EARTHQUAKE COMMISSION'S

# STATEMENT OF PERFORMANCE EXPECTATIONS

2020-21

EQC
EARTHQUAKE COMMISSION
*Kōmihana Rūwhenua*

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 2020 to 30 June 2021. Relevant historical and forecast comparison information is also provided for the benefit of readers.




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# BOARD STATEMENT OF RESPONSIBILITY

This Statement of Performance Expectations sets out our proposed performance targets and forecast financial information for the year 1 July 2020 to 30 June 2021. It is produced in accordance with the requirements of the Crown Entities Act 2004.

EQC is responsible for the preparation of this Statement of Performance Expectations, including the non-financial measures, the forecast financial statements and the assumptions on which they are based.

The forecast financial statements have been prepared in accordance with PBE FRS-42. They have not been audited and should not be relied upon for any other purpose.

**Sir Michael Cullen**
Board Chair
10 June 2020

**Mary-Jane Daly**
Commissioner
10 June 2020

# OUR STRATEGIC AND PERFORMANCE ENVIRONMENT

# OUR STRATEGIC ENVIRONMENT

New Zealand carries a significant degree of risk from natural disasters, including earthquakes, natural landslips, hydrothermal activity, volcanic eruptions and tsunamis.

The Crown, assisted by the Earthquake Commission (EQC), holds responsibility for lowering the risks and consequences of catastrophic natural disasters. EQC delivers the outputs that support the Crown's role by providing cover for residential property (buildings and land) for fire insurance policy holders affected by natural disasters, through administering the Natural Disaster Fund (NDF) and international reinsurance. EQC also invests in research and education about natural disaster damage and methods for reducing risk and building resilience prior to an event. The functions and role of EQC are outlined in the Earthquake Commission Act 1993.

The New Zealand approach is unique internationally. In other jurisdictions, homeowners are required to buy earthquake cover separately which results in lower insurance penetration for natural disasters. Through the EQC Act, there is over 90 per cent insurance cover for residential housing. [1]

## Our strategy

New Zealand has a challenging natural hazard profile. Our Strategy provides a framework for our organisation so EQC can adapt to those challenges, be there to support New Zealanders when they need us, and help people understand the risk of natural hazards in their environment. Our vision, mission and values reflect the organisation EQC wants to be and the results we want to achieve.

Our Strategy remains constant over time. We want to be the world's leading national natural disaster insurance scheme and reduce the impact on people and property when natural disasters occur. Our long-term commitment is to outcomes where:

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

## Statement of Intent 2018-2022

Our Statement of Intent describes the areas (strategic intentions) that currently need the most focus to deliver our Strategy and the Government's priorities for EQC. For 1 July 2018 to 30 June 2022 our strategic intentions are to:

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

## Output classes

EQC measures its progress in delivering on our strategic intentions by reporting against two output classes – future event preparation and event response.

EQC provides a range of services to support future event preparation so New Zealand is prepared for the next event. This includes:

- testing and planning for scenarios – so we know there will be the right support in place in the aftermath of an event;
- modelling the financial, social and economic impacts of natural hazards – so we can share this data with other stakeholders; and
- providing education for New Zealanders – so they can take action to reduce their risk.

We measure progress on these activities by monitoring:

- whether our stakeholders agree that our advice, analysis, modelling and research is of a high quality and relevant;
- whether our stakeholders agree that EQC has provided improved coordination, collaboration and understanding in natural hazard risk science and research; and
- the proportion of New Zealanders that take action to reduce their risk of natural disaster.

*Event response* is about resolving claims efficiently, fairly and transparently when events occur. Our focus is on the customer and their experience of our services. EQC is designing its claims process with good customer outcomes in mind, regardless of whether they are delivered by us or by a partner. We track satisfaction, responsiveness, communication, timeliness of complaints resolution and the quality of settlements, delivered by us or our partners.

1 Data from Insurance Council of New Zealand, based on their UMR Research survey

EQC's Customer Code is based on the following principles:

- We're committed to high standards of service and will act transparently, with integrity and utmost good faith towards you.
- We'll act in the interests of our customers by treating you honestly and fairly, and fulfilling our duties and obligations to the public under the EQC Act.
- We'll identify and address instances of poor conduct within our company.
- We're committed to ensuring our staff are appropriately trained and skilled to fulfil our responsibilities to you. Their training will include the requirements of the EQC Act, service to the public, collaboration with other public entities and may also include principles of insurance and relevant consumer laws.
- You're entitled to ask for and receive clarification on the terms, conditions and exclusions of the Act cover. We'll communicate clearly and will:
  - i. answer your questions accurately and in writing if requested;
  - ii. explain the information you need to give us when you make a claim;
  - iii. explain the importance of you disclosing information that is honest, complete, up-to-date and relevant;
  - iv. explain how we will support vulnerable customers;
  - v. explain the decisions we make accurately, clearly, concisely and effectively in all our interactions with you;
  - vi. take all reasonable steps to help people who have English as a second language.

## Statement of Performance Expectations 2020-2021

The progress we expect to make against our Strategy, our Statement of Intent, and the Minister Responsible for EQC's Letter of Expectations is set out in our annual Statement of Performance Expectations. This outlines the core outputs and activities EQC intends to deliver on and invest in over the next financial year. Our performance is assessed and reported to our monitoring agency, the Treasury, on a quarterly basis and annually in our Annual Report.

