2021 – 2022

Statement of Performance Expectations

Te Tauākī Koronga mō ngā Mahi kia Tutuki

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 2021 to 30 June 2022. 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 forecasted financial information for the year 1 July 2021 to 30 June 2022. 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 appropriateness of 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 on for any other purpose.

Alastair Hercus
Commissioner
28 June 2021

Mary-Jane Daly
Board Chair
28 June 2021

THE YEAR AHEAD

Over the past year the COVID-19 pandemic has shown New Zealand, and the world, the importance of building resilience and responding swiftly to unexpected, catastrophic events.

Responsiveness and adaptability were the hallmark of New Zealand's response to the COVID-19 pandemic. EQC's approach to delivering for New Zealanders, now and in the future, draws on these capabilities to prepare for another source of risk—our volatile geological profile.

2021 is also a significant year for the people of Canterbury as they mark 10 years since the 22 February 2011 earthquake. The Canterbury earthquakes were the most damaging natural disasters encountered in recent New Zealand history. We acknowledge the frustration of those homeowners who are still dealing with earthquake damage and reopened claims.

Our priority for the 2021-2022 financial year remains supporting the ongoing Canterbury recovery, whether that is through reopened EQC claims, applications for ex gratia repair grants for on-sold properties, or claims EQC is managing on behalf of Southern Response Earthquake Services Limited (Southern Response).

We have also been working hard to build a response model that provides the best possible experience for customers. Drawing on the learnings from the Canterbury and Kaikōura earthquakes and the insights from the Public Inquiry into EQC, we have formalised partnership agreements with private insurers. The new model means customers only need to make one claim to their private insurer and all aspects of that claim will be managed in a seamless process.

The 2021-2022 financial year is the first year where the partnership model will be fully operationlised. It is a world-first partnership that brings the industry's resources together in a co-ordinated way and doubles EQC's capacity to respond to an event. It ensures a fair, fast and responsive system for natural disaster insurance claims and enduring claim settlements that balances the interests of all levy payers.

The year ahead will be one of innovation and development for EQC. We are investing in enhanced loss modelling tools with a range of partners and developing ways we can share more natural hazard risk information with homeowners. We are also delivering a range of scenario exercises so we can test the capacity of response models and share insights with our partners. Our financial resilience will also grow as we look to a range of options for building our risk capital.

We are embarking on a journey to strengthen our cultural competence and confidence in connecting with all the communities we serve. Reflecting the significance of the Crown-Māori relationship, we will start by building our cultural competence and forging strong partnerships with iwi and Mātauranga Māori. We will also seek to understand the needs and perspectives of other cultures as part of ensuring our services remain accessible and responsive to all.

Ehara taku toa i te toa takitahi Engari, he toa takitahi

Success does not come from the strength of one, but from the strength of many

OUR STRATEGIC OUTCOMES, INTENTIONS AND MEASURES

Our strategic outcomes describe, at a high level, the changes or benefits EQC wants to achieve to support a healthy and prosperous New Zealand. This forms the basis of our long-term strategy and vision: to be the world's leading national natural disaster insurance scheme.

Our strategic intentions reflect the areas we will focus on the most in the medium term—the four years covered by the *Statement of Intent 2021–2025*.

They demonstrate where we intend to concentrate our medium-term efforts to progress our long-term strategy and the enabling capabilities required to achieve the outcomes.

Our measures represent the activities we will monitor to ensure we stay on track in delivering our medium-term goals.

WHAT WE WANT TO ACHIEVE TO SUPPORT NEW ZEALANDERS (OUTCOMES)	WHERE WE WILL FOCUS OVER THE NEXT FOUR YEARS (INTENTIONS)	HOW WE WILL KNOW WE ARE ON TRACK (MEASURES)	OUTPUT CLASSES IN STATEMENT OF PERFORMANCE EXPECTATIONS
We help New Zealanders to recover after a natural disaster.	Claims made to EQC's insurance scheme are managed fairly, transparently, responsively and in a timely manner.	• Customer experience on Canterbury claims (EQC) • Customer experience on new claims through our partnerships with private insurers (from mid-2021) • Assessment of claims processes to ensure they are fair, transparent, fast and responsive • Assessment of claims outcomes to ensure they are enduring • Costs of claims handled by private insurers are monitored	**Class one: Recovery**
We collaborate and share information about natural hazards with New Zealanders and other agencies.	Be a leader in natural hazard risk reduction based on credible research, data, education and strong stakeholder relationships.	• Usefulness and quality of the insights we share • Quality and impact of the relationships we form • Number of homeowners who are informed by our education initiatives • Contributions to central and local government policy decisions • Development of enhanced loss modelling tools • Development of capability to allow stakeholders to access risk data specific to them	**Class two: Resilience**
We manage the EQC scheme, so financial resources are available to meet people's claims when they fall due	Increase financial sustainability of the EQC scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF.	• Obtaining appropriate reinsurance cover • Reviewing our risk financing strategy annually • Collecting expected levies • Rebuilding the Natural Disaster Fund	**Class three: Risk financing**
EQC and its partners are ready to support impacted communities when a natural disaster strikes.	Establish, test and improve EQC's readiness for natural disasters.	• Providing and demonstrating sufficient claims capacity • Conducting assurance and oversight where claims are being managed by partners • Developing and testing event response strategies across a range of scenarios and sharing learnings with partners	**Class four: Readiness**

EQC STRATEGIC FRAMEWORK

GOVERNMENT EXPECTATIONS

Letter of Expectations 2021/22

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 2021-2022.

