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# Southern Response Earthquake Services Limited Statement of Performance Expectations

*For Financial Year 2024*

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## **INTRODUCTION**

This Statement of Performance Expectations (SPE) is submitted by the Board of Directors of Southern Response Earthquake Services Limited ('Southern Response' or the 'Company'), pursuant to the Crown Entities Act 2004. It sets out the performance expected of Southern Response for the period 1 July 2023 to 30 June 2024.

### **Statement of responsibility**

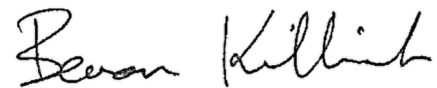
Southern Response is responsible for the statements contained in this document, including the appropriateness of the assumptions underlying them. Southern Response is responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.



**ALISTER JAMES**

**Chair**

16 June 2023



**BEVAN KILLICK**

**Director**

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**OBJECTIVE & SCOPE  
FOR FINANCIAL YEAR  
2024**

**Strategic Objectives**

The Company's core purpose remains: to resolve its customers' claims in a fair and enduring manner, within the terms of the insurance policy and in a financially effective and efficient way.

This will have been achieved once the insurance claims associated with the Canterbury earthquake events up until 5 April 2012 have been settled and the Company has discharged all of its obligations, including any obligations arising from its build programme and the resolution of any legal disputes and/or proceedings in respect of those settled claims. This includes the completion of the delivery of a package for eligible policyholders who cash settled with the Company prior to October 2014 (the 'Package').

The Package was announced by the Government in December 2020 in response to a court judgment and is intended to provide eligible policyholders who cash settled prior to October 2014 with an additional payment in relation to contingencies, interest and in certain circumstances, professional fees and a contribution towards legal fees.

The Company's goal is to contact as many eligible policyholders as possible and ensure as high a take-up rate as possible is achieved.

The Company has been very successful in its contact efforts to date, and by the end of the 2023/24 financial year the Company estimates to have made Package payments to 94% of eligible overcap<sup>1</sup> applicants and 60% of eligible Out-of-Scope only<sup>2</sup> ('OOS') applicants. At this point in time, the Company expects that the majority of the operational administration of the Package will be complete. The Company still expects to make some residual Package payments after this time.

The implementation and delivery of the Package is overseen by an Independent Oversight Committee ('IOC') appointed by the Crown. The Company regularly engages with the Committee in an open and transparent manner to allow it to carry out its role. The delivery of the Package is also under the supervisory function of the High Court.

The Company's other day-to-day claim settlement activities that are unrelated to the Package, remain outsourced to Toka Tū Ake EQC ('EQC') under the Agency Agreement.<sup>3</sup> The Company utilises its residual resources to support EQC to succeed in delivering, on behalf of the Company, fair and enduring settlements for Cantabrians that are yet to resolve their earthquake claims.

As a Crown-owned entity, the Company will continue to ensure its ongoing governance, financial and legal obligations are met. Acknowledging EQC's role under the Agency Agreement, key decision-making regarding claims settlements will still remain with Southern Response.

The Company continues to ensure that the customer is at the centre of its processes, communications and systems and actively works to facilitate alternative settlement pathways in a transparent and collaborative way. The Company looks to identify flexible solutions and to work proactively with customers to reduce disputes.

The Company will continue to work proactively, openly and cooperatively with its key stakeholders.

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<sup>1</sup> EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event, EQC pays its contribution for each event and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap that is "overcap".

<sup>2</sup> An "out of scope" claim is a claim made under the AMI policy for earthquake damage to property items 'outside the scope' of the Earthquake Commission Act 1993 but covered under the wider definition of "house" in the AMI policy (which includes, for example, garages, fences, drive ways, paths and swimming pools).

<sup>3</sup> The Amended and Restated Agreement Relating to Management of Outstanding Canterbury Earthquake Claims (EQC and Southern Response)

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**OBJECTIVES & SCOPE  
FOR FINANCIAL YEAR  
2024 (continued)**

**Business Scope**

Southern Response (formerly AMI Insurance Limited) became a Crown-owned company on 5 April 2012. It was named in Schedule 4A of the Public Finance Act, following the sale of its non-earthquake related business to IAG (NZ) Holdings Limited.

The Company is responsible for Covered Claims, which are defined as:

- a) Any Retained Claim – any claim made by or on behalf of a policyholder under any customer insurance contract relating to any Retained Claim Event, irrespective of whether the claim is made prior to, on or after 5 April 2012.

