

Southern Response Earthquake Services Limited

(Formerly AMI Insurance Limited)

Statement of Intent

For the period from 1 July 2016 to 30 June 2017 and the subsequent 3 years

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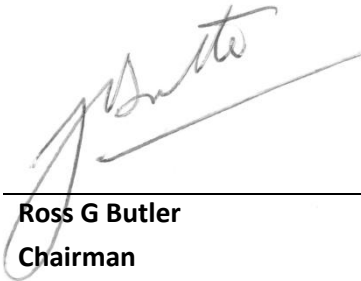
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Introduction

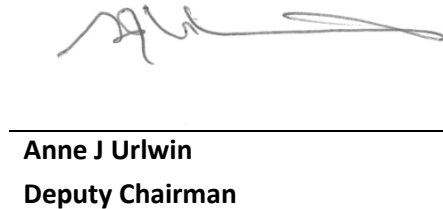
This Statement of Intent (SOI) has been prepared by the Board of Southern Response Earthquake Services Ltd (“Southern Response” or the “Company”) (formerly AMI Insurance Ltd) in accordance with Part 4 of the Crown Entities Act 2004.

It sets out the Company’s objectives, intentions and performance measures for the period from 1 July 2016 to 30 June 2017 and the subsequent 3 years.

This document should be read in conjunction with the Prospective Financial Statements and Statement of Performance Expectations which are published separately.



Ross G Butler
Chairman



Anne J Urlwin
Deputy Chairman

28 June 2016

Background

Southern Response Earthquake Services Ltd (formerly AMI Insurance Ltd) became a Crown-owned Company (named in Schedule 4A, previously Schedule 4, of the Public Finance Act 1989) on 5 April 2012, following the sale of its non-earthquake related business to IAG (NZ) Holdings Ltd.

The Canterbury earthquake events from 4 September 2010 to 5 April 2012 resulted in the Company receiving claims to April 2012 for damage then estimated at more than \$1.8 billion. Claims then covered over 6,500 houses, 17,000 other property claims, and 2,100 contents claims, 3,350 claims for temporary accommodation and 700 claims for loss of rent. Early strong indications were that these claims were highly likely to exceed the reinsurance cover and other assets available to AMI which then sought support from the Crown. The Company has funding support from the Crown in the form of –

- a) A convertible preference share facility of \$500 million –entered into in April 2011, following AMI’s request for Crown support to enable it to meet all claims under AMI’s policies resulting from the earthquake events. The facility provided for the issuance of 500 million called but unpaid Convertible Preference Shares which was recorded as a Crown Receivable on Southern Response’s balance sheet. On 5 April 2012 the Crown paid \$100 million of the unpaid Convertible Preference Shares which were then converted into ordinary shares in AMI. Drawdowns commenced during the year ended 30 June 2016 with the balance of the facility will be drawn during the year ended 30 June 2017.
- b) An Uncalled Capital facility for \$500 million – entered into on 31 January 2013and callable by Southern Response to pay claims when the Company exhausts the funding available under the convertible preference share facility. The uncalled capital facility is not recognised as equity on Southern Response’s balance sheet until the shares are called. On 28 June 2016 the Crown agreed to extend this facility by subscribing to an additional \$250 million of uncalled capital. Drawdowns under the uncalled capital facility will commence in July 2016.

Both facilities are governed by the Crown Support Deed which was entered into initially by AMI Holdings Ltd, the then shareholder of AMI Insurance Ltd, and the Crown in April 2011, and subsequently varied in April 2012 and January 2013.

The Crown Support Deed provides for Southern Response to call the funds available under the two facilities to pay claims once reinsurance, investments and cash reserves have been exhausted and sets out conditions for making calls.

The total estimated claims liability has increased since April 2012 with the gross central estimate at \$2.9 billion at 31 March 2016.

Purpose of Southern Response

Southern Response’s purpose from 5 April 2012 has been to operate as a run-off insurer in relation to **Covered Claims**, with the intention to operate its business consistent with normal commercial and financially prudent principles. It has not and will not take on any new insurance business except to the extent that it is ancillary to its claims management business.

Covered claims are defined as¹ –

- 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 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).

- 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).

¹ Per Clause 1 of the Crown Support Deed

Operating environment

Impact of the Canterbury earthquake events on the gross claims cost

The operating environment for AMI changed markedly following the Canterbury earthquake events, particularly those of 4 September 2010 and 22 February 2011.

The total gross claims cost and management costs have continued to increase with progressive actuarial valuations of the earthquake liability as more information on damage assessments and the impact of emerging issues such as foundation requirements and land damage become available and the apportionment of claims between the various earthquake events is finalised. They also reflect the increasing claim numbers and claims complexity and longer than initially anticipated timeframe for the claims settlement and the resultant staffing needs.