Recovery	EQC is to deal with claims fairly, efficiently and with empathy (whether they are managed by EQC or a third party). Settlements are to be of an enduring nature, minimising the number of settled claims required to be reopened.
Resilience	The Minister expects EQC to continue to implement its Resilience Strategy and to invest in science, research and education. The goal should be to encourage better practices in natural hazard risk management and help inform New Zealanders of practical steps that can be taken to protect their families and homes from harm caused by natural disasters. EQC is to continue to progress implementing the ongoing investment in and development of its loss modelling capability to enable its reinsurance programme.
Risk Financing	EQC is expected to continue engaging with the Treasury to progress a risk financing framework and as part of this, will review the potential benefits of including capacity from alternative capital markets. EQC will also develop a strategy to rebuild the Natural Disaster Fund (NDF).
Readiness	With reference to the new insurer response model, the Minister expects that robust data management systems, procedures and assurance programmes will be put in place. This must be done to ensure claims are settled in compliance with the Earthquake Commission Act (EQC Act) on a fair and consistent basis across all insurers, and that the opportunities for fraud are minimised. Also, EQC will continue to develop a range of event response strategies and contingency plans to manage significant natural hazard events. The Minister also expects EQC to collect claims and exposure data from private insurers to support EQC's functions and help inform New Zealand's risk profile.
Affordable insurance	The Minister expects EQC to engage with the Treasury, reinsurers, insurance companies and other stakeholders to support the investigation of options that would promote access to affordable insurance for all residential property owners throughout New Zealand.
Public Inquiry	The Minister has asked that EQC supports the Government response to the Public Inquiry into ECC by either implementing recommendations where EQC is lead agency or supporting other lead agencies to do so.
EQC Act Review	The Minister has asked that EQC continue to engage with the Treasury and contribute to the review of the EQC Act in a timely manner to support the delivery of an EQC amendment bill.
Natural hazards	Recognising that EQC has considerable expertise and information regarding managing natural hazard risks, the Minister expects EQC to contribute to work led by other government agencies regarding broader natural hazard risk management policy and planning.
Treasury	EQC is expected to continue to engage and consult with the Treasury across material strategic issues, risks and influences on operational and financial performance, allowing reasonable time for any consultation.
	EQC is expected to continue to engage with the Treasury to: • keep the Treasury appraised of any material movements in liabilities from the Canterbury earthquakes • engage and consult on material strategic issues, risks and influences on operational and financial performance, including closely monitoring the investment in technology that will be required to support the insurer response model and risk modelling platform • keep the Treasury informed of any developments in relation to changes and risks around the overall insurance and reinsurance markets • 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 wellbeing.
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 resolution of all Canterbury claims it currently has on hand, including the remaining over-cap claims that EQC is managing as an agent for Southern Response.
On-sold property	EQC will continue to implement the support package in accordance with the On-sold Canterbury Properties Services Agreement and resolve the majority of successful applications by July 2021. EQC will keep the Treasury informed of any risks that impact on this timeline, such as internal capacity issues or available industry resources.

Public Inquiry into the Earthquake Commission

The report from the Public Inquiry into the Earthquake Commission (the Public Inquiry)—Uiuinga Tūmatanui ki te Kōmihana Rūwhenua—was delivered in March 2020, with the Government response released in August 2020.

EQC is well advanced in implementing the recommendations it is leading. For recommendations led by other government agencies, EQC is providing support and assistance where needed.

The implementation of the insurer response model and EQC's data and information exchange with private insurers advances around 20 of the Public Inquiry's recommendations. Approximately 20 of the recommendations will be addressed through the review of the EQC Act. The establishment of the National Reference Group in June 2021 also responds to one of the recommendations.

Focus will stay on implementing the remaining recommendations in 2021-2022, noting that a few of these—particularly the recommendations focused on building resilience—will take several years to fully complete.

Our implementation programme is independently reviewed by KPMG and a QC to confirm its appropriateness, identify and address any gaps, and track our progress. In late 2020 KPMG reviewed the implementation programme EQC established and confirmed the programme will address the recommendations in the Public Inquiry report.

Two further KPMG reviews will be carried out over the next two years to provide assurance that the actions taken by EQC have appropriately implemented the recommendations.

A key recommendation from the Public Inquiry was that a body or group be established to provide community input into EQC's work and decisions. The recently formed National Reference Group is made up of community representatives who provide a 'network of networks' and meet regularly with EQC to provide two-way feedback.

Supporting the modernisation of the EQC Act

During 2020-2021 the Treasury has been leading policy advice for the Minister Responsible for EQC on the modernisation of the EQC Act with the following objectives:

a. enabling better community recovery following a natural disaster
b. updating and improving the clarity and certainty of the role of EQC and the cover it provides
c. supporting the future durability and flexibility of the EQC Act.

EQC has supported the Treasury in this work by assessing the operational impacts of proposals and providing information and general policy input. Draft legislation is now in development, and it is expected that a bill will be introduced in late 2021. Preparing for the successful implementation of this legislation will be a key activity for EQC over the 2021-2022 year and beyond.

Public Service Act 2020

The Public Service Act 2020 came into effect in August 2020. Section 14 explicitly recognises the role of the public service to support the Crown in its relationships with Māori under Te Tiriti o Waitangi/the Treaty of Waitangi. Although EQC is not specifically covered by the Public Service Act, we see it as setting the standards for the public sector generally.

The new Act includes provisions that put explicit responsibilities on public service leaders for developing and maintaining the capability of the public service to engage with Māori and understand Māori perspectives. This will be an area of focus for the coming year as we build our cultural capability and familiarity with te ao Māori.

We will also continue to make diversity and inclusion matters of priority and support our leaders in developing their teams to appreciate a range of perspectives. This enables us to tailor our services (including those led through our partners) to a range of specific needs in response to a natural disaster.

WHAT WE WILL DELIVER IN 2021-2022

Considering our strategic outcomes and intentions, and the Government's expectations of EQC, the following sections outline the activities EQC intends to invest in and deliver over the next financial year.

For each of the output classes that follow, we set out:

- what the output class is intended to deliver and its associated measures
- the expected result for the 2020-2021 year (the forecast outturn), if it is available, and the target for the 2021-2022 financial year (the performance standard)
- the proposed expenses for the output class
- how the performance of the output class will be assessed.

The expected revenue and proposed expenses for each output class is summarised below.

Homeowners pay an EQC levy to their private insurer as part of their contract for fire insurance for their house which private insurers pay to EQC, from which costs are incurred against the four output classes. Expenditure is allocated to these output classes by directly attributing costs (as far as possible) and apportioning indirect costs based on the average number of full-time equivalents employed in each function during the financial year. The differential between the expected revenue and the proposed expenses will be used to pay current and future claims, purchase reinsurance and be invested in the NDF.