*Retained Claim Event means the Canterbury earthquake events recognised by EQC<sup>4</sup> as occurring from 4 September 2010 through 9 October 2011; and any other event that occurred prior to, or was continuing in progress, as at 5 April 2012 which entitles Southern Response to make a reinsurance claim*

- b) Any other claim for which Southern Response is or may be liable pursuant to Clause 13 of the IAG Sale Agreement (relating to customer insurance contract indemnities and retained claims not clear at 5 April 2012 – essentially claims for which AMI was entitled to make a reinsurance claim and which are being managed on its behalf by IAG).<sup>5</sup>

- c) Any claim arising in respect of any Covered Insurance Contract.

*Covered Insurance Contract means any contract works or similar insurance policy under which Southern Response is or may be liable from time to time; and any other insurance policy under which Southern Response may be liable from time to time and which has been approved by the Crown (either individually or as a class of insurance business).*

**REPORTABLE OUTPUTS  
& PERFORMANCE  
TARGETS**

**Reportable Outputs**

The Company produces outputs, impacts and outcomes from its activities. However, these are not defined as reportable outputs under the Crown Entities Act.

**Performance Targets**

Performance targets for the Company's activities are measured as milestones and KPIs which have been set as follows:

**2024 Financial Year Outcomes**

1. Accurate and timely Package payments are made to eligible policyholders.
2. Notified Covered Claims are settled effectively.
3. Litigated claims and legal risks generally are appropriately managed.
4. Ongoing governance, financial and legal obligations are met.
5. The continued wind-down of the Company through its final phase is effective and efficient.

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<sup>4</sup> Formerly EQC, now, Toka Tū Ake EQC.

<sup>5</sup> Note that work on claims that meet this specific definition has not been required for a number of years.

**REPORTABLE OUTPUTS  
& PERFORMANCE  
TARGETS**

***Outcome one: Accurate and timely Package payments are made to eligible policyholders***

There are approximately 2,700 overcap and an estimated 7,500 OOS claims that could be eligible for a payment under the Package. It is important that these applications are processed in an accurate and timely manner with a strong emphasis on a positive customer experience.

Overcap claims were the initial focus for the Company and a significant percentage of policyholders have already received and accepted offers and payments. By the end of the 2023/24 financial year, it is estimated 94% of offers will have been accepted and paid to eligible policyholders.

The Company's primary focus is now OOS claims. There are approximately 9,200 OOS claims that the Package team are assessing for eligibility, with an estimated 7,500 claims eligible for a payment. The Company estimates 95% of these claims will have offers calculated by the close of the financial year with only a small portion of complex claims outstanding.

The tables below set out the actual results as at 31 March 2023 and the forecasts at both 30 June 2023 and 30 June 2024.

**Table 1 – Package overcap claims**

	<i>31 March 2023</i>	<i>30 June 2023</i>	<i>30 June 2024</i>
<b>Eligible claims</b>	<b>2,700</b>		
<b>Offers presented</b>	2,353	2,480	2,600
<i>% of claims</i>	87%	92%	96%
<b>Payments made</b>	2,253	2,355	2,550
<i>% of offers presented</i>	96%	95%	98%
<i>% of claims</i>	83%	87%	94%

**Table 2 – Package OOS claims**

	<i>31 March 2023</i>	<i>30 June 2023</i>	<i>30 June 2024</i>
<b>Eligible claims</b>	<b>7,500</b>		
<b>Offers calculated</b>	1,171	2,050	7,125
<i>% of claims</i>	12%	27%	95%
<b>Offers presented</b>	836	1,740	6,050
<i>% of offers calculated</i>	71%	85%	85%
<i>% of claims</i>	11%	23%	81%
<b>Payments made</b>	749	1,300	4,530
<i>% of offers presented</i>	90%	75%	75%
<i>% of claims</i>	10%	17%	60%

Uncertainty remains over the Company's ability to make contact with and proactively engage with eligible policyholders, which may impact the achievement of these targets.

**What will the achievement of this outcome look like?**

- The number of offers calculated, presented and paid to policyholders are in line with the Company's forecasts for the year (refer tables 1 and 2).
- Internal audit results report only minor or moderate findings in relation to Package business processes.
- Any internal reviews under the Package review process are completed within 60 days and where it is appropriate to do so, any findings from the internal and/or external review process are applied to the affected parts of portfolio.
- The IOC has not reported any significant issues to the Crown.
- Customer satisfaction rates report that the majority of respondents are either satisfied or extremely satisfied with the timeliness of their settlement and with the quality of communication and involvement from Southern Response throughout their application process.

***Outcome two: Notified Covered Claims are settled effectively***

Although EQC will be acting as the Company’s agent, the Company retains the decision-making obligations and ultimate responsibility for settling Covered Claims.

