

The Treasury

Briefing to Incoming Minister Responsible for the Earthquake Commission Information Release

September 2019

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Treasury Report: Earthquake Commission and Southern Response: Briefing for Incoming Minister

Date:	11 July 2019	Report No:	T2019/1964
		File Number:	TY-2-1-17 (Disaster Insurance)

Action Sought

	Action Sought	Deadline
Hon Grant Robertson Minister of Finance Minister Responsible for the Earthquake Commission	Note the contents of the report Agree to meet with officials to discuss the content of this report	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
David Irwin	Senior Analyst, Earthquake Commission Policy Team	[39]	N/A (mob) ✓
Steve Cantwell	Acting Manager, Earthquake Commission Policy Team	[23]	

Actions for the Minister's Office Staff (if required)

None

Note any
feedback on
the quality of
the report

Enclosure: Yes (attached)

Treasury Report: Earthquake Commission and Southern Response: Briefing for Incoming Minister

Executive Summary

This report provides a briefing to you as the Minister Responsible for the Earthquake Commission (MREQC), on the Earthquake Commission (EQC) and Southern Response Earthquake Services Limited (SRES), an overview of Treasury's policy, monitoring and coordination role for EQC and SRES, and information on key work-streams and upcoming Treasury advice.

The key issues that will require immediate attention concern the Canterbury *on-sold* problem and SRES litigation issues. ^[33] ^[34]

Additional briefings are being prepared for you on these risks, and the underlying issues.

The medium term issues summarised in this report (refer to table 1) relate to other matters regarding the EQC, from risk financing, the Natural Disaster Fund and the Crown guarantee, to Board appointments, Ministerial directions, and the Public Inquiry into the Earthquake Commission (Public Enquiry). Additional matters around the transition of SRES and ^[33] are addressed. Insurance market issues concerning the recent increases in residential insurance premiums and issues around accessibility are also raised.

Recommended Action

We recommend that you:

- **note** the immediate issues detailed in this report are: EQC *on-solds* and SRES litigation issues.
- **note** the medium term issues detailed in this report are: insurance market issues, the Public Inquiry, the second Review of the EQC Act, the SRES transition, EQC financing issues, the Natural Disaster Fund and the Crown Guarantee, Board Appointments, and Ministerial Directions.
- **note** that officials will meet with you on 15 July to discuss options around on-solds;
- **agree** to meet with officials to discuss the contents of this report and the upcoming issues which will require Ministerial decisions.

Agree/disagree.

Steve Cantwell
**Acting Manager Earthquake
Commission Policy Team**

Hon Grant Robertson
**Minister Responsible for the Earthquake
Commission**

Treasury Report: Earthquake Commission and Southern Response: Briefing for Incoming Minister

Purpose of Report

1. This report provides you with summary information relating to the governance and oversight of the Earthquake Commission (EQC) and Southern Response (SRES), an overview of Treasury's policy, monitoring and coordination role in this space, information on key work-streams and upcoming Treasury advice.
2. Ministerial decisions that will be required in coming months can be separated into "immediate" and "medium term" issues, and are outlined below.

Table 1: Ministerial Decisions: next steps/timing

<i>Issue</i>	<i>Document/report and timing</i>
A. Immediate issues	
EQC On-solds	Treasury Report, 11 and 19 July. Cabinet paper, 25 July.
EQC	EQC Briefing - Cabinet paper: EQC Readiness Strategy 17 July Treasury Report 22 July – Update on EQC enhanced monitoring
SRES Litigation	Treasury Report, 17 July (Crown Law advice on certain legal issues) Cabinet Paper, Jul/Aug (if required) regarding updated and revised Indemnity [33]
B. Medium term issues	
Insurance Markets	Treasury Report, 15 July. Cabinet paper: Property Insurance Markets: updates and next steps
Public Enquiry	None at this time.
SRES Transition	Aide Memoire, 25 July (Update on project to determine recommended transition) Treasury Report, Aug/Sep (Treasury advice on SRES proposed transition)
2 nd Review of EQC Act	Treasury Report, August.
EQC Financing issues	None at this time.
Crown Guarantee	As required.
Board Appointments	Treasury Report, September, on the process of addressing the terms of three Commissioners, whose terms on the EQC Board expire in February 2020.
Ministerial Directions	Treasury Report, 15 July – Historic EQC Ministerial Directions [33]

