



EARTHQUAKE COMMISSION'S

STATEMENT OF PERFORMANCE EXPECTATIONS 2019-20



This Statement of Performance Expectations (SoPE) is a formal public accountability document required under section 149C of the Crown Entities Act 2004. It outlines the Earthquake Commission's (EQC's) planned work and financial information for the period 1 July 2019 to 30 June 2020. Relevant historical and forecast comparison information is also provided for the benefit of readers.



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INTRODUCTION AND BACKGROUND

EQC's functions are set out in section 5 of the Earthquake Commission Act 1993 ("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.

EQC's Statement of Intent (SOI) contains our Mission, Vision, Strategic Intentions and Operating Priorities that give effect to the functions in the Act and guide the delivery of EQC's services (or outputs). Since the last SOI was drafted, while EQC's Mission, Vision and Strategic Intentions remain, operational strategy has changed. This Statement of Performance Expectations (SoPE) seeks to provide a bridging document between the previous SOI and the future operational model. It is intended that EQC will produce a new SOI, reflective of these changes, in time for the 2020-21 financial year.

EQC's Mission is: "To reduce the impact on people and property when natural disasters occur".

EQC's Strategic Outcomes are that:

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

The organisation has established a portfolio of work to support the delivery of its Outcomes by:

- identifying changes to its operating model to optimise event capacity and capability;
- an increased role, in developing New Zealand resilience

to natural hazards;

- the building of a future sustainable response model for post-event insurance recoveries;
- continued improvement of its customer centred operating model; and
- an organisational strategy that enables EQC to meet its legislative and strategic requirements in a rapidly changing environment.

EQC's Strategic Intentions drive its outputs in this SoPE, which are the key means by which we will deliver and demonstrate the impact of our operating activity on achieving progress towards our Strategic Outcomes. EQC's Strategic Intentions are to:

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

The outputs in this SoPE are grouped into two classes:

1. Future Event Preparation; and
2. Event Response.

For each of the above output classes this SoPE provides information on:

- what the output class is intended to deliver and associated measures;
- the expected result (if available) for the 2018/19 year, this is referred to as the "Forecast Out-turn";
- the target for the 2019/20 financial year, referred to as the Performance Standard;
- the expected revenue and proposed expenses for the output class; and
- how the performance of the output class will be assessed.

In addition to the two output classes, EQC provides reporting on a set of additional activities that are fundamental to the functions we are required to perform under the Act. These activities are measured in a similar way to the output classes in the Key Activity Measures section.

EQC will continue to work closely with Treasury to achieve our strategic outcomes.

This SoPE also provides EQC's prospective (forecast) financial statements for the 2019-20 and 2020-21 financial years.



STATEMENT OF RESPONSIBILITY

This Statement of Performance Expectations (SoPE) sets out EQC's intended non-financial performance and financial forecast for the year 1 July 2019 to 30 June 2020 across its Output Classes, and has been prepared in accordance with the Crown Entities Act 2004.

The prospective financial statements have been prepared in accordance with PBE FRS-42 for the purposes of this SoPE. The financial statements have not been audited and should not be relied upon for any other purposes.

EQC is responsible for the preparation of this SoPE, including the forecast financial statements and the assumptions on which they are based, the non-financial measures and for the judgments used in preparing them.



Sir Michael Cullen
Board Chair
26 June 2019



Mary-Jane Daly
Commissioner
26 June 2019



EQC'S CONTEXT



EQC's Vision "To be the world's leading national natural disaster insurance scheme" continues unchanged. Our Mission "To reduce the impact on people and property when natural disasters occur" is still at the heart of what we do, and feeds directly into New Zealand's Living Standards Framework.

While EQC's primary focus remains on the fair and enduring settlement of outstanding Canterbury claims, it is simultaneously transforming its operations to ensure efficiency, effectiveness and preparedness for future events.

In December 2018, the Minister Responsible for EQC provided a comprehensive annual Letter of Expectations in which she set out a range of strategic and operational objectives.

Over the past ten years, EQC has managed the response to a range of natural disaster events. We established specific response models, setting up separate processes and teams to respond to each event, due to high volumes and different types of claims. We have learned that:

- having a single high-level adaptable model would be more efficient and effective; and
- EQC needs to develop enduring capability and address inefficiencies across our support functions.

EQC is the subject of a Public Inquiry, investigating what can be learned from the Canterbury earthquakes and other significant events, to inform the handling of future natural disasters. EQC will fully support this Inquiry and implement recommendations at its conclusion.

The focus over the next 12 months will be to build the necessary capability and capacity across EQC to support its response to future natural disaster events. Our workforce needs to be agile to expand and contract through effective partnerships with the private sector, and to continue to learn and adapt. It is also important that we build on lessons learned to improve the delivery of customer response and claims management processes across all events; and enabling functions across the EQC such as Finance, Risk and Assurance, Fraud, People and Culture, Information Systems and Resilience.

EQC'S DIRECTION FOR 2019/20

EQC's direction for 2019/20 will be influenced heavily by the Minister's Letter of Expectation, the Public Inquiry and the EQC Act changes, some of which are effective from 1 July 2019.

The Minister's expectations for EQC for the 2019/20 financial year include:

Claims/Event Response

- Better managing future claims and ensuring all claims will be dealt with fairly, efficiently, quickly and with empathy, and with any information requested by customers being released without undue delay.
- EQC making every effort to ensure the completion of all Canterbury claims on hand, and that any claims that are reopened during the year will be dealt with fairly, efficiently, quickly and with empathy.
- EQC completing finalisation of private insurer liabilities for Canterbury claims.
- EQC continuing to develop its dispute resolution strategy to find other solutions to settling claims rather than litigation proceedings.

Engagement

- That EQC will engage positively and effectively with the Canterbury Earthquake Insurance Tribunal (CEIT) and the Greater Christchurch Claims Resolution Service (GCCRS).
- That EQC will engage positively and actively with the Public Inquiry, and will ensure that sufficient resource is available to enable effective engagement with the Inquiry.

Transformation

- EQC continuing its transformation as an organisation with an improved customer experience focused on resilience to, and readiness for, natural disasters through its insurance and other functions, including developing its role in risk modelling around natural disasters risk and its impact on the Crown.
- EQC working with the wider insurance industry to put in place mechanisms to better manage claims arising from significant future events so that claims can be resolved in an efficient and timely manner.

Natural Disaster Fund & Resilience

- EQC will develop a comprehensive strategy for rebuilding the Natural Disaster Fund that aligns with the risk financing framework that is being progressed.
- EQC continuing to invest in science, research and education to encourage more resilient practices to manage natural hazard risk, which will help New Zealanders take practical steps to protect their homes in anticipation of natural disaster events.



Treasury

Continuing to engage, consult and collaborate with Treasury with regard to:

- Crown Guarantee deficiency funding;
- EQC Risk Financing Framework;
- material strategic issues, risk and influences on financial performance, and any developments so that Treasury may brief the Minister accordingly;
- the EQC Board maintaining an open and effective dialogue spanning all areas of shareholder interest;
- the EQC Board actively managing EQC's operational and financial risks and keeping Treasury apprised of any material movements of the liabilities associated with Canterbury and Kaikoura claims settlements as soon as they become available;
- the Board monitoring EQC's performance against its Statement of Performance Expectations and reporting to both Treasury and the Minister on a regular basis;
- keeping Treasury and Crown Law apprised of any significant emerging legal issues; and
- contributing to the review of the EQC Act in a timely manner.

