

**SOUTHERN RESPONSE ANNUAL REPORT 2019**  
TE PŪROKO A TAU A URUPARE KI TE TONGA 2019


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# 2019



Southern Response is the government-owned company responsible for settling claims by AMI policyholders for Canterbury earthquake damage which occurred before 5 April 2012 (the date AMI was sold to IAG).

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## Chairman and Chief Executive's report

This is the eighth Annual Report of Southern Response Earthquake Services Limited as a Crown-owned company.

Southern Response became a Crown-owned company in April 2012 with the primary purpose of settling the claims of AMI residential policyholders arising from the Canterbury Earthquakes up to April 2012. In the last year this included Southern Response acting as the Earthquake Commission's (EQC) agent to assist the settlement of AMI policyholders who have claims with EQC which are complex, but may remain undercap.

As at 30 June 2019, Southern Response had settled over 95% of its current claims portfolio (8,229 of its 8,638 claims). Throughout the year, Southern Response had 229 additional claims added to its portfolio, and finishes the year with just over 400 unsettled claims.

### Year in review

The Company's claims settlement target for the 2018-19 financial year<sup>1</sup> was to settle 97% of claims notified by 30 June 2018, by 30 June 2019. This goal was met and exceeded. The Company repaired or rebuilt over 90 houses for our customers and cash settled 400 of our customers' claims.

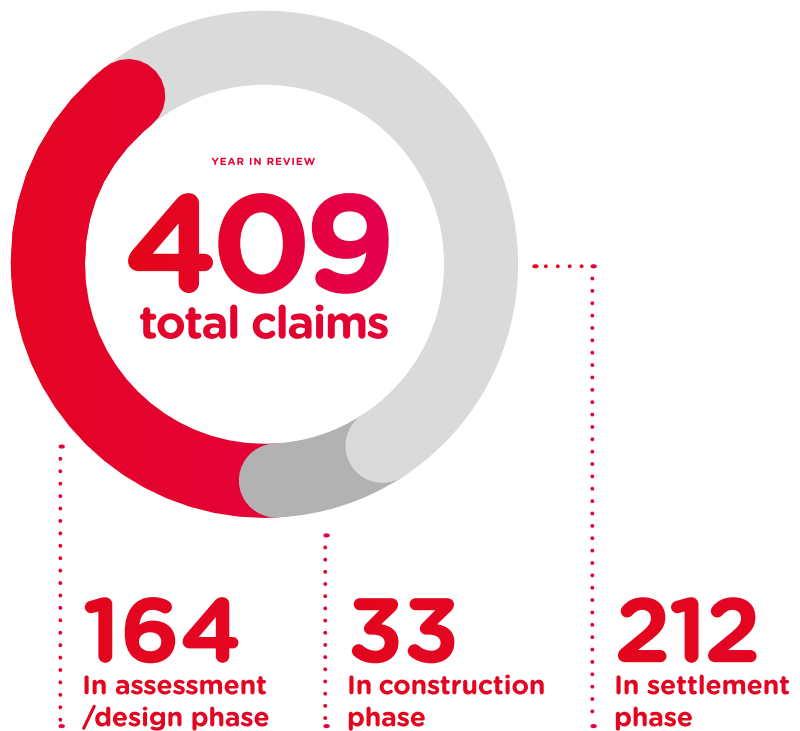
As Southern Response enters the 2019/2020 financial year, there are 409 claims yet to be settled (as at 30 June 2019).

Southern Response has continued to provide a managed build programme where it is appropriate for it to do so, including for those customers recognised as being very vulnerable. We are also continuing to support customers who wish to have the actual repair work undertaken, by providing them with a full set of technical information, including a building consent that they can take to a builder of their choice.

In February 2019, our Canterbury earthquake project partner, Arrow International (NZ) Limited, announced its voluntary administration. Southern Response was able to take swift action to ensure there was no notable disruption for our customers or to our ongoing ability to settle claims. The necessary data and systems held by Arrow (as Southern Response's agent) were successfully transferred and a number of former Arrow staff have been employed by Southern Response to continue providing project management support on Southern Response managed claims.

As Southern Response nears the completion of its claims settlement operational life, it is firmly focussed on ensuring there is the capability and capacity to support approximately 400 remaining customers to settle their claims.

<sup>1</sup> Southern Response Statement of Performance Expectations 2018-19



### Customer care initiatives

The Company recognises that for many customers the insurance settlement process has been a very long one and can be stressful and frustrating. At this stage of the recovery, the claims portfolio consists largely of complex claims with significant disputes, or customers who have come to Southern Response via an EQC process. Throughout the year, we have continued to recognise the changing needs of our customers and evolved our claims settlement processes to better meet those needs where it is possible to do so.

In response to the higher complexity of the remaining portfolio, the composition of the claims settlement team has been adjusted to increase the involvement of Senior Settlement Advisers across a wider range of claims. We also continue to utilise settlement pathways and initiatives to support customers with relevant and timely information that can assist them through the claim settlement process and with their decision making. These include:

- Fast Track Settlements – Engaging with customers early and, where it is fair and reasonable, verifying customer supplied information as the basis for claim settlement.
- Full Design/Consenting/Priced Settlements – Working with customers to develop a full design package ready for works to commence with a builder of their choice.
- Flexible Comeback Settlement Options – Options for customers to undertake work and come back for undiscovered earthquake damage or other policy entitlements that may be available to them (such as temporary accommodation).
- Face-to-Face Communication – Focussing on meaningful, engaging and collaborative discussions with customers on the progression of their claims.
- Alternative Dispute Resolution – Where disputes arise, promoting alternative dispute resolution options for customers to settle their claims.
- Third Party Engagement – Actively looking to engage with external agencies who may be able to support customers through their settlement decisions and help our team understand what resolution path is best suited to a customer's particular situation.

### Alternative dispute resolution options

In October 2018, the Greater Christchurch Claims Resolution Service (GCCRS) was established to provide a streamlined claims settlement facilitation process for homeowners with unresolved residential earthquake claims.

GCCRS has become the most widely used service by Southern Response customers, which is encouraging. In addition to GCCRS, we remain committed to encouraging customers to engage in other alternative dispute resolution services if GCCRS is not right for them. We actively seek face-to-face negotiations, private mediations and judicial settlement conferences as other forms of alternative dispute resolution services to resolve claims.

From May 2019, we started offering the option for customers to utilise the services of Fairway Resolution, as another option for independent settlement facilitation or mediation. The Canterbury Earthquakes Insurance Tribunal has also recently become operational and we have received an induction from the Ministry of Justice, so that we are able to constructively participate in this forum.

For claims that involve significant disputes or disagreements, Southern Response has resolved the majority of claims for customers utilising alternative dispute resolution options and direct negotiation. This has included 43 of the 47 customers in the representative action launched by GCA Lawyers in 2015.

We are supportive of any alternative dispute resolution service that helps to provide efficient and expedient pathways towards claim settlement.

