes, call backs or 'on-sold property' situations is of paramount importance. While this is a complex environment, EQC is committed to ensuring that it works collaboratively and openly with stakeholders.

An inquiry into EQC's response to the Canterbury earthquakes will commence in 2018. EQC is fully committed to the process and has established a team to respond to the inquiry and provide information as required.

Changes to EQC's governing legislation were announced earlier this year, and the Earthquake Commission Amendment Bill was introduced in March 2018. EQC is working with stakeholders to ensure the changes are embedded. A further review of the Earthquake Commission Act 1993 ("the Act") may occur as a result of the Inquiry into EQC, and EQC will also fully engage in that process.

The Board has set clear targets for the organisation and I am pleased by the way EQC is responding through its transformation.

EQC's strategy is also supported by clearer Board expectations that define the outcomes we envisage:

- Increase community resilience to natural hazards;
- New Zealand has an affordable and sustainable natural disaster insurance scheme; and
- Improve customers' recovery from natural disasters.

New Zealand has a challenging natural hazard profile. EQC will continue to improve its ability to support recovery from events when they occur, as well as helping increase the understanding of the risk of natural hazards in New Zealand.

Although I have only been in this role since March 2018, I have been impressed by the dedication of the staff at EQC. They have faced, and will continue to face, many challenges, but they do so with professionalism and a commitment to doing the right thing. I look forward to continuing my work in my role as interim Chair of EQC.

**Dame Annette King DNZM**

Interim Board Chair  
June 2018



# BACKGROUND

## Our history

The origins of EQC lie in the Earthquake and War Damage Commission (EWDC), which was established in 1945 to provide New Zealanders with affordable insurance for damage caused by war and earthquakes. EWDC became EQC in 1993 under the 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.

## Our functions

EQC's functions are set out in section 5 of the Act. Those 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. Several functions have been added by way of Ministerial Direction under this provision.

In a simpler sense, this means EQC provides cover for residential property (buildings, contents and land) for fire insurance policy holders affected by natural disasters, including earthquakes, natural landslips, volcanic eruptions, hydrothermal activity and tsunamis.

The vast majority of New Zealand residential property owners automatically have EQC insurance cover as holders of private dwelling and/or contents insurance cover for fire. The level of EQC cover is subject to caps (the maximum amount payable) and excesses as set out in the Act.

To undertake the functions as outlined in the Act, EQC undertakes the following activities:

- Collects EQC premiums from private insurers. The premium level is set by regulation;
- Administers the Natural Disaster Fund in accordance with requirements of the Act, the Crown Entities Act 2004 and a Ministerial Direction. EQC also transfers Crown risk by purchasing reinsurance in global reinsurance markets; and
- Facilitates (including through direct funding and purchasing) research and education initiatives to reduce and prevent natural hazard disaster damage and increase public awareness about managing natural hazards.

EQC also undertakes additional functions conferred by Ministerial Directions. In relation to the Canterbury earthquakes these include paying out on:

- Certain building and land damage that was apportioned to unclaimed events; and
- Certain storm water and sewerage services damage.

## Purpose of the Statement of Intent

The Statement of Intent (SOI) sets out the strategic intentions that EQC intends to achieve and contribute to for the four year period of 1 July 2018 to 30 June 2022. This SOI also shows how we will assess our performance to show EQC's progress and effectiveness in delivering our objectives.

This SOI should be read in conjunction with our Statement of Performance Expectations (SoPE) published on the EQC website that sets out our annual performance expectations. Our performance against the measures in our SoPE is assessed and reported quarterly to our monitoring agency, Treasury, and each year in our Annual Report that is also published on the EQC website.

## Our contribution to government priorities

The Minister Responsible for the Earthquake Commission has set clear expectations for EQC and these form an important part of our planning for the next four years. We have also introduced a new range of performance measures, to be as open and transparent as possible about our progress on meeting these expectations.



