



2022 – 2023

**Statement of
Performance
Expectations**

Te Tauākī
Koronga mō ngā
Mahi kia Tutuki

Toka
Tū Ake **EQC**

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 planned work and financial information for the period 1 July 2022 to 30 June 2023 for Toka Tū Ake Earthquake Commission. Relevant historical and forecast comparison information is also provided for the benefit of readers.



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Contact

Toka Tū Ake: info@eqc.govt.nz

Phone: +64 4 978 6400

www.eqc.govt.nz

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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 2022 to 30 June 2023. It is produced in accordance with the requirements of the Crown Entities Act 2004.

Toka Tū Ake Earthquake Commission is responsible for the preparation of this *Statement of Performance Expectations*, including the non-financial measures, prospective financial statements and appropriateness of assumptions on which they are based.

The prospective 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.



Mary-Jane Daly

Board Chair

22 June 2022



Ruth Dyson

Deputy Board Chair

22 June 2022

THE YEAR AHEAD

*Ki te kotahi te kākaho ka whati
Ki te kāpuia e kore e whati*

**When reeds stand alone, they are
vulnerable but bound together they
are unbreakable**

In March 2022, EQC’s new name was announced—Toka Tū Ake Natural Hazards Commission. We will introduce our new name in phases, so our customers continue to recognise the scheme. We will operate as Toka Tū Ake Earthquake Commission until we adopt our new name completely over time.

Toka Tū Ake translates as the “foundation from which we stand strong, together.” It acknowledges our role in supporting New Zealand to better understand, prepare for and recover from natural hazards and reflects the journey we have been on to understand our identity and significance in te ao Māori.

The name change to 'Natural Hazards Commission' reflects a recommendation from the 2020 Public Inquiry into the Earthquake Commission (the Public Inquiry) that our name should signify the full range of perils we cover. The scheme covers damage to residential homes and land caused by earthquakes, tsunamis, volcanic eruptions, hydrothermal activity as well as storm and flood damage to land.

Building New Zealand’s resilience to natural hazards has long been a pillar of our scheme. Resilience is not built in adversity – the critical skills to be resilient in a moment of need must be developed in advance. Whether that is building stronger homes on better land or ensuring we have the claims capacity to support New Zealanders when the worst happens, it is about both preparedness and recovery.

This *Statement of Performance Expectations* sets out our plans for how we will deliver in the year ahead.

OUR FOCUS FOR 2022-2023

Just as the natural forces that shape our land are always changing, so too is the world we operate in. COVID-19, climate change and inflation are driving changes in global insurance markets and how we are preparing and supporting recovery here at home. During the year ahead, there will be more required from our scheme to manage these headwinds.

Embedding the Natural Disaster Response Model

The first year of our partnership approach with private insurers has been successful. All parties have worked together to mature the policies, systems and processes necessary to make it a one-touch experience for customers that is consistent with our guiding legislation.

A range of weather-related natural disaster claims have already been managed through the model, and we will run large-event exercises together over the year ahead. Toka Tū Ake maintains oversight of the model through regular governance meetings, management reviews, a robust assurance programme, and customer feedback. As the whakatauki (proverb) above highlights, we are stronger when we work together – and we must regularly test the strength of that effort.

Connecting with the communities we serve

We recognise the wealth of knowledge held by Māori about the whenua (land) and that we have a shared responsibility with tangata whenua to protect and care for people and places impacted by natural hazards. We will continue to build on this journey and ensure we are a good Treaty partner.

We will also continue to grow our connections to the range of diverse communities we serve, including through our National Reference Group, which represents a network of community networks across the motu (country).

Resolving Canterbury claims

Toka Tū Ake remains committed to resolving issues for Cantabrians.

Toka Tū Ake has completed a first-time settlement on all properties that had claims made against them following the Canterbury earthquakes. The claims we are seeing now mainly reflect previously missed damage. This year, we will continue to assist any customers who discover new earthquake-related damage.

Our support includes managing the Government's On-Sold programme for earthquake-damaged homes sold prior to August 2019. Over 1,500 Cantabrians who were out of options three years ago have had, or are having, their damaged home repaired or rebuilt because of this programme. We will continue to work with those completing repairs, some of which have been significantly delayed by construction supply chain issues from the COVID-19 pandemic.

Supporting changes to key scheme settings

We have substantively implemented the 41 recommendations from the Public Inquiry we are responsible for, and the remaining two are on track for completion in the agreed timeframes. We will also continue to work closely with other agencies on the initiatives they are leading.

The modernisation of the Earthquake Commission Act (EQC Act) is a key response to legacy issues from the Canterbury earthquake sequence that were highlighted by the Public Inquiry.

We have worked proactively with the Treasury in supporting the Minister with the proposed changes, and we will ensure we are ready to implement the new Act when it is passed into law.

In addition, the Government has reviewed the scheme's coverage cap and is providing more natural disaster cover for homeowners, ensuring their private insurance cover remains available and affordable.

Beginning 1 October 2022, Toka Tū Ake will cover the first \$300,000 of damage caused by the natural hazards set out in our legislation as homeowners renew or take out new private home insurance policies. Private insurers will then cover damage above the \$300,000 threshold. We are working with insurers to implement this change.

Continuing to build a more resilient New Zealand

Our resilience and research programme has become an even greater priority for us as we grow our body of knowledge and data. We will continue to invest in research and public education to contribute to communities' understanding about the natural hazard risks they face so they can make informed decisions about how to reduce the impacts of those risks.

We have identified three lenses for researchers to apply to the projects we fund: mātauranga Māori, climate change, and social science. We want to ensure diverse knowledge and voices inform our collective response to the challenges of living in a dynamic country.

Our commitment to sharing our insights and expertise will continue to grow this year. Toka Tū Ake will work with central government agencies, local councils, engineers, policy makers and homeowners to share our knowledge. We want to inform policy and planning on natural hazard risk management, so it closely aligns with wider climate change adaptation efforts.

Protecting New Zealanders through risk financing

Toka Tū Ake has continued to maintain strong relationships with reinsurers. Our investment in research and loss modelling and our joined-up approach with private insurers supports this confidence in the industry.

During 2021-2022, Toka Tū Ake secured a record \$7.2 billion of reinsurance. This year, our focus is on maintaining stability and consistency in how we access the reinsurance market. We will continue to review the size of our reinsurance programme, with the change in the cap likely to require an expansion of the reinsurance programme over the medium term to manage the increased exposure as policies renew from 1 October 2022.

The year ahead will also bring opportunities for innovation and growth

We have invested in improved risk modelling based on software developed by GNS Science and NIWA. Combined with the results of research we fund, insights from risk modelling mean we can more accurately estimate the damage that might occur in natural disaster scenarios.

As we refine this data science further in the year ahead, we can use the lessons to plan for likely scenarios and educate homeowners about how to mitigate their risks.

Risk modelling is also critical to our ability to accurately predict our risks, secure reinsurance and build the scheme's financial resilience. Over the next few years, the Natural Disaster Fund (NDF) is expected to grow because of the cap change, reduced claims costs and reduced capital expenditure. In combination with the Crown guarantee, this will mean New Zealanders are well placed to receive financial support when they need it. It will ensure New Zealand is financially better prepared for future natural disaster events.

The year ahead signals a new era with a new Board Chair (Chris Black), a new Chief Executive (Tina Mitchell), a new name and proposed changes to our governing legislation. In March 2022 we farewellled Sid Miller after five years as Chief Executive. Our Board Chair, Mary-Jane Daly, leaves the Board in June 2022 after eight years serving the organisation. We thank them for their strong guidance and significant service.



TE TAU E TŪ MAI

*Ki te kotahi te kākaho ka whati
Ki te kāpuia e kore e whati*

I te Maehe 2022, i whakaputaina te ingoa hou o EQC—Toka Tū Ake Natural Hazards Commission. Ka āta whakaurua haeretia e mātau tō mātau ingoa hou, kia mōhio tonu ai ā mātau kiritaki ki te kaupapa. I te tuatahi ka kawea e mātau te Toka Tū Ake Earthquake Commission kia ū rā anō te ingoa whānui hou i roto i te wā.

Ko te whakamāramatanga o te Toka Tū Ake ko te "tūāpapa e tū pakari ai tātau, kia ngātahi." He whakamana i tō tātau tūranga mō te tautoko i a Aotearoa kia mārama ake, te takatū me te whakaora mai i ngā pūmate ao tūroa me te whakaata i tā mātau hīkoi kia mārama ai ki tō tātau tuakiri me te hiranga ki te ao Māori.