<table>
<tr><th>OUTPUT CLASS</th><th>2021-2022 EXPECTED REVENUE</th><th>2020-2021 EXPECTED REVENUE</th><th>2021-2022 OPERATING EXPENSES</th><th>2020-2021 OPERATING EXPENSES</th></tr>
<tr><td>Recovery after an event</td><td rowspan="4">EQC levies: $527 million

Other revenue: $1 million</td><td rowspan="4">EQC levies: $520 million

Other revenue: $1 million</td><td>Operating expenses: $30 million

Claims costs*: $54 million</td><td>Operating expenses: $31 million

Claims costs*: $31 million[1]</td></tr>
<tr><td>Resilience</td><td>Operating expenses: $38 million</td><td>Operating expenses: $32 million</td></tr>
<tr><td>Risk financing</td><td>Operating expenses: $6 million

Reinsurance premiums: $218 million</td><td>Operating expenses: $7 million

Reinsurance premiums: $199 million</td></tr>
<tr><td>Readiness for an event</td><td>Operating expenses: $25 million</td><td>Operating expenses: $33 million</td></tr>
</table>

Our performance is assessed and reported to our monitoring agency, the Treasury, on a quarterly basis and annually in our annual report.

[1] This cost excludes the amortisation of risk margin and discount included in the gross claims discounted costs in note two of the prospective financial statements.

*Claims costs comprise amounts paid (or estimates of amounts payable) in relation to natural disaster damage sustained during the current financial year. This number does not include changes in estimated costs for damage that occurred in prior financial years that are included in the financial statements. Variances in this number can be significant based on the events that occur during the year.

Output One: Recovery after an event

EQC's strategic outcome for **Recovery** is to help New Zealanders recover after a natural disaster.

Our Recovery output class therefore focusses on the way claims are managed after an event. The quicker customers can resolve losses following a natural disaster event, the sooner they can resume their lives. EQC must also apply the scheme fairly, balancing the interests of claimants with the boundaries of the EQC Act and the interests of other levy payers.

Activities in this output class positively impact two of EQC's strategic intentions: "Claims made to EQC's insurance scheme are managed fairly, transparently, responsively and in a timely manner" and "Increase financial sustainability of the EQC scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF".

Two claims models—pre and post-June 2021

EQC continues to manage claims from events prior to mid-2021, including claims from the Canterbury earthquake sequence.

These pre-2021 claims will continue to be managed by EQC directly, and progress is measured under output classes 1.1 and 1.2.

EQC's partnership model with private insurers has been fully operational from July 2021. Any new claims from natural disaster events after June 2021 will be progressed through this model. Customers only need to make one claim to their private insurer and all aspects of their insurance claims will be managed in a seamless process. EQC remains responsible for delivering its obligations through the partnership model, and performance indicators have, therefore, been agreed as part of contractual arrangements. Progress on claims after mid-2021 is measured under output class 1.2.

Under both models, the aim is for claims to be dealt with fairly, transparently, responsively and in a timely manner. Customers should be able to expect settlements to be enduring, with a minimum number reopened, and for any complaints to be dealt with promptly and transparently. These goals align with EQC's Customer Code and the Fair Insurance Code followed by private insurers.

Whether a claim is lodged with EQC (before the end of June 2021) or a private insurer (after June 2021), the objectives for managing EQC claims are:

- responding swiftly to all customers' claims to help them recover from an event
- improving the customer experience and ensuring we are responsive to each customer's individual needs and situation
- tracking financial efficiency in responding to events through the continued monitoring of claims handling expenses.

How EQC measures performance

Each activity has measures that set time-bound, quality or quantity criteria designed to ensure customers are treated in a fair, transparent, responsive and timely manner and have their concerns heard. Customer satisfaction with this process is measured, as is EQC's ability to settle claims within the Board-approved budget and our communication with customers. Results are tracked through data held by EQC and our partners, including time taken to settle claims and independent customer satisfaction surveys.

We also seek input from our customers through other feedback mechanisms, including the National Reference Group, to ensure our services provide good customer outcomes.

2021-2022 proposed expenses

The proposed expenses for output class one are $30 million (excluding specific claims handling expenses). There is also an additional $54 million relating to the expected costs of damage from events that occurred in the current financial year and changes in the estimated cost of natural disaster damage that occurred in prior financial years. This cost excludes the amortisation of risk margin and discount included in the gross claims discounted costs in note two of the prospective financial statements.

Recovery output classes

1.1: Settlement of the 2010-2011 Canterbury earthquake sequence remedial claims

Output 1.1 is specifically focussed on providing service to EQC's customers with claims from the 2010-2011 Canterbury earthquake sequence, including claims EQC is managing on behalf of Southern Response Earthquake Services Limited (Southern Response). The measures address both the timeliness and customer focus of EQC's claims resolution.

The measures in this output class are a continuation from the 2020-2021 financial year. From 2021-2022, measures are likely to be re-evaluated to reflect the smaller number of claims and the different treatments required for them.

The threshold for customer satisfaction is lower for Canterbury claims than it is for other claims. This is because Canterbury claims often have long and complex histories, in part reflective of past processes that have now changed. Also, for this reason most of our customer focus measures look at a customer's recent experience to test the effectiveness of our continuous improvement initiatives.

PERFORMANCE MEASURES		FORECAST OUTTURN 2020-2021[2]	PERFORMANCE STANDARD 2021-2022	OUTTURN 2019-2020
TIMELINESS				
1.1.1	Outstanding claims over six months old, on hand at 30 June 2021, are settled by 30 June 2022	69%	75%	58%
1.1.2	New claims opened or reopened[3] between 1 January 2021 and 31 December 2021 are resolved within six months[4]	76%	80%	78%
1.1.3	The on-sold ex gratia package is administered in accordance with the On-Sold Canterbury Properties Services Agreement		100%	New measure
1.1.4	Claims managed on behalf of Southern Response are managed in accordance with the Agreement Relating to Management of Outstanding Canterbury Claims between EQC and Southern Response		100%	New measure
CUSTOMER FOCUS				
1.1.5	More than 50% of surveyed customers are satisfied with their overall claims experience[5]	52%	> 50%	49%
Reflecting on their most recent experience:				
1.1.6	More than 70% of surveyed customers agree or agree strongly that EQC was transparent and fair in all interactions	78%	> 70%	New measure 2020-2021
1.1.7	More than 70% of surveyed customers agree or agree strongly that EQC was responsive to their individual needs and situation during their recent claim experience	77%	> 70%	New measure 2020-2021
1.1.8	More than 70% of surveyed customers indicate that all communications from EQC were clear and concise, and that they were clear on next steps for their claim	75%	> 70%	New measure 2020-2021
1.1.9	More than 70% of surveyed customers agree or strongly agree that EQC acted as experts with the skills, knowledge and desire to help them	76%	> 70%	New measure 2020-2021
1.1.10[6]	Timeliness of complaints resolution: 90% of complaints resolved in 60 days	97%	> 90%	New measure 2020-2021
1.1.11	EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months[7]	14%	< 10%	13.8%

1.2 Claims relating to natural disaster events (excluding Canterbury)

Output 1.2 is focussed on claims unrelated to the 2010-2011 Canterbury earthquake sequence. These measures address the speed, quality and cost of EQC's claims resolution. From mid-2021, these measures will relate to the services provided by private insurers on EQC's behalf.

