
Southern Response Earthquake Services Limited Statement of Performance Expectations

For Financial Year 2021

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 2020 to 30 June 2021.

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

26 May 2020



ANNE URLWIN

Director

Strategic Objectives

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 in accordance with the Crown Entities Act. It has not and will not take on any new insurance underwriting business, except to the extent that it has been ancillary to its claims management business.

With the outsourcing of the management of its claims settlement activities to the Earthquake Commission (the EQC) at the end of December 2019, Southern Response utilises its residual resources to support EQC to succeed in delivering, on behalf of Southern Response, fair and enduring settlements for Cantabrians that are yet to resolve their earthquake claims.

As a Crown-owned company, Southern Response 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 will maintain a focus on delivering a customer centric approach for the settlement of outstanding claims. This includes the utilisation of third parties, such as the Greater Christchurch Claims Resolution Service (GCCRS), to assist customers through to the settlement of their claims and to identify flexible solutions and work proactively with customers to reduce disputes.

The Company will continue to work towards its wind-down in an effective and efficient way that will fully discharge its obligations, including any obligations that may arise from its build programme and the resolution of any legal disputes and/or proceedings. The Company will continue to work proactively, openly and cooperatively with its key stakeholders.

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.

Southern Response 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 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

**OBJECTIVES, SCOPE &
OUTPUT FOR
FINANCIAL YEAR 2021
(continued)**

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).

**REPORTABLE OUTPUTS
& PERFORMANCE
TARGETS**

Reportable Outputs

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

Performance Targets

At the time of writing, the Company was responding to the impact of the COVID-19 global pandemic to ensure the health and safety of its staff, customers and third party suppliers.

The full impact of COVID-19 on the ability of the Company to meet its stated performance targets is not yet known. The performance targets below do not take into account the current unknown impact of COVID-19 on the Company's operations.

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

2021 Financial Year

Outcome one: Settling notified Covered Claims

Although EQC will be acting as Southern Response's agent, the Company will still retain the decision-making obligations and ultimate responsibility for settling Covered Claims.

What will achievement of this outcome look like?

- The number of claims reduces in accordance with the Company's actuarial forecasts for the year.

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

Outcome two: Litigated claims and legal risks generally are appropriately managed

Southern Response is involved in ongoing litigation that is of significance to the Company and the Crown more generally. 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?

- The number of litigated claims reduces in accordance with the Company's actuarial forecasts.
- The Company is able to discharge its obligations in relation to any legal disputes and/or proceedings in an efficient and effective way.
- The Company has a clear understanding of its portfolio of claims that remain and also those that have settled.

Outcome three: Southern Response continues to have effective outsourced arrangements and resources in place

As a Crown-owned company, Southern Response will have ongoing financial, governance, legal and reporting obligations that will continue for a number of years.

What will achievement of this outcome look like?

- Compliance with obligations arising from the Public Finance Act 1989 and the Crown Entities Act 2004.
- Manage liquidity in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.
- Southern Response achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.

Outcome four: Completing finalisation work with EQC

Southern Response and EQC will continue to engage with one another to agree any outstanding amounts that may be owed due to allocation of costs to earthquake events from the Canterbury Earthquake Sequence.

What will achievement of this outcome look like?

- By 30 June 2021, Southern Response will have completed all technical and operational work necessary for finalisation
- Southern Response will have engaged with EQC to agree any outstanding amounts that may be owed.

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

Outcome five: Outsourcing of Covered Claims to EQC continues to be effective

Utilising the Company's retained capability to support EQC to deliver fair and enduring settlements for customers with unresolved claims with both Southern Response and EQC.

What will achievement of this outcome look like?

- 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.

Outcome six: Continued wind-down of the Company through its final phase is effective and efficient

As the claims settlement process 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.
- The identification of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is up to date.

**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 2021 financial year.

Southern Response 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. Other funding received by Southern Response is by way of interest on surplus cash balances, which will be recorded as revenue in the Statement of Comprehensive Income.

Southern Response incurs expenditure as part of its activities. Operating expenditure (i.e. the day to day running of Southern Response) is recorded in the Forecast Statement of Comprehensive Income. This expenditure is funded by the Shareholders through drawdowns on the uncalled capital facility.

**FORECAST STATEMENTS
OF COMPREHENSIVE
INCOME**

FORECAST STATEMENTS OF COMPREHENSIVE INCOME

	Year Ending 30 June 20	Year Ending 30 June 21
	FORECAST \$ 000	FORECAST \$ 000
Income		
Investment Income	613	222
Total Income	613	222
Expenses		
Net Claims Handling Expense	(11,176)	(240)
Change in Claims Provision Estimate	(23,686)	(702)
Change in Claims Handling Provision Estimate	12,827	-
Change in Risk Margin Estimate	7,574	-
Amortisation of Discount on Reinsurance	(190)	-
Total Cost of Claims	(14,651)	(942)
Corporate Expenses		
Depreciation & Fixed Asset Disposal Gains / (Losses)	(90)	(136)
Company Administration	(1,832)	(3,893)
Total Corporate Expenses	(1,922)	(4,029)
Total Expenses	(16,560)	(4,971)
Surplus/(Deficit) Before Tax	(15,947)	(4,749)
Taxation	-	-
Surplus/(Deficit) After Tax	(15,947)	(4,749)


**FORECAST STATEMENTS
OF CHANGES IN EQUITY**

FORECAST STATEMENTS OF CHANGES IN EQUITY

	Year Ending 30 June 20	Year Ending 30 June 21
	FORECAST \$ 000	FORECAST \$ 000
Opening Equity	(154,290)	(115,237)
Surplus / (Deficit) After Tax	(15,947)	(4,749)
Call on Uncalled Share Capital	55,000	80,000
Closing Equity	(115,237)	(39,986)
Balance of Uncalled Share Capital	179,000	99,000