### Future processing options and continued close cooperation with EQC

With a reducing claims portfolio, we have recognised that it is no longer efficient or practical for the Company to continue to operate at the scale that it has. In light of this, Southern Response has been working closely with EQC to design a future Canterbury claims settlement capability that will be enduring and create an improved customer experience.

Since early 2017, Southern Response and EQC have been taking a collaborative approach to settling the remaining Canterbury earthquake claims for AMI policyholders. This was initiated through a Memorandum of Understanding signed in May 2017, setting out how Southern Response would assist EQC as its agent.

Through this initiative, nearly 4,500 claims have been reviewed by Southern Response and EQC, with both organisations agreeing who will manage the claim to settlement.

The success of this initiative led to the establishment of a pilot team, in May 2019, of Southern Response and EQC staff, co-located at Southern Response's premises, with the goal of working together to create a seamless customer claims experience. However, the volume of claims being handled by the Company's staff is declining quite quickly, and within a short time frame the work still to be done by Southern Response will not be able to justify the retention of full time staff. Southern Response is now investigating contracting options for its remaining claims with a view to implementing any new model from 31 December 2019.

Regardless of the form Southern Response's model takes, in the 2019/2020 financial year, it is anticipated that EQC and the Company will continue to work closely together to ensure a seamless customer experience.

### Health, safety & wellbeing

Southern Response is proud of its health, safety and wellbeing approach and track record. Southern Response continues to monitor and manage the health and safety of all involved on the project in accordance with its legislative responsibilities including its wider obligations to be a good employer. The Company has taken a leadership role to improve the health and safety management practices in the residential construction sector across Canterbury. This has included taking an early lead in the Canterbury Health and Safety Charter and leading the industry in its approach to asbestos, contamination and heritage site management.

The Company has embedded a risk-based health and safety approach that understands risk, monitors risk, and takes a practical and robust approach to the management of risk across the Company. In the Company's construction portfolio, accredited contractors are required to meet the assessment standard of appropriately managing a minimum of 85% of the critical risks on site, and this requirement has been consistently achieved throughout the life of Southern Response.

The health, safety and wellbeing of personnel, customers and workers involved on the Southern Response project are of prime importance at Southern Response. Our staff have a right to be able to interact

in an environment safe from threats or harm, and the Board has taken a zero tolerance stance in respects of threats and hostile behaviour towards them.

As the Company's construction programme has significantly diminished, the Company has recognised that the biggest health and safety risk it faces in the current environment is the wellbeing of its staff. In addition to our recognition that the claims environment is stressful for our customers, and that building work has tangible risk, we have also taken steps to recognise and address the stress, anxiety and general wellbeing of our staff.

A new wellbeing initiative for staff was initiated by the Company during the 2018/2019 financial year. The programme is called 'Manawaroa', which in Māori means 'stamina', 'doggedness', 'staying power', 'grit', 'endurance', 'resilience' and 'fortitude'. Staff meet directly with a range of practitioners regularly, complete anonymous questionnaires about their well-being and the workplace environment, with trends monitored. Participation in the programme is mandatory and it serves as a baseline requirement for supporting and monitoring our staff wellbeing in the workplace.

The trend to date has been an uplift in the wellbeing of staff in the Company, which has been positive to observe given the challenging environment.

### State Services Commission inquiry

In December 2018, the State Services Commission ('SSC') completed its inquiry into the historical use of external security consultants by Southern Response ('Inquiry'). In 2014, Southern Response had engaged Thompson and Clark ('TCIL') to assess and monitor the risk to the safety of its staff. This was underpinned by the principle that Southern Response staff have the right to go to work every day without being threatened or abused.

This duty of care was acknowledged by the SSC in their Inquiry, but they also found that Southern Response acted inconsistently with, and then in breach of the State Services Code of Conduct in relation to public meetings of claimants. We accepted the findings of the Inquiry, sincerely apologised to our customers for the inappropriate actions found by the Inquiry, and reiterated our commitment to our customers' rights to privacy and their democratic right to protest.

A police investigation was also undertaken which noted that there was no evidence of criminal offending or unlawful conduct.

## Financial summary

Key aspects of Southern Response's financial results are outlined below.

	2019 (\$000)	2018 (\$000)
Net earthquake claims incurred	18,181	(817)
Other costs	2	(78)
Investment income	1,258	1,949
<b>Total comprehensive gain/(loss) for the year</b>	<b>19,441</b>	<b>1,054</b>

### Claims liability

Discounted central estimate (including claims handling expenses)	172,990	335,762
Risk margin	43,258	64,967
<b>Gross outstanding claims liabilities</b>	<b>216,248</b>	<b>400,729</b>
Reinsurance receivables	(7,519)	(12,422)
<b>Net outstanding claims liability</b>	<b>208,729</b>	<b>388,307</b>

The following table shows the movement in the central estimate of the claims liability since the 30 June 2011 year end, reflecting increasing claims numbers and the expanding technical challenge of the rebuild.

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Central Estimate of the Ultimate Liability (\$million)	1,819	2,157	2,254	2,364	2,716	2,903	3,264	3,252	3,233
Confirmed Overcap Claims (number)	5,383	6,527	6,760	7,028	7,564	7,909	8,088	8,383	8,476*
Ultimate Forecast Overcap Claims (number)	7,010	6,782	6,869	7,196	7,779	8,021	8,652	8,598	8,721

\*Note that this is only the confirmed overcap claims and does not include the 162 undercap claims Southern Response are managing on behalf of EQC.

### Financial summary

In addition to ensuring that Southern Response has access to the capability needed to settle the last remaining claims, the Company continues to ensure that it has sufficient support to meet its financial obligations. The current uncalled ordinary share facility is sufficient to meet the current forecast future cash requirements of the Company. Under the new operating models being considered, the financial obligations for outstanding claims will remain with the Company. Southern Response will still have residual obligations that need to be managed, with the Southern Response Board continuing to actively monitor the Company's capital position to ensure the Company can continue to operate and meet its obligations.

### Governance

We acknowledge the dedication of the Southern Response Board, which brings a collective sense of commitment, sensitivity, and technical knowledge to the governance table. Since its change of ownership to the Crown on 5 April 2012, the Board and management of Southern Response have continued to enhance the Company's governance framework to ensure optimum accountability and integrity for the substantial financial commitment that the Crown and its reinsurers have made to the Company.

With the changing governance demands of the Company, it was determined that the Board consist of three members from October 2018. The resignation of the Chairman, Ross Butler, followed in December 2018, which resulted in Alister James' appointment as Chairman.

The Southern Response Board would like to take this opportunity to thank Susan Thodey, Jenn Bestwick and Ross Butler for their contributions to the Company throughout their tenures as Directors.

### Appreciation

Southern Response acknowledges the continued commitment, contribution and dedication of Southern Response staff, building contractors, technical consultants and key partners, as the Company nears the end of its claims operational activities.