[2] All forecast outturn results for 2020/21 are based on results to 31 May 2021. Year end actual results are reported in the Annual Report.
[3] The open claim has been resolved (closed) from the perspective of the business (EQC). An open claim may be classified as resolved where the customer has been asked to provide further information related to their claim (over a period) that has not occurred. This approach is consistent with that taken by the private insurers. To count as reopened, EQC needs to have triaged the request and accepted the possibility of further activity being required.
[4] Does not include claims in litigation or where a customer appoints a third party to represent them.
[5] Continuation of measure 2.1.5 from 2019-2020.
[6] Previously this measure was broken down into three categories depending on claim complexity.
[7] This will not include claims re-opened for administrative purposes (such as for making a payment or insurer facilitation).

We have amended two measures for the 2021-2022 financial year to provide focus on aged claims and the overall effectiveness of dispute resolution.

PERFORMANCE MEASURES		FORECAST OUTTURN 2020-2021	PERFORMANCE STANDARD 2021-2022	OUTTURN 2019-2020
TIMELINESS (Non-Canterbury claims) The timeframes in these measures assume that a cash settlement approach is taken to resolving claims.				
1.2.1	Claims lodged between 1 January 2021 and 31 December 2021 are resolved within six months	96%	90%	98%
1.2.2[8]	Claims that have not been settled within six months of lodgement are settled within 90 working days of the assessment phase being completed	95%	90%	87%
CUSTOMER FOCUS				
1.2.3	More than 70% of surveyed customers are satisfied with their overall claims experience	70%	> 70%	New measure 2020-2021
1.2.4	More than 70% of surveyed customers agree or agree strongly that EQC (or its partner) was transparent and fair in all interactions	71%	> 70%	New measure 2020-2021
1.2.5	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	69%	> 70%	New measure 2020-2021
1.2.6	More than 70% of surveyed customers indicate that all communications from EQC (or its partner) were clear and concise, and they were clear on next steps for their claim	79%	> 70%	New measure 2020-2021
1.2.7	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	79%	> 70%	New measure 2020-2021
1.2.8[9]	Timeliness of complaints resolution: 90% of disputes resolved in 60 days or within such longer period as the complainant and private insurer agree	New measure	> 90%	New measure 2020-2021
1.2.9[10]	EQC settlements should be enduring. Less than 10% of claims settled are reopened within six months	4% YTD	< 10%	8%
QUANTITY				
1.2.10	The ratio of claims handling expense to settlement cost for the period is less than the ratio set by the Board	New measure	Less than Board-approved ratio	New measure 2020-2021

[8] The measure has been adjusted to reflect the small number of claims that now fall within this category.
[9] Excludes complaints that fall into the external dispute resolution process to align with Fair Insurance Code terminology.
[10] Measure excludes administrative reopens.

Output Two: Resilience

EQC's strategic outcome is that the resilience of New Zealanders is improved through collaborating and sharing information about natural hazards with New Zealanders and other agencies. The goal is to ensure the impact and liabilities from future natural disaster events are reduced, and New Zealand has stronger homes that are built on better land and supported by resilient infrastructure. New Zealanders should also have access to affordable insurance.

Activities in this output class positively impact three of EQC's strategic intentions: "Be a leader in natural hazard risk reduction based on credible research, data, education and strong stakeholder relationships"; "Increase financial sustainability of the EQC scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF"; and "Claims made to EQC's insurance scheme are managed fairly, transparently, responsively and in a timely manner". The activities in this output class also help inform our strategies for rebuilding the NDF and purchasing reinsurance.

Our Resilience output class focusses on investing in science, data, loss modelling, and public education to support risk-informed decision making. With strong reciprocal relationships, we disseminate this knowledge and tools to people who can make a difference—policy makers, planners, key professions, and the public.

This investment sustains key specialist capabilities such as GeoNet (New Zealand's natural hazard monitoring and assessment platform) and supports research on hazard science, risk assessment, and hazard risk management options. EQC aims to translate and 'operationalise' this knowledge into forms that people can use and act on.

Our objectives are to:

- improve the evidence base for assessing the likelihood and magnitude of potential hazard events and the pricing of New Zealand risk
- improve the understanding of the social and economic consequences of hazards and the measures to reduce the vulnerability of New Zealand communities
- provide engineering solutions that improve the performance of New Zealand's built environment to natural hazard risks
- provide information and analysis that will allow stakeholders to prepare themselves and inform others in relation to natural disaster preparation (e.g., better decisions will be made about future property development and Councils will be able to inform communities about natural disaster preparedness)
- influence New Zealanders to take action to prepare their home for risks from natural disasters.

How EQC measures performance

To measure the quality of the information EQC provides, we seek feedback to understand its value to stakeholders. We have chosen to involve stakeholders in the assessment of our performance as these relationships, and EQC's reputation and credibility with them, are a key foundation for the success of EQC's Resilience Strategy[11].

We also measure the impact activities have on the number of New Zealanders who are taking action to prepare for natural disasters. We have reviewed the measures under this output so they give a more meaningful assessment of the activity. Three measures have been revised (indicated with *) and three new measures introduced. For the revised measures we have included the forecasted outturn for 2020-2021.

In 2021-2022 we are also using technology to innovate the way we deliver our resilience functions. We are investing in new loss modelling capability and an information portal that will provide natural hazard risk information for New Zealanders.

What does 'being a leader' mean to us?

'Leading' in natural hazard risk reduction does not mean EQC 'owns' or is 'lead agency' for any particular function. For us, it means leading by example, leading the way, showing thought leadership and proactive action, being a supportive and valuable partner, being constructive and solving problems. Above all it means making progress on key issues and challenges that will make a difference to New Zealanders.