For each of the output classes, our Statement of Performance Expectations sets out:

- what the output class is intended to deliver and its associated measures;
- the expected result for the 2019/20 year (the forecast out-turn), if it is available, and the target for the 2020/21 financial year (the performance standard);
- the expected revenue and proposed expenses for the output class; and
- how the performance of the output class will be assessed.

It also sets out key activities that are fundamental to the functions we perform under the Act.

# EQC Strategic Framework

**VISION:**
To be the world's leading national natural disaster insurance scheme

**MISSION:**
To reduce the impact on people and property when natural disasters occur

**STRATEGIC OUTCOMES**

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

**STRATEGIC INTENTIONS**

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

**OUTPUT CLASSES**

- Future Event Preparation (Resilience Building and Readiness)
- Event Response (Response and Recovery)

# Strategic Linkages

EQC's operational activities are linked directly to our strategic outcomes. We also ensure our 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.

The following shows the impact of our strategic outcomes. The indicators provide a gauge to establish the effectiveness of the impact.

| STRATEGIC OUTCOME | IMPACTS | INDICATORS |
|---|---|---|
| **EQC is a leader in New Zealand on natural hazard risk reduction.** | EQC undertakes targeted scientific research that improves knowledge for minimising or preventing natural disaster damage.<br><br>This knowledge, and the preparedness activities that result from it, minimises damage at an individual and community level.<br><br>EQC's future loss modelling and impact estimation work provides a quantitative tool which means natural hazard, asset, and economic data can be used for both risk transfer and risk reduction decisions. | Sharing research and insights with other stakeholders, such as Councils, informs better understanding and management of natural hazard risk. Greater structural/infrastructural integrity around land use and building resilience benefits individual homeowners and communities.<br><br>Feedback from stakeholders confirms that EQC is recognised as a leader in New Zealand in providing information on natural hazard risk reduction – this enables stakeholders to evaluate options to minimise or prevent natural disaster damage. |
| **New Zealanders have access to natural disaster insurance and reinsurance.** | Sustainability of the EQC Scheme is assured and future changes (supported by EQC) to the EQC Act ensure that New Zealanders can continue to access natural disaster insurance. | EQC's activities support it in negotiating the purchase of reinsurance with international risk capital providers for reasonable terms, thus providing New Zealand with an affordable and sustainable natural disaster insurance scheme. |
| **Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner.** | EQC's capability for event readiness is delivered through scenario testing, development of a future event response model, business continuity planning, and incident management. | Lessons learned from business continuity, scenario testing and planning future event response models provide a blueprint for managing business operations when an event occurs. |
| | Resolving claims fairly, transparently and in a timely manner improves customers' recovery from natural disaster loss, and their consequential economic well-being. | Customers express satisfaction with EQC's claims resolution process, having experienced a fair, responsive, empathetic, straightforward and helpful service from us or our partners. |

# GOVERNMENT EXPECTATIONS

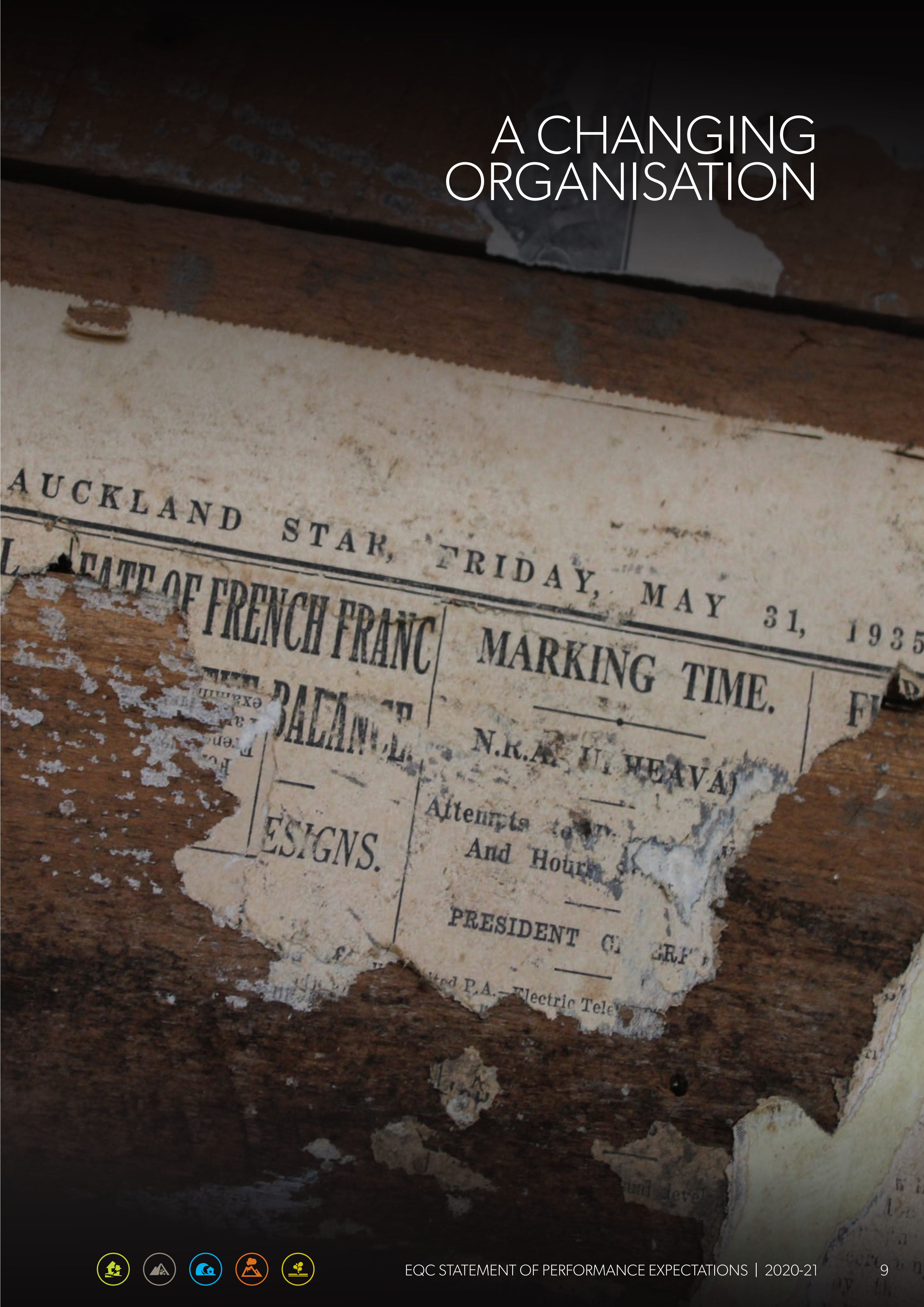
The Government's key priorities for EQC are outlined in an annual letter of expectations from the Minister Responsible for the Earthquake Commission. The Minister has outlined the following expectations of EQC for 2020/21.