Actuarial Valuation dates \$ million	June 2011	March 2012 (5 April 2012)	June 2012	June 2013	June 2014	June 2015	March 2016
Gross claims cost	1,720	1,861	2,030	2,123	2,204	2,520	2,673
Project management costs	100	109	127	134	160	196	197
Claims management costs	38	91	118	127	137	150	165
Total gross costs before reinsurance	1,858	2,061	2,275	2,384	2,501	2,866	3,035

Claims management costs reported for the June 2011 valuation, which had not matured, reflected the forecast costs of the Canterbury Earthquake Management Team which operated as a division of AMI Insurance. Subsequent valuations include the costs of Southern Response as a standalone corporate entity. Project Management and Claims Handling Costs are under continual review to ensure an overall efficient claims management cost structure as the project evolves.

Life of Southern Response

The company's purpose 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 performed all of its obligations, including re-builds of properties, in respect of those settled claims. It is expected that this will take until the end of calendar 2018, although the period could be longer, with a minor proportion of very complex claims and litigated claims outstanding. Staff numbers will run down as the end of the earthquake recovery moves through its lifecycle.

The estimated cost to the Crown under the Crown Support Deed is updated to align with Southern Response's financial statements with each revaluation of the claims liability and is reported externally in the Crown's quarterly accounts.

Nature and scope of operations

Statutory and Accountability Framework

Statutory framework

Southern Response is incorporated under the Companies Act 1993, and is listed in Schedule 4A of the Public Finance Act 1989, rather than as a Crown entity under the Crown Entities Act 2004. The Schedule 4A listing allows flexibility for the Company to achieve its Constitutional objectives, but certain provisions of the Crown Entities Act apply automatically by virtue of the Company being listed in Schedule 4A of the Public Finance Act.

In addition to certain Crown Entities Act requirements, the nature and scope of Southern Response's day-to-day operations are governed by the Companies Act 1993 which provides that the Board, each Director and the Shareholding Minister have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by Southern Response's Constitution.

Shareholding and Governance

The Company's shareholders are the Minister of Finance and the Minister supporting Greater Christchurch Regeneration, each holding: 1,965,051 ordinary shares, 53,500,000 unpaid convertible preference shares and 250,000,000 uncalled ordinary shares on behalf of the New Zealand Government as at the date of this Statement of Intent.

Southern Response has a Board of six directors, appointed by its Shareholding Ministers following agreement by Cabinet. Current directors are –

Ross Butler (Chair) –	5 April 2012 to 30 June 2017
Anne Urlwin (Deputy Chair) -	5 April 2012 to 30 June 2018
Jenn Bestwick -	5 April 2012 to 30 June 2018
Bevan Killick -	5 April 2012 to 30 June 2017
Susan Thodey -	5 April 2012 to 30 June 2018
Sarah Sinclair -	1 July 2014 to 30 June 2017

The Board of Directors is responsible for the overall direction of Southern Response's business and other activities on behalf of the Shareholding Ministers in the manner set out in the Company's Constitution and Statement of Intent, augmented by the Shareholder's annual Letter of Expectations.

Southern Response is based in Christchurch and previously had an operation in Auckland, largely for risk mitigation reasons (see section on *Organisational capability and health* for details).

Accountability

Southern Response is accountable to its Shareholding Ministers. Treasury assists the Shareholding Ministers in monitoring the Company's performance against the Crown's objectives for the Company and in terms of delivery against the financial and non-financial performance measures set out in this Statement of Intent.

Funding, financial management and surpluses

Funding

Southern Response's operational funding is from –

- Reinsurance recoveries, the bulk of which have been received by March 2016.
- Proceeds of the sale of AMI Insurance (Operations) Ltd to IAG in April 2012.
- The remaining investment portfolio of AMI which has been liquidated over time.
- \$500 million under the preference share facility of which \$100 million was paid to Southern Response in 2012. This balance of this facility is only available after the Company has had full recourse to its reinsurance, reserves and investment proceeds and drawdowns on the facility commenced in the quarter beginning 1 October 2015.
- A further \$750 million of uncalled capital to ensure the Company has sufficient cash and capital to meet the payment of claim obligations as they fall due. This facility is callable when the preference share facility of \$500 million is exhausted.

Southern Response expects to seek additional funding support from the Crown based on forecast cash requirements derived from the latest claims liability valuation.

Financial management

The Board of Southern Response recognises that one of its principal duties is to manage the Company in a financially responsible manner.

Dividends and surpluses

It is not intended that the Company pay a dividend to its shareholders during the term of this Statement of Intent.

Role of Southern Response

Overall objective

Southern Response's Constitution defines its purpose as:

"To manage Covered Claims², to manage the Company's recoveries from reinsurers, to manage its investment portfolio and to conduct any activities that are associated with those purposes."

The Company does not take on any new insurance business except to the extent that it is ancillary to its claims management business.

² Covered Claims as defined in the Crown Support Deed and noted in the Background section (pages 3 to 4) of this Statement of Intent

Primary functions

To meet its purpose, the Company's primary functions are

1. Canterbury earthquake ("CEQ") claims management –
The assessment and meeting of Canterbury earthquake-related claims made by Southern Response policyholders, including managing repairs and re-builds of damaged properties.
2. Reinsurance proceeds recovery –
The recovery of reinsurance proceeds, including liaising with the reinsurers (and the Earthquake Commission) and providing evidence that claims have been validly paid within the terms of the insurance contracts.
3. Funds and other assets management -
The management of funds from the sale of AMI Insurance (Operations) Ltd to IAG, funds from liquidated investments until required to meet claims, and funds from the Crown pursuant to the Crown Support Deed.