2021-2022 proposed expenses

Proposed expenses for output class two are $38 million. This relates primarily to the cost of funding research and education, including the significant investment in the GeoNet platform and loss modelling.

[11]https://www.eqc.govt.nz/sites/public_files/documents/grants/EQC%20Resilience%20Strategy%202019.pdf.

Resilience output classes

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

	PERFORMANCE MEASURES	FORECAST OUTTURN 2020-2021	PERFORMANCE STANDARD 2021-2022	OUTTURN 2019-2020
QUALITY				
2.1.1*	Percentage of stakeholders[12] surveyed[13] agree or strongly agree that the outputs of EQC's investment in research are:			
	• of good or excellent quality[14] • relevant and focussed on the outcomes of the Resilience Strategy	Amended measure	75%	Amended measure
2.1.2*	Percentage of stakeholders surveyed agree or strongly agree that EQC:			
	• is contributing to driving progress in resilience to natural hazards; • is an engaged and supportive partner	Amended measure	75%	Amended measure
QUANTITY				
2.1.3*	Percentage of the public surveyed[15]:			
	• who say that they thought about potential risks of natural hazards when buying or looking to buy a property	New measures	75%	New measures
	• as homeowners, are aware that they can take action to make their homes safer and stronger for disaster events		60%	
	• on the standard key preparedness actions promoted by EQC[16] who say they have taken one of those steps to prepare their homes		55%	
2.1.4	Number of formal, evidence-based submissions made on relevant (natural hazard risk) policies, plans, or initiatives or local government statutory plans	New measure	Five	New measure
	• Reviewer commentary that submissions are: • of good quality • on matters relevant to natural hazard risk reduction		Evaluation by independent expert	

[12]Stakeholders include local government and design, planning, and construction professionals.
[13]Quantitative surveys are undertaken by A C Neilsen, an independent organisation—annual measure so 2019-2020 forecast unknow
[14]Research excellence is a standardised framework for assessing the quality of research.
[15]By A C Neilsen via a quantitative survey.
[16]The current preparedness actions are secure tall furniture, secure hot water cylinder, remove or replace hazardous chimneys, secure foundations, know how to turn off mains gas, and know how to turn off mains water.

2.2: Innovating through technology to enhance loss modelling and public understanding of natural hazard risk

PERFORMANCE MEASURES		FORECAST OUTTURN 2020-2021	PERFORMANCE STANDARD 2021-2022	OUTTURN 2019-2020
2.2.1	Deliver the following milestones for introducing PRUE loss modelling[17]: • a communications strategy for introducing partners to PRUE loss modelling • completion of the transition of the new system by 30 November 2021 • an agreed RiskScape and loss modelling multi-year roadmap with GNS and NIWA by the end of the financial year	New measure	Milestones delivered	New measure
2.2.2	As part of EQC's website redevelopment project, an online tool will be developed by 30 June 2022 to inform New Zealanders about: • hazard risk information • priority preparedness actions they can take to reduce the impact of disaster	New measure	Online tool delivered by 30 June 2022	New measure

[17]PRUE is based on the RiskScape platform that is being developed by GNS and NIWA.

Output Three: Risk financing

A core strategic outcome for EQC is ensuring we manage the EQC scheme so financial resources are available to meet people's claims when they fall due. To enable this, EQC focuses on increasing its financial sustainability by balancing the cost of premiums paid by homeowners, the level of reinsurance purchased, and the value of premiums retained and invested through the NDF. Effectively balancing these factors allows EQC to be well positioned to meet the cost of future claims without placing undue reliance on the Crown's guarantee.

Our Risk financing output activities focus on collecting premiums for the insurance payable under the EQC Act and purchasing reinsurance, which is based on EQC's understanding of the Crown's balance sheet risk appetite. Purchasing 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 disaster events. Over the next financial year, EQC intends to maintain strong relationships with the reinsurance markets and investigate additional forms of financial risk transfer.

EQC is rebuilding the NDF following its depletion in response to the Canterbury earthquake sequence to ensure New Zealanders are financially better prepared for future natural disaster events. This lessens the need for recourse to the Crown guarantee in the event of a significant natural disaster.

Activities in this output class positively impact EQC's strategic intention: "Increase financial sustainability of the EQC scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF". This then links to EQC's strategic outcome "We manage the EQC scheme so financial resources are available to meet people's claims when they fall due".

Our objectives are to:

- ensure that premiums are collected
- maintain an affordable reinsurance programme with an appropriate level of cover
- maintain and review a robust risk financing framework
- rebuild the NDF to the level of the current reinsurance deductible.

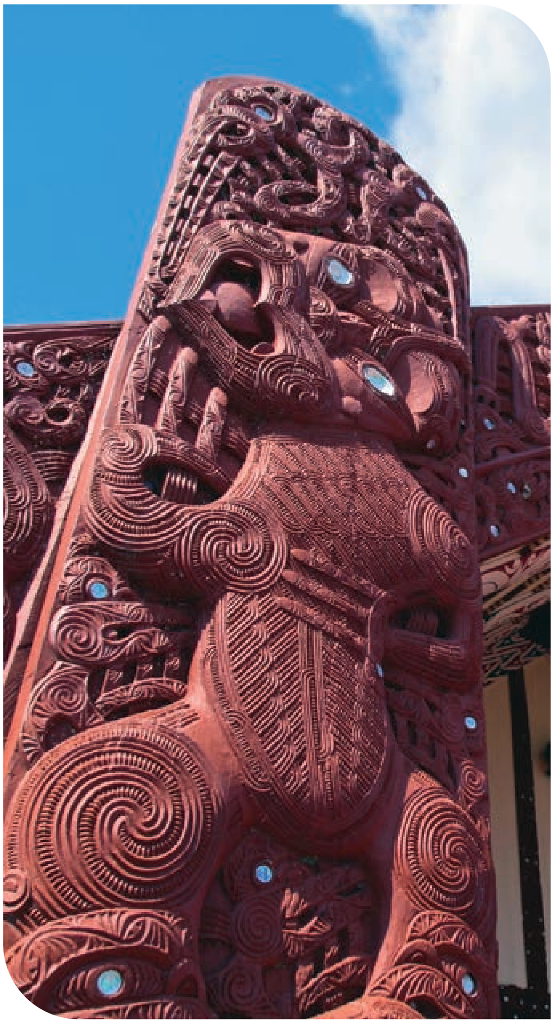
How EQC measures performance

The effectiveness of EQC's premium collection is measured in terms of the percentage collected. The objectives relating to reinsurance are considered with reference to the cost and cover involved and the need for it to align with the Crown risk appetite and alternative funding costs.