E whakaata ana te huri ki Te Toka Tū Ake i tētahi tūtohutanga mai i te Uiui Tūmatanui ki Te Kōmihana Rū (2020) me whakaata te ingoa i te whānuitanga o ngā raru kei raro i a mātau. Kua kapi i te kaupapa ngā tūkinotanga ki ngā kāinga ko ngā rū, ngā ngaru taitoko, ngā hū puia, ngā mahi waiariki me ngā horo te pūtaka.

Te whakatipu i te tū pakari a Aotearoa i roto i ngā pūmate ao tūroa tētahi mahi pūmau nā mātau. Kāore e tipu te tū pakari i roto i te kōarotanga—me whakawhanake noa atu ngā pūkenga taketake kia tū pakari ina hiahiatia ana. Ahakoa he hanga kāinga kia pakari ake i runga whenua pai ake, te whakarite kia taea ai ngā kerēme hei tautoko i te iwi o Aotearoa ina pā mai ngā āhuratanga kino rawa, koinei te takatūtanga me te whakaoranga.

E whakarārangi ana te *Tauākī o Ngā Taumata Mahi Hei Whakatutuki* nei i ā mātau whakaritenga mō te āhua o tā mātau whakatutuki i tēnei hei tēnei tau.

TĀ MĀTAU E AROTAHI ANA MŌ TE TAU 2022-2023

Pērā anō i te hanga haere tonu a ngā āhuratanga tūturu i tō tātau whenua, he pērā anō te ao e noho nei tātau. Ko te KOWHEORI-19, te huringa āhuarangi me te pikinga utu kei te kōkiri i ngā huringa i ngā mākete rīanga aowhānui, ā, me te āhua o tā tātau takatū me te tautoko i te whakaoranga i konei i te kāinga. Hei te tau e heke nei ka nui atu tērā e hiahiatia ana mai i tā tātau kaupapa hei whakahaere i ēnei hau pūkeri.

Te whakaū i te Tauira Urupare ki Ngā Aituā Ao Tūroa

I angitu te tau tuatahi o tō mātau pātui me ngā kairīanga tūmataiti, ā, kua mahi tahi ngā rōpū katoa kia eke ai ngā kaupapahere, ngā pūnaha me ngā tukanga e hiahiatia ana kia rere ngātahi, i te wāhi kotahi te wheako mō ngā kiritaki katoa e hāngai ana ki ā tātau ture ārahi.

Kei te whakahaeretia kētia ngā tūmomo kerēme aituā ao tūroa ā-huarere mā te tauira, ā, ka whakahaerehia ngātahitia e mātau ngā mahinga nunui i tēnei tau. Ka noho tonu ki a Toka Tū Ake te whakahaere i te tauira mā ngā hui auau a te poari whakahaere, ngā arotake a ngā tumu whakahaere, he kaupapa whakaū pakari, me te torotoro haere i ngā whakaaro o ngā kiritaki. E ai ki te whakataukī i runga ake, ka kaha tātau mā te mahi tahi—ka mutu me whakamātautau haere tātau i te kaha o taua mahi.

O mātau hononga atu ki ngā hapori e mahi ngātahi nei

E āhukahuka ana mātau i te nui o ngā mōhio o te Māori mō te whenua, ā, e whai kawenga ana tātau me te tangata whenua ki te tiaki me te manaaki i te iwi me ngā wāhi ka whai pānga i ngā pūmate ao tūroa. Ka whakapakari haere tonu mātau i tēnei hīkoi me te whakarite he hoa Tiriti pai mātau.

Ka whakatipu haere tonu mātau i ō mātau hononga ki ngā tūmomo hapori rerekē e mahi

nei mātau, otirā i roto i tō mātau Rōpū Tohutohu ā-Motu, e whakakanohi ana i tētahi kōtuitui o ngā kōtuitui hapori puta noa i te motu.

Te Whakatau i Ngā Kerēme o Waitaha

Kei te arotahi tonu mātau ki te whakatau i ngā take mō te iwi o Waitaha.

Kua oti i a EQC tētahi whakataunga wā tuatahi ki ngā wāhi katoa i kerēmetia whai muri i ngā rū i Waitaha, me ngā kerēme e kite ana mātau ināianei e tino whakaata ana i ngā tūkinotanga kāore i kitea i te tuatahi. I roto i ā mātau mahere mō tēnei tau, ka āwhina tonu mātau i ngā kiritaki e kite ana i ngā tūkinotanga hou e pā ana ki te rū whenua.

Kei roto i ā mātau tautoko ko te whakahaere i te kaupapa On-Sold a te Kāwanatanga mō ngā kāinga i tūkinohia i te rū i hokona i mua o te Ākuhata 2019. Kua whakatikahia, kei te whakatikahia, kua whakatūria anō rānei ngā kāinga o ngā tāngata o Waitaha neke atu i te kotahi mano rima rau i pau ngā ara ki a rātau i te toru tau ki mua, nā tēnei kaupapa. Ka mahi tohu mātau ki te mahi tahi me rātau kei te whakaoti i ngā tapitapi, ko ētahi kua tōroatia nā ngā raruraru ara ratonga mai i te mate urutā KOWHEORI-19.

Te tautoko i ngā huringa ki ngā tikanga kaupapa hira

Kua tino whakatinanahia e mātau ngā tūtohutanga 41 mai i te Uiuī Tūmatanui kei raro i a mātau, ā, kei te ū ngā mea e rua kei te toe kia whakaotihia i ngā wā i whakaaetia. Ka mahi tahi tonu mātau me ērā atu tari mō ngā kaupapa e ārahi nei rātau.

Ko te whakahoutanga o te Earthquake Commission Act (Ture EQC) tētahi urupare hira ki ngā raruraru tuku iho mai i te raupapa rū o Waitaha i whakaarahia e te Uiuī Tūmatanui. I kakama tā mātau mahi me Te Tai Ōhanga ki te tautoko i te Minita me ngā huringa e marohitia ana, ā, ka whakarite kei te reri mātau ki te whakatinana i te Ture hou ina pāhitia te ture.

I tua atu i tēnei, kua arotakengia e te Kāwanatanga te pōtae tahu o te kaupapa me te whakarato inihua aituā ao tūroa atu anō mā ngā ariki o ngā kāinga, te whakarite ka noho wātea, ka ngāwari te utu o tā rātau inihua rīanga tūmataiti.

Atu i te 1 o Oketopa 2022, ka inihuatia e Toka Tū Ake te \$300,000 tuatahi o ngā tūkinotanga nā ngā pūmate ao tūroa e ai ki tā mātau ture mā te whakahoutanga o tō te ariki o te kāinga kaupapahere. Kātahi ka inihuatia e ngā kairīanga tūmataiti ngā tūkinotanga i runga ake i te taumata \$300,000. Kei te mahi tahi mātau me ngā kairīanga ki te whakatinana i tēnei huringa.

Te whakapakari haere tonu kia tū pakari ake a Aotearoa

Kua noho tā mātau kaupapa tū pakari me te rangahau hei kaupapa matua mā mātau i a mātau e whakatipu ana i ēnei mōhio me ēnei raraunga. Ka haumi tonu mātau ki te rangahau me te mātauranga tūmatanui hei tautoko i te mārama o ngā hapori mō ngā mōrea pūmate ao tūroa ka pā mai kia mārama ai tā rātau tuku whakatau me pēhea te whakaiti i ngā pānga o ēnei mōrea.

Kua tohua e mātau ngā tirohanga e toru hei whakaū mā ngā kairangahau e pā ana ki ngā kaupapa e utua ana e mātau: mātauranga Māori, huringa āhuarangi me te mātauranga pāpori. Kei te hiahia mātau ki te whakarite ka whāngai ngā mōhiohanga rerekē me ngā reo i tā mātau urupare ngātahi ki te whakapātari o te noho i tētahi whenua he pēnei te taineke.

Ka tipu haere tonu tā mātau tuari i ā mātau kitenga, pūkenga hoki i tēnei tau. Ka mahi tahi a Toka Tū Ake me ngā tari kāwanatanga matua, ngā kaunihera, me ngā kaihanga kaupapahere me ngā rangatira o ngā whare hei tuari i ā mātau mōhio. Kei te hiahia mātau ki te whāngai kōrero ki ngā kaupapa here me te whakarite mahere mō te whakahaerenga mōrea pūmate ao tūroa, kia tino hāngai ai ki ā mātau mahi urutaunga ki ngā huringa āhuarangi whānui.