The size and scale of Southern Response and the specifics of the work it undertakes will vary over time as the insurance claims are progressed and re-builds undertaken, and the Company continues to require resources with differing skills as later phases evolve. The Company is refining its business models over time in order to ensure appropriately efficient and effective administrative and management support systems.

In November 2010, AMI Insurance appointed Arrow International Limited (Arrow) to project manage house rebuilds and repairs.

Crown Entities Act

As a Company listed in Schedule 4A of the Public Finance Act 1989 certain sections of the Crown Entities Act 2004, detailed in Part 5AAA of the Public Finance Act 1989, and any regulations that apply in relation to those sections, apply to Southern Response as if it were a Crown Entity.

Principal among those sections that apply automatically to Southern Response are:

- a) Supply of information to the Responsible Minister (section 133)
- b) Annual financial statements, with Statement of Responsibility and Audit Report (sections 154 - 156)
- c) Operation of bank accounts outside of New Zealand (section 158).
- d) Statement of Intent requirements (sections 138 – 149)
- e) Annual Report requirements (sections 150 – 152)
- f) Statement of Performance requirements (section 153)

Additional provisions of the Crown Entities Act 2004 that apply to Southern Response under the terms of the Order in Council naming the Company as a Schedule 4A organisation comprise:

- a) Ministerial approval requirements for the acquisition of securities (section 161),
- b) entering into borrowings (section 162)
- c) the use of derivative transactions (section 164).

Specific provisions of the Crown Entities Act 2004 that are relevant to Southern Response's operations but which do not apply to the Company are:

- a) Granting of indemnities – section 163, as insurance contracts are deemed to be indemnities, section 163 does not apply, thereby enabling the Company to issue new insurance contracts to the extent necessary for the conduct of its business; e.g. contract works insurance in association with the repair and re-build work the Company commissions.
- b) Net surplus payable – section 165, which requires a Crown owned entity, if so requested by Shareholding Ministers, to pay the whole or part of any net surpluses (including an annual profit as well as accumulated surpluses) to the Crown, does not apply to Southern Response by virtue of Section 3A (1) (b) of the Public Finance Act. However Shareholding Ministers expect that on completion of settlement of all claims obligations any surplus capital will be returned and that Southern Response's SOI covering that period will reflect this expectation.

The Company also has a duty to act consistently with its objectives, functions and Statement of Intent (section 92).

While Southern Response is not required to, the Board does intend that the Company comply with the following Crown Entities Act provisions relating to employees:

- a) Employment of Chief Executive - the Board, prior to agreeing the terms and conditions of employment for a Chief Executive in the year ended 30 June 2012, consulted with the State Services Commissioner ("SSC") and, if the proposed terms and conditions do not comply with any guidance issued by the SSC, with the Responsible Minister (as set out in section 117)
- b) Good employer - the Company will be a "good employer"³ (as set out in section 118).

Other legislation, regulations and memberships

As a Crown company, Southern Response is also subject to the Official Information Act 1982 (OIA) and the Ombudsmen Act 1975. The Crown's Letter of Expectations requires that Southern Response advise the Shareholding Ministers when a request under the OIA is received, and deemed to be such and not a Privacy Act request, and of the proposed response.

Under the Public Audit Act 2001, the Controller and Auditor-General is the auditor of the Company. The Controller and Auditor-General appointed Michael Wilkes of Deloitte to carry out the audit of the Company on her behalf for the financial years ended 30 June 2013, 2014 and 2015. Michael Wilkes is being reappointed for the financial years ended 30 June 2016, 2017 and 2018 however partner rotation rules will require a change of Deloitte audit partner for the 2017 year onwards.

The Insurance (Prudential Supervision) Act 2010 ("IPSA"), while specifying that the Company's claims management and settlement functions meet the definition of an "insurance business", does not apply to Southern Response following its removal from the ambit of the Act via regulations made declaring Southern Response to be a "public entity" controlled by the Crown⁴.

The Government Archivist has determined that Southern Response is not subject to the Public Records Act however the Company intends to abide by good business practices in respect of record keeping.

³ Referred to in more detail in SOI section on Capability

⁴ S8 (2) of IPSA provides that a person does not carry on an insurance business in New Zealand for the purposes of the Act if the person is (d) a public entity (within the meaning of section 5(1) of the Public Audit Act 2001) that is declared by regulations to be an entity to which this paragraph applies

Southern Response participates in the Insurance, Finance and Savings Ombudsman (IFSO) scheme. The Ombudsman is an independent statutory authority that considers complaints regarding all types of personal and domestic insurance provided the disputed amount of the claim does not exceed \$200,000; Decisions of the Ombudsman are binding on Insurers. In February 2014 Southern Response and the ISO agreed a 6-month trial of extended terms of reference for the ISO scheme which expanded its jurisdiction to include:

- Removal of the \$200,000 cap on its jurisdiction
- Ability to provide mediation and conciliation services
- Ability to consider complaints regarding reimbursement for costs incurred when the action or inaction of Southern Response has contributed to those costs incurred
- Ability to hear matters that are already being pursued through other avenues

The extended terms were confirmed as indefinite in August 2014.