A: Recent and current policy initiatives

3. The previous Minister Responsible for the Earthquake Commission (MREQC), Hon Dr Megan Woods, oversaw key changes to the policy environment surrounding EQC, as well as interventions designed to help resolve the remaining claims from the Canterbury earthquakes of 2010 and 2011.

4. In February 2018, the Minister appointed an Independent Ministerial Advisor (IMA), Christine Stevenson, to work with the EQC Board and management to make recommendations for operational and other changes that would assist in speeding up the resolution of outstanding Canterbury claims. The EQC Board accepted all recommendations in the IMA report that related to EQC's capability and operations, and are in the process of implementing them.
5. The Minister established the DPMC-led cross-agency taskforce to consider the IMA's recommendations and provide advice to Ministers on the timely, fair and enduring settlement of the outstanding Canterbury earthquake claims.
6. Following the wind-up of the DPMC-led cross-agency taskforce on Canterbury insurance issues in August 2018, Treasury was allocated responsibility for maintaining oversight and co-ordination of all Canterbury insurance related work programmes.
7. The EQC Amendment Act 2019 was given assent on 18 February 2019. It made four focussed changes to the EQC Act (i.e. that EQC exit contents cover, increase the monetary cap on EQC building cover to \$150,000, plus GST, extend filing deadlines for EQC claims, and facilitate easier information sharing).
8. MBIE established the *Greater Christchurch Claims Resolution Service (GCCRS)* in October 2018, providing an integrated claims management service (including an internal dispute resolution service which can make binding determinations) to help reach more timely, fair and enduring settlement of outstanding claims.
9. Following on the policy of providing claimants with more options to settle their unsettled earthquake claims, the Ministry of Justice created the *Canterbury Earthquakes Insurance Tribunal (CEIT)* in June 2019. Like the *GCCRS*, the *Tribunal* provides another alternative to litigation, to help claimants find a way to resolve their outstanding claims with their insurer.
10. There are however critical issues of law and interpretation that are impediments to the resolution of claims. The on-sold property situation is an example of complex legal issues constraining the resolution of certain claims (refer to paragraph 12 below). The previous MREQC had commissioned the Treasury to provide advice on how to address this issue, which will be presented to you in early July 2019.
11. EQC is working with Land Information New Zealand (LINZ) on the practicalities of making property-related claims information held by EQC available through a public-facing database. This is expected to be available to the public later in July 2019. This will give purchasers of quake-affected properties the ability to access whatever information is available about a property, in order to make a more informed decision about whether to purchase a property, on what conditions, and at what price.

B: Key upcoming decisions

Immediate issues

EQC On-solds

12. In August 2018, the Cabinet endorsed a package of initiatives designed to achieve the timely, fair and enduring resolution of outstanding Canterbury earthquake claims. The package included responding to the recommendations of the Independent Ministerial Advisor (IMA) regarding a group of property owners of on-sold properties, who face an uncompensated loss.

13. The EQC scheme provides insurance cover for Canterbury earthquake damage that is capped at \$100k (plus GST). As such, on sold over-cap customer claims (“*on-solds*”) were originally seen to arise when:
 - a. the purchaser of a property reverts to EQC with issues about work carried out through an EQC managed repair; or damage un-scoped by EQC, in respect of a claim that had been settled on an under-cap basis with the original owner; and
 - b. further work required to fix the identified issues takes the claim over the EQC cap; and
 - c. the purchaser is unable to recover from the original owner’s insurer the over-cap (and other) costs associated with the damage.