Te tiaki i te iwi o Aotearoa mā te tuku pūtea ā-mōrea

I taea tonu e Toka Tū Ake te pupuri ngā hononga kaha i waenga i ngā kairianga taituarā. E tautoko ana tā mātau haumi ki te rangahau me te whakatauirā ngaronga me tā mātau aronga ngatahi me ngā kairianga tūmataiti i tēnei ngākau titikaha ki te ahumahi.

I te tau 2021-2022, i taea e Toka Tū Ake te rīanga anō te \$7.2 piriona te wāriu. I tēnei tau kei te arotahi mātau kia pūmau tonu, kia ōrite tonu te āhua o tā mātau uru ki te mākete rīanga anō. Ka arotakengia tonutia e mātau te rahi o tā mātau kaupapa rīanga anō, ā, kāore e kore me whakawhānui ake te kaupapa rīanga anō nā te huringa ki te taupoki i roto i te wā pae tata hei whakahaere i te tuwhera nui ake ina whakahou haeretia ana ngā kaupapahere mai i te 1 o Oketopa 2022.

I tēnei tau ka puta anō ngā whai wāhitanga mō te auahatanga me te tipuranga

I haumi mātau kia pai ake te whakatauirā mōrea e ai ki te pūmanawa rorohiko i hangaia e GNS Science me NIWA. I te taha o ngā otinga rangahau e utua ana e mātau, nā ngā kitenga mai i ngā whakatauirā mōrea ka tika ake tā mātau whakatau tata i ngā tūkinotanga ka pā pea i ngā āhuatanga aituā ao tūroa. I a mātau e whakatōtika haere ana i ēnei pūtaiao raraunga i tēnei tau, ka taea e mātau te whakamahi ngā akoranga hei hanga mahere mō ngā āhuatanga ka tūpono pā mai me te tohutohu i ngā rangatira o ngā whare me pēhea te whakangāwari i ō rātau mōrea.

He mea hira anō te whakatauirā mōrea ki tō mātau kaha ki te matapae tika i ō mātau mōrea, te whiwhi rīanga anō me te hanga i te pakari ā-pūtea o te kaupapa. I roto i ngā tau e heke nei, e tūmanakohia ana ka tipu te Tahua Aituā Ao Tūroa (NDF) nā te huringa o te pōtae, ngā utu kerēme kua iti iho me ngā whakapaunga rawa iti iho. Mā tēnei me te whakatau a te Karauna, ko te tikanga kei te pai te noho a ngā tāngata o Aotearoa ki te whiwhi tautoko ā-pūtea ina hiahiatia ana e rātau.

E tohu ana te tau nei i tētahi wā hou me te Heamana Poari hou (Chris Black), he Tumu Whakarae hou (Tina Mitchell), me te ingoa hou me ngā huringa e marohitia ana ki tā mātau ture whakahaere. I te Maehe 2022 i poroakitia e mātau a Sid Miller, ā, e 5 tau ia e mahi ana hei Tumuaki. Kei te wehe te Heamana o te Poari a Mary-Jane Daly hei te Hune 2022, i muri i ngā tau e waru e mahi ana i tēnei whakahaere. Tēnei te mihi ki a rātau mō tā rātau ārahi me tā rātau whakapau kaha mō tēnei whakahaere.

OUR STRATEGIC OUTCOMES, INTENTIONS AND MEASURES

*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 describe, at a high level, the benefits Toka Tū Ake wants to achieve to support a resilient 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.

We have four **output classes** to support us in delivering on these intentions and outcomes – Recovery, Resilience, Risk financing and Readiness.

Our **measures** then 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 the Statement of Performance Expectations
We help New Zealanders to recover after a natural disaster.	Claims made to the Toka Tū Ake insurance scheme are managed fairly, transparently, responsively and in a timely manner.	<ul style="list-style-type: none"> Customer experience on Canterbury claims Toka Tū Ake Customer experience on new claims through our partnership approach with private insurers (from mid-2021) Assessment of claims processes to ensure they are fair, transparent, timely 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.	<ul style="list-style-type: none"> 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 Toka Tū Ake scheme, so financial resources are available to meet people's claims when they fall due.	Increase financial sustainability of the Toka Tū Ake scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF.	<ul style="list-style-type: none"> Obtaining appropriate reinsurance cover Reviewing our risk financing strategy annually Collecting expected levies Rebuilding the NDF 	Class three: Risk financing
Toka Tū Ake and its partners are ready to support impacted communities when a natural disaster strikes.	Establish, test and improve the readiness of Toka Tū Ake for natural disasters.	<ul style="list-style-type: none"> 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

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

We help New Zealanders to recover after a natural disaster

We collaborate and share information about natural hazards with New Zealanders and other agencies

We manage the Toka Tū Ake scheme so financial resources are available to meet people's claims when they fall due

Toka Tū Ake and its partners are ready to support impacted communities when a natural disaster strikes

STRATEGIC INTENTIONS

Claims made to the Toka Tū Ake insurance scheme are managed fairly, transparently, responsibly and in a timely manner

Be a leader in natural hazard risk reduction based on credible research, data, education and strong stakeholder relationships

Increase financial sustainability of the Toka Tū Ake scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF

Establish, test and improve the readiness of Toka Tū Ake for natural disasters

OUTPUT CLASSES

Recovery

Increasing resilience

Risk financing

Readiness for an event

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GOVERNMENT EXPECTATIONS

LETTER OF EXPECTATIONS 2022-2023

The Government's key priorities for Toka Tū Ake are outlined in an annual letter of expectations from the Minister Responsible for the Earthquake Commission. The Minister has outlined the following expectations of Toka Tū Ake for 2022-2023.

Resilience	The Minister expects Toka Tū Ake to continue supporting wider government priorities regarding natural hazard management, climate change adaptation and residential home insurance access and affordability. This includes continuing to develop risk modelling capability and collection and analysis of insurance data.
Risk Financing	The Minister expects Toka Tū Ake to manage its assets in a sound and prudent manner, in line with the Ministerial Direction issued in July 2015. Toka Tū Ake will continue to review the potential benefits of including capacity from alternative capital markets in its risk finance programme.
Public Inquiry	<p>Toka Tū Ake is expected to continue to deliver the outcomes highlighted by the Public Inquiry into EQC. When the recommendations have been implemented, Toka Tū Ake will continue to revisit the Public Inquiry's findings to ensure its programmes, such as the Natural Disaster Response Model, deliver the outcomes the Public Inquiry envisioned.</p> <p>The Minister expects Toka Tū Ake to continue supporting other lead agencies to implement the Public Inquiry's recommendations as appropriate.</p>
EQC Act Review	The Minister has asked that Toka Tū Ake continue to support the remaining policy, legislative processes and drafting of legislation to see the Bill to modernise the EQC Act and any associated regulations passed as soon as practicable.
Consultation	The Toka Tū Ake Board and senior management are expected to continue to engage and consult with the Treasury across material strategic issues, risks and influences on operational and financial performance. The Minister expects the Treasury will be able to provide an independent view on related advice put forward by Toka Tū Ake. Toka Tū Ake is expected to provide reasonable time for consultation with the Treasury.
Legal matters	The Minister expects Toka Tū Ake to continue to update and engage with Crown Law and the Treasury on any significant legal issues affecting or likely to affect Toka Tū Ake.
Performance expectations	Toka Tū Ake is expected to engage closely with customers and other stakeholders and to address any processes under its control that may be impeding its ability to meet its targets for 2021-2022 and 2022-2023.

The Minister has also outlined several Canterbury-specific expectations.

Canterbury claims	The Minister expects Toka Tū Ake to make every effort to ensure the resolution of all Canterbury claims it currently has on hand, including the remaining over-cap claims that Toka Tū Ake is managing as an agent for Southern Response. Toka Tū Ake will keep the Treasury informed of any material movements in Canterbury claims liabilities as soon as they are apparent.
On-sold properties	Toka Tū Ake will endeavour to present settlement offers to all remaining eligible applicants during the 2022-2023 financial year. The Minister expects Toka Tū Ake to formalise any deadline extensions and provide timely updates to the Treasury of risks impacting the expected timeline. Toka Tū Ake will give the Treasury early warning if the current appropriation is likely to be insufficient.

ENDURING LETTER OF EXPECTATIONS TO STATUTORY CROWN ENTITIES

The Government’s enduring expectations of statutory Crown entities are outlined in an enduring Letter of Expectations from the Minister of Finance and Minister for the Public Service. The following expectations were set out in 2019.

The expectations below have been integrated into how Toka Tū Ake conducts its core functions, including how we continue to build our organisational capability to meet our strategic outcomes.