Southern Response appreciates the support and willingness of community support groups, local government, professional bodies, local MPs and their electorate staff, Iwi and most importantly its customers that engage with the Company. The feedback, support and suggestions provided, have assisted the Company to develop and refine its position on a range of issues.

Southern Response is also grateful for the support received from its shareholding Ministers and the Treasury's Commercial Operations Group, as the shareholding Ministers' appointed monitoring agent.

### Future outlook

The Company's key areas of focus in the 2019–2020 financial year are:

- working closely with Crown agencies and the private sector across the Canterbury insurance eco-system to resolve the remaining claims
- providing support for our customers to understand their insurance settlements
- Southern Response and EQC continuing to work together closely, to provide our customers with a seamless settlement experience
- providing a supportive and transparent environment for our staff as the claims activities of Southern Response cease
- ensuring that post-transition of claims management to any new operating model, all of Southern Response's activities are being appropriately managed to enable the Company to effectively and efficiently fulfill its obligations to customers.

**Alister James**  
Chairman  
19 August 2019



**Anthony Honeybone**  
Chief Executive  
19 August 2019





# Our Values

## Respect

We treat all our stakeholders with care, consideration, fairness and equity.

## 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.

## Ownership

We hold ourselves accountable for our actions, take ownership, and deliver on our promises.

## Honour our promises

We stand by and deliver on all entitlements, rights and commitments AMI has made to policyholders.

## Integrity

We demonstrate honesty, transparency, fairness, and objectivity in all our interactions.

## 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.

## 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.

## Board of Directors

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### **Alister James** Chairman

Alister is an experienced lawyer, currently practising as a Barrister. Alister has had previous experience in local government and health, as a former Christchurch City Councillor serving for twenty years, including as Chairman of the Strategy and Finance Committee, and a former Member and Chairman of the Canterbury District Health Board. Alister is a former director and Chairman of Christchurch City Holdings Limited (Council holding company for Orion, Lyttelton Port, Christchurch International Airport, and other commercial interests).

Alister has had wide experience in the community and voluntary sector, and became a Companion of the Queen's Service Order (QSO) in the 2004 New Year Honours List for community services. He has also served as a British Honorary Consul.

Following the February 2011 earthquakes, Alister's own home in Central Christchurch was severely damaged and demolished two months later. He understands from personal experience the difficulties faced by other residents following the earthquakes.

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### **Anne Urlwin** Deputy Chairman

Originally from Christchurch, Wanaka-based Anne Urlwin has more than 20 years' experience as a professional director, chartered accountant and business consultant in an extensive range of sectors. Anne also has senior management experience in the corporate sector including in the IT and meat industries.

Anne is currently a director of Chorus Ltd, Steel & Tube Holdings Ltd, Summerset Group Holdings Ltd, City Rail Link Ltd and of One Path Life (NZ) Ltd. She is also a director of Tilt Renewables Ltd and its subsidiaries, and has previously been chairman of national commercial construction group Naylor Love.

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### **Bevan Killick** Director

Christchurch born and educated, Bevan Killick is a chartered accountant, a chartered insurance practitioner (UK) and a chartered member of the Institute of Directors.

During his professional career, Bevan held senior positions in the Lloyd's Insurance Market for 12 years. Now based back in Christchurch, Bevan is a professional director where his roles include being a Public Trust Board Member and an Advisory Trustee of the Pacific Development and Conservation Trust.

In the post-earthquake era Bevan also worked with Recover Canterbury, the organisation responsible for helping businesses recover from the Canterbury earthquakes.

# Governance

## Te taha whakahaere

Southern Response is incorporated as a limited liability company under the Companies Act 1993, and is listed in Schedule 4A of the Public Finance Act 1989, which automatically makes it subject to many of the provisions of the Crown Entities Act 2004.

The Company became a Crown owned company on 5 April 2012 when its shareholders became the Minister of Finance and the Minister supporting Greater Christchurch Regeneration. On 5 April 2012 the company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

## Company activities

Until the sale of its fire and general insurance business to IAG (NZ) Holdings Limited on 5 April 2012, the Company's principal activities, while operating under the name AMI Insurance, comprised the writing of fire and general business for the domestic property insurance market in New Zealand.

At 5 April 2012, the Company's principal activities changed to the management and settlement of insurance claims made by AMI policyholders relating to the Canterbury earthquake events up to 5 April 2012. Managing and settling the earthquake claims involves the Company in:

- assessing and meeting Canterbury earthquake-related claims, including managing all repair and rebuild work;
- recovering reinsurance and insurance proceeds, including liaising with the reinsurers and EQC;
- managing the Company's funds and assets to enable settlement of claims.

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

## Governance framework

The Company's governance framework is designed to ensure that the Company is effectively managed and that its statutory obligations are met. The governance framework ensures a clear understanding of the separate roles of board and management, and demonstrates a shared commitment to the Company's purpose. To enhance efficiency, the Board has delegated to the Chief Executive the day to day leadership and management of the Company.

The Board operates under Treasury's Owner's Expectations Manual which sets out the Ministers' expectations of the Board, including the reporting, accountability and financial governance expectations.

## Board of Directors

The Board's duties, functions, and powers are governed by the Companies Act 1993, Southern Response's Constitution, the Crown Entities Act 2004, the Company's Statement of Intent and the Shareholders' Letter of Expectations.

The Crown Entities Act imposes the obligation on the Board to ensure that the Company operates in a manner consistent with its objectives, functions and Statement of Intent.

## Directors

Under the constitution adopted on 5 April 2012 (with subsequent amendments since this date), the Board is appointed by shareholding Ministers and can comprise between three to seven non-executive directors, including the Chairman. As at 30 June 2019, there were three non-executive directors of the Company whose appointment dates and terms are detailed in the following table.

*As previously noted, part-year Directors included Jenn Bestwick, Susan Thodey, and Ross Butler, whose directorships finished during the 2018/2019 financial year.*

Director	Position	Term
<b>Alister James</b> Christchurch-based professional director	Non-Executive Chairman	Appointed 20 December 2018 Reappointed 1 July 2019 Term ends 30 June 2022
<b>Anne Urlwin</b> Wanaka-based professional director	Non-Executive Deputy Chairman	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Reappointed 1 October 2018 Term ends 30 June 2021
<b>Bevan Killick</b> Christchurch-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2013 Reappointed 1 July 2015 Reappointed 1 July 2017 Term ends 30 June 2020

## Board Committees

To ensure efficiency, the Board specifically delegates some of its roles to board committees under formal terms of reference which specify the role and responsibility of each committee and its delegated authorities. Due to the decreasing size of the Board, all Directors now serve on the two remaining committees. The Audit and Risk Committee is chaired by Anne Urlwin while the People and Safety Committee is chaired by Bevan Killick.