# OUR OPERATING ENVIRONMENT

EQC is operating in a time of increased seismic activity and a growing number of weather related events. Over the last eight years, New Zealand has experienced significant earthquakes in Canterbury and Kaikoura, with less impactful ones in Cook Strait and Eketahuna. There have also been many landslip and flood events, including in Edgecumbe, Thames, the West Coast and Nelson. In our response to all these events, EQC works alongside private insurers and these relationships continue to develop and grow as we work together to consider future responses to natural disasters.

Recent natural disasters have also demonstrated an increased demand for research and public education to help New Zealand become more resilient to future events. There is greater collaboration within the research community in which EQC has an important role.

EQC's vision of being the world's leading national natural disaster insurance scheme is unchanged and our mission to reduce the impact on people and property when natural disasters occur is still at the heart of what we do. EQC's operating model will strengthen our ability to reduce the impact on people while delivering the functions outlined in the Act.

EQC has acknowledged that our past actions have not always been sufficiently responsive. The resolution of all outstanding Canterbury and Kaikoura claims remains our highest priority. We are also committed to ensuring the lessons from Canterbury are embedded in future operations and the response to future events benefits from the learnings from Canterbury. EQC is now further transforming the way it operates. Although still in the planning stages of a multi-year transformation, our aspirations for the next four years are reflected in this document.

EQC will also continue to consult and work closely with our monitoring agency to achieve our strategic goals and contribute to New Zealand's financial resilience to future natural disasters.

## Our four-year strategic intentions

EQC has three strategic intentions to support our vision and mission:

1. EQC is a leader in New Zealand on natural hazard risk reduction;
2. New Zealanders have access to natural disaster insurance and reinsurance; and
3. Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner.

As EQC transforms, so will the way in which we measure our progress against our strategic intentions. Each of the strategic intentions has outcomes defining what we aim to deliver to New Zealanders over the next four years.

- Increase community resilience to natural disasters;
- New Zealand has an affordable and sustainable natural disaster insurance scheme; and
- Improve customers' recovery from natural disasters.

Our strategic intentions and how we aspire to fulfil the outcomes over the next four years are set out below.



## 1. EQC is a leader in NZ on natural hazard risk reduction

The greater a community's ability to cope with a natural disaster, the more resilient it will be and the quicker it will be able to recover. We will continue investing in science, research and education, that can, for example, help policy-makers improve land use, help planners and builders create more resilient developments, and help New Zealanders protect their homes in anticipation of natural events.

EQC will increase its capability in loss modelling. Modelling potential losses from natural disasters is a highly specialised requirement for insurance management. It also enables EQC and other agencies to test and plan for scenarios and to focus support in the aftermath of an event. EQC's activity in this regard is not only around science and research, but also about actively working with other stakeholders to unlock the value of the insights loss modelling yields for wider benefits to New Zealand's resilience.

The strategic outcome is to **increase community resilience to natural disasters**.

## 2. New Zealanders have access to natural disaster insurance and reinsurance

EQC will work to ensure New Zealanders have a robust natural disaster insurance scheme and a viable Natural Disaster Fund for when the worst happens. This also enables the Crown to better manage its financial risk from natural hazard events.

EQC will continue to strive to obtain adequate reinsurance at a competitive price, so that the underwriting of New Zealand household natural hazard risks can continue without excluding certain perils or geographic areas. We will continue to work to maintain the confidence of the international reinsurance market, supported by increased activity to share the results of our research and loss modelling work.

Scenario testing informs an important part of EQC's readiness for future events. Modelling and role playing events of different types, sizes, and geographical locations allows EQC to better understand what's required to ensure readiness for future events. This includes gaining a better understanding of what is required for us to be ready for a major event, and potential claim costs.

The strategic outcome is that **New Zealand has an affordable and sustainable natural disaster insurance scheme**.