A unified value-based government for all New Zealanders	<p>Toka Tū Ake is expected to act in a spirit of service to everyone in our community and with integrity and care. This expectation emphasises the need for Toka Tū Ake to be a safe, diverse, inclusive place to work, including addressing any ethnic or gender pay gaps and narrowing the gap between the highest and lowest earners.</p> <p>Toka Tū Ake should take account of the Government’s Expectations on Employment Relations in the public sector and ensure employees have a voice in their workplace.</p>
Supporting future-focussed Māori Crown relations	<p>The Government expects that Toka Tū Ake will embody its good-faith and collaborative approach to Māori Crown relationships.</p> <p>This is expected to include : engaging appropriately and often with Māori; pursuing opportunities for partnership; building staff Māori cultural capability; improving the treaty consistency of policy and practices; and, supporting the revitalisation of te reo Māori.</p>
Contributing to improving wellbeing	<p>Toka Tū Ake is expected to operate as part of a high performing public sector focussed on improving current and future wellbeing – including taking a whole of government approach, looking at intergenerational outcomes, and moving beyond narrow measures of success.</p> <p>Toka Tū Ake is expected to take active steps to reduce greenhouse gas emissions, improve energy efficiency and reduce waste outputs.</p>
Public service reform	<p>Ministers expect Toka Tū Ake to support the modernising of the public service.</p>

CARBON NEUTRAL GOVERNMENT PROGRAMME

In April 2022, the Minister of Finance and Minister for Public Service issued a direction to Crown Agents, including EQC, to implement the Carbon Neutral Government Programme. The programme has been set up to accelerate emissions reductions across the public sector. The objective is for agencies to reduce their gross emissions and be carbon neutral by 2025.

WHAT WE WILL DELIVER IN 2022-2023

Drawing on our strategic outcomes and intentions and the Government's expectations of Toka Tū Ake, the following sections outline the activities Toka Tū Ake intends to invest in and deliver over the next financial year under each of the four output classes.

The 2022-2023 financial year is the second year in the delivery of our *Statement of Intent 2021-2025*. Our focus is on maturity, consistency and improving the performance of the initiatives we started last year.

For each of the four output classes, we set out:

- what the output class is intended to deliver (measures)
- the equivalent performance result (actual) from the 2020-2021 year, where available
- the expected performance result (forecast) for the 2021-2022 year, where available
- the performance target (target) for the 2022-2023 financial year and how performance will be assessed
- the proposed expenses for the output class.

REVENUE AND EXPENSES

Homeowners pay a levy to their private insurer as part of their contract for fire insurance for their home, which private insurers pay to Toka Tū Ake. From this, costs are incurred against the four output classes. The differential between the expected revenue and the proposed expenses is used to pay current and future claims.

Our performance is assessed and reported to our monitoring agency, the Treasury, on a quarterly basis. Toka Tū Ake is also audited annually by the Auditor-General, and this is reported in each annual report.

The expected revenue and proposed expenses for each of the output classes for financial year (FY) 2021-2022 and FY 2022-2023 is as follows:

Output class	2022-2023 expected revenue ¹	2022-2023 operating expenses ¹	2021-2022 expected revenue ¹	2021-2022 operating expenses ¹
Recovery after an event	Toka Tū Ake levies: \$597 million	Operating expenses: \$25 million Claims costs ² : \$54 million ³	Toka Tū Ake levies: \$528 million	Operating expenses: \$31 million Claims costs ² : \$21 million ³
Resilience	Other operating revenue: \$3 million	Operating expenses: \$35 million	Other operating revenue: \$2 million	Operating expenses: \$36 million
Risk financing		Operating expenses: \$8 million Reinsurance premiums: \$290 million		Operating expenses: \$8 million Reinsurance premiums: \$218 million
Readiness for an event		Operating expenses: \$21 million		Operating expenses: \$27 million

¹ Revenue and expenses in this table are different to the prospective statement of comprehensive revenue and expense as they exclude revenue and expenses that cannot be assigned by output class, such as services provided in administering the On-sold programme and Southern Response claims, as well as the expenses in the footnotes below.

² 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.

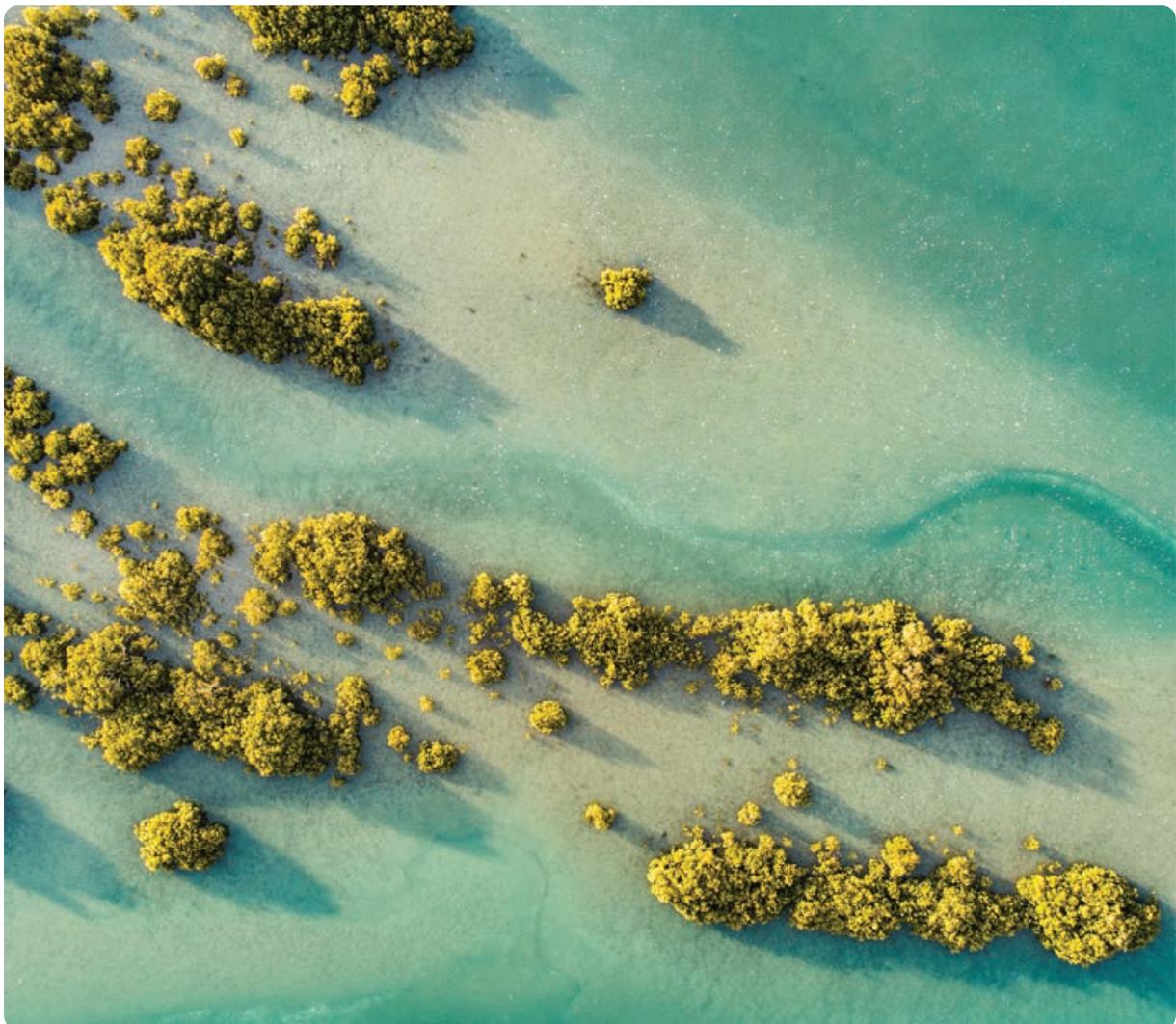
³ This cost excludes the amortisation of risk margin and discount included in the gross claims discounted costs in note two of the prospective financial statements.

Explanations for changes to revenue and expenses for 2022-2023 are:

- Revenue is expected to increase to \$597 million for 2022-2023 as a result of higher levy receipts following the 1 October 2022 increase in the EQC cap.
- Claim expenses for 2022-2023 are expected to be \$54 million (assuming 4,500 new claims during the year). Claim expenses for 2021-2022 are expected to be \$21million driven by lower than expected number of new claims received during the year.
- Reinsurance premiums for 2022-2023 are expected to increase to \$290 million (compared to \$218 million for 2021-2022).