The Owners Expectations Manual for State-Owned Enterprises, while not written specifically for Crown companies listed in schedule 4A of the Public Finance Act, contains many expectations which apply to Southern Response. The Company is committed to following the Owners Expectations Manual where appropriate.

The Company is an associate member of the Insurance Council of New Zealand and seeks to cooperate with its members in relation to earthquake recovery matters as appropriate.

Outcomes and objectives

Outcomes

Southern Response's activities are focussed on achieving the outcome expressed in the purpose clause of its Constitution.

The purpose of the Company is to manage Covered Claims, to manage the Company's recoveries from reinsurers, to manage its investment portfolio and to conduct any activities that are associated with those purposes

In managing and settling insurance Covered Claims including overseeing all repair and rebuilding work carried out as part of the claims settlement process, and funding settlement of those insurance claims through existing reserves, reinsurance proceeds, liquidation of investments and by recourse to Crown funding pursuant to the terms of the Crown Support Deed and Uncalled Capital facility, Southern Response will, as required by the Crown Support Deed –

- a) Operate and manage the business in accordance with its policies and procedures, and generally :
 - in a proper, prudent and efficient manner, and
 - in a manner that prudently manages Southern Response's operating costs in the same way that a prudent and solvent run-off insurer would manage those expenses.
- b) Implement, and comply with, any specific service standards which are
 - consistent with the Fair Insurance Code (or any replacement thereof however described) issued by the Insurance Council of New Zealand from time to time, and
 - requested by the Crown, acting reasonably.
- c) Ensure that all claims arising from the Canterbury earthquakes are processed promptly, fairly and efficiently and settled at least as quickly as the claims of other similar insurers (having regard to factors such as the number of claims and policy conditions of such insurers, and, where applicable, any requirements of the Earthquake Commission that are legally binding on Southern Response).
- d) Co-operate fully with all other insurers (including the Earthquake Commission) and agencies of the Crown in dealing with its claims and other Canterbury Earthquake related matters (including the sharing of data and information) to achieve effective outcomes and ensure an overall efficient claims management cost structure.
- e) Operate and manage the business in accordance with this Statement of Intent and comply with the Statement of Intent's requirements relating to claims and other Canterbury earthquake matters.

Achieving that outcome will enable Southern Response to –

- a) Contribute to the orderly and expeditious re-build of Christchurch and recovery of the Canterbury region economy.
- b) Assist in maintaining the soundness and efficiency of, and confidence in, the New Zealand insurance sector.

Southern Response's strategic objectives

Southern Response's strategic objectives have been developed to enable achievement of its purpose and to meet the shareholders' expectations as set out in the Shareholding Ministers' Letter of Shareholder Expectations received by Southern Response on 17 April 2016.

Strategic Objective	Key Initiatives
<p>1. To operate a claims management business that:</p> <ul style="list-style-type: none"> ▪ Settles customers claims in accordance with policy obligations in a fair and consistent manner ▪ Adopts efficient and cost effective processes in the management of those claims ▪ Is focused on settlement of all remaining claims ▪ Operates actively to reduce disputes with customers in a manner that delivers outcomes consistent with policy obligations, communicating openly and effectively with customers 	<ul style="list-style-type: none"> ▪ Comply with good industry code of practice standards to facilitate successful outcomes for customers in a cost effective manner ▪ Regular and effective communication with customers appropriate for their stage in the claims settlement process ▪ Segmentation of and tailored strategies for the remaining claims ▪ Operate a dispute resolution system that is equitable and responsive to all customers while observing customers' entitlements from their AMI policy, and ensure the ongoing effectiveness of the dispute management strategy
<p>2. To manage its building/repair programme in a manner that optimises timely delivery and quality while protecting the health and safety of all people on the project in accordance with legislative responsibilities</p>	<ul style="list-style-type: none"> ▪ Seek to take industry-leading roles in utilisation of building capacity and in research and innovation that expedite and enhance the effectiveness of the build programme both in terms of time and costs ▪ Monitor all build arrangements through quantitative and qualitative metrics ▪ Monitor quality management of builds and repairs in the project and the health and safety of all involved in accordance with legislative responsibilities, while optimising timeliness
<p>3. To develop options for an orderly rundown of the Company in a manner that retains quality operations, a caring approach for employees and adequate provisions for residual obligations and liabilities, and opportunities to rationalise functions are utilised</p>	<ul style="list-style-type: none"> ▪ Implement a phased approach to ending the Southern Response build programme ▪ Identify data and systems in use across the rebuild programme and determine appropriate retention strategies ▪ Identify any intangible assets (including intellectual property) which might appropriately be transferred to other Crown entities prior to the eventual wind down of the company's operations ▪ Be a good employer for the purposes of the Crown Entities Act 2004 and maintain employer policies and practices to enhance the company's ability to attract, retain and manage optimisation of skilled staff with realistic pay and employment conditions

