

Reference: 20230199

22 May 2023



TE TAI ŌHANGA
THE TREASURY

Dear [REDACTED]

Thank you for your Official Information Act request, received on 24 April 2023. You requested the following:

- *Aide Memoire T2023/236: Commercial and Institutional Performance Weather Impacts State of Play as at 22 February 2023*
- *Aide Memoire T2023/271: Meetings with Suncorp and IAG Executives*
- *Treasury Report T2023/447: Toka Tū Ake EQC request to extend the Deficiency Funding Deed – 2023*
- *Treasury Report T2023/364: Liquidity support for Toka Tu Ake EQC's Risk Finance Programme*
- *Aide Memoire T2023/490: EQC Insurance Liability Valuation Report as at 31 December 2022*

Information being released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	22 February 2023	Aide Memoire T2023/236: Commercial and Institutional Performance Weather Impacts State of Play as at 22 February 2023	Release in part
2.	3 March 2023	Aide Memoire T2023/271: Meetings with Suncorp and IAG Chief Executives	Release in full (except for Official's contact details)
3.	27 March 2023	Treasury Report T2023/447: Toka Tū Ake EQC request to extend the Deficiency Funding Deed - 2023	Release in part
4.	29 March 2023	Aide Memoire T2023/490: EQC Insurance Liability Valuation Report as at 31 December 2022	Release in part

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I have decided to release the relevant parts of the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- under section 2(1)(g) – official information does not include information held by Public Trust or the Māori Trustee,
- under section 9(2)(a) – to protect the privacy of natural persons, including that of deceased natural persons,
- under section 9(2)(g)(ii) – to maintain the effective conduct of public affairs through protecting Ministers, members of government organisations, officers and employees from improper pressure or harassment,
- under section 9(2)(ba)(i) – to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied,
- under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions,
- under section 9(2)(b)(ii) – to protect the commercial position of the person who supplied the information, or who is the subject of the information,
- under section 9(2)(b)(i) – to protect information where the making available of the information would disclose a trade secret, and
- under section 9(2)(k) – to prevent the disclosure of information for improper gain or improper advantage.

Direct dial phone numbers of officials have been redacted under section 9(2)(k) in order to reduce the possibility of staff being exposed to phishing, social engineering and other scams. This is because information released under the OIA may end up in the public domain, for example, on websites including Treasury's website.

Context

Please note that for Item 1 *Aide Memoire T2023/236: Commercial and Institutional Performance Weather Impacts State of Play as at 22 February 2023*, the paragraph on page 2 discussing the number of EQCover claims received from the Auckland Anniversary weekend floods and Cyclone Gabrielle may now be out of date.

Information to be withheld

The additional document covered by your request I have decided to withhold in full under the following sections of the Official Information Act, as applicable:

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

Item	Date	Document Description	Decision
5.	29 March 2023	Treasury Report: T2023/364: Liquidity Support for Toka Tū Ake EQC's Risk Finance Programme	Withhold in full under section 9(2)(f)(iv).

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

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

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

Yours sincerely

Reubhan Swann
Manager, Ministerial Advisory Services

OIA 20230199

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Update on the Impact of recent severe weather events on Crown companies and entities

To: Minister of Finance (Hon Grant Robertson)

Associate Minister of Finance, Acting Minister for State Owned Enterprises (Hon Dr Megan Woods)

Minister of Education (Hon Jan Tinetti)

Minister of Transport, Associate Minister of Finance (Hon Michael Wood)

Minister of Justice (Hon Kiri Allan)

Associate Minister of Finance (Hon David Parker)

Minister for Accident Compensation Corporation (Hon Peeni Henare)

Minister of Internal Affairs (Hon Barbara Edmonds)

Minister for State Owned Enterprises (Hon Dr Duncan Webb)

Minister Responsible for the Earthquake Commission, Associate Minister of Justice (Hon Dr Deborah Russell)

From: Lars Piepke, Manager, Commercial and Institutional Performance

Juston Anderson, Acting Manager, Commercial and Institutional Performance

This report provides an update on Commercial-oriented Entities (COE) and Public Benefit-oriented Entities (PBOE) owned by the Crown, with a focus on the impacts of the recent severe weather events (Auckland Anniversary floods and cyclone Gabrielle). Please tick a box if you would like more information on a topic.