This increase in cost includes the additional reinsurance cover expected to be purchased to protect against the financial consequences of future significant natural disaster events based on the increase in the EQC cap on 1 October 2022.

- Operating expenses across the output classes are expected to reduce by \$13 million in 2022-2023 due to efficiency gains, one-off costs (incurred in 2021-2022) relating to decommissioned on-premise technology platforms and the completion of the programme to modernise EQC's technology and data systems (including the establishment of the insurer-led operating model).





OUTPUT ONE: RECOVERY AFTER AN EVENT

The 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 recover following a natural disaster event, the sooner they can resume their normal lives. Toka Tū Ake 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.

Toka Tū Ake began delivering claims management services through a new operating model called the Natural Disaster Response Model (NDRM) on 30 June 2021.

Toka Tū Ake remains responsible for delivering its obligations through the NDRM, even though claims are managed through private insurers as our agents. The performance targets have, therefore, been agreed as part of contractual arrangements with private insurers.

Activities in this output class support two strategic intentions:

- Claims made to the Toka Tū Ake insurance scheme are managed fairly, transparently, responsively and in a timely manner
- Increase financial sustainability of the scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF.

Two claims models – pre-and post-NDRM

Toka Tū Ake continues to manage claims from events prior to 30 June 2021, including claims from the Canterbury earthquake sequence. Progress on claims from the Canterbury earthquake sequence is measured under output class 1.1.

Progress on claims from all other events prior to 30 June 2021 and NDRM claims (from 30 June 2021 onward) is measured under output class 1.2.

How Toka Tū Ake measures performance

We have set time-bound, quality or quantity criteria for each activity that are designed to ensure customers are treated in a fair, transparent, responsive, and timely manner and have their concerns heard. We measure customer satisfaction with the claims process and communication, as well as the ability to settle claims within the Board-approved budget. We track results through data held by Toka Tū Ake 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 good customer service delivery.

2022-2023 proposed expenses

The proposed operating expenses for the Recovery output class are \$25 million (excluding specific claims handling expenses). There is also an additional \$54 million relating to an estimate for natural disaster damage sustained during the financial year. 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 serving customers with claims from the 2010-2011 Canterbury earthquake sequence, including claims Toka Tū Ake is managing on behalf of Southern Response Earthquake Services Limited (Southern Response). The measures address both the timeliness and the customer focus of the claims management services.

The measures in this output class are a continuation from the 2021-2022 financial year. The number of claims from the Canterbury events is gradually reducing as less new damage is discovered. From 2023-2024, measures are likely to be re-evaluated to reflect the fewer claim numbers and the different treatments required for them.

The threshold for customer satisfaction is different for Canterbury claims than it is for other claims. This is because damaged homes in Canterbury 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		2022-2023 target	2021-2022 forecast	2020-2021 actual
Timeliness				
1.1.1	Outstanding claims over six months old, on hand at 30 June 2022, are settled by 30 June 2023	85%	89%	85%
1.1.2	New claims opened or reopened ⁴ between 1 January 2022 and 31 December 2022 are resolved within six months ⁵	85%	85%	74%
1.1.3	The on-sold ex gratia package is administered in accordance with the On-Sold Canterbury Properties Services Agreement	100%	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 Toka Tū Ake and Southern Response	100%	100%	New measure
1.1.5	Achieve claims settlement targets, based on Southern Response settlement projections from March 2022 valuations	95%	New measure	New measure
1.1.6	More than 50% of surveyed customers are satisfied with their overall claims experience	> 50%	62%	53%
Reflecting on their most recent experience:				
1.1.7	More than 70% of surveyed customers agree or agree strongly that Toka Tū Ake: <ul style="list-style-type: none"> was transparent and fair in all interactions was responsive to their individual needs and situation during their recent claim experience provided clear and concise communication, and customers were clear on next steps for their claim acted as experts with the skills, knowledge and desire to help them 	> 70%	77%	76%
		> 70%	77%	76%
		> 70%	75%	73%
		> 70%	76%	74%
1.1.8	Timeliness of complaints resolution: 90% of complaints resolved in 60 days	> 90%	91%	98%
1.1.9	Toka Tū Ake settlements should be enduring. Fewer than 5% of claims settled are reopened within six months ⁶	< 5%	3%	12%

⁴ The open claim has been resolved (closed) from the perspective of the business Toka Tū Ake. 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, Toka Tū Ake needs to have triaged the request and accepted the possibility of further activity being required.

⁵ Does not include claims in litigation or where a customer appoints a third party to represent them.

⁶ This will not include claims re-opened for administrative purposes (such as for making a payment or insurer facilitation).

1.2: Claims relating to natural disaster events (excluding Canterbury)

Output 1.2 is focussed on other claims to the scheme that occurred after the 2010-2011 Canterbury earthquake sequence. These measures address the speed, quality and cost of claims resolution. For claims submitted after 30 June 2021, these measures apply to claims management services provided by private insurers under the NDRM.

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
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 2022 and 31 December 2022 are resolved within six months	90%	91%	97%
1.2.2 ⁷	Claims that have not been resolved within six months of lodgement are resolved within 90 working days of the assessment phase being completed	90%	88%	98%
Customer focus				
1.2.3	More than 70% of surveyed customers are satisfied with their overall claims experience	> 70%	63%	69%
1.2.4	More than 70% of surveyed customers agree or agree strongly that Toka Tū Ake (or its partner): <ul style="list-style-type: none"> was transparent and fair in interactions was responsive to their individual needs and situation during their recent claim experience provided clear and concise communication, and customers were clear on next steps for their claim acted as experts with the skills, knowledge and desire to help them 	> 70%	56%	69%
		> 70%	61%	67%
		> 70%	69%	78%
		> 70%	67%	76%
1.2.5 ⁸	Timeliness of complaints resolution: 90% of disputes resolved in 60 days or within such longer period as the complainant and private insurer agree	> 90%	88%	98%
1.2.6 ⁹	Toka Tū Ake settlements should be enduring. Fewer than 7.5% of claims resolved are reopened within six months	< 7.5%	5%	4%
Quantity				
1.2.7	The ratio of claims handling expense to settlement cost for the period is less than the ratio set by the Board	Less than or equal to Board-approved ratio	Less than or equal to Board-approved ratio	New measure

⁷ The measure has been adjusted to reflect the small number of claims that now fall within this category.

⁸ Excludes complaints that fall into the external dispute resolution process to align with Fair Insurance Code terminology.

⁹ Measure excludes administrative reopens.

OUTPUT TWO: RESILIENCE

This strategic outcome is that we improve the **resilience** of New Zealanders by 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.

By understanding more about the natural hazards we live with, we can better estimate likely losses and the cost of insurance. One of the Crown's goals is for New Zealanders to have access to affordable natural disaster insurance for residential homes.

Our Resilience output class, therefore, 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. Toka Tū Ake 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.

Activities in this output class positively impact two 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 Toka Tū Ake scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF.

The activities in this output class also help inform our strategies for rebuilding the NDF and purchasing reinsurance.

How Toka Tū Ake measures performance

To measure the quality of the information Toka Tū Ake 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 our reputation and credibility with them, are a key foundation for the success of our Resilience Strategy¹⁰.

We also measure the impact activities have on the number of New Zealanders who are taking action to prepare for natural disasters.

¹⁰ https://www.eqc.govt.nz/sites/public_files/documents/grants/EQC%20Resilience%20Strategy%202019.pdf

We have reviewed the measures under this output, so they give a more meaningful assessment of the activity.

We are continuing to look for innovative ways to further deliver our resilience functions. In 2021-2022 we invested in our loss modelling capability; this will be an ongoing mission in 2022-2023 as we seek to build the best possible understanding of the natural hazard risks and losses we could experience.

We are also introducing an information portal that will provide natural hazard risk information for New Zealanders.

2022-2023 proposed expenses

The budgeted expenses for the Resilience output class are \$35 million. This relates primarily to the cost of funding research and education, including the significant investment in the GeoNet platform and ongoing loss modelling.

What does ‘being a leader’ mean to us?

‘Leading’ in natural hazard risk reduction does not mean Toka Tū Ake ‘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.

Resilience output classes

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

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
Quality				
2.1.1	Percentage of stakeholders ¹¹ surveyed ¹² agree or strongly agree that the outputs of the investment by Toka Tū Ake in research are: <ul style="list-style-type: none"> of good or excellent quality relevant and focussed on the outcomes of the Resilience Strategy 	75%	Results expected May/June 2022	Amended measure
2.1.2	Percentage of stakeholders surveyed agree or strongly agree that Toka Tū Ake: <ul style="list-style-type: none"> is contributing to driving progress in resilience to natural hazards is an engaged and supportive partner 	75%	Results expected May/June 2022	Amended measure

¹¹ Stakeholders include central government, local government, science and research, insurance industry, and design, planning, and construction professionals.