| | |
|---|---|
| **Client-centric services** | EQC is to deal with claims fairly, efficiently and with empathy. Clients should be able to expect settlements to be enduring, with a minimum re-opened, and for their information to be released without delay. |
| **Public Inquiry** | The Minister has asked that EQC respond to the findings and recommendations from the Public Inquiry in a positive manner, including when it sets its strategic intentions for the next four years. |
| **EQC Act** | The Inquiry will be followed by a comprehensive review of the EQC Act in 2020/21. The Minister has asked that EQC engage with the Treasury on policy work to support the review, and an amendment bill in relation to the use of dwelling space in determining the definition of 'residential building'. |
| **Readiness** | The Minister expects that EQC will develop robust contingency plans to manage significant natural hazard events that result in over 100,000 claims per annum. This includes having management and systems capability and capacity in place. |
| **Resilience** | EQC invests in science, research and education to encourage more resilient practices for managing natural hazard risk, which help New Zealanders take practical steps to protect their homes in anticipation of natural disaster events. |
| **Affordable insurance** | The Minister expects EQC to engage with the Treasury, reinsurers, insurance companies and other stakeholders to investigate options that allow access to affordable insurance for all residential property owners in New Zealand. |
| **Treasury** | EQC is expected to continue engaging with the Treasury to;<br>• progress a risk financing framework;<br>• develop a strategy to rebuild the Natural Disaster Fund;<br>• keep the Treasury appraised of any material movements in liabilities from the Canterbury earthquakes;<br>• engage and consult on material strategic issues, risks and influences on operational and financial performance, including insurer finalisation; and<br>• keep the Treasury and Crown Law apprised of any significant emerging legal issues. |
| **Crown entity** | The Minister expects EQC to meet responsibilities including regular Board evaluations, appropriate executive pay, and a focus on diversity and well-being. |

The Minister has also outlined a number of Canterbury-specific expectations.

| | |
|---|---|
| **Claims and liabilities** | The Minister expects EQC to make every effort to ensure the completion of all Canterbury claims on hand, including any over-cap claims EQC is managing for Southern Response and finalisation of any liabilities that are not resolved by 30 June 2020. |
| **On-sold property** | EQC will continue to implement the support package in accordance with the On-sold Canterbury Properties Services Agreement, as well as educating policy holders and purchasers about their responsibilities. |
| **Resolution** | EQC will continue to encourage claimants to make use of dispute resolution services, including the Greater Christchurch Claims Resolution Service and the Canterbury Earthquake Insurance Tribunal. |

# A CHANGING ORGANISATION



# PUBLIC INQUIRY

The purpose of the Public Inquiry into the Earthquake Commission was to independently examine the role and work of EQC in the aftermath of the Canterbury earthquakes, and to ensure the lessons learned can be applied to improve the response to future events.

EQC has worked closely with Inquiry Lead Dame Silvia Cartwright and her team over the last 18 months to support the Inquiry with information about the experiences in Canterbury, Kaikōura and other events, and the significant changes we've made in the intervening years.

The Public Inquiry delivered its report to the Governor-General on 27 March 2020. The Governor-General handed the report to the Minister responsible for the Earthquake Commission and the Minister for Greater Christchurch Regeneration for consideration. The Government presented the report to the House of Representatives on 9 April 2020 – which then meant it became publicly available for all New Zealanders.

The report was welcomed by EQC. It clearly laid out the challenges faced by EQC in responding to the most complex and damaging earthquake sequence that has occurred since it was founded in the 1940s.

It provides EQC the opportunity to further learn from its failings and, at an all of government and EQC level, do all we can to better fulfil our responsibilities to New Zealanders. The report recommendations provide a good foundation for EQC to more squarely focus its attention to making EQC as effective and efficient as possible in order to improve our service to New Zealanders in the event of a disaster.