EQC Act Changes

In February 2019, Parliament passed the Earthquake Commission Amendment Act. The resulting changes will improve how the EQC Act functions and enable the scheme to work more effectively for future natural disasters.

These changes will simplify and speed up the claims process, and resolve issues with the EQC Act that have previously been identified by the Ombudsman and the Canterbury Earthquakes Royal Commission.

Two of the changes were with immediate effect and implementation is well underway:

- enabling EQC to accept claim notifications for up to two years after a natural disaster, rather than the current three-month time limit for such notifications; and
- clarifying EQC's authority to share information to support the implementation of the EQC Act and settlement of insurance claims and where this is in the public interest and safety (a recommendation of the Canterbury Earthquakes Royal Commission).

The other two changes on annual insurance renewals post 1 July 2019; were:

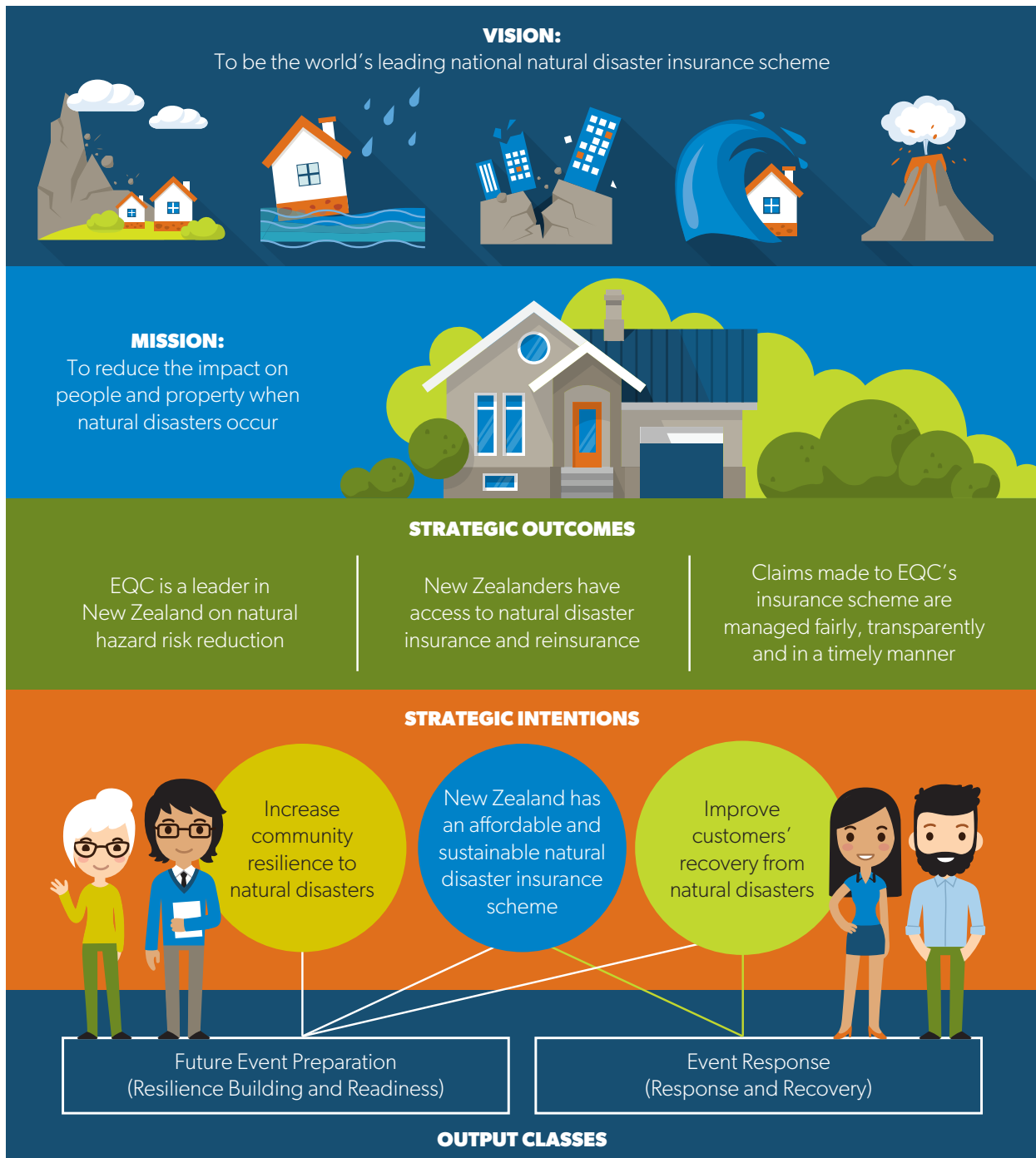
- increasing the cap limit on EQC residential building cover to \$150,000 (plus GST); and
- removing EQC insurance cover for contents.

Removing cover for contents will increase EQC's ability to allocate more resources when responding to a natural disaster and help reduce any delays in resolving residential building and land damage claims.

During the 2019-20 financial year, EQC will be implementing the changes arising from the EQC Amendment Act with the target that all four of these changes will be fully implemented by June 2020.

We will also participate fully in any review of the EQC Act.

EQC'S STRATEGIC MAP



EQC'S STRATEGIC LINKAGES

All of EQC'S operational activities should provide a positive impact on its Strategic Outcomes. EQC also ensures that its Outcomes are aligned with the Government priority of promoting the social and economic well-being of New Zealanders through the Housing and Safety elements of the Living Standards Framework (LSF).

The following impacts explain how EQC's outputs and other interventions have an effect on, or influence, the Strategic Outcomes. This demonstrates alignment, and ensures that our outputs deliver to our Strategic Plan. The indicators provide a gauge to establish the effectiveness of the impact.

STRATEGIC OUTCOME	IMPACTS	INDICATORS
EQC is a leader in NZ on natural hazard risk reduction	<p>EQC prepares for the future by undertaking targeted scientific investment that improves knowledge of potential future outcomes in relation to natural disasters. This information can be used to minimise or prevent natural disaster damage at both an individual and community level.</p> <p>EQC's future loss modelling work and impact estimation provides a quantitative tool to allow natural hazard, asset, and economic data to be integrated and made useable for both risk transfer and risk reduction decisions.</p>	<p>The sharing of natural hazard risk information with other stakeholders, such as Councils, informs better understanding and management of natural hazard risk and informs improved land use and building resilience. Greater structural/infrastructural integrity will benefit both individual homeowners and communities.</p> <p>These activities support EQC to negotiate the purchase of adequate reinsurance with its international risk capital providers for reasonable terms, thus providing New Zealand with an affordable and sustainable natural disaster insurance scheme.</p> <p>Feedback from stakeholders attests that EQC is recognised as a leader in New Zealand on natural hazard risks and risk reduction based on the quality of information provided that enables them to evaluate options to minimise or prevent natural disaster damage.</p>
New Zealanders have access to natural disaster insurance and reinsurance	<p>Sustainability of the EQC Scheme is assured and future changes (supported by EQC) to the EQC Act ensure that New Zealanders will continue to be able to access natural disaster insurance.</p>	<p>New Zealanders are able to obtain natural disaster insurance.</p>
Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner.	<p>Event readiness is an important part of ensuring the optimisation of EQC's event management capacity and capability which, in turn, enables us to respond to natural disaster events when they arise.</p> <p>EQC's event readiness will be delivered by building capability through scenario testing, the development of the future event response model, business continuity planning, and incident management.</p> <p>Optimising claims response resources and processes to resolve all claims fairly, transparently and in a timely manner improves customers' recovery from natural disaster loss, and their consequential economic well-being.</p>	<p>EQC's business continuity plans, future event response model and lessons learned from scenario testing will provide a blueprint for managing business operations and provide options for alternative ways of doing business if a threat or event occurs.</p> <p>Customers express satisfaction with the claims resolution process provided by EQC in relation to their claim experience.</p>

EQC'S STRATEGIC PRIORITIES

Resolve Outstanding Claims

EQC's highest priority continues to be the fair and enduring settlement of the remaining claims primarily arising from the Canterbury sequence of earthquakes. EQC continues to work hard to ensure that there are the right processes, procedures and people in place to enable claims to be resolved in the most consistent, efficient and effective way (including successful management of dispute resolution, insurer finalisation and reinsurer commutation).