¹² Quantitative surveys are undertaken by Research First Ltd, an independent organisation.

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
Quantity				
2.1.3	Percentage of the public surveyed ¹³ who say: <ul style="list-style-type: none"> they thought about potential risks of natural hazards when buying or looking to buy a property they are aware they can take action to make their homes safer and stronger for disaster events where possible, they have taken action as home owners on any of the six key preparedness actions¹⁴ promoted by Toka Tū Ake¹⁵ 	> 75% > 60% > 55%	84% 69% New measure based on revised methodology	New measures
2.1.4	Number of formal, evidence-based submissions made on relevant (natural hazard risk) policies, plans, or initiatives or local government statutory plans Reviewer commentary that submissions are: <ul style="list-style-type: none"> of good quality on matters relevant to natural hazard risk reduction 	5	8	New measures

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

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
2.2.1	Deliver the following milestones for loss modelling: <ul style="list-style-type: none"> Implement the new National Seismic Hazard Model in PRUE¹⁶ Implement new earthquake fragility models in PRUE Agree a forward loss modelling strategy with GNS and NIWA 	Milestones achieved	Milestones achieved: A communications strategy introduced partners to PRUE loss modelling Toka Tū Ake transitioned to the new system by 30 November 2021 Toka Tū Ake agreed a RiskScape and loss modelling multi-year roadmap with GNS and NIWA by the end of the financial year	New measure
2.2.2	Deliver the following milestones for the Risk and Resilience Portal: <ul style="list-style-type: none"> Establish an online register that provides the public with information on Toka Tū Ake claims for individual residential properties Stage two of the Portal is costed and signed off by the Toka Tū Ake Board 	By 30 December 2022 By 30 June 2023	New measure New measure	New measure New measure

¹³ Quantitative surveys are undertaken by A C Neilsen, an independent organisation.

¹⁴ The key 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.

¹⁵ This action measure is calculated by summing the count of people who said 'yes' to each of the six actions, divided by the sum of the count of eligible people who answered for each action (excludes those who said not applicable).

¹⁶ PRUE is based on the RiskScape® risk modelling software developed by GNS and NIWA.



OUTPUT THREE: RISK FINANCING

This output supports our core legislative functions to collect premiums payable for insurance under the Earthquake Commission Act 1993, administer the Natural Disaster Fund (NDF), and obtain reinsurance. In combination with the Crown guarantee, this ensures financial resources are available to meet people's claims when they fall due. The NDF is also used to invest in research and education and operate the scheme.

Our **Risk financing** output activities are guided by our understanding of the Crown's balance sheet risk appetite and rebuilding the NDF. 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, Toka Tū Ake intends to maintain its strong relationships with existing reinsurance markets. The change in the cap requires us to look at options to increase the level of reinsurance we purchase over time. This may require us to investigate and invest in additional forms of financial risk transfer.

At the same time, the increase in the cap will see an associated increase in levies received. This will add momentum to our efforts to rebuild the NDF following its depletion in response to the Canterbury and Kaikōura earthquakes. It will ensure New Zealand is financially better prepared for future natural disaster events.

The combination of reserves in the NDF and a strong risk transfer programme lessens the need for recourse to the Crown guarantee in the event of a significant natural disaster. However, the Crown's statutory guarantee provides assurance to all insured homeowners that their claims for natural disaster damage will be paid.

Our objectives are to:

- ensure that levies are collected
- maintain an affordable reinsurance programme with an appropriate level of cover
- maintain a robust risk financing framework
- rebuild the NDF.

Activities in this output class positively impact the strategic intention:

- Increase financial sustainability of the Toka Tū Ake scheme by balancing investment in reinsurance capacity, strategic initiatives and rebuilding the NDF.

This then links to the strategic outcome – We manage the Toka Tū Ake scheme so financial resources are available to meet people's claims when they fall due.

How Toka Tū Ake measures performance

We measure the effectiveness of levy collection through the percentage collected. The objectives for 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 the approach and management is aligned to the Crown's risk appetite and alternative funding costs.

2022-2023 proposed expenses

The budgeted expenses for the Risk financing output class are \$298 million. These are largely related to the purchase of reinsurance to protect against the financial consequences of future significant natural disaster events and a fee relating to the Crown's guarantee of the Toka Tū Ake scheme. This amount includes expected operating expenses of \$8 million.

Risk financing output classes

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

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
Quality				
3.1.1	Reinsurance protection for 2023-2024 is obtained on terms that assure continuity of coverage for all perils, at rates that are lower than the Crown's cost of capital	By 1 June 2023	Achieved	Achieved
3.1.2	Annual consultation with the Crown on risk appetite occurs prior to purchasing reinsurance for 2023-2024	Achieved	Achieved	Achieved
3.1.3	An annual review of the risk financing strategy is conducted	By 30 June 2023	Achieved	Achieved

3.2: Managing the NDF

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
Quantity				
3.2.1	The level of levies collected compared to annual financial budget	100%	100%	104%
3.2.2	The NDF is managed in accordance with directions from the Minister	100%	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)	> \$185 million	> \$198 million	New measure

OUTPUT FOUR: READINESS FOR AN EVENT

Toka Tū Ake covers natural disaster damage to residential homes for a wide range of natural disasters including volcanic eruptions, earthquakes, tsunami, natural landslips, hydrothermal activity, and damage to land from a storm or flood. Part of being prepared for such a wide range of eventualities is having the right people, systems, and processes ready in advance.

Readiness is about ensuring Toka Tū Ake 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 ensuring we have the right model in place to respond to a wide range of events, running scenario exercises, planning for business continuity and identifying areas for improvement.

The NDRM model, launched by Toka Tū Ake and private insurers in 2021, is key to ensuring New Zealanders homeowners are well served in the next big event. The NDRM doubles the number of natural disaster claims that can be managed in a recovery scenario. Previously, Toka Tū Ake could scale up to manage approximately 50,000 claims per year. By partnering with private insurers, Toka Tū Ake has increased its capacity to manage closer to 100,000 claims per year.

Our strategic focus over the next few years is on embedding, enhancing and monitoring the NDRM so we can maximise its capacity potential. We do this through relationship engagement and regular assurance activities, including ongoing training, monitoring and audits.

We test the capacity of the NDRM by running it 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.

Technology infrastructure is a key part of the successful operation of the NDRM, enabling the secure transfer and sharing of data.

Activities in this output class contribute to the strategic intentions:

- Establish, test and improve the readiness of Toka Tū Ake for natural disasters
- Claims made to the Toka Tū Ake insurance scheme are managed fairly, transparently, responsively and in a timely manner.

They then link to the strategic outcomes:

- Toka Tū Ake and its partners are ready to support impacted communities when a natural disaster strikes
- We help New Zealanders to recover after a natural disaster.

How Toka Tū Ake measures performance

Customer experience under the NDRM is monitored through the measures in the Recovery output class (discussed above).

The Readiness output class measures monitoring activities through the application of its assurance framework and remediation of issues identified through audit processes. This output class also measures activities in developing response strategies and carrying out scenario testing.

2022-2023 proposed expenses

Proposed expenses for the Readiness output class are \$21 million. This includes the costs of managing the existing business-as-usual claims and supporting the implementation and oversight of the NDRM and ongoing event readiness.

Readiness output classes

4: Ensuring capacity and readiness for an event

Performance measures		2022-2023 target	2021-2022 forecast	2020-2021 actual
Quantity				
4.1	Toka Tū Ake will continue to conduct scenario exercises that will demonstrate that Toka Tū Ake, with insurers and other key recovery agencies, can respond to a significant natural disaster up to 100,000 claims	Independent evaluation reviewing our exercises to ensure they are fit for purpose by 30 June 2023	On track	Achieved
4.2	To support co-ordinated insurance response and recovery activities, by 30 June 2023 Toka Tū Ake (with its partners) has developed two event response strategies that cater to a range of natural disaster perils that Toka Tū Ake covers	Two event response strategies developed by 30 June 2023	On track	New measure
4.3	NDRM systems are analysed and process and data exchange enhancements are agreed between Toka Tū Ake and insurers to ensure scalability and robustness of the NDRM.	By 30 December 2022	Systems are established and available to receive agreed data from private insurers under the NDRA contractual arrangement - on track	New measure
NDRM assurance 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	95%	100%	New measure
4.5	Toka Tū Ake implements recommendations 5.1.3 ¹⁷ and 6.1.3 ¹⁸ from the 2020 Public Inquiry by 24 December 2022	On track	On track	New measure
4.6	New Zealanders have increasing trust and confidence in Toka Tū Ake	Results increase from the previous financial year across a range of survey measures	92%	New measure

¹⁷ Public Inquiry recommendation to conduct a detailed assessment of the impacts of cash settlement of claims in the Kaikōura/Hurunui earthquake, including long-term housing stock quality impacts.