1. Treasury Commercial-oriented Entities (COEs) and Public Benefit-oriented Entities (PBOEs) – Impacts of the recent severe weather events

Key messages:

- The level of impact of the Auckland floods and Cyclone Gabrielle on the Companies and Entities monitored by the Treasury.
- Entities that have encountered the most significant impacts of these events are those with significant infrastructure within the affected regions and those who have a role in responding to natural disasters.
 - **Toka Tū Ake Earthquake Commission** is liable to cover claims made to EQCover for residential land damage caused by floods, landslips and storms. If the quantum of total claim costs exceeds the assets held in the Natural Disaster Fund (currently around \$300m), the Crown will be obligated to cover any financial shortfall via the Crown Guarantee.
 - **KiwiRail's** network has experienced extensive damage and it is still assessing the financial impact to reinstate and rebuild impacted lines. KiwiRail expects the incidents contingency in the Rail Network Investment Programme is unlikely to be sufficient. While the insurance for the national rail network may assist KiwiRail it is weeks away from knowing the scale of the claim and it may take years to finalise.
 - **Transpower's** Redclyffe substation in Napier was flooded and inaccessible for several days, contributing to widespread power outages. Transpower staff and contractors worked to gradually restore power to neighbouring communities. It is too early to determine the financial impact for Transpower with potential impacts on future revenue and capital investment planning.
 - **Landcorp Farming Limited's (trading as Pāmu)** farms in the impacted regions have experienced and continue to experience the impacts of the recent weather events, including power outages, flooding, property damages and loss of reception. Pāmu's current focus is to keep its staff safe. Pāmu has sent staff to assess the needs of its impacted team members and has been delivering food and emergency supplies to the impacted farms via helicopters. The longer-term impacts, including livestock losses, are still to be determined.

- **Hawke's Bay Airport Limited** has experienced minimal impacts from Cyclone Gabrielle due to sufficient preparation. The airport is open, fully operational, and being used for all necessary civil defence emergencies on a 24/7 basis as it is a crucial lifeline facility. While it is unable to estimate the full financial impact at this point, it believes the impact will be minimal.
- More detail on these, and other entities within the portfolio, can be found below in order of expected level of impact.
- Most entities have signalled that it is too early to provide an accurate assessment of the impacts of the weather events. Treasury, and the entities significantly impacted by the recent severe weather, will provide you with further information when we have more certain information on the impacts.
- Entities that have reported no current impacts from the recent weather events include:
 - Te Waihanga
 - Animal Control Products Limited (Orillion)
 - Crown Irrigation Investments Limited (CIIL)
 - Television New Zealand
 - Radio New Zealand
 - Christchurch International Airport
 - Dunedin International Airport
 - Ōtākaro
- Air New Zealand and the Mixed Ownership Model (MOM) companies (Genesis, Mercury, Meridian) are not included in this update as they are listed entities subject to NZX continuous disclosure requirements. As of 22 February, no announcements have been made regarding the severe events.

