

Reference: 20150259

27 July 2015



Thank you for your Official Information Act (OIA) request, received on 26 June 2015. You requested the following:

“On page 73 it states ‘Finance – EQC (Changed)’

I have asked what why [sic] the nature and/or scale of the risk changed in HYEFU14.

Please could you answer that question specifically please [sic], not a bunch of waffle. Let me be clear:

- 1) Is it a change in nature? If so explain*
- 2) Is it a change in scale? If so explain”*

As previously noted in our response of 25 June 2015 the EQC specific fiscal risk included in HYEFU14 (page 73) relates to the fiscal risk associated with the deficiency in the National Disaster Fund (NDF). As the fiscal risk entry notes “An actuarial estimate of the net claims liability and the rate of settlement is included in the forecasts”. The risk being discussed is the risk that actual costs will be significantly different to what is included in the Crown’s fiscal forecast for HYEFU14.

1) Is it a change in nature? If so explain

There was a change in nature of the risk at HYEFU14. As noted in the EQC specific fiscal risk the NDF cash deficiency was likely to arise towards the end of the financial year (or early 2015/16). This was different to the risk at PREFU14 (the previous time the risk was disclosed) where the deficiency was expected to arise in the 2014/15 financial year. In addition, at HYEFU14 consideration of the risk associated with the declaratory judgment that was being sought with regards to the nature of EQC’s cover in relation to properties with increased flood and liquefaction vulnerability was highlighted within the EQC specific fiscal risk section.

Attachment One below highlights, in red type, these differences in the risk arising from potential changes in nature from PREFU14 to HYEFU14.

2) Is it a change in scale? If so explain

There was no change in scale. At HYEUFU14 and at the previous forecasts it was considered that the actual cash deficiency in the NDF could be \$100 million higher, or lower, than was forecast.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Angela Graham
Acting Manager, Commercial Advice

Attachment One: EQC Specific Fiscal Risk at HYEFU14 and PREFU14

HYEFU14 page 73 – Published 16 December 2014

Finance – EQC (Changed)

EQC is forecasting a cash deficiency in the National Disaster Fund (NDF) arising towards the end of the financial year (or early 2015/16). Under section 16 of the Earthquake Commission Act 1993 the Crown shall provide funding to meet a deficiency in the NDF. Such funding will impact net debt but not the operating balance or OBEGAL. The financial position of EQC and the amount of any Crown funding carry a high level of uncertainty owing to the nature of EQC's claims liability. An actuarial estimate of the net claims liability and its rate of settlement is included in the forecasts; however, the estimates are sensitive to underlying assumptions such as damage estimates, legal challenges, reinsurance recoveries and the forecast profile of settlements. Of particular note is the declaratory judgment currently being sought to clarify the nature of EQC's cover in relation to properties with increased flood and liquefaction vulnerability. The Crown's financial position may be adversely impacted if these assumptions are modified over time. Because the net claims liability is large, small percentage changes in the liability can have a material impact on costs and forecasts.

PREFU14 page 70 – Published 19 August 2014

Finance – EQC (Unchanged)

EQC is forecasting a cash deficiency in the National Disaster Fund (NDF) arising in the 2014/15 financial year. Under Section 16 of the Earthquake Commission Act 1993 the Crown shall provide funding to meet a deficiency in the NDF. Such funding will impact on net debt but not the operating balance or OBEGAL. The financial position of EQC and the amount of any Crown funding carry a high level of uncertainty owing to the nature of EQC's claims liability. An actuarial estimate of the net claims liability and its rate of settlement is included in the forecasts; however, the estimates are sensitive to underlying assumptions such as damage estimates, legal challenges, reinsurance recoveries and the forecast profile of settlements. The Crown's financial position may be adversely impacted if these assumptions are modified over time. Because the net claims liability is large, small percentage changes in the liability can have a material impact on costs and forecasts.