## 3. Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner

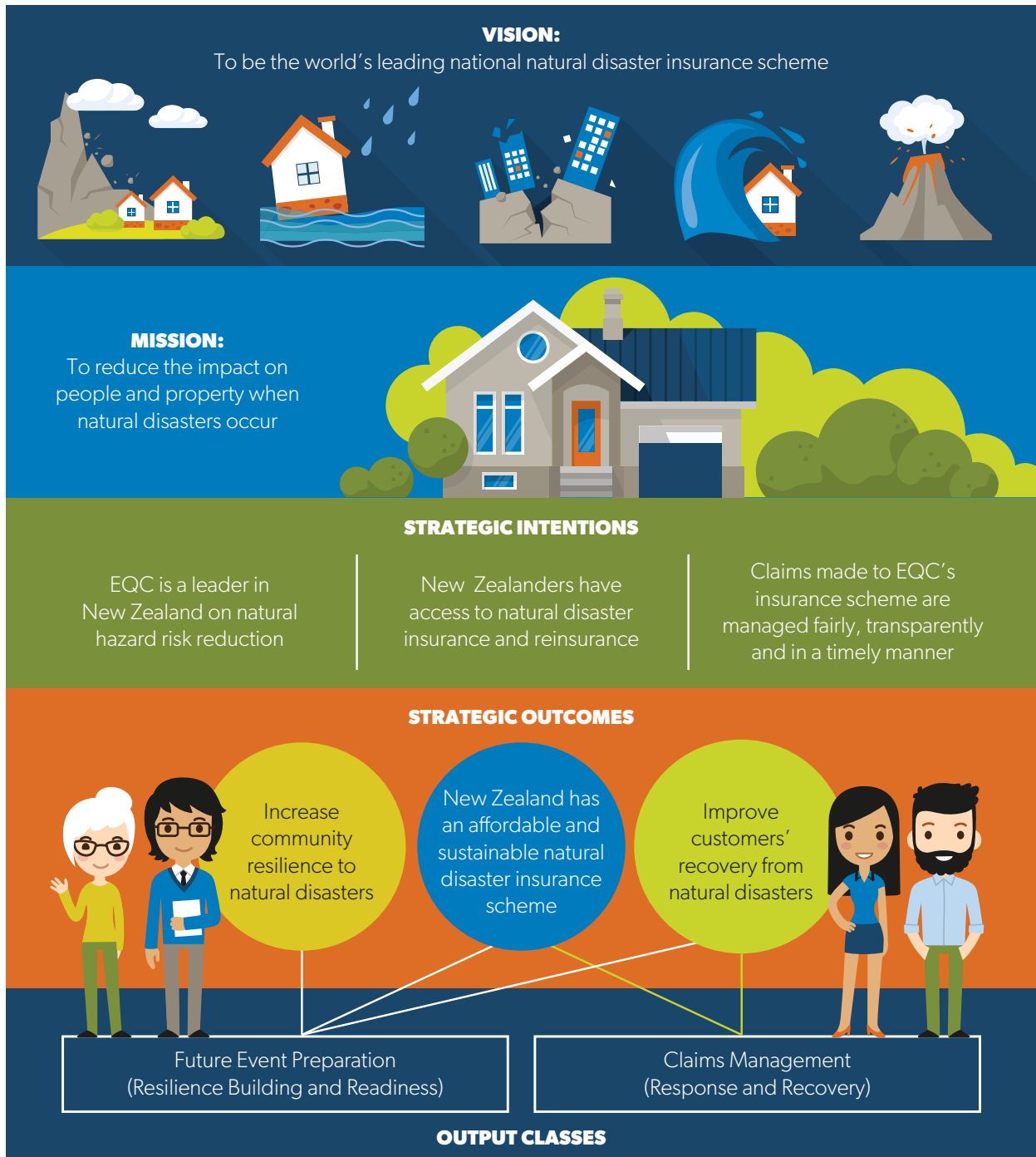
Our operating model places customers at the heart of everything we do and we will work to reduce the stresses and challenges customers have previously experienced.

We intend to work quicker and respond more effectively to all natural disaster events, and have relationships with key providers of services which will allow us to scale up quickly. Digital assessments and data integration will increase transparency and improve our claims management process. We will continuously improve customers' experience and settle claims in a swift, efficient, fair and transparent way. We will know we are succeeding when settlements are timely, call backs or reopened claims are reduced, and customer satisfaction is improved.

The strategic outcome is that we **improve customers' recovery from natural disasters**.



## Our strategic map





## Managing our functions and operations

All New Zealanders are EQC's customers, not only when they place a claim, but also as recipients of our research and public education activities which are designed to increase community resilience to natural hazard risks.