Public Inquiry into EQC's Canterbury claims management

EQC is participating fully in the Public Inquiry into the Earthquake Commission announced by Minister for EQC, the Hon. Dr Megan Woods in November 2018. EQC has appointed a team to co-ordinate EQC's participation in the process through to completion of the Inquiry.

At the conclusion of the Inquiry, EQC will implement changes to the future operating model based on recommendations, including future Act changes – most likely in the second half of the 2019-20 financial year.

Optimisation of EQC's event management capacity and capability

We are continuing to transform as an organisation to ensure delivery is aligned to our strategic priorities. Optimising EQC's event management capacity and capability (claims strategies and structures) is identified as one of the five Strategic Priorities for 2019/20.

A key component of optimising claims is the development of a future response model management. We will be incorporating lessons from the Inquiry and previous event response models, and ensuring that the appropriate skills, experience and capability are retained across the industry.

Financial Resilience

EQC, through its risk financing strategy provides financial resilience to the broader Crown balance sheet. Currently, this is primarily achieved through the purchase of reinsurance. In order to continue to provide this financial resilience to a range of types and sizes of potential natural disasters, EQC must have an evolving risk financing strategy. We will do this by:

- continuing to work with the Treasury in regard to EQC's requirements under the Section 16 Crown Guarantee;
- progressing our long-term financial modelling capability to better demonstrate the potential fiscal implications of changes to the EQC Act and any other changes i.e. another natural disaster event;
- maintaining strong relationships with the reinsurance market and investigating other forms of financial risk transfer; and
- planning for the rebuild of the Natural Disaster Fund and working with Treasury to determine any future investment strategy.

Community Resilience

The EQC Resilience Strategy is one of our strategic priorities and is focussed on reducing the impact on people and property when natural disasters occur. Our aim is for communities to understand the natural hazard risks they face, and to be able to make informed decisions on how to reduce the impacts should those disasters occur.

EQC TRANSFORMATION

Overview

EQC is driving significant transformational change to establish a sustainable capability that will enable delivery of an appropriate and scalable event response and recovery, while continuing to build community and financial resilience.

A key aspect of the transformation is to ensure it is planned and delivered as a single and integrated portfolio of initiatives that is co-ordinated and aligned across EQC. The five strategic priorities approved by the Board in February 2019 are the foundation for this alignment.

EQC's transformation will progress through three phases, commencing with the merge phase – integration of the customer facing and claims functions within EQC. This phase is complete. The Optimise Phase has commenced and the Transform Phase will work in parallel as illustrated in figure one.

Merge

The merge phase provided the platform to improve and streamline the customer experience and ensure delivery of the strategic priorities related to claim optimisation and resolution.

Optimise

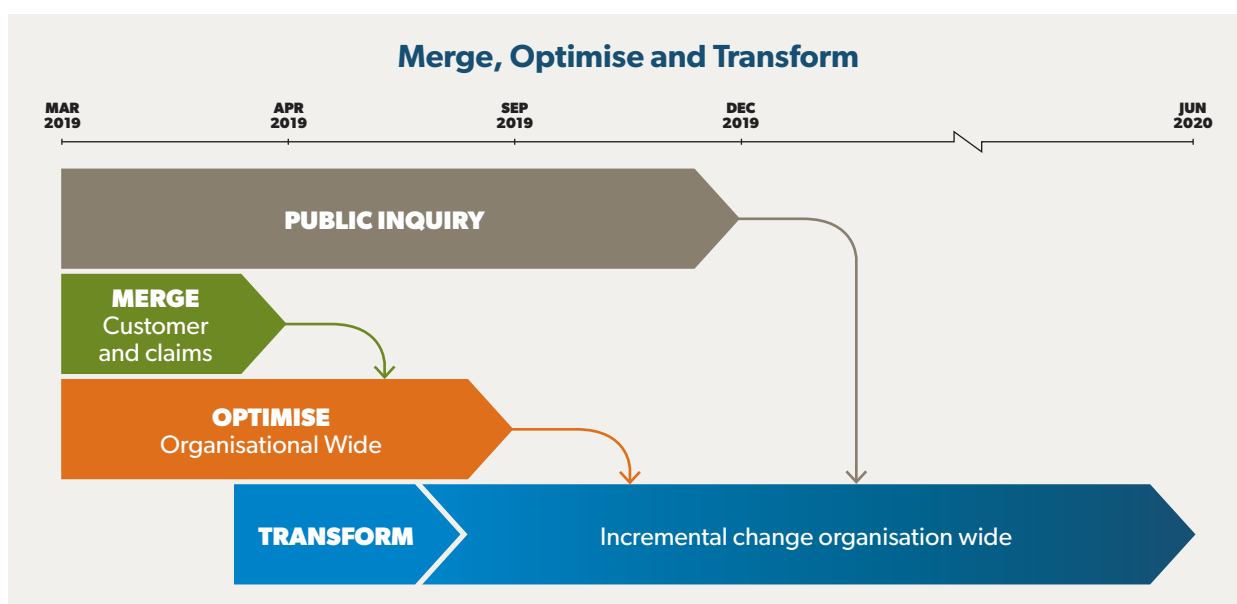
This phase is focused on driving greater sustainability, resilience and efficiency across the claims function and organisational enablers to enable a streamlined customer experience. This phase will standardise and optimise processes to ensure maximum efficiency. We will align our resources to reflect those efficiencies. This phase also includes the stabilisation necessary to ensure a robust platform to support transformation.

