
Southern Response Earthquake Services Limited Statement of Performance Expectations

For Financial Year 2023

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 2022 to 30 June 2023.

Statement of responsibility

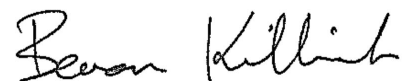
Southern Response is responsible for the statements contained in this document, including the appropriateness of the assumptions underlying them. Southern Response is responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.



ALISTER JAMES

Chair

27 May 2022



BEVAN KILLICK

Director

Strategic Objectives

The Company'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, 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.

In addition to this, in December 2020, the Government announced that the Company would be responsible for the implementation of a package for eligible policyholders who settled with the Company prior to October 2014 (the 'Package').

The ability for the Company to deliver the Package was initially impacted by court proceedings however, following the discontinuance of the *Ross* representative class action in December 2021, the Company was able to directly engage with policyholders to settle Package related claims.

The implementation and delivery of the Package is overseen by an Independent Oversight Committee 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.

Over the course of the 2022/23 financial year, the Company expects to make Package payments to the majority of eligible overcap¹ applicants and to a significant number of Out-of-Scope only² ('OOS') applicants. The Package is being rolled out in a staged approach which first focuses on overcap applications and then OOS applications. The staged approach is designed to enhance the customer experience in order to avoid policyholders that have applied for a Package payment, having to wait a lengthy period of time before receiving a Package offer.

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 Agreement³, key decision-making regarding claims settlements will still remain with Southern Response.

¹ 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".

² 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).

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

**OBJECTIVES, SCOPE &
OUTPUT FOR
FINANCIAL YEAR 2023
(continued)**

The Company will maintain a focus on delivering a customer centric approach for the settlement of outstanding claims and Package payments. 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 to 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.

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 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).⁴

- 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.

⁴ Note that work on claims that meet this specific definition has not been required for a number of years.

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

Performance Targets

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

2023 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

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

There are approximately 2,700 overcap and 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.

During the 2023 financial year, the Company intends to launch a combination of direct contact and media campaigns to contact as many eligible policyholders as possible.

The table below (Table 1) sets out the number of overcap claim offers presented and payments made at 31 March 2022 and the forecast of total offers presented and payments made at 30 June 2022 and 30 June 2023.

Table 1

<i>Overcap claims</i>	<i>31 March 2022</i>	<i>30 June 2022</i>	<i>30 June 2023</i>
Eligible policyholders	2,700		
Offers presented	940	1,350	2,200
<i>% of policyholders</i>	35%	50%	85%
Payments made	576	1,200	2,000
<i>% of offers presented</i>	61%	89%	91%
<i>% of policyholders</i>	21%	44%	74%

The Company intends to make contact with eligible OOS only policyholders in a staged approach from around mid-July 2022. The table below (Table 2) sets out the number of OOS claim offers presented and payments made at 31 March 2022 and the forecast of total offers presented and payments made at both 30 June 2022 and 30 June 2023.

Table 2

<i>OOS claims</i>	<i>31 March 2022</i>	<i>30 June 2022</i>	<i>30 June 2023</i>
Eligible policyholders	7,500		
Offers presented	0	50	3,000
<i>% of policyholders</i>	0%	0%	40%
Payments made	0	45	2,700
<i>% of offers presented</i>	0%	90%	90%
<i>% of policyholders</i>	0%	0%	36%

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

Whilst not a present constraint, resourcing complications could arise in the future which would likely impact the achievement of these targets.

What will the achievement of this outcome look like?

- The number of offers presented to policyholders are in line with the Company's forecasts for the year (refer tables 1 and 2).
- Package delivery key milestones are met.
- 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 Independent Oversight Committee has not reported any significant issues to the Crown.

Outcome two: Notified Covered Claims are settled effectively

Although EQC will be acting as the Company's agent, the Company will still provide specialist support to EQC and retain 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 2022 and the forecast of total of open claims at both 30 June 2022 and 30 June 2023. 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.

Table 3

Claim type	31 March 2022	30 June 2022	New claims	Settled claims	30 June 2023
Overcap	156	138	98	170	66
Construction	3	3	3	3	3
Litigated overcap	5	5	3	3	5
Other claims	9	9	37	44	2
Total	173	155	141	220	76

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 results meet or exceed the metric that is agreed with EQC through the Company's ongoing agency arrangements.

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

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?

- The number of litigated claims is in accordance with the Company's actuarial forecasts (refer Table 3).
- 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.