EQC's operating model draws on the lessons from previous events including the Canterbury and Kaikoura earthquakes and the Edgcumbe flooding. It is supported by a new range of performance measures that will help EQC measure its effectiveness.

Our new approach considers both the needs of people impacted by a natural disaster, and those we should engage with as part of a wider remit of resilience building and event readiness.

The operating model is represented by the discs on the following pages. It will allow EQC to deliver our strategic intentions and outcomes outlined above and focuses on assisting customers with:

- a. **Resilience building** – raising the awareness and reducing the risk of natural hazard losses;
- b. **Readiness** – preparing for and managing event responses;
- c. **Response** – assisting customers during an event; and
- d. **Recovery** – capturing learnings and using them to improve future responses.



# EQC OPERATING MODEL

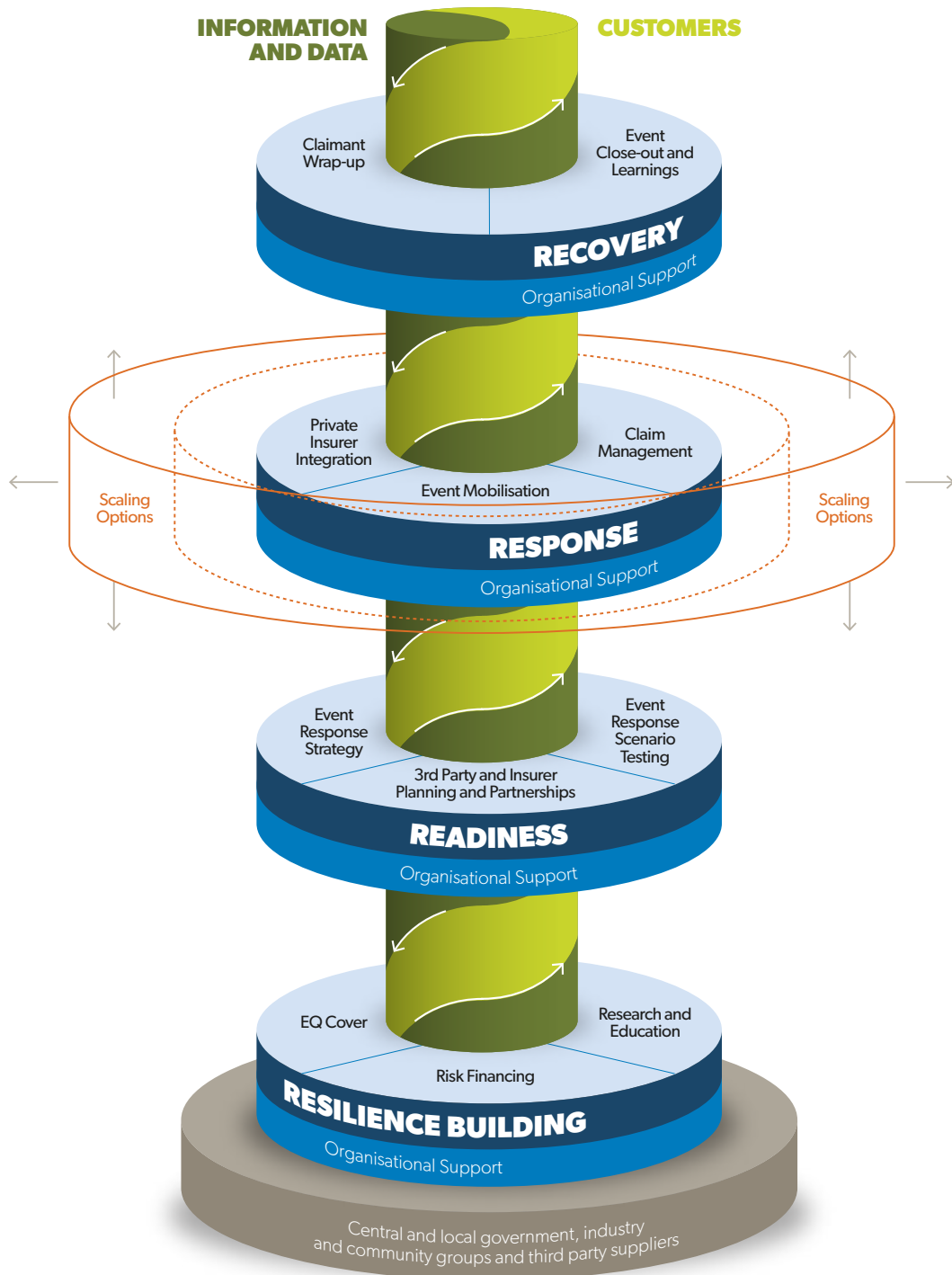
Our operating model will help us achieve our aspirations for the future. We will reinforce a culture that puts the customer first and will work closely with stakeholders to deliver our strategic intentions.