***Covered Claims Forecasts***

The table below (Table 3) sets out the number of open Covered Claims as at 31 March 2023 and the forecast of total open claims at both 30 June 2023 and 30 June 2024. The Company continues to receive new overcap claims from EQC and there remains significant uncertainty as to how many new claims will be received by the Company in the coming year. This is because while undercap claims continue to be re-opened, a proportion are likely to go overcap and become a liability for the Company.

**Table 3 – Covered Claims**

Claim type	31 March 2023	30 June 2023	New claims	Settled claims	30 June 2024
<b>Overcap</b>	135	120	81	108	93
<b>Other claims</b>	5	5	22	20	7
<b>Total</b>	140	125	103	128	100

**What will achievement of this outcome look like?**

- The number of claims reduces in accordance with the Company’s actuarial forecasts for the year (refer Table 3).
- The outcome of audits of EQC acting as the Company’s agent at the end of the financial year record only minor or moderate findings.
- Customer satisfaction scores are an improvement on the 2022-23 financial year results.

***Outcome three: Litigated claims and legal risks generally are appropriately managed***

The Company is involved in ongoing litigation that is of significance to the Company (and in certain circumstances, the Crown more generally). The Company also recognises that in the current legal landscape there is a risk of further potential representative actions. It is important that litigation and legal issues faced by the Company are appropriately managed and the implications of any judicial decisions are understood.

**What will achievement of this outcome look like?**

- Where it is appropriate to do so, the Company has demonstrably offered alternative dispute resolution channels to customers when any form of litigation arises.
- The Company has a clear understanding of its portfolio of claims that remain and also those that have settled.
- The number of litigated claims reduces in accordance with the Company’s actuarial forecasts.

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**REPORTABLE OUTPUTS  
& PERFORMANCE  
TARGETS (continued)**

***Outcome four: Ongoing governance, financial and legal obligations are met***

The Company will act in a financially responsible manner and be open and collaborative with the Treasury and ensure resources are in place to enable the Company to meet its ongoing governance, legal and financial obligations.

**What will achievement of this outcome look like?**

- The Company is compliant with obligations arising from the Public Finance Act 1989, the Crown Entities Act 2004 and any other relevant legislation.
- Liquidity is managed in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.
- The Company achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.

***Outcome five: The continued wind-down of the Company through its final phase is effective and efficient***

As the claims settlement process and delivery of the Package nears completion, the Company will continue to work towards the wind-down and closure of its operations to ensure it fully discharges its obligations.

**What will achievement of this outcome look like?**

- Organisational run down is in accordance with forecasts.
- Record of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is maintained.

**FORECAST FINANCIAL  
STATEMENTS**

The forecast financial statements below include a Forecast Statement of Comprehensive Income, Forecast Statement of Financial Position, Forecast Statement of Changes in Equity and Forecast Statement of Cash Flows for the 2024 financial year.

The Company is funded to deliver its objectives. Under the terms set out in the Crown Support Deed and its subsequent amendments, funding is recognised as share capital. The Company also expects to continue to request funding under the Crown Indemnity provided in relation to the Package during the year. This funding is recognised as grant income. Other funding received by the Company is by way of interest on surplus cash balances, which will be recorded as revenue in the Statement of Comprehensive Income.

The Company incurs expenditure as part of its activities. Operating expenditure (i.e. the day to day running of the Company) is recorded in the Forecast Statement of Comprehensive Income as 'claims handling expenditure' and 'corporate expenditure'. This expenditure is funded by the Shareholders through drawdowns on the uncalled capital facility and funding via the Crown indemnity.

**FORECAST STATEMENTS  
OF COMPREHENSIVE  
INCOME**

**FORECAST STATEMENTS OF COMPREHENSIVE INCOME**



	Year Ending 30 June 23 FORECAST \$ 000	Year Ending 30 June 24 FORECAST \$ 000
<b>Income</b>		
Investment Income	1,331	1,299
Government Grant Revenue (Indemnity)	40,000	43,000
<b>Total Income</b>	<b>41,331</b>	<b>44,299</b>
<b>Expenses</b>		
Net Claims Handling Expense	(2,897)	0
Change in Claims Provision	(1,529)	(4,393)
Change in Claims Handling Provision Estimate	(12,983)	0
Change in Risk Margin	49	0
<b>Total Cost of Claims</b>	<b>(17,361)</b>	<b>(4,393)</b>
<b>Corporate Expenses</b>		
Depreciation & Fixed Asset Disposal Gains / (Losses)	(211)	(211)
Company Administration	(5,335)	(4,790)
<b>Total Corporate Expenses</b>	<b>(5,546)</b>	<b>(5,001)</b>
<b>Total Expenses</b>	<b>(22,907)</b>	<b>(9,394)</b>
<b>Surplus/(Deficit) Before Tax</b>	<b>18,424</b>	<b>34,905</b>
Taxation	0	0
<b>Surplus/(Deficit) After Tax</b>	<b>18,424</b>	<b>34,905</b>