## Disclosure of interests by Directors

The Board is conscious of its obligation to ensure directors avoid conflicts of interest (both real and perceived) between their duty to Southern Response and their own interests. Directors are required to ensure they immediately advise the Board of any new or changed relationships, and these are recorded in the Board's interests register.

In accordance with the Companies Act 1993, the Board maintains an up-to-date interest register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of directors recorded in the interests register during the year ended 30 June 2019. All interests of the directors whose services ceased during the year have been removed from the interest register and these directors had no new interests during their tenures this financial year.

Director	Entity	Relationship
Alistair James	Greater Christchurch Public Transport Joint Committee of Environment Canterbury, Christchurch City Council, Selwyn and Waimakariri District Councils	Independent Chairman
Anne Urlwin	Tararua Wind Power Ltd	Director
	Waverley Wind Farm Ltd	Director
Bevan Killick	None	

### Indemnities and insurance

As permitted by Southern Response's Constitution, deeds of indemnity have been given to directors for potential liabilities and costs they may incur for actions or omissions in their capacity as directors.

The Company has directors' and officers' liability insurance in place to cover risks usually covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

The insurance premium paid during the year ended 30 June 2019 was \$124,491 relating to cover for the period 1 July 2018 to 30 June 2019.

### Use of Company information

During the year, the Board received no notices from the directors requesting to use company information received in their capacity as directors and which would not otherwise have been available to them.

### Glossary of terms as used in this report

Commercial Operations Group (formerly Crown Ownership Monitoring Unit (COMU)):	Treasury's Commercial Operations group monitors the government's investment in companies/entities owned by the Crown, assists with the appointment of Directors, and provides performance and governance advice to Ministers.
Statement of Intent:	An outline of a Crown entity's expected contribution to the government's priorities over the medium term (3-5 years).
Overcap:	EQC insures the first \$100,000 + GST (\$115,000) of damage to a house (the "cap") for each earthquake event. If the level of damage exceeds this for any one 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 "over cap".
Reinsurance:	Insurance purchased by an insurance company from one or more other special purpose insurance companies (reinsurers) to enable risks assessed to be spread.

# Financial Statements 2019

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## Statement of responsibility

In accordance with the Public Finance Act 1989, the board of Southern Response Earthquake Services Limited accepts responsibility for:

- The preparation of financial statements and statement of performance and the judgements made in them;
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial statements and the statement of performance.

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2019.

Signed on behalf of the Board:

Alister James  
Chairman  
19 August 2019



Anne Urlwin  
Deputy Chairman  
19 August 2019



# Independent auditor's report

## TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2019.

The Auditor-General is the auditor of Southern Response Earthquake Services Limited (the Company). The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Company on his behalf.

### Opinion

We have audited:

- the financial statements of the Company on pages 16 to 34, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on pages 35.

In our opinion:

- the financial statements of the Company on pages 16 to 34:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the performance information on pages 35:
  - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2019, including:
    - for each class of reportable outputs:
      - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
      - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 19 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the

financial statements and the performance information, and we explain our independence.

### Uncertainties associated with the outstanding claims liability

Without modifying our opinion, we draw attention to the fact that the liabilities of the company exceed its assets by \$154 million at 30 June 2019 and, as outlined in note 10, there is considerable uncertainty surrounding the projection and valuation of the company's outstanding claims liability. In addition, a representative proceeding was filed against Southern Response on 29 May 2018. The financial statements do not recognise a provision relating to the representative proceedings as it cannot be reliably quantified due to the range of possible outcomes.

We agree that the financial statements have been appropriately prepared using the going concern basis of accounting, as stated in the going concern disclosure on page 20 of the financial statements. Note 5 to the financial statements explains that formal Crown financial support is available to the company in the form of uncalled share capital together with a Deed of Indemnity which was entered into by the Crown on 26 September 2018, through the Minister of Finance to indemnify the Company in relation to certain litigation. The Deed of Indemnity was amended on 28 June 2019 to include any present or future proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown.

### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.



The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

**Responsibilities of the auditor for the audit of the financial statements and the performance information**

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures

in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

**Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 11, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independence**

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.

**Mike Hoshek  
for Deloitte Limited**

On behalf of the Auditor-General  
Christchurch, New Zealand

19 August 2019



# Statement of comprehensive income

For the year ended 30 June 2019

	Note	2019 Budget \$000	2019 Actual \$000	2018 Actual \$000
Net claims incurred – non-earthquake	1	-	(7)	59
Net claims incurred – earthquake	1,2	(26,133)	18,181	(817)
Gain/(Loss) on sale or disposal of property, plant and equipment			9	(137)
<b>Net underwriting profit/(loss)</b>		(26,133)	18,183	(895)
Investment income and expenses	3	1,073	1,258	1,949
<b>Profit/(Loss) for the year before tax</b>		(25,059)	19,441	1,054
Tax expense	4	-	-	-
<b>Profit/(Loss) for the year after tax</b>		(25,059)	19,441	1,054
<b>Other comprehensive income:</b>				
Other comprehensive income for the year after tax		-	-	-
<b>Total comprehensive profit/(loss) for the year</b>		(25,059)	19,441	1,054

The accompanying notes and accounting policies form an integral part of the financial statements.

# Statement of changes in equity

For the year ended 30 June 2019

2019	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2018		1,040,939	(1,397,670)	(356,731)
Profit/(Loss) for the year		-	19,441	19,441
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	19,441	19,441
Call on uncalled ordinary shares	5	183,000	-	183,000
Closing balance 30 June 2019		1,223,939	(1,378,229)	(154,290)

2018	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2017		835,939	(1,398,724)	(562,785)
Profit/(Loss) for the year		-	1,054	1,054
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	1,054	1,054
Call on uncalled ordinary shares	5	205,000	-	205,000
Closing balance 30 June 2018		1,040,939	(1,397,670)	(356,731)

The accompanying notes and accounting policies form an integral part of the financial statements.

# Statement of financial position

As at 30 June 2019

	Note	2019 Budget \$000	2019 Actual \$000	2018 Actual \$000
<b>Shareholders' equity</b>				
<b>Total shareholders' deficit</b>		(153,790)	(154,290)	(356,731)
<b>Represented by:</b>				
<b>Assets</b>				
Financial assets				
Cash and cash equivalents	6	26,122	51,097	32,653
Receivables	8	3,495	6,687	7,264
Reinsurance receivables	9	6,827	7,519	12,422
Plant and equipment		225	317	5
<b>Total assets</b>		36,669	65,620	52,344
Less:				
<b>Liabilities</b>				
Trade and other payables		5,376	2,460	7,139
Employee entitlements		-	1,202	1,202
Outstanding claims – non-earthquake		-	-	5
Outstanding claims – earthquake	10	185,083	216,248	400,729
<b>Total liabilities</b>		190,459	219,910	409,075
<b>Net liabilities</b>		(153,790)	(154,290)	(356,731)

On behalf of the Board

Alister James, Chairman



Anne Urlwin, Deputy Chairman



Financial statements authorised  
for issue on 19 August 2019

The accompanying notes and accounting policies form an integral part of the financial statements.