14. [33]

SRES litigation matters

15. SRES has settled over 94 percent of the over-cap and under-cap claims reported to it as at 31 March 2019. However, a portion of unresolved claims are in dispute and there are some claimants seeking to reopen claims previously considered settled. SRES is actively seeking to resolve disputed claims utilising alternative dispute resolution channels (including the *Greater Christchurch Claims Resolution Service*). However, some claims will inevitably end up being litigated. Where there are significant groups of actual or potential claimants, there can also be significant fiscal risks for the Crown. To enable SRES to continue to focus on the resolution of claims, in your capacity as Minister of Finance, you have provided SRES with a Deed of Indemnity in relation to certain litigation.
16. The most significant type of claimants who are currently seeking, or may potentially seek, to re-open their claims are those who settled prior to the *Southern Response v Avonside Holdings Ltd* decision. In addition to the Ross class action which is proceeding through preliminary hearings, the Crown assumed control of a case against SRES (the *Dodds* case) which involved similar issues to those in *Ross*. The case was heard in March but the judgement of the Court has yet to be delivered. Once a decision is released, the Treasury will engage with Crown Law and SRES to provide advice on recommended next steps in relation to these matters.
17. Treasury officials have prepared a separate paper on the fiscal risks to the Crown in relation to current and potential litigation (including litigation against SRES), which is being provided at the same time as this briefing. In addition, officials have sought and received advice from Crown Law on legal issues which will be submitted to you in a separate report.

Medium term, substantive issues

Insurance market issues

18. New Zealand’s property insurance markets are undergoing significant changes. There appear to be significant price increases in some areas and for certain property types.
19. Use by insurers of more risk-based pricing, and potentially more selective coverage based on geography and dwelling type, could reduce the effectiveness of insurance at managing the cost and impact of natural hazards. Widely-held property insurance helps manage the social and economic costs for property owners, and potentially fiscal costs for the government if called upon, in the event of a natural disaster. However,

insurance pricing that better reflects risk could improve incentives to mitigate risk over time.

20. The Treasury is investigating pricing and access in property insurance markets and what, if any, policy interventions are required. The first stage of the Treasury's work will be to obtain more comprehensive information on the nature and extent of the changes in property insurance markets and the drivers behind them. ^[33]

21. The Treasury will brief you on the proposed insurance markets work programme, including timing of further advice to you, on 15 July 2019.

Southern Response transition planning

22. SRES signalled earlier this year that as the bulk of the processing for claims from AMI residential policyholders nears completion, it is assessing how to:
 - a. rearrange the company's operations to effectively and efficiently process outstanding claims (its operating requirements); and
 - b. manage claims which are in dispute, and ensure that it continues to fulfil remaining legal obligations and provides the Board and shareholders sufficient and appropriate information for decision-making (its legal and governance requirements). This includes requirements for ^[33] financial reporting and archiving case files and other information.

23. Management's recommendations for these arrangements are expected to be submitted to the Board and shareholding Ministers for consideration around September 2019, with a currently targeted transition date of 31 December 2019.

24. ^[33] ^[34]

25. SRES's assessment process and the prospective timing of any transition are broadly referred to in the key assumptions contained in its 2019/2020 Statement of Performance Expectations (SPE) that was presented to the House of Parliament on 27 June 2019.

26. ^[33] ^[34]

27.

Public Inquiry into the EQC

28. Formally launched on 16 November 2018, the Public Inquiry into EQC (Public Inquiry) led by Dame Silvia Cartwright (its sole member), is a public inquiry under the Inquiries Act 2013 (Section 6(2)). It has all the powers and protections of a Royal Commission and is independent of Ministers and officials. Its conduct and operations are the sole responsibility of the Inquiry. DPMC hosts the Inquiry secretariat in Christchurch.
29. The purpose of the Public Inquiry into the EQC, is to learn lessons from the Canterbury earthquakes and ensure that the EQC has the appropriate policies and operating structures in place to ensure improved claims management experiences in the future.
30. The Inquiry is required to report its findings and recommendations by March 2020, although it is hoped this will occur by the end of 2019. The Treasury intends to utilise the findings and recommendations of the Inquiry to inform further policy work, including, where practical, the review of the EQC Act.