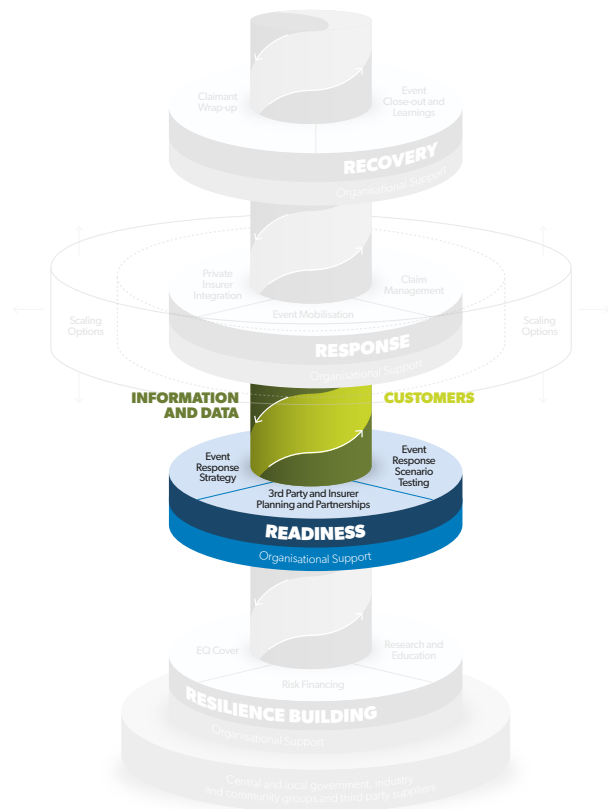
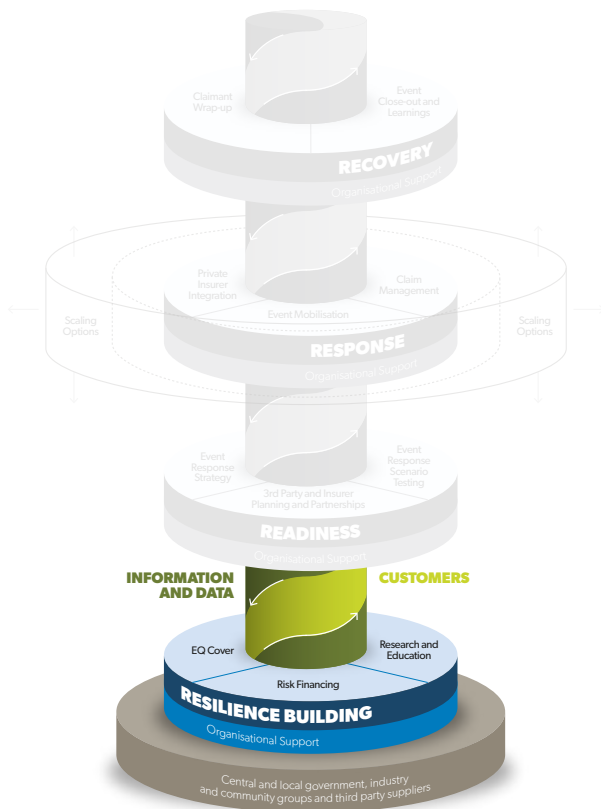
Two central concepts connect the components of EQC's operating model.