# Statement of cash flows

For the year ended 30 June 2019

	Note	2019 Budget \$000	2019 Actual \$000	2018 Actual \$000
<b>Cash flows from operating activities</b>				
Interest received		1,073	1,258	1,942
Claim costs – non-earthquake		-	(12)	(95)
Claim costs – earthquake		(226,101)	(148,015)	(240,758)
Claim costs – reinsurance recoveries		4,220	377	8,540
Payments to suppliers and employees		(13,423)	(17,807)	(18,866)
Income tax paid		-	-	-
<b>Net cash outflow from operating activities</b>	7	(234,231)	(164,199)	(249,237)
<b>Cash flows from investing activities</b>				
Proceeds/(Loss) from sale of plant and equipment and property held for sale		-	4	(43)
Payments for plant and equipment and property held for sale		(300)	(361)	(3)
<b>Net cash inflow from investing activities</b>		(300)	(357)	(46)
<b>Cash flows from financing activities</b>				
Proceeds from the uncalled capital facility		228,000	183,000	205,000
<b>Net cash inflow from financing activities</b>		228,000	183,000	205,000
<b>Net (decrease)/increase in cash and cash equivalents</b>		(6,531)	18,444	(44,283)
Add opening cash and cash equivalents		32,653	32,653	76,936
<b>Ending cash and cash equivalents</b>	6	26,122	51,097	32,653

The accompanying notes and accounting policies form an integral part of the financial statements.

# Notes to the financial statements

For the year ended 30 June 2019

## Reporting entity

Southern Response Earthquake Services Limited (the Company) 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 registered office for the Company is located at 7 Winston Ave, Papanui, Christchurch.

The Company's principal business is to manage the settlement of claims from AMI Insurance policy holders arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

## Basis of preparation

The financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and also in accordance with the Financial Reporting Act 2013 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.
- 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 and unless specifically stated otherwise are rounded to the nearest thousand dollars (\$'000). The functional currency of the Company is New Zealand dollars (NZ\$).

## Going concern

As at 30 June 2019 the liabilities of the Company exceeded its assets. The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements entered into with the Crown (note 5).

## Presentation format

The statement of financial position is presented broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

## Critical accounting judgements and estimates

The Company makes estimates and assumptions in respect of certain liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key area in which critical estimates and judgements are applied is detailed in note 10 – the outstanding claims liability.

## Other accounting policies

Other accounting policies have been adopted in the preparation and presentation of the financial statements. These are provided alongside the relevant notes to the financial statements.

### 1. Net claims incurred

Claim costs incurred have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes.

Gross claims expense represents movement in the gross outstanding claims liability.

	2019	2018
	\$/000	\$/000
<b>Non-earthquake:</b>		
Gross claims expense/(recovery)	7	(59)
Reinsurance recovery expense/(revenue)	-	-
Total net non-earthquake claims expense/(recovery)	7	(59)
<b>Earthquake:</b>		
Gross claims benefit	(39,588)	(27,930)
Claims handling expense	16,881	20,914
Reinsurance recovery expense	4,526	7,833
Total net earthquake claims incurred	(18,181)	817
Total net claims incurred	(18,174)	758

### 2. Specified cost disclosures

	2019	2018
	\$/000	\$/000
Employee benefit expenses <sup>1</sup>	9,497	9,262
Depreciation and amortisation	49	538
KiwiSaver <sup>2</sup>	163	187
Realised (gains)/losses on property, plant and equipment	(9)	138
Audit fees	139	131
Operating lease expenses	477	829

#### <sup>1</sup> Accounting policy for short-term employee benefits

Liabilities for salaries (including non-monetary benefits), annual leave and accumulated sick leave are recognised in respect of employee services up to the reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

#### <sup>2</sup> Accounting policy for employer contributions to KiwiSaver

Where employees have elected to join a KiwiSaver superannuation scheme, the Company complies with all applicable legislation in making employer contributions to these schemes. Obligations for contributions are recognised in profit or loss as they become payable.

### 3. Investment income

Interest income is recognised using the effective interest rate method.

	2019	2018
	\$/000	\$/000
Interest income	1,258	1,949
Total investment income	1,258	1,949

#### 4. Income tax

Tax	2019 \$000	2018 \$000
Profit/(Loss) before tax	19,441	1,054
Tax at applicable rate of 28%	5,443	295
Non-taxable/deductible items	-	-
Deferred tax not recognised	(339)	1,205
Tax losses not recognised	(5,104)	(1,500)
Current tax expense	-	-
<b>Imputation credit account:</b>		
Closing balance	196	204

Deferred tax asset	2019 \$000	2018 \$000
The balance comprises temporary differences attributable to:		
Financial assets	-	-
Property, plant and equipment	66	103
Employee provisions and accruals	57	69
Other provisions and accruals	892	1,188
Deferred tax benefit not recognised	(1,016)	(1,360)
Net deferred tax asset	-	-

Taxation losses totalling \$1,125 million (tax effect \$315 million) have not been recognised as at 30 June 2019 (2018: tax losses \$1,144 million).

##### **Accounting policy for current income tax**

The current income tax asset or liability for the current and prior periods is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute this amount are those that are enacted or substantively enacted by the reporting date.

Current tax attributable to amounts recognised directly in equity is also recognised directly in equity.

##### **Accounting policy for deferred income tax**

Deferred tax assets will be recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.



## 5. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

As explained below, as the Company requires additional capital to meet its claims payment obligations it can access a further \$234 million of capital from the Crown (2018: \$417 million).

	2019 <i>Shares</i>	2019 <i>\$000</i>	2018 <i>Shares</i>	2018 <i>\$000</i>
<b>Ordinary shares:</b>				
Balance 1 July	568,000,102	1,040,939	363,000,102	835,939
Paid ordinary shares (from the uncalled capital facility)	183,000,000	183,000	205,000,000	205,000
Balance 30 June	751,000,102	1,223,939	568,000,102	1,040,939
<b>Uncalled ordinary shares:</b>				
Balance 1 July	417,000,000	-	392,000,000	-
Called shares	(183,000,000)	-	(205,000,000)	-
Subscription for shares 27 July 2017	-	-	230,000,000	-
Balance 30 June	234,000,000	-	417,000,000	-

The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

On 21 June 2017 the Shareholding Ministers agreed that the Crown would extend the existing Crown Support arrangement and subscribe for an additional \$230 million of capital in the Company. The shares are uncalled ordinary shares with an issue price of \$1 per share and were issued on 27 July 2017.

The Company may issue a call notice for a number of uncalled ordinary shares. On payment the shares will be designated as paid ordinary shares.

On 26 September 2018, the Crown, through the Minister of Finance, entered into a Deed of Indemnity agreeing to indemnify the Company in relation to certain litigation. 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.