The Inquiry's report acknowledged that EQC staff had done the best they could in difficult circumstances, even if the public didn't always see it that way. However it also found that, in responding to the Canterbury earthquakes, EQC was poorly prepared and rapidly overwhelmed. And as a result the public bore the burden of those failings.

We are grateful to Dame Silvia and her team for their comprehensive review, and care, in undertaking the Inquiry. We see the report of the Public Inquiry as a springboard for us as an organisation to test our strategic direction and priorities, influence important legislative changes, and make operational changes that give effect to the Government's response to the independent recommendations that have been made. This will enable us to be best placed for the future.

There is much to be done in creating a better model for the future. Central and local government, EQC and the private insurance industry will need to work cooperatively and with a clear recognition of each other's roles and responsibilities to make this happen.

# EQC PRIORITIES

In light of EQC's strategic intentions and outputs, the Minister's expectations and the recommendations from the Public Inquiry, EQC's focus for 2020/21 will be directed to six key areas:

## Resolving claims

EQC's highest priority continues to be our customers, good customer outcomes and the fair and enduring settlement of the claims. EQC will continue to work hard to ensure there are the right processes, procedures and people in place to enable claims to be resolved in the most consistent, efficient and effective way. This includes a specific focus on Canterbury claims.

## Public Inquiry recommendations and EQC Act review

EQC has already begun considering how it can implement the recommendations from the Public Inquiry, and these efforts will continue as a priority portfolio of activity throughout 2020/21.

EQC also welcomes the Government's commitment to a full review of the EQC Act. EQC will work closely with the Treasury in undertaking this work in 2021.

Both programmes of work will shape EQC's strategic intentions for the next four years.

## Optimisation of EQC's event management capacity and capability

Over the past decade EQC has used lessons learned from the Canterbury and Kaikōura responses to proactively assess its response capability and potential models for responding to significant natural disasters.

EQC is transforming into an organisation that convenes, mobilises and activates a broader insurance response, with a central focus on the needs of the customer. We have established an event management model that enables us to manage up to 50,000 claims per year. There is also market capacity to scale to respond and resolve circa 100,000 claims per annum.

While we wait for Government's response to the Public Inquiry and the review of the EQC Act to occur, EQC is continuing to finalise its operating model, including developing the systems to support it.

The most important aim is to improve the delivery of a seamless service to New Zealanders' in the event of a disaster. That likely means a system where New Zealanders have a single point of contact, likely to be with their private insurer, who will handle all New Zealanders' claims from start to finish, with EQC reimbursing the costs to the insurer for which EQC is responsible. Under this concept, all claims management services are outsourced to insurers, as EQC's agents. However EQC would retain capacity through its own staff and TPAs as a contingency.

## Data & analytics

The shift in operational focus is not confined to claims management. We are learning from the past and preparing for future challenges and changes by developing increased data and analytics capability.

Our current information management systems have a number of challenges and barriers, and we have learnt from the Canterbury and Kaikōura responses where a lack of quality data and information impacted our ability to lead, manage and report on events.

EQC cannot deliver a seamless service for New Zealanders without timely exchange of reliable data between all parties involved. Highly capable information systems, partnerships and information sharing agreements are necessary to achieve these outcomes and we are investing to achieve these capabilities.

Effectively integrating different parts of the insurance and government sectors, before and after an event, requires fit-for-purpose and up-to-date systems, and strong information-sharing agreements to:

- support the loss modelling of risk across New Zealand, with multi-layered data returns across multiple hazard types, enabling broader scenario modelling and planning;
- provide information and data to support policy development, preparedness activities and investment in resilience measures;
- develop optimal event strategies with key partners based on potential scenarios that are underpinned by rich data and a clear view of key event attributes;
- leverage systems that enable us to share our information and data to support other agencies directly involved in a response – including to assist vulnerable New Zealanders; and
- ensure more detailed information is available to support the financial sustainability of the Scheme.

## Financial resilience

EQC provides financial resilience to the broader Crown balance sheet through its risk financing strategy. Currently, this is primarily achieved through the purchase of reinsurance. In order to continue to provide this financial resilience for different disaster types of varying impact, EQC must have an evolving risk financing strategy. EQC will do this by:

- continuing to work with the Treasury in relation to EQC's risk financing framework;
- 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 the 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. Our vision is that natural hazards resilience becomes embedded in all aspects of decision-making for our homes, towns and cities.

# WHAT WE WILL DELIVER IN 2020/21

# PART 1: OUTPUT CLASSES

## Output One: Future Event Preparation

EQC ensures New Zealand is prepared for future natural disasters by focusing on two key concepts – resilience and readiness.

**Resilience** is about capturing the learnings from past events and wider research, so our community and partners understand the risks we are facing and can take steps to mitigate them.

EQC raises awareness of natural hazard risk and encourages disaster reduction through its strategic investment in science, engineering and long-term planning. This mandate sustains key specialist capabilities, including GeoNet, and fosters research for hazard assessment and hazard risk management. The goal is to ensure that, as New Zealand's population and economy grow, the impact and liabilities arising from future hazard events will be mitigated.