2nd Review of the EQC Act

31. The EQC Amendment Act 2019 was assented on 18 February 2019. It made 4 focussed changes to the EQC Act (i.e. that EQC exit contents cover, increase the monetary cap on EQC building cover to \$150,000, plus GST, extend filing deadlines for EQC claims, and facilitate easier information sharing).
32. The Cabinet policy paper that proposed that EQC Bill also noted the intention of the previous MREQC to introduce a more comprehensive EQC amendment bill following the Public Inquiry into EQC (CAB-18-MIN-0081 refers). Broadly, the motivation for a further bill is to ensure the EQC Act is updated to reflect lessons from its operation to date, and is better positioned to deal with future challenges.
33. Treasury officials had an initial discussion with the previous MREQC regarding this work in February 2019 (see attached T2019/77 “A Future EQC Act: High-Level Policy and Design Issues”). At that discussion, it was agreed that officials would report on other design options and international comparators as well as the existing EQC scheme, and that preliminary policy work to support a future review of the EQC Act could usefully proceed in 2019. Final policy decisions would be made after the Public Inquiry reports, so those decisions can be informed by, and respond to the Inquiry’s findings.
34. If you are also interested in an information briefing on high-level objectives and design options and other countries’ approaches to publicly-mandated catastrophe insurance schemes, we would aim to provide you that report for discussion in August.
35. The investigation and reporting on current insurance market issues, described in paragraph 19, was started after the February meeting on EQC issues. There are inter-dependencies between the work and advice on insurance market trends, and work on future EQC objectives and design, as the EQC is a significant existing government intervention in those markets. Our current thinking is that the next substantive reporting on options for taking forward the review of the EQC Act would form part of, or accompany, the November reporting on insurance market trends.
36. If the review of the EQC Act proceeds in the phases broadly envisaged in T2019/77, timings will be later than envisaged in that report, due to the connection with the insurance markets work, and the recent deferral to 31 March 2020 of the deadline for the final reporting date of the Public Inquiry.
37. We would appreciate your feedback on the intended ambition and timing of the review of the EQC Act, and any issues you wish this work to address.

EQC Risk Financing Issues

Background

38. EQC's risk financing strategy is to ensure EQC has access to sufficient financial resources to meet the potential liabilities arising from the scheme, and balancing competing interests around the capital structure that supports it. For example, the balance between reinsurance and self-insurance via the Natural Disaster Fund (NDF). This includes a focus on premium adequacy, risk transfer, the Crown guarantee and investment income.
39. The NDF is currently exhausted after recent earthquakes claims. The rebuild of the NDF, which will serve as a pool of assets to meet future claims, will start in approximately 2021. It is financed from the EQC's spare capital after claims, operating expenses, and reinsurance premiums. EQC's Statement of Performance Expectations 2018/19 indicates that the forecast spare capacity enables a rebuild of the NDF to reach the EQC's current reinsurance deductible (\$1.75 billion) by 2030, in the absence of any more significant natural disasters.

Risk appetite

40. The rebuild of the NDF presents an opportunity to set risk appetite to influence the choice between buying resilience through reinsurance and building resilience through building the NDF. It includes the relationship between the speed of rebuilding the fund and the risk exposure to the Crown's balance sheet today.
41. The Crown risk appetite together with EQC's assessment of the probable maximum loss¹ effectively places a floor on the size of EQC's risk transfer programme through reinsurance or the NDF. This enables EQC to effectively manage its financial risks, thereby reducing the likelihood of triggering the Crown guarantee.

Process update

42. The Treasury and EQC are engaging with regard to establishing an integrated risk financing framework incorporating Crown risk appetite. [33]

reinsurance strategy discussion in November. This process is likely to be iterative, with continual improvement incorporated on an annual basis.

43. As the NDF rebuild draws closer, Treasury officials will proactively work with the EQC to consider the future state of the NDF's investment strategy, including investment mandate and operating model.