Transform

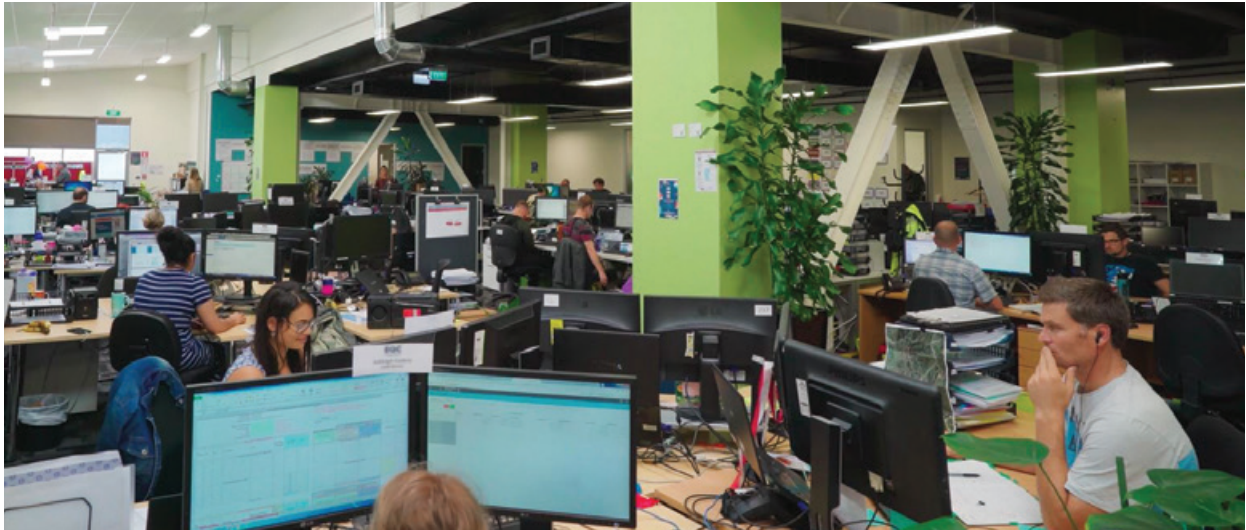
This phase transforms the organisation to support delivery of future claims management through an optimised in-house capability that can be scaled through partnerships with outsourced service providers¹ or by operating with private insurance companies, referred to as the Future Model. It will deliver the step change required to achieve the future state EQC, where we orchestrate a scalable and broader insurance response to an event to leverage capability across the sector and government.

EQC is engaging with insurers to co-design a future response model that can be used to best respond to homeowner and community needs in future natural disaster events.

Figure One



¹ Private companies that provide claims management and loss adjusting services to the insurance industry.



The Co-Design Process

The co-design process will involve EQC and insurers working closely together to design the Future Model with activities started in the 2019 financial year.

Throughout this process, EQC will progress work to develop the in-house capabilities needed and opportunities to implement and support the Future Model.

Progress to date

We are optimising our internal claims management to resolve claims in the most efficient and effective way. We have combined claims functions, leveraging capability and capacity from across our different event response models. We have contracts in place with three external providers – Sedgwick, Crawford and Gallagher Bassett – and we are working with insurers to design a Future Model.

Together with insurers, we are focussed on:

- ensuring the system is responsive to customer needs and focused on the successful delivery of services and outcomes for the customer;
- agreed data sharing processes that support EQC's role in natural hazard risk management and resilience;
- relationships that are built on openness, transparency and principles of partnership, with clear roles and responsibilities;
- ensuring that any arrangement(s) support the obligations of the EQC Act and insurance policies;
- developing pricing mechanisms that are clear, transparent, and reasonable; and
- embracing a culture of continuous improvement grounded in shared learning and understanding.

PART 1: OUTPUT CLASSES



Output One: Future Event Preparation

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. Rapid recovery is essential for the well-being of EQC's customers, both from the economic and social perspectives – being able to resume their pre-disaster lives as soon as possible is essential. Minimisation of damage is the first line of defence in natural disaster situations.

EQC has recently undergone an independent peer review of the programme of work that is needed to deliver its resilience strategy. Recommendations from this review will help shape this activity going forward.

Output objectives

The output objectives include:

- Building knowledge and capability, including:
 - delivering EQC's Resilience Strategy, which is a multi-year programme that is continuing to evolve. The strategy will enhance the sharing and practical application of data and technical know-how, to improve New Zealand's resilience to natural hazards; and
 - enhancing impact and loss modelling tools to ensure that the relevant data and science research are translated and available to support better decision-making; and its application to risk reduction.
- Making the data and knowledge of our forecasting and modelling accessible by:
 - facilitating access to data and knowledge and raising awareness and understanding of its value to insurance planning and natural hazard risk reduction;
 - fostering networks and initiatives across the science, insurance and policy sectors of New Zealand that are focussed on natural hazard risk reduction; and
 - ensuring that the outcomes of our investment in science and research are accessible and meet the requirements of identified key stakeholders in helping them to increase New Zealand's resilience to natural disasters.

How we measure performance

To measure the quality of the information EQC provides, we will conduct stakeholder surveys to understand its value to stakeholders. We will also consider the impact that activities have on the number of New Zealanders who are taking action to prepare for natural disasters. To ensure continuity, we are primarily building on the measurement foundations we established for the 2018/19 financial year.

2019/20 Expected revenue and proposed expenses

There is no revenue associated with Output Class One. Proposed expenses for Output Class One are \$35.5 million. This relates primarily to the cost of funding research and education, including the significant investment in the GeoNet platform and loss modelling.

Linkages to Strategic Intentions

Activities in this output class will positively impact two of EQC's Strategic Intentions: "Increase community resilience to natural disasters"; and "Improve customers' recovery from natural disasters". The impacts will come from:

- investing in targeted scientific research that meets the requirements of our key stakeholders in delivering outcomes that increase New Zealand resilience;
- providing information and analysis that will allow stakeholders to prepare themselves and inform others in relation to natural disaster preparation, for example, better decisions will be made around future property development and Councils will be able to inform communities about natural disaster preparedness; and
- EQC will be prepared to address the aftermath of any natural disaster event in a highly responsive manner.

EQC will continue to increase its capability in impact estimation and loss modelling through a partnership with GNS Science. Modelling the potential losses from natural disasters or the benefits of risk reduction 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.

The outputs in this class will also help inform our strategies for rebuilding the Natural Disaster Fund and our purchasing of reinsurance. Each activity has measures that set time-bound, quality or quantity criteria.

1.1: A resilience programme that facilitates improved analysis and public understanding of natural hazard risk

This output is focussed on working within EQC and with stakeholders to build resilience to natural hazard events through a partnership approach using effective facilitation and engagement. EQC's focus is on those areas that are of the highest strategic value.

In building resilience to natural hazards, EQC will deliver policy advice, research findings, modelling and analysis that stakeholders see as high-quality and well-targeted.

The proportion of New Zealanders who take action to prepare their home for risks from natural disasters acts as a guide to how EQC's resilience programme may positively impact New Zealanders' resilience to natural disasters.

This output contributes to EQC's Strategic Outcomes "EQC is a leader in New Zealand on natural hazard risk reduction" and "New Zealanders have access to natural hazard insurance and reinsurance".

PERFORMANCE MEASURES		FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Quality				
1.1.1	Stakeholders ² surveyed ³ agree or strongly agree the outputs of EQC's resilience strategy (advice, analysis and modelling, and research findings):	Target 75%		
	• to be of good or excellent quality; and	90%	90%	
	• to be relevant and focussed on the right issues.	93%	90%	
1.1.2	Stakeholders surveyed agree or strongly agree that the EQC's facilitation and engagement was a positive contribution toward:	Target 75%		
	• improved coordination and collaboration in natural hazards science and research;	93%	90%	
	• improved understanding of natural hazard risk; and	87%	85%	
	• improved coordination and collaboration in natural hazards risk management.	79%	80%	
Quantity				
1.1.3	There is a year-on-year increase in the proportion of New Zealanders who, when surveyed, confirm that they have taken action to prepare their homes for natural disasters.	45% ⁴	> 45%	

² Stakeholders include local government and design, planning and construction professionals

³ Surveys are undertaken by an independent organisation

⁴ Based on half-year result

Output Two: Event Response

Our Event Response output class focusses on how we manage claims after an event. The quicker customers can reach resolution in respect of their loss, the sooner they can resume their pre-disaster lives.

Customers are at the heart of the EQC operating model, which is designed to improve customer outcomes and their satisfaction in interacting with us.

