

Southern Response Earthquake Services Limited

(Formerly AMI Insurance Limited)

Statement of Intent For the period from 1 July 2018 to 30 June 2019
and the subsequent two years

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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 Strategic Objectives for Southern Response and how the Company will achieve these Objectives for the period from 1 July 2018 to 30 June 2019 and the subsequent two years.

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



Alister G James
Chairman



Anne J Urlwin
Deputy Chairman

15 February 2019

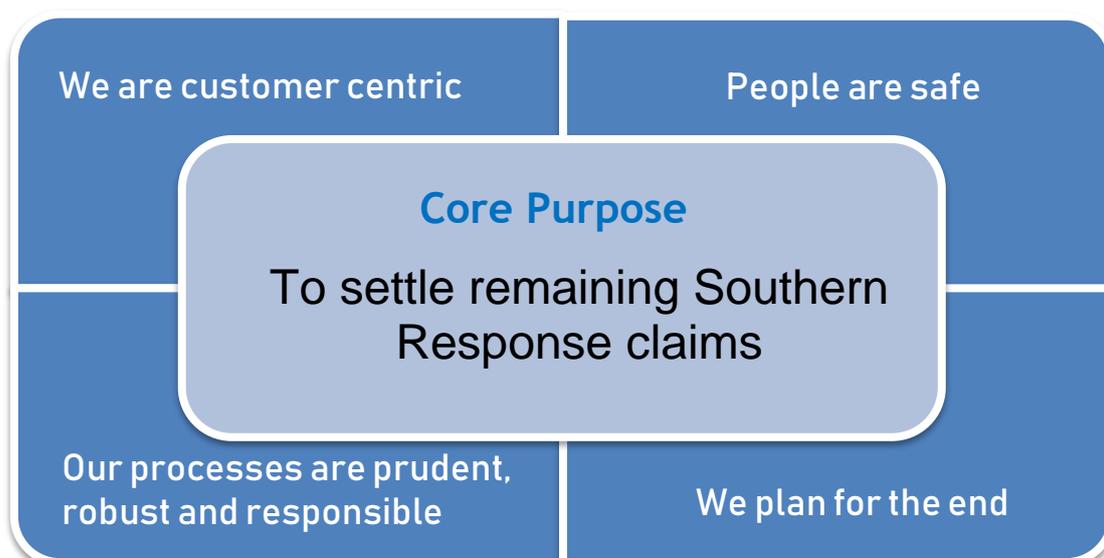
Strategic Objectives

Southern Response's core purpose is to settle insurance claims made by AMI policyholders arising from the Canterbury earthquakes up until 5 April 2012, in a timely and fair manner, within the terms of the insurance policy and existing funding arrangements.

As at 31 October 2018, Southern Response has settled over 48,000 claims including temporary accommodation, contents, out of scope, and overcap¹ claims. Of this number 7,957 are overcap claims which equates to 94.4% of the 8,433 overcap claims advised to it by that date.

On 23 October 2018, as an initiative to promote a more integrated cross-agency claims management model, the Shareholding Ministers extended Southern Response's purpose², to provide assistance to EQC in processing unresolved Canterbury claims. In practical terms this means that Southern Response is to assist EQC to process unresolved 'undercap' Southern Response customers' claims (and potentially other insurer customers').

In undertaking its role and fulfilling its core purpose of settling its customers' claims in a timely and fair manner, within the terms of the insurance policy and existing funding arrangements, Southern Response will meet the following objectives:



Scope

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 as a result of the Crown providing support to the customers of the impending insolvent AMI Insurance.

¹ Over the \$100,000 EQC "cap"

² Letter of expectations, 23 October 2018

Southern Response's Constitution defines its purpose as:

"To manage Covered Claims³, to manage the Company's recoveries from reinsurers, to manage its investment portfolio and to conduct any activities that are associated with those purposes."

Achieving that outcome will enable Southern Response to –

- a) Support Crown initiatives that deliver positive outcomes for Canterbury;
- b) Assist in maintaining the soundness and efficiency of, and confidence in, the New Zealand insurance sector.

The company's original 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 repairs and rebuilds of properties, in respect of those settled claims. Prior to this extension of its mandate it was expected that Southern Response would be substantively complete as a standalone operating entity at the end of financial year 2019.

Extended Mandate

As advised by the Shareholding Ministers in their Letter of Expectations dated 23 October 2018, the Shareholding Ministers agreed that Southern Response's mandate be extended to include contribution to the Greater Christchurch Claims Resolution Service (GCCRS), and to support the management of designated claims currently sitting with the Earthquake Commission by:

- assisting EQC in the processing of certain claims EQC receives from customers prior to any determination as to whether they are overcap claims and potentially including claims by customers of insurers other than Southern Response,
- assisting the unit of MBIE which will provide claims management services to Southern Response customers participating in the GCCRS to the fullest extent it can and in a manner which contributes to the more timely, fair and enduring resolution of the claims of those customers; and reimbursing the costs of that unit to the extent agreed by way of a Memorandum of Understanding between the company, EQC and MBIE.

Southern Response is also expected to make financial contributions (extent and amount are yet to be finalised) towards the cost of the case management service which is to be provided by MBIE.