## 6. Cash and cash equivalents

Cash and cash equivalents includes cash at bank, deposits on call and other short-term, highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

As part of its investment strategy, the Company actively manages its cash and cash equivalents to ensure that deposits mature in accordance with the expected pattern of future cash flows arising from the outstanding claims liability.

	2019	2018
	\$000	\$000
<b>Cash and cash equivalents</b>		
Cash held for operational purposes	12,376	17,270
Cash on call and short term bank deposits	38,721	15,383
	51,097	32,653

## 7. Cash flows from operating activities

Reconciliation of the loss for the year to cash inflows from operating activities:

	2019	2018
	\$000	\$000
Profit/(Loss) for the year	19,441	1,054
Add/(Less) non-cash items:		
Depreciation and amortisation	49	538
Sub-total "A"	19,490	1,592
Movement in working capital items:		
(Increase)/Decrease in receivables	578	(2,042)
(Increase)/Decrease in reinsurance and insurance receivables	4,904	16,373
Increase/(Decrease) in payables	(1,168)	4,233
(Decrease)/Increase in employee entitlements	-	(718)
Decrease in insurance liabilities	(187,998)	(268,813)
Sub-total "B"	(183,684)	(250,967)
Items classified as investing activities:		
Net (gain)/loss on sale of property, plant and equipment	(5)	138
Sub-total "C"	(5)	138
Cash outflow from operating activities (A+B+C)	(164,199)	(249,237)

## 8. Receivables

	2019	2018
	\$000	\$000
Receivables	4,065	4,454
Prepayments	48	356
GST refund due	2,574	2,454
	6,687	7,264

## 9. Reinsurance receivables

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income in net claims incurred. Reinsurance recoveries on paid claims are included as a component of reinsurance recoveries net of any provision for impairment based on objective evidence for individual receivables.

All recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position.

	2019	2018
	\$000	\$000
Gross reinsurance receivable	7,519	12,601
Discount to present value	-	(179)
	7,519	12,422
Changes in gross reinsurance receivable:		
Balance 1 July	12,601	29,272
Change in gross estimated recovery	(4,705)	(8,131)
Reinsurance collections	(377)	(8,540)
Balance 30 June	7,519	12,601

## 10. Outstanding earthquake claims liability

### Outstanding claims liability

Claims represent the benefits paid or payable to the policy holder on the occurrence of an event giving rise to loss according to the terms of the policy.

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 to at least 75% the probability that the net liability is adequately provided for (2018: 75%).

### Critical judgements and estimates: The ultimate liability arising from earthquake claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate.

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

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

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

	2019	2018
	\$000	\$000
<b>Changes in gross discounted outstanding claims liability</b>		
Outstanding claims beginning of year	400,729	668,169
Change in central estimate	(19,634)	(11,230)
Change in claims handling provision	(1,072)	(8,067)
Change in discounting to present value	2,827	4,913
Change in risk margin	(21,709)	(13,546)
Claim payments	(144,893)	(239,510)
Outstanding claims end of year	216,248	400,729

### Claims development

Below is a reconciliation of the central estimate to the net outstanding claims liability, reflected in the financial statements.

	2019	2018
	\$000	\$000
Central estimate	3,232,727	3,252,361
Claims handling expense	17,534	18,606
Cumulative payments	(3,074,869)	(2,929,976)
Discount of unpaid liability to present value	(2,402)	(5,229)
Discounted central estimate	172,990	335,762
Risk margin	43,258	64,967
Gross discounted outstanding claims liability	216,248	400,729
Reinsurance receivables (refer note 9)	(7,519)	(12,422)
Net outstanding claims liability	208,729	388,307

### Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2019. The actuarial report has been prepared by the appointed actuaries, Ashish Ahluwalia and Estelle Pearson (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited. Finity Consulting are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuary's opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (NZ IFRS 4 Insurance Contracts) and the NZ Society of Actuaries Professional Standard 4.1 governing technical liability valuations for general insurance business.

### Representative action

On May 29 2018, a representative action proceeding was filed against Southern Response proposing to represent policyholders that entered into a settlement agreement with Southern Response prior to 1 October 2014.

Southern Response has disclosed this as a contingent liability (note 19). The outstanding claims provision as at 30 June 2019 makes no allowance for any costs that may arise from the proceeding.

### Key actuarial assumptions – earthquake

	2019	2018
Future inflation average		
· Building cost	0.00%	0.00%
· Temporary accommodation	0.00%	0.00%
· Other cover types	3.00%	3.00%
· Claims handling expenses	0.00%	0.00%
Discount rate	1.19%	1.80%
Risk margin – outstanding claims liabilities	25.00%	20.00%
Average weighted term to settlement from financial reporting date (years)	1.26	0.90

## Process to determine assumptions

### **Inflation**

Build cost inflation has been consistently reflected across both financial periods. Inflation is taken into account using nominal dollar values to examine past build experience. On this basis the actuarial model implicitly allows for future inflation in building costs. Cost increases, including inflationary impacts are projected within the model.

Other (non-building) cover types are subject to a future inflation allowance of 3.00% per annum (2018: 3.00%), based on CPI.

### **Discount rate**

Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2019.

### **Claims handling expenses**

The estimate of outstanding claims liabilities includes an allowance for the future cost of administering claims. It is primarily based on the Company's budgeted operating costs with an additional allowance for unreported claims based on the actuary's best estimate.

### **Risk margin**

The risk margin is expressed as a percentage of the gross (of reinsurance) discounted outstanding claims liability including claims handling expenses and intended to achieve at least a 75% probability of adequacy for the outstanding claims.

It should be noted that considerable uncertainty still surrounds the projection and valuation of the Company's claim liabilities. As the claim settlement process has progressed, a greater proportion of the outstanding claims liability relates to more complex claims, meaning the uncertainty around future settlement outcomes for outstanding claims is magnified (as compared to 'normal' residential property claims). Furthermore, there remains significant uncertainty as to the number of unreported (IBNR) claims, which becomes a larger component of outstanding portfolio as more of the older claims are settled.

In response to the inherent uncertainties, the risk margin has been set at 25% of the estimated liability (2018: 20%).

### **Average weighted term to settlement**

Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the actuary's best estimate of when the payments are likely to be made.

### **Sensitivity analysis – impact of changes in key variables**

The impact of change in key assumptions on the net outstanding claims liabilities are shown in the table below for the Company. Each change has been calculated in isolation to other changes.

<b>Variable</b>	<b>Change in Variable</b>	<b>2019 \$000</b>	<b>2018 \$000</b>
Inflation rate	+1% p.a.	2,458	3,213
	-1% p.a.	(2,430)	(3,203)
Discount rate	+1% p.a.	(2,538)	(3,396)
	-1% p.a.	2,617	3,474
Claims handling expense	+10%	2,192	2,233
	-10%	(2,192)	(2,233)
Risk margin	+1%	1,730	3,248
	-1%	(1,730)	(3,248)
Future over cap claim numbers	+10%	6,197	5,503
	-10%	(5,389)	(5,072)

## 11. Overall risk management framework

The Company's constitution defines its purpose as "to manage covered claims, to manage the Company's recoveries from reinsurers, to manage its investment portfolio, manage the insurance claims of another Crown Entity under contract with that Crown Entity and to conduct any activities that are associated with those purposes."