**FORECAST STATEMENTS
OF FINANCIAL POSITION**


FORECAST STATEMENTS OF FINANCIAL POSITION

	As at 30 June 20	As at 30 June 21
	FORECAST \$ 000	FORECAST \$ 000
EQUITY		
Share Capital	1,278,939	1,358,939
Retained Earnings / (Losses)	(1,394,176)	(1,398,925)
TOTAL EQUITY	(115,237)	(39,986)
Represented By:		
ASSETS		
Cash & Cash Equivalents	10,734	16,394
EQC Debtor	2,102	-
Sundry Debtors	2,334	2,334
Fixed Assets	136	-
TOTAL ASSETS	15,306	18,728
LIABILITIES		
Sundry Creditors	2,771	2,531
Total Outstanding Claims	127,771	56,182
TOTAL LIABILITIES	130,542	58,713
NET ASSETS/(LIABILITIES)	(115,237)	(39,986)

Balance of Uncalled Share Capital 179,000 99,000

**FORECAST STATEMENTS
OF CASH FLOW**

FORECAST STATEMENTS OF CASH FLOW

	Year Ending 30 June 20	Year Ending 30 June 21
	FORECAST \$ 000	FORECAST \$ 000
Cash Flows From Operations		
Investment Income Received	613	222
Claims Paid	(89,348)	(70,514)
Other Operating Expenses Paid	(6,641)	(4,048)
Net Cash Flow From Operations	(95,376)	(74,340)
Cash Flows From Investing		
Sale of fixed assets	13	-
Purchase of fixed assets	-	-
Net Cash Flow From Investing	13	-
Cash Flows From Financing		
Proceeds from Uncalled Capital Facility	55,000	80,000
Net Cash Flow From Financing	55,000	80,000
NET CASH MOVEMENT	(40,363)	5,660
Opening Cash Balance	51,097	10,734
CLOSING CASH BALANCE	10,734	16,394

**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 company listed in schedule 4A of the Public Finance Act 1989.

The Company's 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 Southern Response'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.

Statement of Significant Underlying Assumptions*Timelines and Scope of Activities*

The forecast is based on:

- An ultimate number of 8,873 properties with overcap claims will be managed by the Company. As at 31 March 2020, 8,669 have been reported to the Company.
- The Company having outsourced its claims handling processing 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, initially on fixed term contracts through to 31 December 2020, at which point demand for services will be re-assessed based on the remaining level of outstanding claims.

The forecast includes actual, unaudited results to 31 March 2020.

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

Income Statement

- Investment income is based on 1.0% yield on all funds.
- Claims handling expense reflects the cost of claim management services outsourced to EQC, along with any directly relevant costs of claims-related staff and contractors engaged directly by the Company.
- 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.

Statement of Financial Position

- The Crown has provided Southern Response with funding under the Crown Support Deed and its subsequent amendments, with the undrawn balance classified as uncalled capital and available for drawdown as required.

Claims Liability

- The Actuarial valuation at 31 March 2020 assessed the risk margin, with at least 75% probability of sufficiency, at \$35.7 million, which at that point represents 30% of the outstanding Central Estimate. The forecast financial statements assumes the risk margin will be required to settle customer claims and accordingly the provision 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.
- The Claims Liability does not include any provision arising from the finalisation exercise with EQC. It has been assumed that the finalisation exercise will not be complete by 30 June 2021.
- On 26 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. On 28 June 2019, the scope of the indemnity was amended to include any present or future legal proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown.
- No financial impact has been allowed for in the event of material precedent setting litigation outcomes from current or future legal actions.
- It is assumed that the Company will continue to receive new claims (albeit at a reduced rate) until July 2023.
- The total number of outstanding overcap claims as at 30 June 2021 is forecast to be 88 (from a total of 105 Covered Claims).

Outsourced Claims Management

- At 1 July 2020, approximately 224 open Covered Claims are forecast to be in the Company.
- The Company has outsourced its claims handling to EQC who will act as the Company's agent.
- EQC will invoice the Company on a monthly basis for staff costs relating to management of claims, and once a claim is settled for direct claim costs.
- Funding for payment of expenses will be met by drawing uncalled capital.

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

Cash Flow

- The uncalled capital is drawn quarterly as required to meet claims payments and operating expenses.
- The Uncalled Capital facility forecasts drawdowns totaling \$80 million in the year ending 30 June 2021. This is based on the risk margin portion of the claims needing to be paid.

Taxation

- Southern Response is a tax paying entity.
- The Company has incurred tax losses totaling \$1,125 million to 30 June 2019. The tax losses are available to offset assessable income arising in future years, however the tax benefit of the losses has not been recognised.

Going Concern

- The financial forecasts have been prepared using the going concern assumption.
- At 30 June 2019 Southern Response had a net asset deficit of \$154 million. As the Company requires additional capital to meet its claims payment obligations it can access this capital 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 number of claims
 - Escalation in settling the remaining body of outstanding claims, including additional costs for settling disputed and litigated claims.
- The risk margin 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 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.

**SIGNIFICANT ACCOUNTING
POLICIES (continued)**

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.

**CRITICAL ACCOUNTING
ESTIMATES AND
ASSUMPTIONS**

In preparing these prospective financial statements, Southern Response 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 at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of IBNR.

The estimated ultimate cost of claims includes direct expenses 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 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.