More info?	Entity	Update
<ul style="list-style-type: none"> □ 	<p>Toka Tū Ake Earthquake Commission (Toka Tū Ake EQC) Minister of Finance Minister Responsible for the Earthquake Commission <i>[Treasury contact: Phoebe Slee]</i></p>	<p>Operationally, Toka Tū Ake EQC processes remain robust to the evolving situation. The immediate priority is to support insurers to manage EQCover claims on its behalf, for residential land damage caused by floods, storms and landslips, in line with the Natural Disaster Response Model. Treasury expects most claims to be related to flood damaged homes, contents and cars and therefore covered by private insurance policies. As at 10am Monday 20 February 2023 there has been:</p> <ul style="list-style-type: none"> ● 2,222 EQCover claims received for the Auckland Anniversary weekend floods, and ● 335 EQCover claims received for Cyclone Gabrielle. <p>The initial estimate for the Auckland Anniversary event provided by the Chair to Select Committee Monday 13 February was \$100-200 million. Toka Tū Ake EQC do not expect to be in a position to provide a first estimate of costs for Cyclone Gabrielle until 2-3 weeks after the event due to the uncertainty at this stage regarding the number and type of claims.</p> <p>The main risk to the Crown is dependent on whether the assets in the Natural Disaster Fund (NDF) are sufficient to cover Toka Tū Ake EQC's liabilities: the NDF is currently at circa \$300 million and is still rebuilding after it was depleted following the Canterbury and Kaikōura earthquakes. Should the fund not be sufficient, the Crown will be obligated under section 16 of the Earthquake Commission Act 1993 to cover any financial shortfall of the NDF (via the Crown Guarantee). Any potential draw on the Crown Guarantee will be driven by the scale of the losses from the events, and the timing of payments by insurers to homeowners and subsequent reimbursements by Toka Tū Ake EQC.</p> <p>The quantum of total claim costs is uncertain at this stage; Toka Tū Ake EQC will provide updates to Treasury as the situation evolves.</p>


More info?	Entity	Update
	<p>□ KiwiRail Minister of Finance Minister for State Owned Enterprises <i>[Treasury contact: Michael Moore]</i></p>	<p>Across the network major washouts of bridges, roads, and tracks have caused extensive damage. The most heavily affected sections of KiwiRail's network are:</p> <p>Palmerston North to Gisborne Line:</p> <ul style="list-style-type: none"> • Work is currently underway to clear slips and repair washouts between Woodville and Waipukurau. Water levels will need to reduce for inspections of bridges along the line to take place. KiwiRail hopes this line will be reopened soon. • Many track inspections are still ongoing on lines between Wairoa and Napier. The extent of the damage will become more evident in the coming weeks. <p>North Auckland Line:</p> <ul style="list-style-type: none"> • Closed due to a large slip across the track north of Helensville, following the 27 January extreme rainfall event. The slip needs to stop moving/dry out before work to remove it can begin. • Inspections still underway to assess further damage to the line from Cyclone Gabrielle, likely to take a few days. <p>KiwiRail is currently prioritising the movement of vital equipment and supplies across the Cook Strait for the areas affected by Cyclone Gabrielle. It is also providing emergency supplies from Palmerston North to Napier, including food, water, essential toiletries and batteries via road-bridge.</p> <p>KiwiRail is still assessing the financial impact to reinstate damaged lines and to rebuild severely impacted lines. The insurance for the national rail network may assist with funding the rebuild programme. However, KiwiRail is weeks away from knowing the scale of the insurance claim and it may take years to finalise, based on KiwiRail's experience with the Kaikoura insurance claim.</p> <p>Line closures mean KiwiRail will lose revenue. KiwiRail does not have an estimate for the revenue impact at this time.</p>
	<p>□ Transpower Minister of Finance Associate Minister of Finance (Parker) Minister for State Owned Enterprises <i>[Treasury contact: Daniel Madley]</i></p>	<p>Transpower's national grid was not adversely affected by the Auckland weather event, however the infrastructure of some local lines companies was impacted, leading to some power outages.</p> <p>Transpower's infrastructure and operations in the Hawke's Bay have been adversely impacted by Cyclone Gabrielle. The Redclyffe substation was flooded and inaccessible for several days, contributing to widespread power outages. Transpower staff and contractors have worked to access and bypass the substation and, in coordination with local lines companies, gradually restored power to neighbouring communities.</p> <p>It is too early to determine the financial impact for Transpower. Revenue may reduce marginally as a result of customer disruption, and future CAPEX planning may be expedited to improve resilience for substations and other infrastructure.</p>