**FORECAST STATEMENTS  
OF CHANGES IN EQUITY**

**FORECAST STATEMENTS OF CHANGES IN EQUITY**



	Year Ending 30 June 23 FORECAST \$ 000	Year Ending 30 June 24 FORECAST \$ 000
Opening Equity	(198,272)	(124,848)
Surplus / (Deficit) After Tax	18,424	34,905
Call on Uncalled Share Capital	55,000	34,000
<b>Closing Equity</b>	<b>(124,848)</b>	<b>(55,943)</b>

**FORECAST STATEMENTS  
OF FINANCIAL POSITION**

**FORECAST STATEMENTS OF FINANCIAL POSITION**



	As at 30 June 23 FORECAST \$ 000	As at 30 June 24 FORECAST \$ 000
<b>EQUITY</b>		
Share Capital	1,423,939	1,457,939
Retained Earnings / (Losses)	(1,548,787)	(1,513,882)
<b>TOTAL EQUITY</b>	<b>(124,848)</b>	<b>(55,943)</b>
<b>Represented By:</b>		
<b>ASSETS</b>		
Cash & Cash Equivalents	43,370	28,445
Fixed Assets	851	640
<b>TOTAL ASSETS</b>	<b>44,221</b>	<b>29,085</b>
<b>LIABILITIES</b>		
Sundry Creditors	3,110	2,868
Lease Liability	851	685
Payment Package	49,152	2,754
Total Outstanding Claims	115,954	78,720
Total Claims Liability	165,106	81,474
<b>TOTAL LIABILITIES</b>	<b>169,067</b>	<b>85,026</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>(124,848)</b>	<b>(55,943)</b>

**FORECAST STATEMENTS  
OF CASH FLOW**

**FORECAST STATEMENTS OF CASH FLOW**



	Year Ending 30 June 23 FORECAST \$ 000	Year Ending 30 June 24 FORECAST \$ 000
<b>Cash Flows From Operations</b>		
Investment Income Received	1,412	1,299
Proceeds from Crown Indemnity	115,000	43,000
Claims Paid	(128,788)	(85,115)
Other Operating Expenses Paid	(8,989)	(7,859)
<b>Net Cash Flow From Operations</b>	<b>(21,365)</b>	<b>(48,676)</b>
<b>Cash Flows From Investing</b>		
Purchase of fixed assets	(27)	0
Lease liability	(246)	(248)
<b>Net Cash Flow From Investing</b>	<b>(273)</b>	<b>(248)</b>
<b>Cash Flows From Financing</b>		
Proceeds from Uncalled Capital Facility	55,000	34,000
<b>Net Cash Flow From Financing</b>	<b>55,000</b>	<b>34,000</b>
<b>NET CASH MOVEMENT</b>	<b>33,362</b>	<b>(14,924)</b>
Opening Cash Balance	10,008	43,370
<b>CLOSING CASH BALANCE</b>	<b>43,370</b>	<b>28,445</b>



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## NOTES TO THE FORECAST FINANCIAL STATEMENTS

### Reporting Entity

Southern Response is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is a Crown-owned entity listed in schedule 4A of the Public Finance Act 1989.

The principal business is to settle claims under AMI policies arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

### Basis of Preparation

These prospective financial statements have been prepared for the purpose of providing information on the Company's future operating intentions and financial position against which it must report and be formally audited at the end of the financial year.

These prospective financial statements have been prepared:

- in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP)
- in accordance with FRS42 and NZ GAAP as it relates to prospective financial statements
- in accordance with NZ GAAP as appropriate for profit oriented companies
- on a GST-exclusive basis, except for receivables and payables which are presented on a GST-inclusive basis
- on a historical cost basis, except for certain assets which have been measured at fair value and all outstanding claims liabilities and reinsurance receivables have been measured in accordance with NZ IFRS 4 Insurance Contracts
- in New Zealand dollars rounded to the nearest thousand, unless separately identified.

The forecast financial statements have been presented on a going concern basis, deemed appropriate given the funding arrangement provided under the Crown Support Deed and its subsequent amendments.