EQC facilitates advanced research and education that:

- improves the detection and analysis of geological hazards (earthquake, volcanic, tsunami and landslide);
- draws on loss modelling data to provide a single view of New Zealand's natural hazard risk;
- improves the evidence base for assessing the likelihood and magnitude of potential hazard events and the pricing of New Zealand's hazard risks;
- advances engineering solutions to improve risk performance in the built environment and the public processes for establishing safety goals; and
- improves the understanding of the social and economic consequences of hazards and the measures to reduce the vulnerability of New Zealand communities.

We measure the effectiveness of these activities by surveying stakeholders to make sure our research is relevant and useable. These measures are set out in Outputs 1.1.1 to 1.1.3 below.

**Readiness** is about ensuring EQC has the right systems, processes, capability and capacity in place should an event occur today. We need to be well positioned to respond to large-scale events in a way that provides an optimal customer experience.

EQC's own reviews, and the findings from the Public Inquiry, have confirmed that we need to incorporate learnings from past large-scale events in order to prepare for the next one. EQC needs the capability to respond to changing claim volumes, to streamline the customer journey, and to enable scalability in response capability. This is measured in Key Activity Measure 3.1.

EQC is working with the wider insurance industry and related third party providers to ensure we have the flexibility to scale and respond well to an event. We measure the quality of our response based on whether customers feel they were treated in a fair and timely manner, that EQC was responsive, recognised a customer's individual needs and communicated well, and that we managed claims within Board approved budgets.

### How EQC measures performance

To measure the quality of the information EQC provides, we conduct surveys to understand its value to stakeholders. We 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.

### 2020/21 expected revenue and proposed expenses

There is no revenue associated with Output Class One. Proposed expenses for Output Class One are $58.5 million. This relates primarily to the cost of funding research and education, including the significant investment in the GeoNet platform and loss modelling.

### Links to strategic intentions

Activities in this output class positively impact two of EQC's strategic intentions: "Increase community resilience to natural disasters" and "Improve customers' recovery from natural disasters".

This then links 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".

The impacts come from:

- investing in targeted scientific research that meets the requirements of our key stakeholders in delivering outcomes that increase New Zealand's 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. Activities are measured by quality or impact 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 hazards.

Our philosophy is to build the evidence base for change. EQC invests in research and data that enables us to inform, enable, and influence the choices and decisions that reduce vulnerability and exposure of New Zealand's built environment to natural hazards.

EQC takes a partnership approach, using effective facilitation and engagement, to 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.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Quality** | | | | |
| 1.1.1 | Stakeholders[2] surveyed[3] agree or strongly agree that the outputs of EQC's resilience strategy (advice, analysis and modelling, and research findings): | | | |
| | • 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[4] and engagement was a positive contribution toward: | | | |
| | • 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%[5] | > 45% | |

2 Stakeholders include Local Government and Design, Planning and Construction Professionals – annual measure so 2018/19 forecast unknown
3 Surveys are undertaken by an independent organisation – annual measure so 2019/20 forecast unknown
4 EQC facilitates a number of research forums where various agencies collaborate on natural science hazards and research
5 Based on half-year result

# Output Two: Event Response

The **Response** output class focusses on how EQC manages claims after an event. The quicker customers can resolve losses following a natural disaster event, the sooner they can resume their 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 will deal with claims fairly, efficiently and clearly. Customers should be able to expect settlements to be enduring, with a minimum re-opened, and for any complaints to be dealt with promptly and transparently.

## 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, including the claims EQC is managing on behalf of Southern Response, while responding to new claims and events as they occur;
- improving the customer experience and ensuring we are responsive to each customer's individual needs and situation; and
- tracking financial efficiency through the continued monitoring of claims handling expenses.

## How EQC measures performance

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

## 2020/21 expected revenue and proposed expenses

There is no revenue associated with Output Class Two. Proposed expenses for Output Class Two are $32.8 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, as well as claims relating to all other natural disaster events. Separate performance measures are monitored for these two categories and are represented in the tables below.

The activities contained within this output class 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, timely and responsive manner, and that their concerns are heard. 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.

For a claim to be settled the customer must have received a cash settlement or had a repair completed in accordance with EQC's obligations under the Act. In some instances, EQC may receive a request for a claim to be reopened following settlement. This is treated as a reopened claim and measured accordingly.

## Links to strategic intentions

Activities in this output class positively impact two of EQC's strategic intentions: "Improve customers' recovery from natural disasters" and "New Zealand has an affordable and sustainable natural disaster insurance scheme".

All activities in this output class link to EQC's strategic outcome: "Claims made to EQC's insurance scheme are managed fairly, transparently and in a timely manner".

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

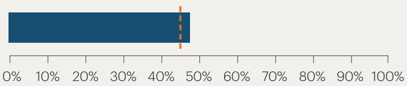
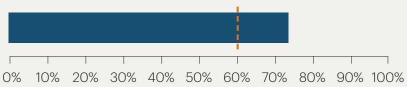
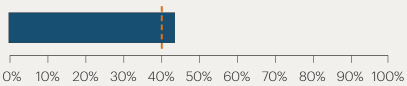
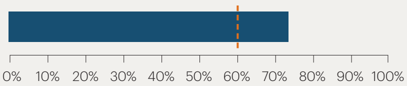
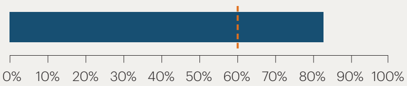
Output 2.1 is specifically focussed on providing service to EQC's customers with claims from the 2010-11 Canterbury earthquakes, including claims EQC is managing on behalf of Southern Response. The measures address both the timeliness and customer focus of EQC's claims resolution.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Timeliness** | | | | |
| 2.1.1 | Outstanding claims over six months old, on hand at 30 June 2020, are settled by 30 June 2021[6] | 58%[7] | 75% | |
| 2.1.2 | New claims opened or reopened[8] between 1 January 2020 and 31 December 2020 are resolved within 6 months | 76%[9] | 80% | |
| 2.1.3 | Complete finalisation of the attribution of correct liabilities for Canterbury claims with private insurers | Partially complete | 30 June 2021 | |