The additional claims into the business as a result of this extension are likely to extend the operating life of Southern Response. Subject to the number of new claims, the business is planning for a transition phase in the first half of the next financial year with an indicative transfer of the residual claims portfolio to a receiving agency in December 2019. This is likely to include the continuation of the legal entity of Southern Response with residual operational functions being transferred with the residual unresolved claims.

³ Covered Claims are as defined in the Crown Support Deed

Functions and Operations

Objectives

To achieve its purpose Southern Response has a number of outcome areas and targets for assessing its performance. The annual targets for each of these areas are set out in the Statement of Performance Expectations, and the Company reports its achievement of these targets in its Annual Report; with progress against them also noted in the quarterly reports to Shareholding Ministers.

The outcome areas cover:

- **Settlement of remaining claims** - The remaining Southern Response claims are settled in a timely and fair manner, within the terms of the insurance policy and funding support provided by the Crown.
- **Customer centricity** - Our organisational culture ensures the customer is at the centre of everything we do.
- **Safety of people** - Everyone involved in a Southern Response claim is safe and their wellbeing is supported by our processes and practices.
- **Operation of prudent, robust and responsible business processes** - We achieve fiscal efficiency and comply with legislative requirements.
- **Planning for the end of Company activities** - The Company is ready to transition to a receiving agency as and when appropriate.

Operations

The organisation is structured with a core claims management team supported by corporate services functions. Staff numbers have fallen from a peak of 160 in 2015 to approximately 60 as the settlement of earthquake claims approached completion. Staffing levels will continue to be adjusted to reflect both the claims load and the technical and settlement skills required to settle them.

The business has contracted the technical resources required for the field operations (assessment and build project management) aspects of the claims management to Arrow International (NZ) Ltd, under a Project Management Service Agreement negotiated between the parties. Arrow also provides advisory services in relation to technical building issues.

In addition, Southern Response has contractual arrangements with specialist geotechnical and engineering advisors and legal firms.

Risk Management

The Company has developed a risk management framework that recognises varying risk tolerances in respect to its key risks which it reviews regularly and it ensures 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.

Shareholding and Governance

The Company's shareholders are the Minister of Finance and the Minister supporting Greater Christchurch Regeneration, each holding: 345,500,051 ordinary shares and 147,000,000 uncalled ordinary shares on behalf of the New Zealand Government as at the date of this Statement of Intent.

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 Shareholders' Letter of Expectations, the Company's Constitution, Statement of Intent and Statement of Performance Expectations.

The Southern Response Board of Directors has appointed a Chief Executive of the Company, who is responsible for the company's day-to-day operations, supported by a senior management team responsible for the operations of the three key business areas: Claims Settlement and Shared Services, Legal and Strategy, and Finance.

Funding

Funding and Indemnity

Southern Response is supported by a Crown Support Deed, totalling \$1.480 billion, 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, January 2013, October 2016 and July 2017.

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

The Company has collected the majority of its reinsurance proceeds and liquidated investments, and commenced drawdowns under the Crown Support Deed's uncalled capital facility in June 2016.

On 25 September 2018, the Crown, through the Minister of Finance, agreed to indemnify the Company in relation to certain litigation. The indemnity enables Southern Response to continue to focus on settling the remaining outstanding claims of its customers.

Financial Management

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

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

Organisational Culture and Health

Customer focus and organisational culture

The earthquake recovery environment has caused a significant amount of stress, anxiety and frustration for customers, staff and contractors. Southern Response is committed to creating an environment that acknowledges this and is committed to ensuring that the organisation is customer centric and looks after the wellbeing of its people.

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 policyholders⁴
- **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
- **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.

Health and Safety

The Southern Response health and safety vision is “Health, safety and well-being for all our people, above all else”.

This means that at Southern Response Earthquake Services:

- We are committed to doing everything we can to ensure that everyone involved in a Southern Response claim is supported to be responsible for the health and safety of themselves and others around them.
- We are committed to making the company a leader in health and safety based on excellence in practice and will constantly seek ways in which we can ensure no one involved in our claims suffers injury or harm through our work.
- We recognise that health and safety is far wider than purely the risks associated with the physical construction aspects of our claims and place equal emphasis on the health and well-being of our people as they work through the complexities of our claims management tasks.

⁴ 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).

Good Employer

To ensure that Southern Response meets its Good Employer obligations prescribed in the Crown Entities Act (Part 3 section 118), 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.

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.

As a Crown company, Southern Response is also subject to the Official Information Act 1982 (OIA) and the Ombudsmen Act 1975.

Under the Public Audit Act 2001, the Controller and Auditor-General is the auditor of the Company.

The Government Archivist has determined that Southern Response is not subject to the Public Records Act. However, the Company endeavours to abide by good business practices in respect of record keeping including ensuring that adequate records are kept to allow the Company to defend any claims brought against it in relation to rebuilds and repairs carried out when it is no longer actively operating.

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.

The Company's performance will be assessed against a suite of financial, non-financial and non-quantitative measures.

Reporting under the accountability framework includes, in addition to the Statement of Intent, a Statement of Performance Expectations and an Annual Report, and other information as required by the Ministers.

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