### Statement of Significant Underlying Assumptions

#### *Timelines and Scope of Activities*

The forecast is based on:

- An independent actuarial valuation of the claims liability incorporating the Package and Agency claims as at 31 March 2023 and the accompanying future payment patterns
- The Company being responsible for the management of an ultimate number of 9,339 properties with overcap claims. As at 31 March 2023, approximately 9,130 have been reported to the Company
- A Package delivery team directly employed in the 2023 year on fixed term contracts continuing to manage the Package applications and settlements over the 2024 and 2025 financial years
- Continuing to outsource claims handling to EQC as agent. A small number of staff and contractors continue to be engaged directly by the Company to provide administrative and support services, the majority of whom are on fixed term contracts through to 30 June 2024, at which point demand for services will again be re-assessed based on the remaining level of outstanding claims

The forecast includes actual, unaudited results to 31 March 2023.

### **Statement of Comprehensive Income**

- The claims handling expense reflects the operational costs of the delivery of the Package, claim management services outsourced to EQC and claims-related support staff and contractors engaged directly by the Company. Claims handling expenses are offset by the amortisation of the claims handling provision in the claims liability.
- Other staff costs (e.g. management, reporting, and administration) along with legal & professional fees that are not directly claims related, are shown as corporate administration costs.
- Funding received under the Crown Indemnity is treated as Grant Income.
- Investment income is based on 3% yield on all funds.

### **Statement of Financial Position**

#### **Claims Liability**

- The actuarial valuation at 31 March 2023 assessed the risk margin of the claims liability, with at least 75% probability of sufficiency, at \$43 million.
- The forecast financial statements assume the risk margin will be required to settle customer claims and accordingly is not amortised (credited) to the profit and loss account as claims are paid.
- The claims liability includes a provision for claims handling expenses, but not for corporate administration expenses.
- By 30 June 2023, 91% of the overcap Package claims liability is forecast to be paid. The majority of the balance of overcap and OOS Package settlements are forecast to be paid over the 2024 financial year.
- It is assumed that the Company will continue to receive new claims (albeit at a reduced rate) until April 2027.
- The total number of outstanding overcap claims as at 30 June 2024 is forecast to be 93.

#### **Cash Flow**

- The Uncalled Capital is drawn on quarterly as required to fund Covered Claim payments and operating expenses.
- The Crown Indemnity provides funding for settlement of Package payments. The Company will request funding on a quarterly basis.
- The forecast drawdowns in the year ending 30 June 2024 on the Uncalled Capital facility are \$34 million (exhausting the facility by year end), together with \$43 million of funding requests under the Crown Indemnity.

#### **Taxation**

- The Company is a tax paying entity and has incurred significant tax losses to date. The tax losses are available to offset assessable income arising in future years, however the tax benefit of the losses has not been recognised.

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**NOTES TO THE FORECAST  
FINANCIAL STATEMENTS  
(continued)**

**Going Concern**

- The financial forecasts have been prepared using the going concern assumption.
- The Company has a net asset deficit. As additional funding is required to meet claims payment obligations, the Company can access this funding from the Crown.
- On the basis of the above the Directors concluded that it is appropriate to prepare the forecasts on a going concern basis.

**Key Risks to the Financial Forecasts**

- The actuarial valuation of the claims liability may increase in subsequent valuations. Key components of this are:
  - The ultimate take-up rate of the Package
  - The ultimate number of claims
  - Escalation in settling the remaining body of outstanding claims, including additional costs for settling disputed and litigated claims.
- The risk margin on the claims liability is subject to ongoing review by the Company's appointed actuary and may be amended in response to changes in the risk profile of outstanding Package payments and Agency claims.

**SIGNIFICANT  
ACCOUNTING POLICIES**

The following accounting policies significantly affect the measurement of financial performance and position.

**Accounting Policies Related to Insurance Contracts**

All of the general insurance products utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder).

**Outstanding Claims Liability**

The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments plus a risk margin.

The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs.

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases the probability that the net liability is adequately provided for.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the inherent uncertainty involved in determining the liability, it is likely that the final outcome will prove to be different from the liability established.

**ACCOUNTING POLICIES  
APPLICABLE TO OTHER  
ACTIVITIES**

**Investment Income – Interest**

Interest is recognised using the effective interest method.

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**CRITICAL ACCOUNTING  
ESTIMATES AND  
ASSUMPTIONS**

In preparing these forecast financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and the variations may be material.

Estimates and assumptions are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions have significant risk of causing material adjustment to the carrying amount of the assets and liabilities within the forecast financial statements.

**Ultimate Liability Arising from Claims Made Under Insurance Contracts**

Provision is made for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. The estimated ultimate cost of claims includes direct costs to be incurred in settling claims, gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available.

In calculating the estimated ultimate cost of unpaid claims the Company uses an actuarial valuation carried out by an independent actuary.