In 2019/20 the quality measures for Output 2.1 measured whether customers were well informed and received good customer service. Our forecast outturn is that we will exceed those quality targets for 2019/20, as follows:

### Output Two – Event Response

Output 2.1 – Settlement of Canterbury 2010-11 Earthquake Sequence Remedial Claims

| REF | MEASURE | YE TARGET | RESULT | PROGRESS – YTD | STATUS/ TREND |
|---|---|---|---|---|---|
| 2.1.5 | The proportion of surveyed customers who indicate satisfaction about their overall claim settlement process | ≥45% | 48% |   | |
| 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 | ≥60% | 75% |   | |
| 2.1.7 | The proportion of surveyed customers who indicate that they were well informed during the claims settlement process | ≥40% | 44% |   | |
| 2.1.8 | The proportion of surveyed customers who agree or strongly agree that they were kept well informed during their recent claim experience | ≥60% | 74% |   | |
| 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 | ≥60% | 83% |   | |

6 Timeliness measure adjusted to reflect that the remaining Canterbury claims are the most complex
7 Forecast outturn for claims on hand as at 1 July 2019, settled by 30 June 2020
8 To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required
9 Forecast outturn for claims settled within six months of 1 January 2019

For 2020/21, EQC is setting new measures to focus on a responsive experience for each individual customer. These are aligned with our Customer Code (set out on page five) which is designed to ensure that EQC is delivering good customer outcomes. This is consistent with the high standards of customer care that are expected of private insurers.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Customer focus (new measures for 2020/21)** | | | | |
| 2.1.4 | More than 45% of surveyed customers are satisfied with their overall claims experience[10] | 48% | > 45% | |
| Reflecting on their most recent experience: | | | | |
| 2.1.5 | More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) were transparent and fair in all interactions | New measure | > 70% | |
| 2.1.6 | More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was responsive to their individual needs and situation during their recent claim experience | New measure | > 70% | |
| 2.1.7 | More than 70% of surveyed customers indicate that all communications from EQC (or its partner) were clear, concise and confident, and that they were clear on next steps for their claim | New measure | > 70% | |
| 2.1.8 | More than 70% of surveyed customers agree or strongly agree that EQC (or its partner) acted as experts with the skills, knowledge and desire to help them | New measure | > 70% | |
| 2.1.9 | Timeliness of complaints resolution:<br>• 90% simple complaints completed in 30 working days<br>• 90% standard complaints completed in 60 working days<br>• 90% complex complaints completed in 120 working days | New measure | > 90% | |
| 2.1.10 | Quality of complaints resolution:<br>• 75% customer satisfaction with complaints process | New measure | 75% | |
| 2.1.11 | QC settlements should be enduring. Less than 10% of claims settled are reopened within six months | 9.7% | < 10% | |

10 Continuation of measure 2.1.5 from 2019/20

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

Output 2.2 is focussed on providing services to EQC's customers with claims unrelated to the Canterbury 2010-11 events. These measures address the speed, quality and cost of EQC's claims resolution.

As with Canterbury claims, EQC is setting new measures for 2020/21 to focus on the experience of each individual customer. We want to ensure that each customer receives a service that is responsive to his or her specific concerns.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Timeliness (Non-Canterbury claims)** | | | | |
| 2.2.1 | Claims lodged between 1 Jan 2020 and 31 December 2020 are resolved within 6 months | 98% | 90% | |
| 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 | 100% | 95% | |
| **Customer focus (new measures for 2020/21)** | | | | |
| 2.2.3 | More than 70% of surveyed customers are satisfied with their overall claims experience | New measure | > 70% | |
| 2.2.4 | More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) were transparent, fair and reasonable in all interactions | New measure | > 70% | |
| 2.2.5 | More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was responsive to their individual needs and situation during their recent claim experience | New measure | > 70% | |
| 2.2.6 | More than 70% of surveyed customers indicate that all communications from EQC (or its partner) were clear, concise and confident, and that they were clear on next steps for their claim | New measure | > 70% | |
| 2.2.7 | More than 70% of surveyed customers agree or strongly agree that EQC (or its partner) acted as experts with the skills, knowledge and desire to help them | New measure | > 70% | |
| 2.2.8 | Timeliness of complaints resolution:<br>• 90% simple complaints completed in 30 working days<br>• 90% standard complaints completed in 60 working days<br>• 90% complex complaints completed in 120 working days | New measure | > 90% | |
| 2.2.9 | Quality of complaints resolution:<br>• 75% customer satisfaction with complaints process | New measure | > 75% | |
| 2.2.10 | EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months | 8.9% | < 10% | |
| **Quantity** | | | | |
| 2.2.11 | All claims[11] are resolved within Board approved claims handling expense budgets[12] for those events | | Within 10% of initial budget. | |

11 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.