Optimal management of the NDF requires close liaison with the Treasury to ensure EQC's approach and management is aligned to the Crown's risk appetite and alternative funding costs.

2021-2022 proposed expenses

Budgeted expenses are $224 million. These are largely related to the purchase of reinsurance to protect against the financial consequences of future significant natural disaster events and a premium relating to the Crown's guarantee of the EQC scheme to meet its obligations. This amount includes expected operating expenses of $6 million.



Risk financing output classes

3.1: Maintain a reinsurance programme that supports EQC's delivery of affordable residential natural disaster insurance protection

PERFORMANCE MEASURES		FORECAST OUTTURN 2020-2021	PERFORMANCE STANDARD 2021-2022	OUTTURN 2019-2020
QUALITY				
3.1.1	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	Achieved	by 1 June 2022	Achieved
3.1.2	Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2021-2022	Achieved	Achieved	Achieved
3.1.3	An annual review of EQC's Risk financing strategy is conducted	Achieved	By 30 June 2022	New measure 2020-2021

Output 3.2: Managing the NDF

QUANTITY				
3.2.1	The level of premiums collected compared to annual financial budget	100%	100%	101.4%[18]
3.2.2	The NDF is managed in accordance with directions from the Minister	New measure	100%	New measure
3.2.3	The value of the NDF is rebuilt (assumes fewer than 4,500 new claims in addition to Canterbury reopens)	$200m	>$250m	$180m

[18]This result was due to the number of dwellings in New Zealand increasing by more than the budgeted growth number.

Output Four: Readiness for an event

EQC covers natural disaster damage for a wide range of natural disasters (volcanic eruptions, earthquakes, tsunami, natural landslips, hydrothermal activity, natural disaster fire and in the case only of residential land, a storm or flood). Part of being prepared to respond to a range of natural disasters is having the right people, systems, and processes in place to be able to adapt to the situation at hand.

Readiness is about ensuring EQC and its partners have the right capability and capacity in place to support New Zealanders, should we be required to respond to an event today. We do this by modelling a wide range of events, running scenario exercises, planning for business continuity and identifying areas for improvement.

Activities in this output class contribute to EQC's strategic intentions of "Establish, test and improve EQC's readiness for natural disasters" and "Claims made to EQC's insurance scheme are managed fairly, transparently, responsively and in a timely manner". They then link to the strategic outcomes "EQC and its partners are ready to support impacted communities when a natural disaster strikes" and "We help New Zealanders to recover after a natural disaster".

The partnership model between EQC and private insurers that was launched in 2020 is key to ensuring EQC and its partners are prepared for the next big event. It doubles the capacity for the number of claims that can be managed in a recovery scenario. Previously, EQC could scale up to manage approximately 50,000 claims per year. By partnering with private insurers, EQC has increased its capacity to manage closer to 100,000 claims per year.

Our strategic focus over the next two to three years is on embedding, enhancing and monitoring the partnership model so we can maximise its capacity potential. We will do this through regular reviews and relationship engagement and assurance activities, including ongoing training, monitoring and audits.

Technology infrastructure is a key part of the successful operation of the partnership model—particularly important is enabling the secure transfer and sharing of data. This will allow us to understand our insurance exposure and develop more accurate loss modelling.

We test the capacity of our response models by running them through a range of natural disaster scenarios. By developing event response strategies and contingency plans and testing these through exercises, we can share insights with the community, iwi, local and central government, and the emergency management sector to ensure our response strategies are aligned. The learnings from scenario exercises also inform further research into resilience initiatives.

How EQC measures performance

Customer experience under the partnership model is monitored through the measures in output class one. EQC's monitoring activities are measured in this output class through the application of an assurance framework and remediation of issues identified through audit processes.

This output class also measures EQC's activities in developing response strategies and carrying out scenario testing.

2021-2022 proposed expenses

Proposed expenses for output class four are $25 million. This includes the costs of managing the existing business-as-usual claims and supporting the implementation and oversight of the insurer-led model and ongoing event readiness.

Readiness output classes

PERFORMANCE MEASURES[19]		FORECAST OUTTURN 2020-2021	PERFORMANCE STANDARD 2021-2022	OUTTURN 2020-2021
QUANTITY				
4.1	EQC is able to demonstrate, through contingency planning and scenario testing, that its event response model has capacity to manage 100,000 claims per year by 30 June 2022	100,000 claims capacity by 30 June 2021	Capacity for 100,000 claims maintained by 30 June 2022	Achieved (target claims capacity of 50,000)
4.2	To support co-ordinated insurance response and recovery activities. By 30 June 2022 EQC (with its partners) has developed two event response strategies that cater to a range of natural disaster perils that EQC covers	New measure	Two response strategies	New measure
4.3	Systems are established and available to receive agreed data from private insurer partners under the insurer response model agreement	New measure	By 30 September 2021	New measure
QUALITY				
4.4	Moderate- and high-risk issues identified through the Insurer Response Model Assurance Framework have an agreed and documented action plan to address those issues (including timeframes), and relevant actions have been completed within the agreed timeframes	New measure	95%	New measure
4.5	By 30 June 2022, EQC implements the 39 recommendations from the 2020 Public Inquiry[20] that are fully within its control	New measure	100%	New measure
4.6	EQC implements recommendations 5.1.3 and 6.1.3 from the 2020 Public Inquiry by 24 December 2022	New measure	100%	New measure
4.7	New Zealanders have increasing trust and confidence in EQC	New measure	>90 in Public Sector Reputation Index	New measure

[19] In the previous SoPE these measures were in the form of key activity measures.
[20] EQC has a total of 41 recommendations to implement, but two recommendations (5.1.3 and 6.1.3) require EQC to engage with third parties and require a longer lead time to deliver—see measure 4.6.