Strategic Objective	Key Initiatives
<p>4. To manage its business and associated risks consistent with minimising the net cost to the Crown associated with running off of the existing claims portfolio, and operate the business within operational budgets</p>	<ul style="list-style-type: none"> ▪ Maintain an effective risk management framework that balances risk with progress ▪ Maintain systems to achieve a positive audit report in relation to its management, financial and service performance, information systems and controls ▪ Maintain monitoring and management systems to ensure compliance with contractual obligations ▪ Maintain controls and scrutiny to manage the cost of key suppliers
<p>5. To manage its liquidity in accordance with the investment management policy directed by the Crown for the time being including reporting of actual and projected shortfalls in a timely manner as provided for under the Crown support arrangements</p>	<ul style="list-style-type: none"> ▪ Manage drawdown of uncalled capital facility funding in accordance with the terms of the Crown Support Deed ▪ Regularly review the adequacy of capital facilities at an appropriate confidence level
<p>6. To maintain effective relationships with third parties</p>	<ul style="list-style-type: none"> ▪ Effective strategic and operational interaction with CERA's successors, EQC, insurers, reinsurers and key community groups ▪ Continue to use all opportunities to present key stakeholders and interested sections of the public generally with a transparent measure of its progress and issues in the way of that progress

How outcomes and objectives are to be achieved

Southern Response is a focussed organisation and achievement of its outcomes and objectives will be achieved by:

Leadership

The Shareholding Ministers have appointed a Board of Directors with an appropriate mix of skills and experience (including industry, governance and risk management) charged with the responsibility of achieving the objectives set out in this Statement of Intent.

The Board appointed a Chief Executive following the Company's transition to Crown ownership in April 2012, and will appoint a replacement CEO when the current CEO retires in July 2016.

Strategic Intent

Southern Response's primary strategic objectives are to meet its obligations to policyholders while acting in a financially responsible manner. In order to meet these objectives:

- Southern Response will continue to develop or acquire the necessary intellectual resource to provide it (and axiomatically the industry) with strategic foresight, research and development to address the complexities that are currently recognised or will emerge in the future.
- Southern Response does not regard itself as in competition with the remainder of the insurance industry or their Project Management Offices, except to the extent that its build supply chain may be jeopardised if its own initiatives were to be shared.
- Southern Response seeks to be the demonstrable industry leader in the residential insurance claims response to the Canterbury earthquakes and the rebuild of Canterbury.

Customer focus and organisational culture

To ensure an appropriate customer focus and organisational culture to perform a leadership role, the Company has adopted the following values statement –

Southern Response people share a set of core values that define our accepted standards and behaviours – the “dos” and “don'ts” around Southern Response. They define us as an organisation, the way we work together, and with our customers, our Board, staff, partners, contractors, communities and stakeholders.

- **Respect** – we treat all our stakeholders with care, consideration, fairness and equity
- **Integrity** – we demonstrate honesty, transparency, fairness, and objectivity in all our interactions
- **Honour our promises** – we stand by and deliver on all entitlements, rights and commitments AMI has made to policyholders⁵
- **Ownership** – we hold ourselves accountable for our actions, take ownership, and deliver on our promises
- **Passion** – we strive, stand up for our customers' rights, and go the extra distance. We want to make a positive difference to people's lives as part of our contribution to the rebuild of Canterbury
- **Excellence** – we are committed to excellence in everything we do. We are innovative, responsive, adaptive and continually raising the bar. We strive to set the standard against which others will be measured

⁵ On occasion, it may be necessary to reverse or modify earlier decisions to satisfy policy obligations, for example following legal precedent setting or external party interventions (customer or EQC).

- **Recognition** – we recognise and celebrate the contributions our people make as individuals and as teams to deliver on our goals
- **Development** – we professionally develop our people to provide challenging and rewarding employment and prospects.

The Company adopted a “Firm but Fair” policy in relation to assessments and settlements and disputes with its customers *whilst* complying with its policy obligations. However customer action in late 2013 highlighted that this policy was, in some circumstances, not giving significant weight to customer’s evidence and resulting in intractable positions being established. Following an independent review of the Disputes Management System carried out in 2014, the approach has been modified and “Fair and Reasonable” policies have been established to include broader consideration of credible customer evidence and allow controlled flexibility in completing settlements.

Building Programme Management

The building programme has been constructed over a four year period, taking account of the building resources available in Canterbury for the various build types, with the schedule expecting up to 1,000 new projects commenced per year; the schedule and priorities taking into account the wide ranging land conditions.

To facilitate building throughput, Southern Response has established:

1. A volume group builder panel
2. A repair builder contractor panel on similar criteria.

The builder and repair panel members have been assessed for capability and financial strength before being admitted to the programme. The initial rebuild and repair panels were appointed in June 2013 and August 2013 respectively for two year terms. In June 2015 and August 2015, renewed arrangements with were entered into with a reduced number of builders reflecting experience with the build programme and the projected future workflow.