12 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, EQC uses key activity measures to provide transparency on the other ways we deliver the functions set out in the EQC Act and progress our strategic outcomes and intentions.

## Key Activity Measures objectives

EQC is committed to continually increasing financial capability so we are well positioned to respond to future events. 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 for the insurance payable under the EQC Act.
- Optimisation of claims strategies and event management capacity and capability.

## 2020/21 expected revenue and proposed expenses

Expected revenue primarily from EQC premiums is $500 million. Budgeted expenses are $213 million largely relating to the purchase of reinsurance to protect against the financial consequences of future significant natural disaster events.

# Key Activity Measures

**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 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Quality** | | | | |
| KAM1.1 | 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 | Expect to achieve | 1 June 2021 | |
| KAM1.2 | Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2021/22 | Achieved | by March 2021 | |
| **Timeliness** | | | | |
| KAM1.3 | An Annual review of EQC's Risk Financing Strategy is conducted | New Measure | 30 June 2021 | |

### **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.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| KAM2.1 | The level of premiums collected compared to annual financial budget | 100% | > 97.5% | |

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

EQC is currently optimising its 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 EQC is able to retain and increase its capability and capacity to be able to respond to existing and future claims resulting from a natural disaster. EQC's claims management capability will be supported by enhanced data and analytics to inform event responses.

Our work in developing event response models is closely linked to the Readiness output described in Output Class One.

| PERFORMANCE MEASURES | | FORECAST OUTTURN 2019/20 | PERFORMANCE STANDARD 2020/21 | OUTTURN 2020/21 |
|---|---|---|---|---|
| **Quantity** | | | | |
| KAM3.1 | EQC is able to demonstrate, through scenario testing, that the event response model has capacity to manage 100,000 claims annually by 30 June 2021 | 50,000 claims capacity by June 2020 | 30 June 2021 | |
| KAM3.2 | Exchange of claims and policy data with at least 80% of private insurance market to inform more accurate and timely insights and decisions for Resilience, Readiness, Response, and Recovery | New measure | 31 December 2020 | |

# PROSPECTIVE FINANCIAL STATEMENTS

# Prospective Statement of Comprehensive Revenue and Expense

| FOR THE YEARS ENDING 30 JUNE 2021 AND 30 JUNE 2022 | BUDGET 2021 $(000) | FORECAST 2022 $(000) |
|---|---|---|
| **EARNED PREMIUMS** | | |
| Gross earned premiums | 500,439 | 505,444 |
| Outward reinsurance premium expense | (203,344) | (213,511) |
| **Net earned premium revenue** | **297,096** | **291,933** |
| **UNDERWRITING MOVEMENTS** | | |
| Reinsurance and other recoveries | 1,358 | 705 |
| Claims (expense)/reduction | 2,223 | (39,168) |
| **Total underwriting movements** | **3,581** | **(38,464)** |
| **SURPLUS/(DEFICIT) FROM INSURANCE ACTIVITIES** | **300,676** | **253,469** |
| **OTHER OPERATING REVENUE** | | |
| Interest revenue | 1,200 | 1,400 |
| **Total operating revenue** | **1,200** | **1,400** |
| **OTHER OPERATING EXPENSE** | | |
| Future event preparation | (58,467) | (59,016) |
| Event response | (32,826) | (30,855) |
| **Total operating expense** | **(91,293)** | **(89,870)** |
| Crown underwriting fee | (10,000) | (10,000) |
| **TOTAL COMPREHENSIVE REVENUE/(EXPENSE) FOR THE PERIOD** | **200,583** | **154,999** |

# Prospective Statement of Changes in Equity

| AS AT 30 JUNE 2021 AND 30 JUNE 2022 | BUDGET 2021 $(000) | FORECAST 2022 $(000) |
|---|---|---|
| **EQUITY** | | |
| Capitalised reserves | 1,500,000 | 1,500,000 |
| **RETAINED EARNINGS** | | |
| Opening balance at 1 July | (1,845,717) | (1,645,134) |
| Total comprehensive revenue/(expense) for the period | 200,583 | 154,999 |
| **Closing balance at 30 June** | **(1,645,134)** | **(1,490,135)** |
| **Closing balance at 30 June** | **(145,134)** | **(9,865)** |

# Prospective Statement of Financial Position

| AS AT 30 JUNE 2021 AND 30 JUNE 2022 | BUDGET 2021 $(000) | FORECAST 2022 $(000) |
|---|---|---|
| **EQUITY** | | |
| Capitalised reserves | 1,500,000 | 1,500,000 |
| Retained earnings | (1,645,134) | (1,490,135) |
| **Total Equity** | **(145,134)** | **(9,865)** |
| **ASSETS** | | |
| Bank | 82,922 | 195,866 |
| Premiums receivable | 96,871 | 97,840 |
| Outstanding reinsurance and other recoveries | 119,831 | 50,607 |
| Other receivables | 222 | 222 |
| Prepayments | 849 | 749 |
| Outward reinsurance expense asset | 35,438 | 37,209 |
| Property, plant and equipment | 1,719 | 884 |
| Intangible assets | 15,628 | 15,166 |
| **Total Assets** | **353,480** | **398,543** |
| **LIABILITIES** | | |
| Trade and other payables | (26,495) | (24,633) |
| Provisions | (2,054) | (1,754) |
| Outstanding claims liability | (206,224) | (95,813) |
| Unearned premium liability | (263,840) | (266,479) |
| **Total Liabilities** | **(498,613)** | **(388,678)** |
| **Net Liabilities*** | **(145,134)** | **(9,865)** |