EQC acknowledges that our past actions have not always been sufficiently responsive. The resolution of all outstanding Canterbury claims remains our highest priority, and we now have a dedicated case management process designed to provide customers with a single point of contact who “owns the customer’s claim” and will make the decisions that resolve their claim. EQC has also moved to alternative dispute resolution as a preference over litigation in the event of disagreement.

EQC is transforming its event response model to ensure that the organisation is scalable and sustainable. As part of this transformation EQC intends to work with insurers on the principles and criteria to be followed when determining the most appropriate way to respond to a natural disaster event. Under this approach, we can effectively administer insurance through the lodgement, assessment, and cash settlement phases for natural disaster events. Successful implementation of the future event response model would see EQC transform to more of an organisation that mobilises and activates the insurance response.

This approach will allow us to:

- manage our expected annual claims volume;
- lead the EQC natural disaster event response;
- scale reasonably quickly as demand requires;
- provide significantly increased capacity before successful recovery outcomes would be threatened; and
- maintain an experienced internal capability with the appropriate mix of skillset to support broad natural disaster event management and the delivery of complex claims in an EQC response.

Output objectives

The output objectives of this class are:

- responding swiftly to all customers’ claims to help them recover from an event. Priorities lie with finalising all unresolved Canterbury claims while responding to new claims and events as they occur;
- improving the customer experience and keeping customers better informed about the progress of their claims through the timely release of their information; and

- tracking financial efficiency in responding to events through the continued monitoring of claims handling expenses.

How we measure performance

Results are tracked primarily through data held within our claims management system including time taken to settle claims and independent customer satisfaction surveys.

2019/20 Expected revenue and proposed expenses

There is no revenue associated with Output Class Two. Proposed expenses for Output Class Two are \$36.5 million (excluding specific claims handling expense budgets) relating primarily to the cost of settling natural disaster claims and the supporting systems.

Performance Measures

EQC’s highest priority is to resolve the unsettled claims from the 2010-11 Canterbury earthquake sequence, and claims relating to all other natural disaster events. Separate performance measures are monitored for these two categories and are represented in the tables below.

For a claim to be settled the customer must have received a cash settlement or had a repair completed that meets EQC’s obligations under the Act. In some instances, following a settlement a customer may subsequently ask for a claim to be reopened. This will be treated as a reopened claim and be measured accordingly.

Linkages to Strategic Intentions

This output class contributes to the following EQC Strategic Intentions:

- Improve customers’ recovery from natural disasters; and
- New Zealand has an affordable and sustainable natural disaster insurance scheme.

The activities contained within this output are directly targeted at customers who have experienced loss through a natural disaster event. Each activity has measures which set time-bound, quality or quantity criteria designed to ensure that customers are treated in a fair and timely manner. EQC will work to ensure that customers with existing outstanding claims are given a completion pathway during each financial year. Customer satisfaction with this process is also measured, as are EQC’s ability to settle claims within the Board approved budget and our communication with customers.

2.1: Settlement of Canterbury 2010-11 Earthquake Sequence Remedial Claims

This output is focussed on providing service to EQC's customers with claims from the 2010-11 Canterbury earthquakes. The measures address both the timeliness and the quality of EQC's claims resolution. This output also includes communication with EQC's customers and surveying their overall level of satisfaction as well as how well they have been kept informed regarding progress of their claims. This output contributes to EQC's Strategic Outcome "Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

PERFORMANCE MEASURES		FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Timeliness				
2.1.1	Outstanding claims over six months old, on hand at 30 June 2019, are settled by 31 December 2019.	New Measure	75%	
2.1.2	Inflow of reopened ⁵ claims lodged post 1 January 2019 will be settled within six months of reopened date ⁶ .	80% ⁷	80%	
2.1.3	Complete finalisation of the attribution of correct liabilities for Canterbury claims. This will involve discussion/negotiation with private insurers.	New Measure	30 June 2020	
Quality				
2.1.4	EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months.	Circa 10%	<10%	
2.1.5	The proportion of surveyed ⁸ customers who indicate satisfaction about their overall claim settlement process.	40% ⁹	≥45%	
2.1.6	The proportion of surveyed customers who agree or strongly agree that the overall quality of the service received while making the claim (during recent claim experience) was good.	New measure	≥60%	
2.1.7	The proportion of surveyed customers who indicate that they were well informed during the claims settlement process.	31% ¹⁰	≥40%	
2.1.8	The proportion of surveyed customers who agree or strongly agree that they were kept well informed during their recent claim experience.	New measure	≥60%	
2.1.9	The proportion of surveyed customers who agree or strongly agree that the overall manner of the people they had contact with (during your recent claim experience) was good.	New measure	≥60%	

5 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required

6 Including claims opened from 1 January 2019 to 31 December 2019 will give a financial year (1 July 2019 to 30 June 2020) result in terms of "settled within six months"

7 The 2018/19 measure excluded litigation cases. The 2019/20 target is inclusive of all claims

8 Telephone survey conducted with customers whose claims were settled the previous month – applicable to measures 2.1.5 to 2.1.9

9 Based on the Q3 result

10 Based on the Q3 result

2.2: Claims Relating to Natural Disaster Events (excluding Canterbury)

This output is focussed on providing service to EQC's customers with claims unrelated to the Canterbury 2010-11 events. These measures address claims (including any reopened claims), and the speed, cost and quality of EQC's claims resolution – the aim being to settle claims swiftly, fairly and efficiently. This output also includes communication with these EQC customers and surveying their level of satisfaction with the claim settlement process and how well they been kept informed during it.

This output contributes to EQC's Strategic Intention "Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

PERFORMANCE MEASURES		FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Timeliness				
2.2.1	Claims lodged post 1 January 2019 are settled within six months of lodgement date.	New Measure	95%	
2.2.2	Claims which have not been settled within six months of lodgement are settled within 90 working days of the assessment process being completed.	New Measure	95%	
2.2.3	Inflow of reopened ¹¹ claims lodged post 1 January 2019 will be settled within six months of reopened date ¹² .	New Measure	80%	
Quality				
2.2.4	EQC settlements should be enduring. Less than 10% of claims settled ¹³ are reopened within six months	4%	<10%	
2.2.5	The proportion ¹⁴ of surveyed customers who indicate satisfaction about their overall claim settlement process.	77% ¹⁵	80% per annum	
2.2.6	The proportion of surveyed customers who indicate they were well informed during the claims settlement process.	76% ¹⁶	80% per annum	
Quantity				
2.2.7	New natural disaster event claims ¹⁷ are resolved within Board approved claims handling expense budgets ¹⁸ for those events.	No new events to date in 2018/19	Within 10% of initial budget.	

11 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required

12 Including claims opened from 1 January 2019 to 31 December 2019 will give a financial year (1 July 2019 to 30 June 2020) result in terms of "settled within six months"

13 The start date for this rolling measure is 1 January 2019

14 Telephone survey conducted with customers whose claims were settled the previous month – applicable to measures 2.2.5 to 2.2.6

15 Based on Q1 – Q3 average

16 Based on Q1 – Q3 average

17 A specific event budget may be established when there are 500 or more claims and/or the estimated total financial impact is anticipated to be above \$5 million.

18 In the approval of budgets, the Board will consider the type of response required, previous costs of similar events and any available benchmarks.



PART 2: KEY ACTIVITY MEASURES

In addition to our output classes, we have introduced key activity measures to provide transparency on how we continually progress key activities to achieve our Strategic Outcomes and intentions, as well as delivering the functions set out in the Act. These key activity measures contribute to all three of EQC's Strategic Outcomes, and enable progress towards our Strategic Outcomes.