Covered claims include any claim made by a policyholder under any customer insurance contract relating to any retained claim event; any other claim relating to customer insurance contract indemnities; and any contract works or similar insurance policy under which the Company is or may be liable from time to time.

To help the board monitor the Company's exposure to all risks (both financial and insurance) an audit and risk committee meets regularly. This committee has the responsibility of reviewing the effectiveness of risk management processes and controls, as well as ensuring the Company has adequate liquidity to meet its obligations and that the financial assets are managed in accordance with the investment strategy set out in the Crown support deed. This committee also approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

## 12. Insurance contracts – risk management policies and procedures

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, credit risk and market risk.

Policies and procedures are put in place to reduce the risk exposure of the Company. These policies ensure completion of a regular, detailed review of claims handling procedures and investigation of possible fraudulent claims.

An internal audit function has been established to assess and report on compliance with policies and procedures.

The Company has a policy of actively managing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

Actuarial models, using information from the management information systems and external sources, are used to calculate the outstanding claims liability. Past experience and statistical methods are used as part of this process.

The Company now only issues contract works insurance cover in relation to the settlement of claims and manages associated reinsurance cover, the cost of which is charged directly to claims.

<sup>1</sup> Retained claim event means:

(a) the Canterbury earthquake events occurring between 5 September 2010 and 4 April 2012; and

(b) any other event that occurred prior to 5 April 2012 which entitles the Company to make any claim under any reinsurance contract

### 13. Financial instruments – risk management policies and procedures

#### Financial instrument information and risk management

The key objective of the Company's financial risk management activities is to ensure that the financial assets are managed in accordance with the investment strategy set out in the Crown Support Deed and that sufficient liquidity is maintained at all times to meet insurance liabilities.

The board has delegated the responsibility of monitoring financial assets to the audit and risk committee.

#### Specific financial risks involving financial instruments other than insurance contracts

##### Interest rate risk

Interest rate risk is the risk that arises from fluctuating interest rates in the market. The Company is funded quarterly by the Crown, based on expected cash outflows for that quarter and keeps temporary surplus cash on Call or 32 day maturity deposits with various financial institutions.

##### Credit risk

Credit risk is the risk that a counterparty will fail to meet their contractual commitments in full and on time. Financial assets that subject the Company to credit risk principally consist of cash and cash equivalents and reinsurance receivables.

The maximum exposure to credit risk on receivables at reporting date is the carrying amounts on the statement of financial position. Reinsurance receivables are spread among 26 'A-' or better rated individual reinsurers (Standard & Poors). The largest individual reinsurance receivable comprising 20% of the total reinsurance receivable is rated A-.

Cash and cash equivalents are placed with high quality financial institutions and the amount of credit exposure to any one financial institution is limited. All of these financial institutions are rated 'A' or better by Standard & Poors.

Receivables represent amounts owing by reinsurers for catastrophe claim recoveries and other debtors for insurance claim recoveries. All amounts are considered to be fully recoverable.

##### Liquidity risk

The company's audit and risk committee and treasury function monitor cash flow forecasts and liquidity levels to ensure sufficient funds are available to meet obligations as they fall due. Requests for funding are submitted to the Crown quarterly in accordance with the Crown Support Deed (refer to note 5).

Net discounted outstanding claims liabilities and reinsurance receivables have been determined based on expected payment patterns.

	Net discounted outstanding claims liability		Cash, term deposits and receivables	
	2019	2018	2019	2018
	\$000	\$000	\$000	\$000
<b>Liquidity table</b>				
Cash and cash equivalents	-	-	51,097	32,653
Within 1 year	98,140	232,848	6,687	7,264
Within 1 to 2 years	62,318	155,464	-	-
Within 2 to 3 years	31,315	-	-	-
Within 3 to 4 years	11,875	-	-	-
Within 4 to 5 years	5,081	-	-	-
5+ years	-	-	-	-
	208,729	388,312	57,784	39,917



#### 14. Employee remuneration

	2019	2018
Remuneration band	Number of Employees	
\$470,000 pa - \$479,999 pa	1	-
\$390,000 pa - \$399,999 pa	-	1
\$380,000 pa - \$389,999 pa	1	-
\$360,000 pa - \$369,999 pa	1	-
\$340,000 pa - \$349,999 pa	1	-
\$310,000 pa - \$369,999 pa	1	-
\$300,000 pa - \$319,999 pa	1	1
\$290,000 pa - \$299,999 pa	-	1
\$260,000 pa - \$269,999 pa	-	1
\$240,000 pa - \$249,999 pa	-	2
\$230,000 pa - \$239,999 pa	1	-
\$220,000 pa - \$229,999 pa	-	1
\$200,000 pa - \$209,999 pa	1	-
\$190,000 pa - \$199,999 pa	1	-
\$160,000 pa - \$169,999 pa	2	3
\$150,000 pa - \$159,999 pa	1	2
\$140,000 pa - \$149,999 pa	1	-
\$130,000 pa - \$139,999 pa	1	1
\$120,000 pa - \$129,999 pa	2	3
\$110,000 pa - \$119,999 pa	3	3
\$100,000 pa - \$109,999 pa	6	6

Remuneration includes salary, performance bonuses, redundancy, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees or former employees of the Company, excluding directors.

#### 15. Director remuneration

	2019	2018
	\$000	\$000
Ross Butler (ceased 19 December 2018)	36,000	72,000
Alister James (appointed 20 December 2018)	36,000	-
Anne Urlwin	45,000	45,000
Bevan Killick	36,000	36,000
Jenn Bestwick (ceased 30 September 2018)	9,000	36,000
Susan Thodey (ceased 30 September 2018)	9,000	36,000
	171,000	225,000

The shareholding Ministers approved the above ordinary directors' fees.

## 16. Operating leases

	2019	2018
	\$000	\$000
Future expenses under non-cancellable operating leases:		
Not later than 1 year	321	151
Later than 1 year, not later than 5 years	164	-
Later than 5 years	-	-
	485	151

## 17. Related party transactions

### Remuneration of key management personnel

Key management personnel are executive managers who have authority and responsibility for planning, directing and controlling the activities of the Company.

	2019	2018
	\$000	\$000
Remuneration of key management personnel:		
Short term employee benefits	1,500	1,246

### Transactions with Crown entities

Receivables contain \$2,517 million as at 30 June 2019 (2018: \$4,286 million) for collection from the Earthquake Commission as reimbursement for settlement costs the Company incurred when settling the Undercap portion of customers' claims.