1. **Our customers** – not only claimants, but all residential property owners contributing through insurance premiums and the public as part of readiness and response planning.
2. **Information and data are key to effective operations** – by sharing data across government, local government and industry groups, EQC improves the understanding of natural hazard risks and the likely impacts on people, land and buildings.



Credit: Lloyd Homer, GNS Science





## Resilience building

EQC's Resilience Strategy will enable improvements to the modelling of financial, economic and social impacts of natural hazards and sharing with other stakeholders the outputs and knowledge gained from the improved modelling. The Strategy aims to increase community resilience to natural hazards through investment in science, research and partnerships with other relevant agencies. These activities are designed to improve New Zealand's ability to withstand the impact of natural disasters and recover quicker. They include:

- Education to raise public awareness of actions to reduce risk;
- Research to improve our understanding of risks and impacts;
- Rebuilding and effectively managing the Natural Disaster Fund; and
- Loss modelling and risk financing to ensure affordable insurance is in place to mitigate financial risks.

These activities will build community resilience through information and understanding of natural hazard risks, and support our strategic intention of being a leader in natural hazard risk reduction.

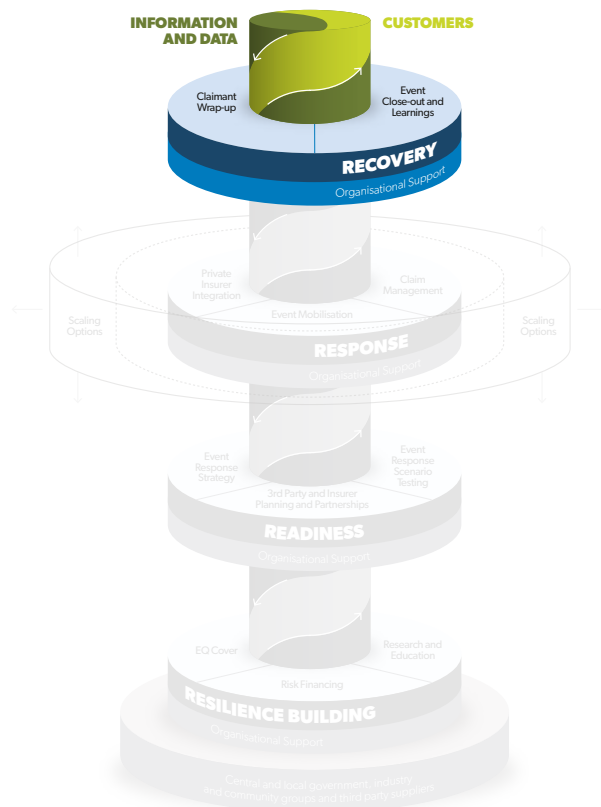
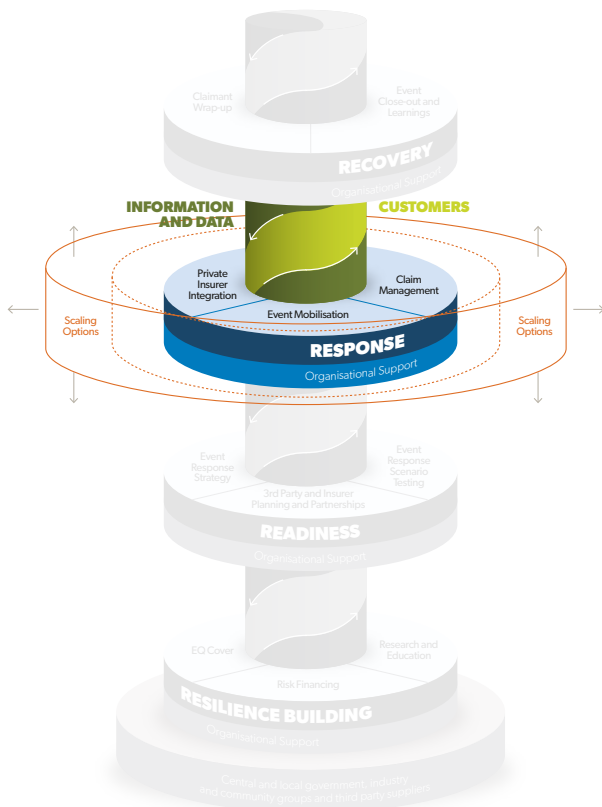
EQC's risk financing strategy will ensure we can deliver a long-term and financially viable scheme. This includes managing the financial performance of the Natural Disaster Fund as it rebuilds and transferring the Crown's risk by purchasing reinsurance in global reinsurance markets. EQC's continued access to reinsurance helps ensure New Zealand has an affordable and sustainable natural disaster insurance scheme.