¹⁸ Public Inquiry recommendation to establish an online register that provides EQC information on claims for individual residential properties that are free and simple to use for prospective home buyers. See also measure 2.2.2.



PROSPECTIVE FINANCIAL STATEMENTS



PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the years ending 30 June 2022 and 30 June 2023	NOTE	FORECAST 2022 \$(000)	BUDGET 2023 \$(000)
EARNED PREMIUMS			
Gross earned premiums		528,231	597,288
Outward reinsurance premium expense		(218,030)	(290,416)
Net earned premium revenue		310,201	306,872
UNDERWRITING MOVEMENTS			
Reinsurance and other recoveries		16,564	1,712
Claims (expense)/reduction	2	(169,606)	(31,654)
Total underwriting movements		(153,042)	(29,942)
SURPLUS/(DEFICIT) FROM INSURANCE ACTIVITIES		157,159	276,930
OTHER OPERATING REVENUE			
Interest revenue		2,110	3,022
Other revenue ¹⁹		11,406	8,754
Total operating revenue		13,516	11,776
OTHER OPERATING EXPENSE			
Recovery		(31,317)	(24,993)
Resilience		(35,745)	(35,060)
Risk financing		(7,769)	(7,562)
Readiness		(27,318)	(21,491)
Other expenses ¹⁹		(20,633)	(8,355)
Total operating expense	1	(122,782)	(97,461)
Crown underwriting fee		(10,000)	(10,000)
TOTAL COMPREHENSIVE REVENUE/(EXPENSE) FOR THE PERIOD		37,893	181,245

¹⁹ Costs incurred managing the On-Sold over-cap programme on behalf of the Crown and managing Southern Response's remaining claims are reimbursed to Toka Tū Ake. An additional one-off cost of \$9.9 million in the year ended 30 June 2022 is the loss on disposal Toka Tū Ake realised in transferring the Geonet assets to GNS Science.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

For the years ending 30 June 2022 and 30 June 2023	FORECAST 2022 \$(000)	BUDGET 2023 \$(000)
EQUITY		
Capitalised reverses	1,500,000	1,500,000
RETAINED EARNINGS		
Opening balance at 1 July (deficit)	(1,724,821)	(1,686,928)
Total comprehensive revenue/(expense) for the period	37,893	181,245
Closing balance at 30 June (deficit)	(1,686,928)	(1,505,683)
Closing balance at 30 June (deficit)	(186,928)	(5,683)

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	FORECAST 2022 \$(000)	BUDGET 2023 \$(000)
For the years ending 30 June 2022 and 30 June 2023		
EQUITY		
Capitalised reserves	1,500,000	1,500,000
Retained earnings	(1,686,928)	(1,505,683)
Total Equity	(186,928)	(5,683)
ASSETS		
Bank	197,873	185,281
Premiums receivable	101,723	153,205
Outstanding reinsurance and other recoveries	145,003	107,563
Other receivables	34,530	84,664
Prepayments	1,733	1,733
Outward reinsurance expense asset	47,500	58,333
Property, plant and equipment	2,281	2,189
Intangible assets	9,407	7,023
Total Assets	540,050	599,991
LIABILITIES		
Trade and other payables	(19,878)	(27,244)
Provisions	(2,976)	(2,776)
Outstanding claims liability	(425,998)	(170,996)
Unearned premium liability	(278,126)	(404,658)
Total Liabilities	(726,978)	(605,674)
Net Assets/(Liabilities)²⁰	(186,928)	(5,683)

²⁰ 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	FORECAST 2022 \$(000)	BUDGET 2023 \$(000)
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Premiums	526,960	545,806
Reinsurance and other recoveries	53,164	39,152
Interest received	2,110	3,022
On-Sold agreement receipts	94,813	187,762
Southern Response agreement receipts	1,725	1,089
Net GST	2,478	8,059
<i>Cash was applied to:</i>		
Outward reinsurance	(265,530)	(301,250)
Crown underwriting fee	(20,000)	(10,000)
Claims settlements and handling costs	(303,182)	(160,474)
Employees and other operating expenses	(65,458)	(66,542)
GeoNet operating expense	(11,986)	(11,986)
On-Sold agreement settlement and handling costs	(110,063)	(237,451)
Southern Response agreement handling costs	(824)	(1,134)
Research grants	(5,985)	(7,124)
Net cash outflow from operating activities	(101,778)	(11,071)
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was applied to:</i>		
Purchase of property, plant and equipment	(1,020)	(990)
Purchase of intangibles	-	(500)
Net cash outflow from investing activities	(1,020)	(1,490)
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was applied to:</i>		
Lease payment	(22)	(24)
Interest payment	(9)	(7)
Net cash outflow from investing activities	(31)	(31)
Net decrease in cash	(102,829)	(12,592)
Add opening cash brought forward	300,702	197,873
Ending cash carried forward	197,873	185,281

NOTES TO THE PROSPECTIVE FINANCIAL STATEMENTS

Note 1: Prospective operating expenditure excluding claims costs

For the years ending 30 June 2022 and 30 June 2023	FORECAST 2022 \$(000)	BUDGET 2023 \$(000)
Advertising and publicity	806	994
Amortisation of intangibles	5,679	2,884
Fees paid to the auditor		
Audit of the financial statements ²¹	167	162
Commissioners' fees	289	340
Consultants and contractors	9,957	9,788
Depreciation	1,116	1,082
Employee remuneration and benefits	19,574	23,234
Loss on disposal - Geonet	9,935	-
Loss on disposal – other	2,189	-
Grants for research	7,434	5,994
GeoNet operating costs	11,986	11,986
Office rental	816	976
Sponsorships	787	910
Superannuation contribution costs	554	616
Technology costs	12,548	8,849
Projects	18,038	10,000
Outsourced service providers ²²	7,907	8,585
Other administration costs	2,302	2,707
On-Sold agreement claim handling expenses	9,874	7,735
SRES agreement claim handling expenses	824	619
Total operating costs (excluding claims expense and claims handling expense)	122,782	97,461

²¹ Relates to the business-as-usual portion of the audit fee. The forecast full audit fee for the year ended 30 June 2022 is \$0.347 million and for 2023 \$0.306 million.

²² Outsourced service provider expenses relate to the outsourced IT functionality as well as third party agency costs.

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	(21,232)	(179,503)	(200,735)	(54,000)		(54,000)
Movement in discount		5,441	5,441		(3,258)	(3,258)
Amortisation of risk margin		25,688	25,688		25,604	25,604
Gross claims discounted	(21,232)	(148,374)	(169,606)	(54,000)	22,346	(31,654)

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

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 Toka Tū Ake. 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 Toka Tū Ake or the amount of the obligation cannot be measured with sufficient reliability.

Toka Tū Ake received approximately 469,000 claims from the 2010-2011 Canterbury earthquake sequence, of which some disputes and the possibility of litigation is inevitable. As at 31 December 2021, 22 open litigation cases are currently in the dispute resolution process. The expectation of costs from disputes and litigation under the EQC Act has been considered by the actuaries in deriving the outstanding claims liability as at 31 December 2021. As at 31 May 2022 the current number of Canterbury litigation cases is 21.

Significant accounting policies

Reporting entity

Toka Tū Ake Earthquake Commission (Toka Tū Ake) 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 its operations includes the Crown Entities Act 2004 and the Earthquake Commission Act 1993 (EQC Act). The ultimate parent of Toka Tū Ake is the New Zealand Government.

The primary objectives of Toka Tū Ake 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 Natural Disaster Fund including the arrangement of reinsurance.

Toka Tū Ake 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

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.

Going concern

Actuarial estimates of the claims liabilities for Toka Tū Ake indicate that total liabilities exceed its assets after accounting for reinsurance.

The Crown has entered into a Deficiency Funding Deed with Toka Tū Ake to meet its obligation under Section 16 of the EQC Act to ensure that it can meet its liabilities as they fall due. The Crown has confirmed in writing to Toka Tū Ake its intention to meet its obligation under Section 16 of the EQC Act to ensure that Toka Tū Ake can meet all its liabilities as they fall due.