*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 2021 AND 30 JUNE 2022 | BUDGET 2021 $(000) | FORECAST 2022 $(000) |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| *Cash was provided from:* | | |
| Premiums | 499,480 | 504,475 |
| Reinsurance and other recoveries | 193,248 | 69,633 |
| Interest received | 1,200 | 1,400 |
| Receipts from on-solds and SRES agreements | 14,515 | 16,322 |
| Net GST | 7,941 | – |
| *Cash was applied to:* | | |
| Outward reinsurance | (205,031) | (215,283) |
| Crown underwriting fee | (10,000) | (10,000) |
| Claims settlements and handling costs | (369,575) | (149,192) |
| Employees and other operating expenses | (68,207) | (65,550) |
| GeoNet operating expense | (13,510) | (13,856) |
| Research grants | (18,564) | (18,676) |
| **Net cash inflow from operating activities** | **31,498** | **119,274** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Cash was applied to: | | |
| Purchase of property, plant and equipment | (1,000) | – |
| Purchase of intangibles | (7,630) | (6,330) |
| **Net cash (outflow) from investing activities** | **(8,630)** | **(6,330)** |
| **Net increase in cash** | **22,868** | **112,944** |
| Add opening cash brought forward | 60,054 | 82,922 |
| **Ending cash carried forward** | **82,922** | **195,866** |

# Notes to the Financial Statements

## Note 1: Prospective operating expenditure excluding claims costs

| FOR THE YEARS ENDING 30 JUNE 2021 AND 30 JUNE 2022 | BUDGET 2021 $(000) | FORECAST 2022 $(000) |
|---|---|---|
| Advertising and publicity | 884 | 909 |
| Amortisation of intangibles | 5,443 | 6,792 |
| Fees paid to the auditor | | |
| Audit of the financial statements | 132 | 132 |
| Commissioners' fees | 297 | 306 |
| Consultants and contractors | 24,317 | 20,896 |
| Depreciation | 926 | 835 |
| Employee remuneration and benefits | 15,942 | 15,067 |
| Grants for research | 5,309 | 5,356 |
| GeoNet operating costs | 13,510 | 13,856 |
| Office rental | 921 | 948 |
| Sponsorships | 540 | 588 |
| Superannuation contribution costs | 395 | 390 |
| Technology costs | 12,544 | 12,000 |
| Outsourced service providers* | 7,290 | 8,991 |
| Other administration costs | 2,844 | 2,804 |
| **Total operating costs (excluding claims expense and claims handling expense)** | **91,293** | **89,870** |

* Outsourced service provider expenses relate to the outsourced IT functionality as well as third party agency costs

### EXPENDITURE GROUPED BY FUNCTION

| | | |
|---|---|---|
| Future event preparation | 58,467 | 59,016 |
| Event response | 32,826 | 30,855 |
| **Total expenditure by function excluding claims costs** | **91,293** | **89,870** |

## Note 2: Claims Expense

| | 2021 CURRENT YEAR $(000) | 2021 PRIOR YEARS $(000) | 2021 TOTAL $(000) | 2022 CURRENT YEAR $(000) | 2022 PRIOR YEARS $(000) | 2022 TOTAL $(000) |
|---|---|---|---|---|---|---|
| Gross claims – undiscounted | (54,000) | | (54,000) | (54,000) | | (54,000) |
| Movement in discount | | (3,091) | (3,091) | | (1,415) | (1,415) |
| Amortisation of risk margin | | 59,314 | 59,314 | | 16,247 | 16,247 |
| **Gross claims discounted** | **(54,000)** | **56,223** | **2,223** | **(54,000)** | **14,832** | **(39,168)** |

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

Some litigation involving EQC has arisen from disputes in relation to the 2010-11 Canterbury earthquake sequence and other natural disaster events, and further litigation in relation to these and future events is also likely. As at 31 March 2020, EQC had 179 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 179 open litigation cases, EQC has 20 open litigation cases which argue that EQC has liability outside of the EQC Act, and we have closed 68 cases which included this argument, using our normal processes. The majority of these open cases (18 out of 20) relate to on-sold properties. At the time of budgeting, there is a Government policy in place to provide funds above the Act liability to assist these customers to repair their home and we therefore anticipate no increase in cost to settle to EQC.

The Commission has received 112 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, 65 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 2021 and 30 June 2022.

## 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 relate 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.

### 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 | 10 years |
| Non-Canterbury leasehold improvements | 2-9 years |
| Non-Canterbury computer hardware | 3-10 years |
| Canterbury furniture and equipment | 3-12 years |
| Canterbury computer hardware | 1-3 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 |
| Non-Canterbury Claims management system v8 | 4-5 years |
| Canterbury software | 3-5 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.

# 3.7 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.
- 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 2020/21 round of negotiations.
- Estimates for events claim expenses, liabilities and cash flows are based on the December 2019 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 | 1.06%-1.49% |
| Risk margin | 48.5% |
| Claims handling expense ratio | 17.49% (Canterbury)<br>21.09% (Kaikōura) |

EQC

EARTHQUAKE COMMISSION

*Kōmihana Rūwhenua*

New Zealand Government