Business processes

The evolving nature and scale of the complex Canterbury earthquake events has meant that systems and procedures have needed to be developed to manage the various elements that arise as the project progresses. With no previous history of a major event like this, new territory and intellectual challenge is constantly being entered and procedures created to meet requirements.

The Company is cognisant of the need for its business processes to be “fit for purpose” to enable it to achieve its objectives. It will continue to assess and modify business processes to firstly respond to any emerging issues and secondly to reflect the phases the Company will go through; for example, some business processes changed as the Company moved into the re-build phase and further changes are underway to reflect the approaching completion of some workstreams and the characteristics of remaining claims.

Control environment

The Company continues to enhance its control environment, consistent with its status as a standalone, government-owned entity operating in a demanding fiscal environment with ongoing uncertainty.

Ongoing activities include:

- Focus on compliance with a comprehensive suite of Company policies.
- Engagement of independent specialists where appropriate to assist in key risk areas.
- A comprehensive internal audit function under a co-sourced model.
- Engagement with relevant government agencies on control and risk areas such as privacy, data security and fraud.
- Cognisance with findings in respect of other Government agencies that may have relevance to Southern Response.

Stakeholder relationships

The Company has a number of key stakeholders, and its ability to achieve its objectives is contingent upon constructive and mutually beneficial relationships with stakeholders who include:

- AMI policy holders / customers
- Community groups
- Reinsurers
- The Crown (as shareholder and as provider of the Crown Support Deed)
- EQC (Earthquake Commission – a statutory entity)
- CERA's (Canterbury Earthquake Recovery Authority) successors
- IAG (Australian-owned insurer whose key New Zealand brands are State Insurance, NZI (New Zealand Insurance), Lantern and the ongoing business of AMI)
- Arrow International
- Golder (Geotech)
- Other insurers
- Actuaries (notably Finity as the company's contracted actuary) and other key suppliers
- Ngai Tahu
- The Treasury (reporting and accountability requirements as a Crown Company and under the Crown Support Deed)
- Insurance, Finance and Savings Ombudsman – a statutory entity (IFSO) which handles disputes
- Residential Advisory Service
- Environment Canterbury
- Members of Parliament (Shareholding Ministers, Minister for Canterbury Earthquake Recovery, Canterbury members of Parliament with AMI policyholders as constituents)
- Local Councils (resource and building consent authorities, and elected Councillors with AMI policyholders as constituents)
- Ministry of Business Innovation and Employment (MBIE) – a statutory entity with responsibility for building code standards
- Insurance Council of New Zealand (ICNZ), the membership body for insurers
- State Services Commission
- Build and Repair panel builders
- Office of the Auditor General
- Office of the Ombudsman
- Auditors
- Media

Southern Response has senior managers specifically responsible for the relationship and dealings with CERA's successors, EQC, MBIE and reinsurers.

Organisational capability and health

Capability

Southern Response's capability to achieve its objectives is a resource base that is a mix of in-house and outsourced, with a trend to increasing insourcing as it moves more comprehensively into the re-build phase.

Southern Response Personnel

The Company's people capability, as at June 2016, is made up of a mix of:

- Permanent/fixed term staff – 140
- Specialist contracted personnel – 5, used on an as needs basis

The Company has the capabilities to deliver on the full range of insurance claim settlement responsibilities and continues to develop the skill base to oversee the building programme for its customers.

The Company's operational capability is now located between two buildings in Show Place, Addington, Christchurch. Staff numbers had been forecast to reduce as the Company completed the claims assessment phase and moved more comprehensively into the re-build / repair phase. Rationalisation of the respective roles and resources from Southern Response and the project manager, Arrow International is ongoing. Hence, reductions may in some respects be in the combined cost base of the two entities, rather than Southern Response's directly.

A number of customer actions in late 2013 highlighted that Southern Response's customer communication strategy was inadequate and that more regular updates and personal communication were necessary requiring the development of a new customer communications strategy and revision upwards of staffing levels, and associated costs, to deliver on this strategy.

Slow progress in achieving settlement of repairs claims resulted in the development of a new customer service model with more intense communication with customers, lower file loads for staff and involvement of engineers and designers at the time of the initial assessment. This new model has been successful with good progress.

Outsourced technical support – Arrow International (NZ) Limited (Arrow)

Southern Response has contracted the technical resources required for the field operations (assessment and build project management) aspects of the claims management to Arrow, under a Project Management Service Agreement negotiated between the parties which specifies:

- An executive steering committee
- The respective responsibilities of the parties in relation to the project management aspects of the outsourced technical support
- The remuneration basis, including benchmark hours and KPI-driven incentives for Arrow
- Limits of liability for Arrow
- Transition out and termination provisions.

Since its appointment in October 2010, Arrow has developed a resourcing capability comprising residential builders, project managers and quantity surveyors sourced from around New Zealand. The overall team now numbers in the order of 190 including support staff and has an infrastructure autonomous from its parent to service Southern Response. Arrow also provides advisory services in relation to technical building issues.

A feature of the Southern Response/Arrow relationship is that the two teams are co-located and work seamlessly together at all levels.