Key Activity Measures Objectives

EQC is committed to continually increasing capability so we are well positioned to respond to future events. This approach includes having a continued focus on our already specialised skills around obtaining reinsurance and the financial management of the Natural Disaster Fund. Key activities include:

- Purchase of reinsurance, through:
 - interacting with the Treasury to understand the Crown's balance sheet risk appetite; and
 - continuing to maintain strong relationships with the reinsurance markets and investigate other forms of financial risk transfer.
- Administration of the Natural Disaster Fund, including rebuilding the Natural Disaster Fund to the level of the current reinsurance deductible, through:
 - managing the Natural Disaster Fund in line with the relevant Ministerial Direction; and
 - providing advice and guidance to key stakeholders on key components of the EQC natural disaster insurance scheme such as premium adequacy, the legislative review of the EQC Act and any funding requirements under the Crown guarantee.
- Collection of premiums payable for the insurance payable under the Act.

Other key activity measures have been introduced to track progress in the delivery of the Customer and Event Response capability elements of transformation. These are timeliness measures that will demonstrate EQC's progress towards completion of these key elements of the programme.

2019/20 Expected revenue and proposed expenses

Expected revenue primarily from EQC premiums is \$440 million. Budgeted expenses are \$219 million largely relating to the purchase of reinsurance to protect against the financial consequences of future significant natural disaster events.



Key Activity Measures

The key activity measures demonstrate how EQC will increase its resilience and capability to respond to future events through the purchase of reinsurance, rebuilding and managing the Natural Disaster Fund, the collection of premiums, the optimisation of claims strategies and event management capacity and capability.

Key Activity Measure 1: A reinsurance programme that supports EQC's delivery of affordable residential natural disaster insurance protection

The purchase of reinsurance transfers an agreed amount of natural disaster risk to offshore capital providers, thereby reducing the concentration of New Zealand's financial exposure to future natural hazard events.

PERFORMANCE MEASURES		FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Quality				
KAM1.1	The reinsurance programme continues to support delivery of affordable residential natural disaster insurance protection consistent with EQC's risk financing strategy.	EQC's reinsurance for 2019/20 was purchased in the 2018/19 FY for favourable terms	Reinsurance protection is obtained on terms that assure continuity of coverage for all perils, at rates that are lower than the Crown's cost of capital by 1 June 2020	
KAM1.2		Annual consultation with the Crown occurred in January 2019	Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2020/21 by March 2020	
Timeliness				
KAM1.3	Development of a future investment strategy to support the regrowth of the Natural Disaster Fund.	New measure	30 June 2020	

Key Activity Measure 2: Managing the Natural Disaster Fund

The regrowth of the Natural Disaster Fund ensures that EQC is financially better prepared for future natural disaster events.

The accurate collection of premiums is crucial to ensuring the ongoing funding of the EQC natural disaster insurance scheme and rebuild of the Natural Disaster Fund.

During the 2019/20 financial year EQC, in partnership with GNS Science and National Institute of Water and Atmospheric Research (NIWA), aims to develop and implement a new loss modelling solution to support the reinsurance programme, the risk financing strategy and post-event damage estimation. It will also advance New Zealand's natural hazard loss modelling capability across EQC and other Government agencies.

PERFORMANCE MEASURES	FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Quality			
KAM2.1 EQC develops a long term financial strategy which gives a 75% probability of the Natural Disaster Fund reaching \$1.75bn by 2030 under a range of potential natural disaster scenarios	New measure	A probability model will be in place by 30 June 2020 which will forecast progress against achieving a NDF size of \geq \$1.75bn by 2030	
Timeliness			
KAM2.2 Transition to a new loss modelling platform, in partnership with GNS Science and NIWA, will be completed by the end of quarter two.	New measure	EQC's new loss modelling platform will be tested and in place by 31 Dec 2019	
Quantity			
KAM2.3 The level of premiums collected compared to annual financial budget.	> 97.5%	> 97.5%	

Key Activity Measure 3: Transformation – Customer and Claims Management Capability

EQC is currently optimising and transforming customer and claims management capability and is designing and implementing a future claims model to support this. It will include partnerships with outsourced service providers and the development and delivery of the co-designed Future Model. The primary outcome from this work is that we are able to retain and increase our capability and capacity to be able to respond to existing and future claims resulting from a natural disaster.

PERFORMANCE MEASURES	FORECAST OUTTURN 2018/19	PERFORMANCE STANDARD 2019/20	OUTTURN 2019/20
Timeliness			
KAM3.1 EQC Amendment Act fully implemented.	New measure	Complete by 30 June 2020	
Quantity			
KAM3.2 EQC is able to demonstrate ¹⁹ the claims management capacity of its event response model	New measure	50,000 claims (annually) by June 2020	

¹⁹ This will be demonstrated through planning and completing memoranda of understanding and contracts with third parties who will provide that additional capacity. These partnerships would also be leveraged to respond to events over 50,000 claims, likely as part of a broader Crown response.

PROSPECTIVE FINANCIAL STATEMENTS



Prospective Statement of Comprehensive Revenue and Expense

FOR THE YEARS ENDING 30 JUNE 2020 AND 30 JUNE 2021

BUDGET
2020
\$(000)

FORECAST
2021
\$(000)

EARNED PREMIUMS

Gross earned premiums	440,127	489,346
Outward reinsurance premium expense	(208,899)	(210,988)
Net earned premium revenue	231,228	278,358

UNDERWRITING MOVEMENTS

Reinsurance and other recoveries	4,055	592
Claims (expense)/reduction	73,228	(7,397)
Unexpired risk liability reduction	39,129	–
Total underwriting movements	116,412	(6,805)

(DEFICIT)/SURPLUS FROM INSURANCE ACTIVITIES

347,640 **271,553**

OTHER OPERATING EXPENSE

Future Event Preparation	(35,543)	(34,978)
Event Response	(36,534)	(29,909)
Total operating expense	(72,077)	(64,887)

Crown underwriting fee	(10,000)	(10,000)
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NET (DEFICIT)/SURPLUS AND TOTAL COMPREHENSIVE (EXPENSE)/REVENUE FOR THE PERIOD

265,563 **196,666**



Prospective Statement of Changes in Equity

AS AT 30 JUNE 2020 AND 30 JUNE 2021

BUDGET
2020
\$(000)

FORECAST
2021
\$(000)

EQUITY

Capitalised reverses	1,500,000	1,500,000
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RETAINED EARNINGS

Opening balance at 1 July	(1,981,198)	(1,715,635)
Net (deficit)/surplus and total comprehensive (expense)/revenue for the period	265,563	196,666
Closing balance at 30 June	(1,715,635)	(1,518,969)
Closing balance at 30 June	(215,635)	(18,969)

Prospective Statement of Financial Position

AS AT 30 JUNE 2020 AND 30 JUNE 2021

	BUDGET 2020 \$(000)	FORECAST 2021 \$(000)
EQUITY		
Capitalised reserves	1,500,000	1,500,000
Retained earnings	(1,715,635)	(1,518,969)
Total Equity	(215,635)	(18,969)
ASSETS		
Bank	32,956	147,779
Premiums receivable	96,232	97,194
Outstanding reinsurance and other recoveries	113,087	5,511
Other receivables	1,359	1,359
Prepayments	1,293	1,193
Outward reinsurance expense asset	34,774	35,122
Property, plant and equipment	1,348	936
Intangible assets	9,486	6,521
Total Assets	290,535	295,615
LIABILITIES		
Trade and other payables	(23,367)	(20,958)
Provisions	(2,017)	(1,421)
Outstanding claims liability	(223,529)	(32,376)
Unearned premium liability	(257,257)	(259,829)
Total Liabilities	(506,170)	(314,584)
Net liabilities*	(215,635)	(18,969)

*The Crown has confirmed, in writing to the Commission, its intention to meet its obligation under Section 16 of the Act, to ensure that the Commission can meet all its liabilities as they fall due.