Crown Guarantee and NDF

44. As a result of the Canterbury and Kaikoura earthquakes, it has been necessary since November 2018 for the Crown to fund cash shortfalls in the NDF in accordance with section 16 of the EQC Act (the Act).
45. Section 16 of the Act provides that, if the assets of EQC are not sufficient to meet the liabilities of EQC, then the MREQC shall provide EQC with such sums by way of a grant or advance as may be necessary to meet the deficiency upon such terms and conditions as the Minister determines.
46. In order to operationalise section 16 of the Act, the previous MREQC and EQC finalised the EQC Deficiency Funding Deed (the Deed) on 18 September 2018. The Deed sets out the process by which payments to EQC under section 16 of the Act are

¹ The probable maximum loss is the estimated upper bound of the potential losses that could be incurred by EQC from a significant loss event.

to be operationalised (refer T2018/1373). The Deed ensures that EQC has an operational buffer of \$50m in order for EQC to meet its normal business expenses and its quarterly reinsurance premiums.

47. The previous MREQC has delegated to the Secretary to the Treasury (and any person in that role from time to time) the authority to assess and finalise the shortfall amounts and authorise payments in accordance with the Deed, subject to a monetary limit of \$60m (exclusive of GST) per individual payment (refer T2018/2708). Any individual payment request above \$60m (exclusive of GST) is subject to the approval of the MREQC. The delegation provides the Secretary to the Treasury with the right to sub-delegate all or any of the authority and powers delegated by the MREQC. The delegation came into effect on 26 September 2018 and continues in force until revoked in writing by the MREQC.
48. For the 2018/19 financial year, \$125m of Crown guarantee funding was provided to EQC.
49. EQC provides the Treasury with weekly and monthly cash flow forecasts. The Treasury analyses these cash flow forecasts and discusses them with EQC management in order to assess whether a cash flow shortfall is likely to eventuate. Based on the latest EQC cash flow forecasts, the Treasury has assessed that EQC will require a further \$40m (excluding GST) shortfall payment by 1 August 2019. The Treasury has provided you with an Aide Memoire setting out the details of this shortfall payment (refer to T2019/1962).
50. In addition, based on these latest EQC forecasts around a further \$103m of Crown guarantee funding may be required in the 2019/20 financial year. At this stage, no additional Crown guarantee funding is expected to be required after June 2020. These forecasts have been incorporated into the 2019 Budget Economic and Fiscal Update (BEFU).

C: Background

EQC and SRES Statutory Function, Ministerial Directions, Minister Responsibilities and Board Appointments

Statutory Function

51. EQC administers New Zealand's main source of residential natural disaster cover and is a key contributor to the management of natural disaster risk. EQC's empowering legislation is the Earthquake Commission Act 1993 (the EQC Act) and as a Crown Entity it is also subject to the Crown Entities Act. Both of these Acts are administered by the Treasury².
52. EQC's functions under Section 5 of the EQC Act are:
 - a. administering the insurance against natural disaster damage provided under the EQC Act;
 - b. collecting premiums payable for the insurance;
 - c. administering the Natural Disaster Fund (NDF) and (as far as is reasonably practicable) protecting its value, including investing money held in the NDF;
 - d. obtaining reinsurance in respect of the whole or part of the insurance provided;

² The Crown Entities Act is jointly administered by the Treasury and the State Services Commission
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- e. facilitating research and education relevant to reducing and preventing natural disaster damage, and the insurance provided under the EQC Act; and
 - f. any other functions conferred by the EQC Act, or by the Minister, in accordance with the Crown Entities Act 2004.
53. SRES is a Public Finance Act Schedule 4A company. Its core purpose is to settle insurance claims made by AMI policyholders arising from the Canterbury earthquakes up until 5 April 2012, in a timely and fair manner, within the terms of the insurance policy and existing funding arrangement. The company does not take on new insurance business except to the extent that it is ancillary to its claims management business.

