

# The Treasury

## Letters of Expectation Information Release

August 2021

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# Hon Dr David Clark

MP for Dunedin

Minister of Commerce and Consumer Affairs  
Minister for the Digital Economy and Communications  
Minister for State Owned Enterprises  
Minister of Statistics  
Minister Responsible for the Earthquake Commission



18 FEB 2021

Mary-Jane Daly  
Chair  
Earthquake Commission  
PO Box 790  
WELLINGTON 6140

[23]

Dear Mary-Jane

## 2021/22 OWNER EXPECTATIONS FOR THE EARTHQUAKE COMMISSION

I am writing to outline the matters that I expect the Board of the Earthquake Commission (EQC) to address in the 2021/22 business planning round.

### Government priorities and the response to COVID-19

The COVID-19 pandemic brought unexpected challenges for all New Zealanders. The response to COVID-19 will be of central importance in the coming year. The Government has three overarching objectives: continuing our health response to keep New Zealanders safe from the virus, accelerating the economic recovery from COVID-19 and laying the foundations for a more sustainable and equitable future.

Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality in light of the challenges caused by climate change. The Government will also be focused on supporting small businesses, training and job creation opportunities for workers and businesses and delivering programmes to bolster New Zealand's exports.

Companies and entities that are owned by the Crown will play a role in supporting the response to COVID-19 and social and economic recovery. During 2020 Crown entity and company boards outlined the challenges that they have faced and the strategies that boards have adopted to respond. We expect that you will continue to advise Ministers this year, well in advance of any emerging issues.

The responsible management of Crown-owned company assets and finances, including sound investment and careful control of debt, can also make an important contribution to the COVID-19 recovery ambitions of New Zealanders.

Through the evolving and uncertain COVID-19 environment, we expect that you will continue to focus on meeting your obligations under the EQC Act. In doing so, we ask that you consider the impact of your decisions on your staff and suppliers.

This letter contains the following information:

- my specific expectations for EQC;
- general expectations for the companies and entities owned by the Crown; and
- the timeline for the 2021/22 business planning process and governance information (Annex 1).

### **Entity-specific expectations**

#### *Customer Service Focus*

It is my expectation that all claims (whether they are managed by EQC or a third party) will be dealt with fairly, efficiently and with empathy. Settlements are to be of an enduring nature, minimising the number of settled claims required to be reopened.

#### *Readiness Strategy*

I recognise that significant work has been carried out on EQC's Readiness Strategy and agreements have been concluded with most of New Zealand's private insurers to build the Insurer Response Model (IRM), allowing insurers to manage and settle claims on EQC's behalf. It is my expectation that robust data management systems, procedures and assurance programmes will be put in place to ensure that claims are settled in compliance with the EQC Act on a fair and consistent basis across all insurers, and that the opportunities for fraud are minimised. I also expect EQC to collect claims and exposure data from private insurers to support EQC's functions and help inform New Zealand's risk profile.

It is my understanding that the IRM will enable the settlement of around 100,000 claims in a 12-month period. It is my expectation that EQC will also continue to develop contingency plans to manage significant natural hazard events.

#### *Resilience and Education*

I expect EQC to continue to implement its Resilience Strategy and to invest in science, research and education, with the goal of encouraging better practices in natural hazard risk management and helping inform New Zealanders of practical steps that can be taken to protect their families and their homes from harm caused by natural disasters. I am aware that EQC has a workstream underway for ongoing investment in, and development of, its loss modelling capability to enable its reinsurance programme. I expect EQC to continue to keep Treasury informed of its progress in implementing this capability.

#### *EQC Risk Financing Framework*

It is my expectation that EQC will continue to develop its risk modelling and financial modelling to enable it, in consultation with Treasury officials, to develop an appropriate overall risk financing framework. This will include the development of an array of options to rebuild the Natural Disaster Fund in a variety of scenarios and environments. My expectation is that, in lieu of a natural disaster occurring, EQC manages its assets in a sound and prudent manner and, until I direct otherwise, the assets are to be managed in line with the Ministerial Direction issued in July 2015. As a part of this risk financing

framework, it is my expectation that EQC will continue to review the potential benefits of including capacity from alternative capital markets in its risk finance programme.

#### *Contributing to Wider Government Initiatives*

EQC has considerable expertise and information regarding managing natural hazard risks. I expect EQC to contribute to work led by other government agencies regarding broader natural hazard risk management policy and planning.

#### *EQC Act Review*

It is my expectation that EQC will continue to engage with Treasury officials and contribute to the review of the EQC Act in a timely manner, to support delivery of the July 2020 Cabinet decision to introduce an EQC amendment bill by the end of July 2021.

#### *Insurance Access and Affordability*

I expect EQC to continue to engage with the Treasury, reinsurers, insurance companies and other stakeholders to support the investigation of options that would promote access to affordable insurance for all residential property owners throughout New Zealand.

#### *Public Inquiry into EQC*

In July 2020, Cabinet approved the Government response to the Public Inquiry. The Government response includes responses to all of the Inquiry's recommendations. I expect EQC to support those Cabinet decisions, either by implementing them, or supporting other lead agencies, as appropriate.