Prospective Statement of Cash Flows

FOR THE YEARS ENDING 30 JUNE 2020 AND 30 JUNE 2021

**BUDGET
2020
\$(000)**

**FORECAST
2021
\$(000)**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash was provided from:

Premiums	419,933	488,384
Reinsurance and other recoveries	281,148	108,169
Net GST	2,718	–

Cash was applied to:

Outward reinsurance	(213,435)	(211,336)
Crown underwriting fee	(10,000)	(10,000)
Claims settlements and handling costs	(407,961)	(198,775)
Employees and other operating expenses	(49,636)	(42,685)
GeoNet operating expense	(12,908)	(13,265)
Research grants	(4,703)	(4,669)
Net cash inflow from operating activities	5,156	115,823

CASH FLOWS FROM INVESTING ACTIVITIES

Cash was applied to:

Purchase of intangibles	(2,000)	(1,000)
Net cash inflow/(outflow) from investing activities	(2,000)	(1,000)

Net (decrease)/increase in cash	3,156	114,823
Add opening cash brought forward	29,800	32,956
Ending cash carried forward	32,956	147,779



Notes to the Financial Statements

Note 1: Prospective Operating expenditure Excluding Claims Costs

FOR THE YEARS ENDING 30 JUNE 2020 AND 30 JUNE 2021

	BUDGET 2020 \$(000)	FORECAST 2021 \$(000)
Advertising and publicity	900	918
Amortisation of intangibles	3,718	3,964
Fees paid to the auditor		
Audit of the financial statements	164	166
Commissioners' fees	306	315
Consultants and contractors	12,730	9,570
Depreciation	451	412
Employee remuneration and benefits	24,037	19,609
Grants for earthquake research	3,955	3,955
GeoNet operating costs	12,908	13,265
Office rental	701	720
Sponsorships	433	433
Superannuation contribution costs	625	577
Technology costs	7,861	8,179
Other administration costs	3,288	2,804
Total operating costs (excluding claims expense and claims handling expense)	72,077	64,887

EXPENDITURE GROUPED BY FUNCTION

Future Event Preparation	35,543	34,978
Event Response	36,534	29,909
Total expenditure by function excluding claims costs	72,077	64,887

Note 2: Claims Expense

	2020 CURRENT YEAR \$(000)	2020 PRIOR YEARS \$(000)	2020 TOTAL \$(000)	2021 CURRENT YEAR \$(000)	2021 PRIOR YEARS \$(000)	2021 TOTAL \$(000)
Gross claims – undiscounted	(54,000)		(54,000)	(54,000)		(54,000)
Movement in discount		(5,989)	(5,989)		(964)	(964)
Amortisation of risk margin		133,217	133,217		47,567	47,567
Gross claims discounted	(54,000)	127,228	73,228	(54,000)	46,603	(7,397)

Current year claims expense comprises amounts paid (or estimates of amounts payable) in relation to natural disaster damage sustained during the current financial year. Prior years' claims expense relates to amounts paid (or estimates of amounts payable) where the damage occurred in prior financial years. Changes to prior years' claims expense occurs when the actual or estimated settlement values of claims changed during the current financial year.

Note 3: Contingent Liabilities

EQC received 469,472 claims from the 2010-11 Canterbury earthquake sequence. Some litigation involving EQC has arisen from disputes in relation to other natural disaster events, and further litigation in relation to these and future events is also inevitable. As at 31 March 2019, EQC had 381 open litigation cases across all events. The expectation of costs from disputes and litigation under the EQC Act is regularly considered by the actuaries in deriving the outstanding claims liability.

Included in the 381 open litigation cases, EQC has received 88 litigation cases which argue that EQC has liability outside of the EQC Act. Most of these cases relate to on-sold properties. At the time of budgeting, no separate provision has been made for these cases, although it is acknowledged that a separate provision may in the future be required as the various proceedings in this category are analysed in more detail.

The Commission has received 67 claims for interest under the Interest on Money Claims Act 2016 as part of litigation cases currently before the courts. As at 31 March 2019 five of these claims had been settled. A number of variables are involved in any litigation outcome.

Significant Accounting Policies

Reporting Entity

The Earthquake Commission (the Commission) is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in and operates in New Zealand. The relevant legislation governing the Commission's operations includes the Crown Entities Act 2004 and the Earthquake Commission Act 1993 (EQC Act). The Commission's ultimate parent is the New Zealand Crown.

The Commission's primary objectives are to administer the insurance against natural disaster damage as provided for under the EQC Act, facilitate research and education about matters relevant to natural disaster damage, and to manage the Natural Disaster Fund (the Fund) including the arrangement of reinsurance.

The Commission has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The reporting period covered by these prospective financial statements is for the years ending 30 June 2020 and 30 June 2021.

Basis of Preparation

Measurement Base

The prospective financial statements have been prepared on an historical cost basis modified by the measurement of insurance liabilities and reinsurance recoveries at present value as set out below.

Functional and Presentational Currency

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

Going Concern

Actuarial estimates of the Commission's claims liabilities indicate that total liabilities exceed its assets after accounting for reinsurance. The Crown has confirmed in writing to the Commission its intention to meet its obligation under Section 16 of the EQC Act to ensure that the Commission 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 assumption in preparing these prospective financial statements.

Statement of Compliance

These prospective financial statements have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The prospective financial statements comply with Public Benefit Entity Standards ("PBE Standards") as appropriate for Tier 1 public benefit entities. They comply with PBE FRS 42 and other PBE Standards, as appropriate for public benefit entities.

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

Accounting Judgements and Major Sources of Estimation

The preparation of prospective financial statements in conformity with Tier 1 PBE Standards requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue 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.

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 prospective financial statements, with a significant risk of material adjustment in future periods. The magnitude and number of Canterbury earthquakes, together with the impact of reopened claims in relation to remedial issues and financial reconciliations with insurers and reinsurers, have resulted in a higher than usual level of uncertainty associated with this measurement.

Insurance

Gross Earned Premiums and Unearned Premium Liability

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 Prospective Statement of Financial Position as an unearned premium liability. Premiums receivable are reported net of rebates paid to collecting agencies.

Outward Reinsurance Premium Expense

Premiums paid to reinsurers are recognised by the Commission as outward reinsurance premium expense in the Prospective Statement of Comprehensive Revenue and Expense 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 outward reinsurance expense asset in the Prospective Statement of Financial Position.

Reinsurance and Other (Reductions)/Recoveries

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

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

Claims (Expense)/Reduction

Claims (expense)/reduction represents payments for claims, claims handling costs, the movement in the liability for outstanding claims and the associated risk margin.

Current year claims expense comprises amounts paid (or estimates of amounts payable) in relation to natural disaster damage sustained during the current financial year. Prior years' claims expenses relates to amounts paid (or estimates of amounts payable) where the damage occurred in prior financial years. Changes to prior years' claims expense occurs when the actual or estimated settlement values of claims changed during the current financial year.