Ministerial Directions

54. The MREQC has the power (under section 103 of the Crown Entities Act) to direct EQC to give effect to a government policy that relates to its functions and objectives. EQC, like other Crown entities, can also be required to comply with whole-of-Government directions made by the Minister for State Services and the Minister of Finance. In addition the MREQC can add to EQC's functions (as set out in section 5 of the EQC Act), and can direct EQC to perform that additional function (see section 112 of the Crown Entities Act, and section 5 of the EQC Act).
55. In the past, the MREQC has made directions to EQC to give effect to government policy, and has also directed it to perform additional functions. Treasury has recently undertaken a review of the Ministerial Directions to determine which ones remain in force, and which ones are required to be reviewed by the Minister as required by section 115A of the Crown Entities Act, because they have been in force for longer than five years (refer to T2019/954).
56. The process for review of these Ministerial Directions requires the Minister to consult with the EQC. We recently provided the previous MREQC with a report advising her of the requirement to review the Directions, and providing her with a draft letter to the Chair of the EQC Board consulting him about the review. Due to the change in Ministerial responsibilities, the previous Minister for EQC was unable to review the report and send the letter to the Chair of EQC. Accordingly, we are updating the report (and the draft letter to the Chair of EQC) which we will send to you for your consideration next week. Once you have consulted with EQC, we can provide you with further recommendations about which Ministerial Directions should continue in force or should be revoked, taking into account any feedback from the EQC.
57. We intend to consider any further technical issues relating to ministerial directions as part of the next review of the EQC Act.

MREQC and Minister for Greater Christchurch Regeneration Responsibilities

58. The Ministerial responsibility for the EQC and the Canterbury earthquake recovery process is shared between two Ministerial portfolios. The split in responsibilities is summarised below.
59. The responsibilities of the MREQC include:
- a. Administering the insurance against natural disaster damage provided under the EQC Act.
 - b. Oversight of New Zealand's main source of residential cover as provided for by the EQC Act.
 - c. Sole oversight of the EQC.

- d. Responsible Minister for, and one of two shareholding Ministers in, SRES, a Schedule 4(a) company under the Public Finance Act.
 - e. Reporting back to Parliament on the independent EQC Inquiry led by Dame Silvia Cartwright.
60. The Prime Minister has transferred one of the 50 percent shareholdings in SRES (but not the Ministerial responsibility for SRES) to the Minister for Greater Christchurch Regeneration, with you retaining the 50 percent held in your capacity as the Minister of Finance. The Inquiry into the EQC is also within the MREQC's portfolio. We have discussed the possibility of the Minister for Greater Christchurch Regeneration having responsibility for the EQC Inquiry with the Cabinet Office which advises that this would need the Prime Minister's agreement (which has not yet been received) and would then require a transfer rather than a delegation.

Finance delegations

61. The EQC Act sets out a number of statutory roles for the responsible Minister. Until December 2011, those responsibilities were part of the Finance portfolio, and the EQC Act defines "Minister" as being the Minister of Finance. In December 2011, a Minister Responsible for EQC was appointed, and the Prime Minister authorised that Minister, under section 7 of the Constitution Act 1986, to exercise any of the Minister of Finance's functions, duties or powers under the EQC Act. That authorisation has been repeated with each new appointment until now. It is the view of the Cabinet Office and Crown Law that the responsibilities under the EQC Act now fall back to their statutory basis and sit with the Minister of Finance. Therefore in exercising the powers of the Minister of Finance under the EQC Act, you will be exercising them as the Minister of Finance, not as the Minister Responsible for EQC. The Treasury can provide advice on the usual processes that can be put in place should any conflict of interest arise.