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Prospective Statement of Comprehensive Revenue and Expense

FOR THE YEARS ENDING 30 JUNE 2022 AND 30 JUNE 2023	NOTE	BUDGET 2022 $(000)	FORECAST 2023 $(000)
EARNED PREMIUMS			
Gross earned premiums		526,566	532,036
Outward reinsurance premium expense		(208,364)	(218,783)
Net earned premium revenue		**318,202**	**313,253**
UNDERWRITING MOVEMENTS			
Reinsurance and other recoveries		202	140
Claims (expense)/reduction	2	(14,577)	(26,785)
Total underwriting movements		**(14,375)**	**(26,645)**
SURPLUS/(DEFICIT) FROM INSURANCE ACTIVITIES		**303,827**	**286,608**
OTHER OPERATING REVENUE			
Interest revenue		600	700
Other revenue		400	400
Total operating revenue		**1,000**	**1,100**
OTHER OPERATING EXPENSE			
Recovery		(29,958)	(24,873)
Resilience		(37,823)	(29,970)
Risk financing		(5,863)	(5,665)
Readiness		(24,668)	(19,955)
Total operating expense	**1**	**(98,312)**	**(80,463)**
Crown underwriting fee		(10,000)	(10,000)
TOTAL COMPREHENSIVE REVENUE/(EXPENSE) FOR THE PERIOD		**196,515**	**197,245**

Prospective Statement of Changes in Equity

FOR THE YEARS ENDING 30 JUNE 2022 AND 30 JUNE 2023	BUDGET 2022 $(000)	FORECAST 2023 $(000)
EQUITY		
Capitalised reverses	1,500,000	1,500,000
RETAINED EARNINGS		
Opening balance at 1 July (deficit)	(1,757,530)	(1,561,015)
Total comprehensive revenue/(expense) for the period	196,515	197,245
Closing balance at 30 June (deficit)	**(1,561,015)**	**(1,363,770)**
Closing balance at 30 June (deficit)	**(61,015)**	**136,230**

Prospective Statement of Financial Position

AS AT 30 JUNE 2022 AND 30 JUNE 2023	BUDGET 2022 $(000)	FORECAST 2023 $(000)
EQUITY		
Capitalised reserves	1,500,000	1,500,000
Retained earnings	(1,561,015)	(1,363,770)
Total Equity	**(61,015)**	**136,230**
ASSETS		
Bank	257,856	366,496
Premiums receivable	100,487	101,504
Outstanding reinsurance and other recoveries	91,980	37,800
Other receivables	1,309	1,309
Prepayments	3,596	2,937
Outward reinsurance expense asset	36,313	38,328
Property, plant and equipment	1,852	1,291
Intangible assets	15,025	12,721
Total Assets	**508,418**	**562,386**
LIABILITIES		
Trade and other payables	(25,661)	(23,960)
Provisions	(2,149)	(1,749)
Outstanding claims liability	(266,730)	(122,806)
Unearned premium liability	(274,893)	(277,641)
Total Liabilities	**(569,433)**	**(426,156)**
Net Assets/(Liabilities)*	**(61,015)**	**136,230**

* 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 2022 AND 30 JUNE 2023	BUDGET 2022 $(000)	FORECAST 2023 $(000)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Premiums	525,559	531,019
Reinsurance and other recoveries	80,614	42,978
Interest received	600	700
Receipts from on-solds and SRES agreements	24,448	12,151
Net GST	3,201	-
Cash was applied to:		
Outward reinsurance	(210,094)	(220,798)
Crown underwriting fee	(10,000)	(10,000)
Claims settlements and handling costs	(241,524)	(169,430)
Employees and other operating expenses	(63,111)	(55,096)
GeoNet operating expense	(11,958)	(13,095)
Research grants	(8,067)	(6,787)
Net cash inflow from operating activities	**89,666**	**111,642**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was applied to:		
Purchase of property, plant and equipment	-	-
Purchase of intangibles	(4,234)	(2,972)
Net cash (outflow) from investing activities	**(4,234)**	**(2,972)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was applied to:		
Lease payment	(22)	(24)
Interest payment	(9)	(6)
Net cash (outflow) from investing activities	**(31)**	**(30)**
Net increase in cash	**85,402**	**108,640**
Add opening cash brought forward	172,454	257,856
Ending cash carried forward	**257,856**	**366,496**

Notes to the Financial Statements

Note 1: Prospective operating expenditure excluding claims costs

FOR THE YEARS ENDING 30 JUNE 2022 AND 30 JUNE 2023	BUDGET 2022 $(000)	FORECAST 2023 $(000)
Advertising and publicity	633	652
Amortisation of intangibles	7,089	5,277
Fees paid to the auditor		
Audit of the financial statements	162	162
Commissioners' fees	258	263
Consultants and contractors	13,927	11,476
Depreciation	1,024	561
Loss on Disposal*	7,269	-
Employee remuneration and benefits	21,904	21,000
Grants for research	6,987	5,780
GeoNet operating costs	11,958	13,095
Office rental	948	976
Sponsorships	992	910
Superannuation contribution costs	583	559
Technology costs	11,035	8,879
Outsourced service providers**	11,148	8,714
Other administration costs	2,395	2,159
Total operating costs (excluding claims expense and claims handling expense)	**98,312**	**80,463**

* GNS Science currently administers the design, engineering, operation and maintenance of New Zealand's geological hazard monitoring system (GeoNet) under an agreement with EQC. EQC is planning to transfer ownership of these assets to GNS Science with an expected loss on sale forecasted.

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

EXPENDITURE GROUPED BY FUNCTION		
Recovery	29,958	24,873
Resilience	37,823	29,970
Risk financing	5,863	5,665
Readiness	24,668	19,955
Total expenditure by function excluding claims costs	**98,312**	**80,463**

Note 2: Claims expense

	2022 CURRENT YEAR $(000)	2022 PRIOR YEARS $(000)	2022 TOTAL $(000)	2023 CURRENT YEAR $(000)	2023 PRIOR YEARS $(000)	2023 TOTAL $(000)
Gross claims - undiscounted	(54,000)		(54,000)	(54,000)		(54,000)
Movement in discount		(784)	(784)		(520)	(520)
Amortisation of risk margin		40,207	40,207		27,735	27,735
Gross claims discounted	**(54,000)**	**39,423**	**(14,577)**	**(54,000)**	**27,215**	**(26,785)**

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 2010-2011 Canterbury earthquake sequence. Some litigation involving EQC has arisen from disputes in relation to 2010-2011 Canterbury earthquake sequence and other natural disaster events, and further litigation in relation to these and future events is also inevitable. As at 31 May 2021, EQC had 43 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 43 open litigation cases, EQC has six open litigation cases that argue EQC has liability outside the EQC Act, and we have closed 85 cases that included this argument using our normal processes. There are an additional two open claims relating to on-sold properties and are sitting with the on-sold teams. At the time of budgeting, there is a Government policy in place to provide funds above the EQC Act liability to assist these customers to repair their home, so we therefore anticipate no increase in cost for EQC to settle.