Outsourced claims management processing – IAG New Zealand Limited (IAG)

The purchaser of AMI’s non-earthquake related business, IAG, provides claims management support through a Claims Management Service and Support Agreement (CMSSA), on a Fee-for-Service basis.

The key services that the CMSSA required IAG to provide to Southern Response are some information systems and staff secondment. There was heavy reliance on IAG at the time of transition to Southern Response but the staff secondment had wound down by January 2014 and progressive autonomy has been achieved from IAG for systems. Amigo, the claims management system, and its associated data warehouse which were supplied by IAG have been replaced by a new system which went live in May 2016.

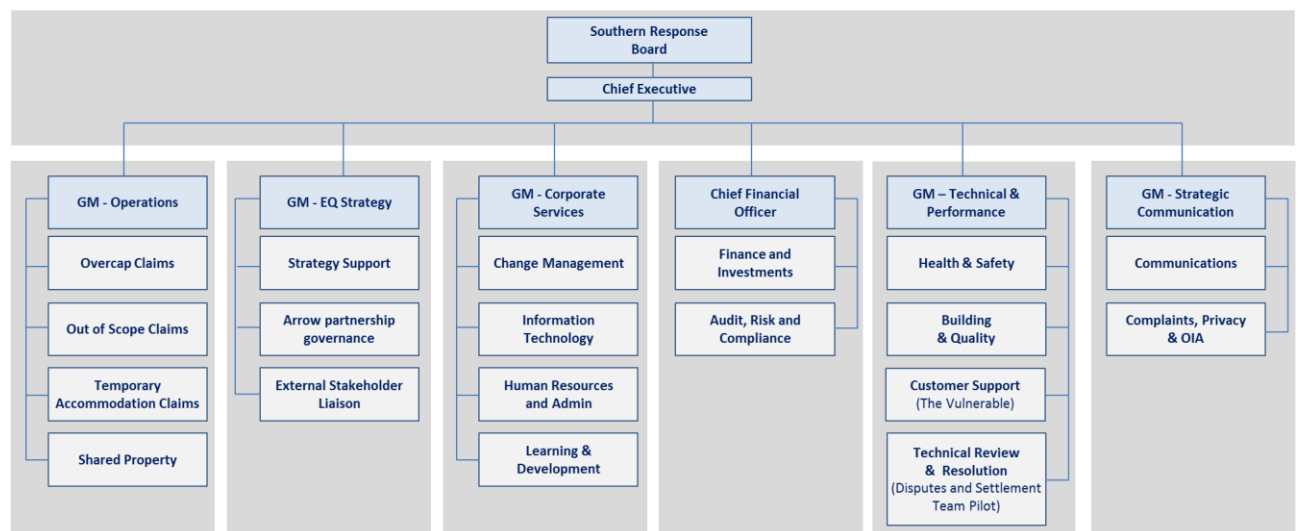
In addition, IAG provide claims management services for the remaining non earthquake retained claims and earthquake motor vehicle claims.

The relationship with IAG is governed by a joint Project Control Group (PCG).

Structure

The Southern Response Board of Directors appoints the Chief Executive of the Company, who is responsible for the company’s day-to-day operations supported by a senior management team.

The high-level organisation structure of Southern Response comprises –



Good employer

To ensure that Southern Response meets its Good Employer obligations prescribed in the Crown Entities Act (Part 3 section 118)⁶, Southern Response provides opportunities to:

- Enhance the abilities of individual employees, especially given the limited term of the company’s existence and its expected run-down. The Company’s objective is to develop staff for their challenging roles with Southern Response and their prospects afterwards
- Recognise the aims, aspirations and employment requirements of women, and the cultural differences of ethnic or minority groups
- Recognise the employment requirements of people with disabilities.

⁶ S118 requires the Company to operate a personnel policy containing provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment, including provisions requiring good and safe working conditions, an equal employment opportunities program, the impartial selection of suitably qualified persons for Appointment, and recognition of the aims, aspirations and employment requirements of Maori, women and people with disabilities, and the cultural differences of ethnic or minority groups.

The Company recognises the integral role employees play in organisational culture and success, and the Company will:

- Be an Equal Opportunities Employer
- Provide a healthy and safe workplace
- Encourage staff to develop and provide opportunities for their development
- Utilise performance management systems that are transparent and fair as part of a total remuneration policy.

Risk management

The Company has developed a risk management framework that recognises varying risk tolerances in respect to its key risks, being:

- Stakeholder dissatisfaction – *reducing stakeholder confidence in Southern Response/Arrow ability to deliver.*
- Delivery delays – *the estimated project completion date being significantly extended due the rebuild slowing.*
- Project cost escalation - *rebuild costs escalate significantly beyond current allowance in the actuarial valuation estimates.*
- Staff Issues - *as the project winds down Southern Response/Arrow are unable to recruit or retain sufficient competent staff to meet project timelines.*
- Poor quality legacy - *a significant number of repairs and rebuilds completed are shown to be of poor quality.*
- Health & safety - *a serious H&S incident involving a fatality or serious harm to contractors or project staff which can be attributable to failure by the project to exercise appropriate care and diligence.*
- Supply chain – *not maintaining adequate competent contracting resource to achieve delivery targets.*
- Major privacy breach - *a release of information breaches the privacy of multiple customers or staff.*
- Breakdown of the Arrow/Southern Response relationship – *the relationship with the PMO breaks down so significantly that impasses stalls project progress.*
- Repair methodology failure – *an approved repair method subsequently fails or is challenged successfully by a customer.*

and will ensure appropriate monitoring and, to the extent possible, management of strategic, financial and operational risks.