Board Appointments

Earthquake Commission

62. The current EQC Board composition and term lengths are outlined below:

Table 2. EQC Board as at 1 July 2019

Board Member	Appointed	Term end	Skills and experience
Hon Sir Michael Cullen (Chair)	1 Oct 2018	30 June 2021	Leadership, senior government policy, finance, government relations
Mary Jane (MJ) Daly (Deputy Chair)	14 Mar 2014	29 Feb 2020	CFO, banking, finance, insurance, risk management, audit
Toni Ferrier	1 Jul 2018	30 June 2021	Leadership development, business transformation, insurance, law
Paul Kiesanowski	14 Mar 2014	29 Feb 2020	Accountancy, financial management, risk management, assurance, auditing, mergers and acquisitions, raising capital
Dr Alison O'Connell	1 Sep 2013	30 Jun 2020	Actuarial, research, strategic planning and policy advice in financial services including longevity, pensions, ageing, risk management, and reinsurance
Dr Erica Seville	1 Jul 2018	30 June 2021	Risk management, infrastructure resilience, organisational resilience

63. The term of Tim Hurdle expired on 30 June 2019 and he was not reappointed. This was to enable future board membership to be considered in one round later this year. In the interim, the Board can operate with six members, as other current members can contribute many of the skills offered by Mr Hurdle. Following new appointments in 2018 (Dr Cullen, Dr Seville and Mr Ferrier), the board is well balanced in terms of skills. This balance, however, is likely to change in 2020 as the terms of long-standing members MJ Daly and Paul Kiesanowski expire on 29 February 2020 and Alison O’Connell on 30 June 2020.

Southern Response Earthquake Services Ltd

64. The Board of SRES can have between 3 and 7 members; the membership of the Board had been five for a number of years but it reduced to three members in 2018. The Chair was appointed late in December 2018 following the resignation of the previous Chair, Ross Butler. The current SRES Board composition and term lengths are outlined below:

Table 3. SRES Board as at 1 July 2019

Board Member	Appointed	Term end	Skills and experience
Alister James (Chair)	20 Dec 2018	30 June 2022	Leadership, law, strong local connections
Anne Urlwin (Deputy Chair)	5 April 2012	30 June 2021	Insurance, infrastructure, and regulatory experience, chartered accountant; head of the audit & risk committee
Bevan Killick	5 April 2012	30 June 2020	Insurance and reinsurance

Treasury’s policy, oversight and monitoring role

Canterbury insurance claims resolution oversight

65. As part of Treasury’s oversight role in the Canterbury claims resolution process, we have engaged with EQC, SRES and private insurers to develop a more consistent framework for reporting on the resolution of residential Canterbury earthquake insurance claims to the MREQC. In addition, Treasury consults with MBIE on the performance and progress being made by the alternative pathway to claims settlement that have been established under the GCCRS, and with the Ministry of Justice more recently, with the establishment in June of the CEIT.

66. The future trend of the total number of unresolved claims is uncertain. Insurers will continue to make progress in resolving the number of unresolved property claims. However, this process will be complicated by the issue of the reopening of previously closed claims and on-solds, caused in many instances by missed scoping, failed repair strategy, and quality of repair issues. [33] [34]

Insurance markets policy advice

67. The Treasury is responsible for providing advice on insurance markets generally, in addition to EQC policy advice and monitoring (DEV-18-MIN-0150 refers).

68. The Government is currently reviewing or implementing a number of initiatives that directly relate to insurance markets, including the regulation on insurer conduct, central government risk financing and local government risk management. We will provide further information on these initiatives and their potential impact on property insurance

markets on 15 July 2019 in the briefing on the proposed insurance markets work programme. We are engaging with the agencies leading these workstreams to ensure they are aware of the broader insurance-related initiatives and are coordinating where relevant.

69. In addition, issues in insurance markets, such as high premiums or lack of insurance and/or reinsurance availability, can be a symptom of broader issues. Insurance is just one aspect of the broader natural hazard risk management framework. Work is being undertaken across government to mitigate or avoid natural hazard risks, including risks exacerbated by climate change. The Resilience Group of Ministers, supported by the Department of Internal Affairs' Community Resilience Group, is the key forum for Ministerial and inter-agency coordination on wider natural hazard risk work. The Treasury and EQC are leading the insurance markets workstream of the Community Resilience Group, which provides a venue for informing other agencies about the changes in insurance markets.