## Readiness

Being ready for an event encompasses having the people and processes available to aid recovery. EQC is transforming to ensure we are ready for the next major event and is developing:

- Event response strategies and plans to understand customers, guide the response and measure its effectiveness;
- Partnerships with private insurers for rapid, effective and coordinated responses, when needed;
- The operating model to ensure the customer is at the heart of everything we do; and
- Scenario training and testing to align resources and maintain readiness.





## Response

Settling the outstanding claims from the Canterbury and Kaikoura earthquakes remains our highest priority. We have learned a lot from our response to these events and are ensuring these lessons are used to make us a more customer-focused organisation. An example is the establishment of a business unit to focus solely on Canterbury claims, and the implementation of a case management approach. EQC is committed to continuously improve our customer response and will do this through:

- Digital assessment and technology, and integration with private insurers for smoother claim management and quicker settlement;
- Partnership arrangements to provide additional resources, and constant monitoring to change and improve responses as required;
- Claim management decisions closer to customers and clearer processing to improve settlement times; and
- Scaling options through internal and external staff, third party contracts and more permanent staff reflecting learnings from the Canterbury and Kaikoura responses.

An important part of our response is the ability to scale down as the response to events is completed.

## Recovery

Ensuring all claims have been managed in a fair and transparent way is an important part of ensuring that those affected by natural disasters are able to recover. EQC will continue to ensure that customers have an improved experience through:

- Giving claimants better information about their unsettled claim;
- Improving resilience to future events by providing information to other agencies if needed; and
- Strategies to improve response preparedness and performance to ensure we are able to complete our event responses quicker.

No two natural disasters are the same, and ensuring that we learn from each event is essential to ensuring that our customers are better able to recover when impacted by a natural disaster.



# ORGANISATIONAL HEALTH AND CAPABILITY



To deliver on our strategy, EQC will continue to recruit and retain high performing customer-focused people and use modern and secure systems and tools, while remaining committed to being an Equal Employment Opportunities employer, and supporting the Good Employer requirements set out in the Crown Entities Act 2004.

## Our people

The commitment of our people and their resilience over the past eight years has seen EQC resolve 99% of claims as a result of the Canterbury earthquake sequence.

Closing all of the remaining Canterbury and Kaikoura earthquake-related claims remains our highest priority. Many of the outstanding claims are the most complex that EQC has ever dealt with. We have established a new business unit to manage these claims to ensure they receive a high level of oversight and resource to support their successful settlement.

## Organisational development

EQC will continue to focus on developing strong effective leaders and building capable and engaged teams, to support a culture where high performance, and outstanding customer service is the norm.

## Health and safety

The health and safety of our people is paramount. EQC staff work in environments ranging from offices to visiting people and property that have been impacted by natural disasters. Our 'Safe 6' and 'officeSafe' programmes are well embedded and will continue to be supported. EQC also remains committed to achieving a 'zero harm' workplace. Our Board and our Staff Health and Safety Committee play an important role in monitoring trends and initiatives across EQC.

## Information technology

The underlying capability of information technology at EQC will play a key role in delivering the outcomes outlined in EQC's operating model. We will maximise the value of our new claims management system and enhance customer experience through modern digital channels. End-to-end business process management coupled with best practice information management will maximise the value of EQC's data and information assets. Readiness for future events will be achieved by ensuring EQC's core functions can be scaled efficiently and effectively through flexible cost effective IT solutions.