#### *Canterbury Completion*

I expect EQC to make every effort to ensure the resolution of all Canterbury claims it currently has on hand, including the remaining over-cap claims that EQC is managing as an agent for Southern Response. The risks pertaining to claims settlements, dispute resolution and operational activities relevant to the Canterbury earthquakes are of particular interest to me. In this regard, I would appreciate your continued efforts to keep Treasury officials apprised of any material movements in the Canterbury claims liabilities as soon as they become apparent.

#### *On-sold Over-cap Policy*

EQC has been tasked with implementing the on-sold support package in accordance with the Services Agreement and the content of my predecessor's letter sent to the Board on 7 October 2019. The deadline for the on-sold package was subsequently revised and I expect the EQC Board will resolve the majority of successful applications by July 2021. I expect to be informed of any risks that impact on this timeline, such as internal capacity issues or available industry resources. I also expect that EQC will continue to educate both claimants and prospective purchasers of earthquake damaged properties about the original scope and intended use of EQC insurance inspections. This information can protect the community by actively encouraging the use of independent pre-purchase inspections.

#### *Significant Legal Issues (both actual and potential)*

I expect EQC to continue to update and engage with Crown Law and the Treasury with respect to any significant legal issues affecting or likely to affect EQC.

### *Monitoring, Reporting and Risk Management*

I expect the Board to actively monitor, evaluate and manage EQC's operational and financial risks. I expect the Board to continue to closely monitor the investment in technology that will be required to support the IRM and risk modelling platform and to confirm that projects remain aligned with the Board's strategies to meet EQC's objectives.

I want to be kept informed of the challenges EQC is facing and how the challenges are being managed. I also expect to be informed of any developments with respect to changes and risks around the overall insurance and reinsurance markets.

### *Consultation with the Treasury*

It is my expectation that the Board and senior management of EQC will continue to engage and consult with the Treasury across material strategic issues, risks and influences on operational and financial performance and that the Treasury will be able to provide me with an independent view on related advice put forward by EQC. In this regard, when providing advice to me, please ensure that you provide reasonable time for consultation with the Treasury.

### **General expectations**

The Treasury released an updated Owner's Expectations document in April 2020 ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)). The document sets out Ministers' expectations on matters such as information-sharing and engagement with the Treasury, board evaluations, thresholds for consultation or approvals for significant investments, and timeframes for reporting and business planning documents. Some key expectations are reiterated in this letter below.

We ask that you circulate this document to all directors on your board so that they are aware of and understand the frameworks and expectations unique to Crown companies and entities.

### *Well-being focus*

Ministers expect all boards to be cognisant of the Government's focus on well-being. The Government's well-being approach is based on a balance of the four capitals in the Treasury Living Standards Framework – Financial, Human, Natural and Social Capital. Boards should consider and reflect the broader impact of commercial decisions and initiatives in planning and performance reporting. In this respect, some important aspects include corporate social responsibility and acting as a good employer, particularly if boards need to make decisions to respond to commercial or financial challenges such as the impact of COVID-19.

### *Supporting diversity*

Consistent with the Government's support for diversity and gender balance on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams.

### *Board performance evaluations*

Performance evaluations help boards to improve performance and contribute to the Treasury's advice to Ministers on board composition. I expect that evaluations will now take place annually and should ideally be conducted by an independent evaluator.

### *No surprises*

I expect to be informed well in advance of any material or significant events relating to EQC, whether positive or negative. The Owner's Expectations document provides some examples of matters that could fall within the 'no surprises' policy.

In particular, boards should inform Ministers' offices before the announcement of all financial results and before appearances in front of select committees.

### **Other Matters**

I refer to the Statement of Performance in the 2019/20 Annual Report, where a number of performance targets relating to future event preparation and event response were not achieved. I expect EQC to have strategies in place to make sure that the performance targets for the financial year 2020/21 and financial year 2021/22 are achieved.

### **Enduring letter of expectations**

An enduring letter of expectations (ELOE) was sent to EQC on 15 October 2019. The ELOE focusses on Ministers' expectations for seamless government, board role and integrity, workforce matters, supporting Māori Crown relationships and entities applying a well-being approach to their work, including the need to address climate change. Nothing in this letter supersedes the ELOE.

### **Further information**

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss my expectations in more detail. If you have any questions please contact Lars Piepke (Principal Advisor, Commercial Performance) on [39] or Lee Goodman (Analyst, Commercial Performance) on [39]. Alternatively, you can contact Shelley Hollingsworth (Manager, Commercial Performance) on [39]

Yours sincerely



Hon Dr David Clark  
**Minister Responsible for the Earthquake Commission**

cc: Sid Miller, CEO, Earthquake Commission, [23]

## Annex 1

### *Timetable for the Business Planning Process for 2021/22*

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the Letter of Expectations with the Chair
30 April	Board to submit draft Statement of Intent (SOI) and Statement of Performance Expectations (SPE)
30 June	Board to deliver final SOI and SPE to the Minister Responsible for EQC
As soon as practicable after delivery of the final SOI and SPE to Ministers	EQC to publish SOI and SPE on its website

EQC is expected to provide the Minister Responsible for EQC with a draft SOI and SPE, consistent with the expectations as detailed in this letter, by no later than **30 April 2021**.

The final SOI and SPE should be delivered to the Minister Responsible for EQC on or before **30 June 2021**.

The Minister Responsible for EQC and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met.

Further information is available in the Owner's Expectations document ([www.treasury.govt.nz/publications/guide/owners-expectations](http://www.treasury.govt.nz/publications/guide/owners-expectations)).