The Board has established an Audit and Risk subcommittee and risk mitigation strategies are continuously monitored and enhanced for key known risks.

Measurement of progress – financial and non-financial measures

The Company's performance will be assessed against a suite of financial, non-financial and non-quantitative measures. The targets around many of these measures continue to be challenging given the considerable uncertainty regarding ultimate claim values, claim throughput, and rebuild opportunities and barriers and actual infrastructure. They will only be realised once both development of claims costs experience and management infrastructure requirements are fully understood through ongoing experience.

Financial

1. Settlement of claims in accordance with policy obligations and delivery of builds and repairs in a manner that limits escalation of projected claims and claims-handling costs.
2. Operating within approved budgets which have been reviewed against available relevant benchmarking to ensure Southern Response maintains an appropriately cost effective structure, while controlling costs of its contractors.
3. Management of funds and liquidity requirements within approved investment management parameters.

Non-financial - qualitative

1. Operating efficient, cost-effective, timely, consistent and fair claims management and rebuilding processes.
2. Management of the claims settlement process and rebuilding programme in accordance with the Company's insurance policy and reinsurance treaty obligations.
3. Regular and effective communication with customers appropriate for their stage in the claims settlement process.
4. Effective management and timely resolution of disputes.
5. Constructive engagement with key stakeholders that reflects a "can do" attitude and a partnership approach, and that reflects the Company's values and preserves the Company's positive reputation.
6. Harnessing of intellectual property.

Reporting

Reporting under the accountability framework includes, in addition to the Statement of Intent, a Statement of Service Performance and an Annual Report.

Annual Report - will be made available to Shareholding Ministers within four months of the end of each financial year, and will comply with the provisions of the Crown Entities Act 2004, the Companies Act 1993, and the Financial Reporting Act 1993.

Statement of Intent and Statement of Performance Expectations - for consideration by Shareholding Ministers, and incorporating the Statement of Service Performance, will be made available to Shareholding Ministers no later than one month prior to the commencement of each financial year, and its content will meet the requirements of the Crown Entities Act 2004.

Quarterly reports - will be submitted to Shareholding Ministers providing provisional financial and non-financial performance data, measured against the forecasts in this Statement of Intent.

Monthly financial reports - will be submitted to Treasury for incorporation into the Crown accounts.

Other information - relating to the affairs of the Company will be submitted as requested by Shareholding Ministers and as required under the Crown Support Deed.

No Surprises - Southern Response operates on a “no surprises” basis and keeps the Responsible Minister and the Minister of Finance (as the two Shareholding Ministers), along with other key stakeholders, well informed on a timely basis. This includes advising the Ministers well in advance of any known material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative.

The Company will also meet the reporting requirements under the Crown Support Deed, which include –

- a) Provision of reports of actuaries appointed by Southern Response
- b) Provision of information as may be required by the Crown, including –
 - Information relating to the Company’s business which the Crown, acting reasonably, considers relevant to the Crown Support Deed
 - Specific reports on the ability of Southern Response to meet its insurance claims obligations
- c) Quarterly cash flow projections (Shortfall Projections) not less than six months in advance of the first quarter in which Southern Response is forecasting to require funding by a drawdown of the Crown Receivable or the uncalled capital facility.

Consultation

Southern Response will, in relation to any single or connected series of transactions, consult its Shareholding Ministers on substantial matters not contemplated in this Statement of Intent or its business plan, including:

- a) Any significant transactions, projects or initiatives above \$5 million, excluding business as usual transactions.
- b) Any substantial contraction or expansion of activities outside the scope of Southern Response's core business, as defined in its Constitution's purpose clause.
- c) The sale or disposal of the whole or any substantial part of the Company's business.

Shareholding Ministers will be advised of any other significant transactions, even where they do not meet the thresholds.

Role of Ministers

Section 88 of the Crown Entities Act specifies that the role of the Shareholding Ministers is to oversee the Crown's interests in and relationship with, the Company and to exercise any statutory responsibilities given to the Shareholding Ministers.

The Shareholding Ministers will:

- a) Participate in the process of setting and monitoring the Company's strategic direction and targets via the Statement of Intent process.
- b) Review and monitor the operations and performance of the Company, including requesting information from the Company.
- c) Appoint and remove Board members and the Chairman by shareholder resolution in accordance with the Companies Act 1993.
- d) Approve transactions defined by the Companies Act as "major transactions".
- e) Do other things authorised under the Crown Entities Act or the Company's Constitution, including giving directions to the Company as authorised under the Crown Entities Act.

The Company consults with its Shareholding Ministers on matters of progress and issues of significance through quarterly reporting and on an as-required basis.