EQC has received 127 claims for interest under the Interest on Money Claims Act 2016 as part of litigation cases currently before the courts. As at 31 May 2021, 108 of these claims had been settled. Several variables are involved in any litigation outcome.

Significant Accounting Policies

Reporting Entity

The Earthquake Commission ('EQC') 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 EQC's operations includes the Crown Entities Act 2004 and the Earthquake Commission Act 1993 (EQC Act). EQC's ultimate parent is the New Zealand Crown.

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

EQC 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 2022 and 30 June 2023.

Basis of preparation

Measurement base

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

Functional and presentational currency

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

Going concern

Actuarial estimates of EQC's claims liabilities indicate that total liabilities exceed its assets after accounting for reinsurance. The Crown has confirmed in writing to EQC its intention to meet its obligation under Section 16 of the EQC Act to ensure EQC can meet all its liabilities as they fall due.

Section 16 states: "If the assets of the Commission (including the money for the time being in the Fund) are not sufficient to meet the liabilities of the Commission, the Minister shall, without further appropriation than this section, provide to the Commission out of public money such sums by way of grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines".

The Board has, therefore, adopted the going concern 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 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 ongoing 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 private 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 represents premiums, net of discounts, collected and paid to EQC by insurance companies, brokers and individuals with EQCover. Gross earned premiums are classified as exchange transactions. In accordance with Section 24(2) of the EQC Act, EQC receives declarations provided by insurance companies and brokers that all premiums collected have been distributed to EQC.

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 in the Prospective Statement of Financial Position.

Outward reinsurance premium expense

Premiums paid to reinsurers are recognised by EQC 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 EQC 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, plus 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, incurred but not reported (IBNR), incurred but not enough reported (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—was valued in accordance with New Zealand Society of Actuaries Professional Standard No.30 –Valuations of General Insurance Claims, 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, EQC 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 EQC'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

This is 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".

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

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

EQC 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.

Other revenue

Other revenue represents reimbursements received from the Crown and Southern Response in relation to the Ministerial Directions and corresponding agreements entered during the year plus other nominal amounts.

On 7 October 2019, EQC entered an agreement with the Crown that allowed owners of on-sold over-cap properties in Canterbury to apply for an ex-gratia Government payment to have their homes repaired. This process is facilitated by EQC and reimbursed in full by the Crown in arrears after each quarter end, resulting in the revenue offsetting the expenses
in full.

On 11 October 2019, EQC entered an agreement with Southern Response whereby EQC acts as agent in managing Southern Response's remaining customers. The costs incurred in fulfilling this contract, plus an overhead cost, are reimbursed in arrears after each quarter end.

Financial instruments

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

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. Cash is subsequently measured at amortised cost on the basis of EQC's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables with a maturity date within 12 months of the reporting date are recognised in current assets in the notes to the Statement of Financial Position, while those with maturities greater than 12 months are recognised as non-current. Receivables (premiums receivable and sundry receivables) are subsequently measured at amortised cost, on the basis of EQC's business model for managing financial assets and the contractual cash flow characteristics of the financial asset, using the effective interest method less any impairment.

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 EQC's business model for managing financial assets and the contractual cash flow characteristics of the financial asset.

Impairment of financial assets

EQC recognises an allowance for expected credit losses for financial assets measured at amortised cost. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and the cash flows that EQC expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. EQC has established a provision matrix to measure expected credit losses for non-insurance assets.

Finance lease

Assets held under a finance lease are initially measured at the fair value of the leased assets at the commencement of the lease. EQC also recognises the associated lease liability at the inception of the lease at the same amount as the capitalised leased asset. These are subsequently measured at amortised cost using the effective interest method, on the basis of EQC'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 EQC 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.

Credit risk

EQC limits its exposure to very large-scale natural disasters through the purchase of reinsurance. EQC is exposed to the credit risk of a reinsurer defaulting on its obligations.

Property, plant and equipment

Overview

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

Additions

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

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses are 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 EQC, and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in 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	2-10 years
Non-Canterbury computer hardware	3-10 years
Canterbury furniture and equipment	3-12 years
Canterbury computer hardware	1-3 years
GeoNet buildings	25 years
GeoNet computer equipment	3 years
GeoNet other equipment	4-10 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. EQC does not undertake development of new products or processes other than software referred to below.

Software acquisition and development

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

Amortisation

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised 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
- EQC would, if deprived of the asset, replace its remaining future economic benefits or service potential.

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

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to EQC. Assets held under a finance lease are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. EQC also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset.

Liabilities (other than insurance)

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

Employee entitlements

Employee entitlements include salaries and wages, annual leave, long-service leave and other similar benefits. These 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; 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 EQC. A contingent liability is also disclosed when a present obligation arising from past events is not recognised because it is not probable that settlement of the obligation will result in a cost to EQC, or the amount of the obligation cannot be measured with sufficient reliability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to the KiwiSaver and the State Sector Retirement Savings Scheme 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 EQC is allocated across its four output classes: Recovery, Resilience, Risk financing, and Readiness. 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

- These prospective financial statements provide information on EQC's future financial performance, position and cash flows. They are based on assumptions about future events that EQC reasonably expects to occur. Actual results for the forecast periods are likely to vary from the information presented, and variations may be material.
- 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 forecasted. There has been $54 million per annum 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 2021-2022 round of negotiations.
- Estimates for events claim expenses, liabilities and cash flows are based on the December 2020 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	0.24%-2.39%
Risk margin	35.6%
Claims handling expense ratio	17.38% (Canterbury) 19.49% (Kaikōura)

- Any substantive difference in the above assumptions and/or any unanticipated large-scale event that occurs during this reporting period is likely to have a material impact on information presented within this document, and the actual financial results reported in future reporting periods.

EQC

EARTHQUAKE COMMISSION

Kōmihana Rūwhenua

New Zealand Government