## 18. Capital commitments

At 30 June 2019, the Company has capital commitments of \$nil (2018: \$nil).

## 19. Contingent liabilities and assets

The Company from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business. The Company defends all such claims.

One such proceeding is a representative action filed against Southern Response on 29 May 2018 seeking to represent policyholders that entered into a full and final settlement

agreement with Southern Response prior to 1 October 2014. The Company is defending this claim and because there are a wide range of potential outcomes, any estimate of a possible obligation resulting from this proceeding would be unreliable.

If certain future events occur that transfer the contingent liability into a probable obligation, or provision, the Company has the necessary arrangements in place to meet any such obligation.

## 20. Events after reporting date

On 16 August 2019, a judgment was issued in the High Court in litigation against the Company, resulting in an award of damages of \$178,894 (plus interest and costs). The damages were awarded in relation to causes of action under the Contract and Commercial Law Act 2017 and Fair Trading Act 1986. At the time of signing the financial statements, the Company was still considering its options in relation to the judgment, with an appeal of the judgment being one of the options considered.

There have been no other significant events after the reporting date that are not otherwise disclosed in these financial statements.

## 21. New standards and interpretations

The adoption of standards, interpretations and amendments that became effective in the current year has not led to any changes in the Company's accounting policies with measurement or recognition impact on the years presented in these financial statements.

Specifically, the Company has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2018:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

The classification and measurements of financial assets are aligned with NZ IFRS 9 and there is no impact on the reported balances. There is no impact on the classification and measurement of financial liabilities. The expected credit loss provision did not change from the provision for impairment of receivables as recognized under NZ IAS 39.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Company. Those considered relevant to the Company and their effective dates are:

- |              |                     |            |
|--------------|---------------------|------------|
| • NZ IFRS 16 | Leases              | 1 Jan 2019 |
| • NZ IFRS 17 | Insurance Contracts | 1 Jan 2021 |

NZ IFRS 16 Leases affects the accounting for the Company's operating leases. As at the reporting date the Company has non-cancellable operating lease commitments of \$485,000. The Company expects to recognize right-of-use assets of approximately \$468,000 on 1 July 2019 and lease liabilities of \$471,000. The net liabilities of the Company will be approximately \$3,000 higher.

The Company expects that there will be no material change in net profit after tax for 2020 as a result of adopting the new rules. Operating cash flows will increase and financing cash flows decrease by approximately \$312,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Company will adopt the standard from its mandatory adoption date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Upon preliminary review management do not expect NZ IFRS 17, the Insurance Contracts standard, to have a significant impact on the Company's financial statements, however the Company has not gone to the extent of determining the final impact of the standard.

## 22. Explanation of significant variances against budget

As disclosed in Note 10, the estimation of the ultimate cost of settling earthquake related claims involves a number of key assumptions and is the most critical accounting estimate. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty.

The 2019 financial year budget was approved by the Board in February 2019 and was based on the latest available actuarial valuation at that time. The budget assumes no adjustment to the claims liability or unwinding of the risk margin.

### Statement of comprehensive income

- The Statement of the comprehensive income reflects changes in the Discounted Central Estimate, Risk Margin and Reinsurance. The Budget assumes only changes to discounting to present value occurs. The Risk Margin was kept at the 30 June 2018 value of \$65 million in the budget, but has been reassessed at 30 June 2019 to \$43 million, releasing \$21.7 million as a gain to the income statement. Further favorable to budget variances relating to the movement in the outstanding claims liability of \$22.2 million are largely due to the ultimate number of claims assumption (IBNR) decreasing, and the assumed future contributions from EQC increasing.

### Statement of financial position

- The cash and cash equivalent balance is \$25 million higher than budget due to lower than expected claim payments
- The outstanding earthquake claims liability is \$31 million greater than budget due to the net effect of lower than budgeted claim payments, a reduction of IBNR and a downward revision of the risk margin.

### Statement of cash flows

- Claim payments are \$76 million less than budget, reflecting the slower than budgeted rate of settlements
- Proceeds from the Crown are in total \$45 million less than budget, principally due to a lower than expected claim payment experience.

# Statement of performance

For the year ended 30 June 2019

Strategic objective	Outcome	2018–19 targets	Status
To settle remaining Southern Response 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.	8,132 (97%) of the 8,383 claims notified by 30 June 2018 settled by 30 June 2019.	Met: 8,152 (97%) of the 8,383 claims notified by 30 June 2018 were settled by 30 June 2019.  In total, 8,229 of 8,638 claims were settled by 30 June 2019.
To be customer centric.	Our organisational culture ensures the customer is at the centre of everything we do.	Engage in Customer focus groups and implement appropriate recommendations.	Partially Met: Southern Response engaged Research First to conduct focus groups with customers and staff for insights on improving the customer experience. The results were presented in June with recommendations to be implemented at the start of FY20.
To ensure people are safe.	Everyone involved in a Southern Response claim is safe and their wellbeing is supported by our processes and practices.	Staff wellbeing score.  A minimum score of 90% critical risks assessed as being adequately managed by contractors.	Met: The new Manawaroa Wellbeing Programme was introduced in February 2019 and surveys began in April 2019. No "score" is established but positive wellbeing trends can be seen in the three months of survey data.  Met: The monthly average risks managed have been consistently at least 90% and were above 95% for 7 months of the year.
To have processes that are prudent, robust and responsible.	We achieve fiscal efficiency and comply with legislative requirements.	External audit rating of at least "good".	Met: Ratings of "good" or better were achieved for the 2018–19 annual financial statements audit.
To plan for the end of the Company's operational life.	The Company is ready to transition to a receiving agency as and when appropriate.	Transition Plan is complete and ready to be operationalised (when required) by 31 March 2019.	Not Met: The transition date was extended and therefore a plan was not in place by 31 March 2019. The current planning programme reflects the new 20 December 2019 transition date.



# Directory

## Shareholders

Minister of Finance  
Minister for Greater Christchurch Regeneration

## Registered Office

7 Winston Ave, Papanui, Christchurch 8053, New Zealand

## Office

Christchurch: PO Box 9052, Tower Junction,  
Christchurch 8149  
Phone: 0800 501 525  
Web: [www.southernresponse.co.nz](http://www.southernresponse.co.nz)

## Executive Management

Anthony Honeybone	Chief Executive
Casey Hurren	General Manager Legal and Strategy
Sarah Giles	General Manager Operations and Shared Services
Kate Williams	Senior Finance Manager

## Actuary

Finity Consulting Pty Limited

## Auditor

The Auditor-General pursuant to section 15 of the Public Audit Act 2001.  
Mike Hoshek of Deloitte was appointed to perform the audit on behalf of the Auditor-General.

## Banker

ANZ Bank of New Zealand Limited


## Legal Advisors

Bell Gully  
Buddle Findlay

## Affiliations

Insurance Council of New Zealand, associate member  
Insurance and Financial Services Ombudsman (IFSO) Scheme participant





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