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

As a Crown-owned entity, the Company 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, the Crown Entities Act 2004 and any other relevant legislation.
- Manage liquidity 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.
- 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 2023 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 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 22	Year Ending 30 June 23
	FORECAST \$000	FORECAST \$000
Income		
Investment Income	553	120
Government Grant Revenue (Indemnity)	0	116,000
Total Income	553	116,120
Expenses		
Net Claims Handling Expense	(2,579)	0
Change in Claims Provision	(72,694)	(1,602)
Change in Risk Margin	22,935	0
Total Cost of Claims	(52,338)	(1,602)
Corporate Expenses		
Depreciation & Fixed Asset Disposal Gains / (Losses)	(176)	(35)
Company Administration	(5,803)	(4,637)
Total Corporate Expenses	(5,979)	(4,672)
Total Expenses	(58,317)	(6,274)
Surplus/(Deficit) Before Tax	(57,764)	109,846
Taxation	0	0
Surplus/(Deficit) After Tax	(57,764)	109,846

**FORECAST STATEMENTS
OF CHANGES IN EQUITY**

FORECAST STATEMENTS OF CHANGES IN EQUITY

	Year Ending 30 June 22	Year Ending 30 June 23
	FORECAST \$000	FORECAST \$000
Opening Equity	(220,962)	(228,726)
Surplus / (Deficit) After Tax	(57,764)	109,846
Call on Uncalled Share Capital	50,000	44,000
Closing Equity	(228,726)	(74,880)
Balance of Uncalled Share Capital	89,000	45,000

**FORECAST STATEMENTS
OF FINANCIAL POSITION**

FORECAST STATEMENTS OF FINANCIAL POSITION

	As at 30 June 22	As at 30 June 23
	FORECAST \$000	FORECAST \$000
EQUITY		
Share Capital	1,368,939	1,412,939
Retained Earnings / (Losses)	(1,597,665)	(1,487,819)
TOTAL EQUITY	(228,726)	(74,880)
Represented By:		
ASSETS		
Cash & Cash Equivalents	3,897	9,315
Fixed Assets	54	20
TOTAL ASSETS	3,951	9,335
LIABILITIES		
Sundry Creditors	3,374	3,134
Total Claims Liability	229,301	81,081
TOTAL LIABILITIES	232,675	84,215
NET ASSETS/(LIABILITIES)	(228,726)	(74,880)

FORECAST STATEMENTS OF CASH FLOW

FORECAST STATEMENTS OF CASH FLOW



	Year Ending 30 June 22 FORECAST \$000	Year Ending 30 June 23 FORECAST \$000
Cash Flows From Operations		
Investment Income Received	554	120
Proceeds from Crown Indemnity	0	116,000
Claims Paid	(171,581)	(146,504)
Other Operating Expenses Paid	(7,667)	(8,198)
Net Cash Flow From Operations	(178,695)	(38,582)
Cash Flows From Investing		
Purchase of fixed assets	(58)	0
Lease liability	(166)	0
Net Cash Flow From Investing	(224)	0
Cash Flows From Financing		
Proceeds from Uncalled Capital Facility	50,000	44,000
Net Cash Flow From Financing	50,000	44,000
NET CASH MOVEMENT	(128,919)	5,418
Opening Cash Balance	132,816	3,897
CLOSING CASH BALANCE	3,897	9,315

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

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

- 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 2022 and the accompanying future payment patterns
- The Company being responsible for the management of an ultimate number of 9,248 properties with overcap claims. As at 31 March 2022, approximately 9,000 have been reported to the Company
- A Package delivery team directly employed in the 2022 year on fixed term contracts continuing to manage the Package applications and settlements over the 2023 and 2024 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 31 December 2023, 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 2022.

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 0.5% yield on all funds.

Statement of Financial Position

Claims Liability

- The actuarial valuation at 31 March 2022 assessed the risk margin of the claims liability, with at least 75% probability of sufficiency, at

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

\$31 million.

- The forecast financial statements assumes 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 2022, 48% of the overcap Package claims liability is forecast to be paid. The balance of overcap and OOS Package settlements are forecast to be paid over the following two financial years to 30 June 2024.
- It is assumed that the Company will continue to receive new claims (albeit at a reduced rate) until September 2025.
- The total number of outstanding overcap claims as at 30 June 2023 is forecast to be 74 (from a total of 78 Covered Claims).

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 2023 on the Uncalled Capital facility are \$44 million, together with \$116 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.

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.

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.

**CRITICAL ACCOUNTING
ESTIMATES AND
ASSUMPTIONS (continued)**

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.