Outstanding Claims Liability

The outstanding claims liability is recognised at balance date as the central estimate of the present value of the expected future payments for claims incurred to balance date, with an additional risk margin to allow for the inherent uncertainty in the central estimate. 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 and PBE IFRS 4 – Insurance Contracts.

The risk margin associated with an event is amortised over the financial year to reflect a reduction in uncertainty within the central estimate as increased numbers of claims are settled.

Unexpired Risk Liability (Increase)/Reduction

At balance date, the Commission assesses the adequacy of the unearned premium liability by applying the liability adequacy test as specified by PBE IFRS 4 – Insurance Contracts. The liability adequacy test determines whether the Commission's unearned premiums at balance date are sufficient to cover future claims arising from existing contracts.

The liability adequacy test compares the current estimate of the present value of the expected future cash flows relating to claims arising from the rights and obligations under current insurance contracts (with an additional risk margin included to allow for the inherent uncertainty), to the value of the unearned premium liability. If the value of the unearned premium liability is exceeded, the movement is recognised in the Prospective Statement of Comprehensive Revenue and Expense and recorded in the Prospective Statement of Financial Position as an unexpired risk liability.

Assets Backing Insurance Liabilities

All assets of the Commission back its insurance liabilities in accordance with Section 13(3) of the EQC Act, 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

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

Foreign Currency

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the transaction date. 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, are recognised in the Prospective Statement of Comprehensive Revenue and Expense.

Taxation

The Commission 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.

The Commission pays transactional taxes such as Goods and Services Tax, Fringe Benefit Tax and Non-Resident Withholding Tax.

Goods and Services Tax (GST)

All items in the prospective financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST inclusive basis. Where GST is not recoverable it is recognised as part of the related asset or expense.

Net GST receivable or payable at balance date is included in receivables or payables in the Prospective Statement of Financial Position as appropriate. Commitments and contingencies are disclosed exclusive of GST.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Prospective Statement of Cash Flows.

Interest

Interest income is accrued using the effective interest method.

Financial Instruments

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. A financial asset is derecognised if the Commission's contractual rights to the cash flows from the financial asset expire or if the Commission 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 the date that the Commission commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

Bank

Bank comprises cash balances, cash in transit, bank call deposits and term deposits of less than three months. The carrying amount of cash approximates its fair value.

Investments

All investment assets held by the Commission are to meet insurance liabilities and are therefore designated at fair value through surplus or deficit.

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 is established by using valuation techniques.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are subsequently measured at amortised cost using the effective interest method less any impairment on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Other Financial Assets

Other financial assets are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses on the basis of the Commission's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Trade and Other Payables

Trade and other payables are recognised when the Commission becomes obliged to make future payments resulting from the purchase of goods and services. These are measured at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received.

Property, Plant and Equipment

Overview

Property, plant and equipment is 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 the Commission 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 recognised in the Prospective Statement of Comprehensive Revenue and Expense, in the period in which the transaction occurs.

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 the Commission 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 the Prospective Statement of Comprehensive Revenue and Expense in the period in which the transaction occurs.

GeoNet Assets

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

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

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Prospective Statement of Comprehensive Revenue and Expense 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 as follows:

Non-Canterbury furniture and equipment	2-10 years
Non-Canterbury leasehold improvements	0-12.3 years
Non-Canterbury computer hardware	3-10 years
Canterbury furniture and equipment	1-11.8 years
Canterbury computer hardware	1.5-2.5 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	8 years

Intangible Assets

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

Research and Development

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

Software Acquisition and Development

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

Capitalised software development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

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 the Commission and the cost of the item can be measured reliably.

The costs of day-to-day servicing of intangible assets are recognised in the Prospective Statement of Comprehensive Revenue and Expense in the period in which the transaction occurs.

Intangible assets are amortised on a straight-line basis at rates calculated to allocate the cost or valuation of an item of intangible assets, less any estimated residual value, over its estimated useful life. The estimated useful lives of

different classes of intangible assets are reviewed annually and are as follows:

Non-Canterbury software	3-9 years
Canterbury software	1.5-3 years
Non-Canterbury Claims management system v8	5 years

Impairment of Non-Financial Assets

The carrying amounts of the Commission's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in the Prospective Statement of Comprehensive Revenue and Expense.

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

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

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

Employee Entitlements

Employee entitlements include salaries and wages, annual leave, long service leave and other similar benefits which are recognised in the Prospective Statement of Comprehensive Revenue and Expense 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, 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 the Commission. 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 the Commission, or the amount of the obligation cannot be measured with sufficient reliability.

Superannuation Schemes

Defined Contribution Schemes

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 the Prospective Statement of Comprehensive Revenue and Expense on an accruals basis.

Cost Allocation

Expenditure of the Commission is allocated across its two output classes: Future Event Preparation and Event Response. Expenditure is allocated to these output classes by directly attributing costs as far as possible and by the apportioning of indirect costs based on the average number of full time equivalents employed in each function during the financial year.

Disclosures in Relation to Prospective Financial Statements

Major assumptions underlying the prospective financial statements

- In order to meet claims payments over the foreseeable future and continue as a going concern, it is highly probable that Section 16 of the EQC Act (or alternative agreed mechanism) will continue to be activated for the Crown to provide guaranteed funding for cash flow requirements.
- The EQC Amendment Bill is fully in place from 1 July 2019. This includes removal of the contents policy for policies started after 1 July 2019 and an increase in the cap on EQC residential building cover to \$150,000.
- Costs associated with the Public Inquiry have been allocated across the output classes Future Event Preparation or Event Response for 2019/20.
- Claims costs directly related to the occurrence of major events, and the claims they produce, have not been forecast. \$54 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 premium levy rates.
- Reinsurance costs are based on management estimates prior to the 2019/20 round of negotiations.
- Estimates for events claim expenses, liabilities and cash flows are based on the December 2018 actuarial update prepared by Melville Jessup Weaver.

The following actuarial assumptions were used in determining the claims liability at that date:

Claims inflation rate per annum	2.5%
Demand surge per annum	15%
Discount rate per annum	1.73%-2.05%
Risk margin	89.2%
Claims handling expense ratio	17.6% (Canterbury) 21.1% (Kaikōura)

Purpose of prospective financial statements

These prospective financial statements have been prepared for internal management purposes and for inclusion in the Statement of Performance Expectations. The financial statements are not appropriate to use for purposes other than those described.

Degree of uncertainty attaching to prospective financial statements

- No estimate for future major events, or costs directly associated with them, has been made, due to the high level of uncertainty in any estimate.
- Some key sources of actuarial uncertainty in relation to Canterbury estimates include: the impact of reopened claims in relation to remedial issues and financial reconciliations with insurers and reinsurers.

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

- The occurrence of further earthquakes or other natural disasters covered by the Commission could significantly impact on future actual financial statements.
- Changes in any of the actuarial assumptions noted above could result in changes to the Commission's claims liability.
- Reinsurance premiums are based on estimates made prior to renewal of contracts for the 2019-20 year and actual premiums paid may differ from estimates due to changes in rates charged by reinsurers and levels of cover achieved.
- Changes to the EQC Act, which may impact on the amount and type of exposure cover and rate or premium that Premiums are calculated on.
- Further Ministerial Directions in relation to the settlement of claims for current or future events.

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 the Commission on 20 March 2019. The Board of the Commission 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. The Commission does not intend to update the prospective financial statements subsequent to presentation.