Monitoring advice

70. The Treasury is the agency responsible for monitoring both EQC and SRES. Due to the number of complex issues (operational transformation and legal matters) that both EQC and SRES are facing, Cabinet approved resource for enhanced monitoring framework in August last year.
71. The Treasury's current focus / priority areas with regard to monitoring EQC include the following:

Organisational strategy: Recent changes to operating models (including changes to the leadership structures) and work on the more forward-looking Readiness strategy (and the related Cabinet process) are included within this focus area. EQC has continued its programme of work to deliver its transformation strategy over the last year, and the Treasury will continue to monitor progress with delivery of the programme against its expected outcomes as significant organisational changes carry execution risks.

Operational capability and capacity: In particular, the adequacy of IT and data management systems (both current and future) is an ongoing area of focus for the Treasury. In addition, assessing claims resolution targets, reasons for re-opened claims, drainage issues and the adequacy of provisions for the outstanding claims are all key areas of focus and require risk mitigation strategies.

Greater Christchurch Claims Resolution Service (GCCRS): In Treasury's EQC and SRES monitoring role, the focus is on integration of the GCCRS with both EQC and SRES and the impact on both EQC and SRES's ability to meet claims resolution targets.

Insurer finalisation: The Treasury is focused on potential Crown fiscal implications as well as the implications for both private insurers and reinsurers.

Litigation strategy: The Treasury and Crown Law monitor and report on key legal issues, including with regard to test cases. EQC's recently changed legal strategy with regard to settling disputed claims is being assessed by Crown Law and the Treasury. The Treasury notes the significant impact that litigation can have on the Crown's fiscal position.

Reinsurance and risk financing: EQC and the Treasury are engaging with regard to establishing an integrated risk financing framework incorporating Crown risk appetite, the Crown guarantee fee, levies, the Natural Disaster Fund (NDF) and reinsurance.

72. The Treasury will provide an EQC enhanced monitoring update report to you on 22 July 2019. The report will review the risks and mitigation strategies in each of the focus areas in order to risk rate each focus area.
73. The Treasury current focus / priority areas with regard to monitoring SRES include the following:

Litigation strategy: The Treasury and Crown Law monitor and report on key legal issues, and with regard to cases with significant precedent value (including test cases). SRES faces a number of legal issues with regard to settling disputed claims. The Treasury and Crown Law continue to monitor and report on these legal matters due to the significant impact litigation can have on the Crown's fiscal position.

Greater Christchurch Claims Resolution Service (GCCRS): In Treasury's EQC and SRES monitoring role, the focus is on inter-relationships between the GCCRS, EQC and SRES to ensure effective and efficient claims resolution pathways (without unnecessary duplication within each process) and the impact on both EQC and SRES's ability to meet claims resolution targets.

Transition strategy: As described in paragraphs 22-27, SRES is considering its transition options and the Treasury will provide advice to shareholding Ministers on the company's recommended transition approach (and to you as MREQC, if it is proposed [33])

74. The Treasury will brief you on these focus areas in a series of subsequent, targeted briefings over July and August.

D: Primary Contacts

Table 4: Treasury, Primary contacts

Commercial Performance: Commercial oversight of EQC, SRES, EQC Financing issues, Government Guarantee, NDF		
Shelley Hollingsworth	Manager, Commercial Performance	[23] [39]
Lars Piepke	Principal Advisor, Commercial Performance	
David Stanley	Principal Advisor, Commercial Performance	
EQC Policy: Review of the EQC Act, EQC policy issues, coordination and oversight of the Canterbury claims resolution process, lead Treasury coordination with Inquiry into the EQC.		
Helen McDonald	Manager, EQC Policy	[23] [39]
Steve Cantwell	Principal Advisor, EQC Policy	
Craig Fookes	Principal Advisor, EQC Policy	
Financial Markets: Insurance Markets		
Dasha Leonova	Manager, International (Overseas Investment) and Financial Markets	[23] [39]
Robbie Taylor	Team Leader, Financial Markets	
Sam Thornton	Senior Analyst, Financial Markets	
Capital Markets: Financial Institutions: EQC Risk Financing Framework		
Joseph Sant	Manager, Capital Markets	[39]
Jennifer Xie	Analyst, Capital Markets	