Section 16 states “If the assets of EQC (including the money in the Fund) are not sufficient to meet the liabilities of EQC, the Minister shall, without further appropriation than this section, provide to EQC 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.

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 of expected future receipts/payments.

Functional and presentational currency

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

Accounting judgements and major sources of estimation

The preparation of prospective financial statements in conformity with 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.

COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic because of the outbreak and spread of COVID-19. As a natural hazard insurer, the risks Toka Tū Ake covers are not affected by COVID-19. In general, the main impact of the COVID-19 relates to lockdown and any potential impact on claims is through short-term delays in completing damage assessments (where these are required).

Toka Tū Ake has concluded that there is no significant impact on the claims liability or claims due to COVID-19. All other operations (including premiums and reinsurance) remained unaffected with receipts being received as expected.

Significant accounting policies

The following policies have been applied consistently throughout the prospective financial statements.

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 surplus or deficit in the Prospective Statement of Comprehensive Revenue and Expense.

Taxation

Toka Tū Ake 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.

Toka Tū Ake 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.

Comparatives

When the presentation or classification of items in the prospective financial statements is amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impractical to do so.

Insurance

Gross earned premiums and unearned premium liability

Premium income represents premiums, net of discounts, collected and paid to Toka Tū Ake 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, Toka Tū Ake receives declarations provided by insurance companies and brokers that all premiums collected have been distributed to Toka Tū Ake.

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 recorded in the Prospective Statement of Financial Position as an unearned premium liability. Premiums receivable are reported net of discounts paid to collecting agencies in the Prospective Statement of Financial Position and are expected to be receipted within 12 months.

Reinsurance and other recoveries

Reinsurance recoveries are the expected reimbursement of claims settlements and claims handling costs that Toka Tū Ake can recover under its reinsurance contracts. Reinsurance and other 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.

Other revenue

Other revenue represents reimbursements received from the Crown and Southern Response in relation to the Ministerial directions and the respective services and agency agreements reimbursements received during the year plus other nominal amounts.

On 7 October 2019, Toka Tū Ake entered into 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 Toka Tū Ake 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, Toka Tū Ake entered into an agreement with Southern Response whereby Toka Tū Ake acts as agent in managing Southern Response's remaining customers. The costs incurred in fulfilling this contract, plus an overhead margin, are reimbursed in arrears after each quarter end.

Outward reinsurance premium expense

Premiums paid to reinsurers are recognised by Toka Tū Ake as outward reinsurance premium expense in the 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.

Claims (expense)/reduction

Claims expenditure 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 expense relates to amounts paid (or estimates of amounts payable) where the damage occurred in prior financial years. Changes to prior years' claims expense occur 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 reduction

At balance date, Toka Tū Ake 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 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.

Natural Disaster Fund

The Natural Disaster Fund is managed 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”.

Financial instruments

A financial instrument is recognised if Toka Tū Ake becomes a party to the contractual provisions of the instrument.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model for managing them.

Financial assets are initially measured at fair value and include directly attributable transaction costs. They are measured subsequently at either amortised cost or fair value, depending on their classification. A financial asset is derecognised if the contractual rights of Toka Tū Ake to the cash flows from the financial asset expire or if Toka Tū Ake 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 Toka Tū Ake commits itself to purchase or sell the asset.

All financial liabilities are initially recognised at fair value and include directly attributable transaction costs. The subsequent measurement of financial liabilities depends on their classification. Financial liabilities are derecognised if the obligations specified in the contract expire, are discharged, or cancelled. Financial liabilities subsequently measured at amortised cost include trade and other payables, provisions, and finance lease liability.

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 the 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 are subsequently measured at amortised cost, on the basis of the business model for managing financial assets and the contractual cash flow characteristics of the financial asset, using the effective interest method less any impairment. Premiums receivable and sundry receivables

are recognised at amortised cost and the reinsurance receivable is an insurance asset measured at fair value.

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

Impairment of financial assets

Toka Tū Ake recognises an allowance for expected credit losses ('ECL') 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 Toka Tū Ake 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. Toka Tū Ake has established a provision matrix to measure expected credit losses for non-insurance assets.

Trade and other payables

Trade and other payables are recognised when Toka Tū Ake 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 rating

Toka Tū Ake is not required to have a credit rating.

Credit risk

Toka Tū Ake limits its exposure to very large-scale natural disasters through the purchase of reinsurance.

Toka Tū Ake is exposed to the credit risk of a reinsurer defaulting on its obligations.

Toka Tū Ake reduces credit risk by placing reinsurance with counterparties who have a credit rating of AAA to A- from Standard and Poor's (i.e., from "extremely strong" to "strong") and limiting its exposure to any one reinsurer or related group of reinsurers.

Property, plant, and equipment

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 Toka Tū Ake 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.

Realised gains and losses arising from the disposal of property, plant and equipment are recognised in the Prospective Statement of Comprehensive Revenue and Expense in the period in which the transaction occurs.

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 Toka Tū Ake 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.

Finance leases

Finance leases are leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to Toka Tū Ake. 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. Toka Tū Ake also recognises the associated lease liability at the inception of the lease, at the same amount as the capitalised leased asset. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit.

Lease liabilities

Toka Tū Ake also recognises the associated lease liability at the inception of the finance lease at the same amount as the capitalised leased asset.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in surplus or deficit.

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

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 Statement of Comprehensive Revenue and Expense when incurred. Toka Tū Ake 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 Toka Tū Ake has control of the use of the asset and 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 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 Toka Tū Ake and the cost of the item can be measured reliably. The costs of day-to-day servicing of intangible assets are recognised in the 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
Canterbury software	3-5 years

Impairment of intangible assets

The carrying amounts of intangible 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 amortised 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
- Toka Tū Ake 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 amortisation, if no impairment loss had been recognised.

Trade and other payables

Toka Tū Ake 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. Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore, the carrying value of trade and other payables approximates their fair value.

Provisions

Provisions are recorded at the estimated fair value of the expenditure required to settle the obligation.

The provisions balance consists of a make-good provision for restoring leased premises to their

original condition at the end of the lease term and a provision for employee benefits.

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 Toka Tū Ake. 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 Toka Tū Ake, 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.

Employee entitlements

Employee entitlements include salaries and wages, annual leave, long-service leave and other similar benefits that 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.

DISCLOSURES IN RELATION TO PROSPECTIVE FINANCIAL STATEMENTS

Major assumptions underlying the prospective financial statements

- These prospective financial statements provide information on the future financial performance, position and cash flows of Toka Tū Ake. They are based on assumptions about future events that Toka Tū Ake reasonably expects to occur. Actual results for the forecast periods are likely to vary from the information presented, and variations may be material.
- While the current forecasts project Toka Tū Ake will be able to meet claims payments in the foreseeable future, it is possible that Section 16 of the EQC Act (or alternative agreed mechanism) will need to be activated for the Crown to provide guaranteed funding for cash flow requirements to allow Toka Tū Ake to continue as a going concern.
- 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.
- There is growth in the residential housing stock of 1 percent per annum.
- On 30 September 2021, the Minister Responsible for the Earthquake Commission announced that beginning 1 October 2022, Toka Tū Ake will cover the first \$300,000 of damage caused by earthquakes, tsunamis, volcanic eruptions, hydrothermal activity and natural landslips. This is an increase from \$150,000. At the same time, the levy for new or renewing policies will change from 20 cents per \$100 of cover to 16 cents per \$100. Given the increase in the cap, this will result in the maximum levy EQC can receive increasing from \$300 (excl GST) per year to \$480 (excl GST).

- The Natural Hazards Insurance Bill was introduced on 16 March 2022 and received its first reading on 30 March 2022. The Bill replaces the Earthquake Commission Act 1993 and changes the name of the Earthquake Commission to Toka Tū Ake – Natural Hazards Commission. The overarching objectives of the changes are to enable better community recovery from natural hazards, to clarify the role of the Commission and the cover provided by the Bill, and to enhance the durability and flexibility of the legislation. Based on the Bill, it is not expected there will be any substantive changes that will affect the prospective financial statements.
- Reinsurance costs are based on management estimates prior to the 2022-2023 round of negotiations.
- Estimates for events claim expenses, liabilities and cash flows are based on the December 2021 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	
Base inflation	2.5%
Elevated rate applied to building reopen costs for next two years	3.5%
Demand surge per annum	15%
Discount rate per annum	1.3%-2.99%
Risk margin	36.1%
Claims handling expense ratio	17.1% (Canterbury) 19.3% (Kaikōura)



Toka
Tū Ake **EQC**