## Managing risk

EQC has adopted the principles of risk management set out in the international standard for risk management, ISO 31000. Our risk management framework involves actively understanding and managing risks to achieve our strategic outcomes, and ensuring improved planning and decision making in programmes, projects and business as usual. The amount and type of risk that the Board and Executive is willing to take informs the development of appropriate risk-management responses across the organisation.

The roles and responsibilities for risk management follow the internationally accepted 'three lines of defence' model. This gives staff primary responsibility for identifying and managing risks within their teams, and ensuring that risk management is integral part of all business activities. They are supported by our Risk and Assurance Team which guides and oversees risk management and compliance. Assurance that the risks are being managed and that risk management practices are being upheld is provided to the EQC Board and the Board's Audit and Risk Committee by EQC's independent Internal Audit team.

## Change

EQC must be able to adapt and change quickly and respond to natural disasters in a way that is appropriate to the size, scale and location of the event.

The operating model and process for managing complex claims described earlier will help ensure the customer is at the heart of everything we do and that EQC has the capability in place to support our strategic intentions and outcomes.

An approach to change management called 'EQC by design' is also being implemented to ensure all change within the organisation is rolled-out in a planned and consistent way.

The Executive Leadership Team formed in January 2018 provides a higher level of focus on our organisational health and capability, including the completion of the remaining Canterbury claims, EQC's future preparedness, and the ability to deliver the priorities of the Minister.

# ASSESSING OUR PERFORMANCE

To successfully deliver the outcomes described earlier, EQC must continually improve services to all New Zealanders. We will do this by being clear about our goals and measuring our progress against each one.

We have introduced new strategic outcomes that better define what success looks like and shows how we will deliver our vision, mission and strategic intentions.

To demonstrate our progress, EQC reports against two output classes:

- Future event preparation; and
- Claims management.

## Future event preparation

Future event preparation focusses on how EQC prepares for the next event and supports New Zealanders in the face of natural disaster. EQC's Resilience Strategy will identify and address gaps in data, knowledge and its application to natural hazard risk assessment and risk reduction. Specifically, this is expected to enhance impact estimation and loss modelling capabilities. As noted above modelling potential losses from natural disasters is a highly specialised requirement for insurance management. It also enables EQC and other agencies to test and plan for scenarios and to focus support in the aftermath of an event. EQC's activity in this regard is not just around insurance risk transfer, but also actively sharing with other stakeholders the benefits of modelling to inform better understanding and management of natural hazard risk for land use and building resilience.

Our measures of success include:

- Our stakeholders agree that our advice, analysis, modelling and research is of a high quality and relevant;
- Our stakeholders agree that we have provided improved coordination, collaboration and understanding in natural hazard risk science and research;
- The proportion of New Zealanders that take action to reduce their risk of natural disaster; and
- Levels of house insurance within New Zealand are maintained.

## Claims management

We work to resolve claims swiftly, efficiently, fairly and transparently. To do this we will respond in a timely way to all customers and improve their experience of the process. We will also track our efficiency, customer satisfaction, and financial efficiency.

Our measures of success include:

- Time taken to complete the settlement of claims;
- Effectiveness of claims settlement;
- Increased customer satisfaction;
- How well we communicate with our customers; and
- Our performance against financial budget.







# CHANGES TO EQC'S GOVERNING LEGISLATION

The Earthquake Commission Amendment Bill was introduced in March 2018. If enacted in its current form (as at the time of writing), the Bill would:

- Increase EQC's residential building cap to \$150,000 (plus GST);
- Remove contents cover from EQCover;
- Extend the period when people could lodge claims to up to two years after a natural disaster; and

- Clarify EQC's authority to share information to support implementation of the Act.

Further changes to our governing legislation in the period covered by this Statement of Intent may occur as a result of the Inquiry into EQC. EQC is ready to provide its views and evidence to the Inquiry in order to ensure further lessons learnt can be drawn to improve how we operate in the future. This will in turn inform legislative reform.



# GOVERNANCE

EQC is governed by 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 has the authority to exercise EQC's powers and perform its functions. Information about our current Board of Commissioners can be found on the following link: [www.eqc.govt.nz/about-eqc/people/commissioners](http://www.eqc.govt.nz/about-eqc/people/commissioners)