More info?	Entity	Update
□	<p>Landcorp Farming Limited's (trading as Pāmu) Minister of Finance Associate Minister of Finance (Parker) Minister for State Owned Enterprises <i>[Treasury contact: Kylie Kuan]</i></p>	<p>Pāmu's farms in Hawke's Bay and the East Coast have experienced and continue to experience the impacts of the recent weather events, including power outages, flooding, property damages, loss of reception and stock losses. Pāmu's current focus is to keep its staff safe and has sent staff to assess the needs of its impacted team members and has been delivering food and emergency supplies to the impacted farms via helicopters.</p> <p>The longer-term impacts of these weather events, including livestock losses, are still to be determined. The flooding and subsequent cost for damage repairs and clean-ups will affect Pāmu's ability to meet its FY23 financial targets. The most severe impact is to 22 of its livestock farms which have suffered damage to infrastructure and pasture, limiting the ability of these farms to hold projected stock numbers. Pāmu will continue keeping shareholding Ministers and Treasury informed on the impacts of the recent events.</p>
□	<p>New Zealand Post (NZ Post) Minister of Finance Associate Minister of Finance (Parker) Acting Minister for State Owned Enterprises (Woods) <i>[Treasury contact: Matthew Beilan]</i></p>	<p>The areas NZ Post are continuing to focus on are Gisborne, Hastings, Napier, and Wairoa this week. Except for Wairoa, these sites are now operational but still with some restrictions and areas that NZ Post can't access.</p> <p>Power supply is still an issue in Napier City so NZ Post is looking at ways to ensure consistency of supply at its site. NZ Post has sourced two Starlink communications units for Hastings and Napier to improve the communication its teams have with the outside world. Work is underway to get these units out to these areas, installed and have the teams trained on how to use them. NZ Post has advised there will potentially be some network disruption for a period, which may have a potential earnings impact.</p>
□	<p>Kiwi Group Capital (KGC) Minister of Finance Minister for State Owned Enterprises <i>[Treasury contact: Alex Ng]</i></p>	<p>To date Kiwibank has had s9(2)(ba)(i) customer calls in relation to the recent weather events. In addition to its customer care offering, it has developed two additional offerings to support customers who need more urgent access to funds, a 0% overdraft and a 0% home loan top up. s9(2)(ba)(i)</p> <p>The financial effects and impacts on Kiwibank customers cannot yet be quantified to determine whether there is a material impact on the credit impairment provisions of the banking group.</p> <p>s9(2)(ba)(i)</p>
□	<p>Quotable Value (QV) Minister of Finance Associate Minister of Finance (Woods) Minister for State Owned Enterprises <i>[Treasury contact: Catalina De Mendoza]</i></p>	<p>QV is experiencing disruptions in its operation in the areas affected by weather events particularly in Hawke's Bay. There are several long-term contracts, particularly in rating valuations, that may be affected due to lack of access to the sites. The most likely areas to be affected are Coromandel, Hastings and Napier. QV is currently doing some high-level work on possible financial implications.</p> <p>QV met with the Valuer General (VG) and affected customers to review the impact on the remaining 2022 revaluations. Specifically, QV is concerned about Far North District Council, Western Bay of Plenty District Council and Hasting District Council. s9(2)(f)(iv)</p> <p>the timing is uncertain as options are under consideration. No actions are expected from</p>

More info?	Entity	Update
		<p>shareholding Ministers as the VG, Land Information New Zealand and the Minister for Land Information are responsible for the policy and regulation of rating valuations in New Zealand. ^{s9(2)(b)(ii)}</p> <p>[Redacted]</p> <p>s9(2)(b)(ii)</p>
<ul style="list-style-type: none"> □ AsureQuality (AQ) 	<p>Minister of Finance Minister for State Owned Enterprises</p> <p><i>[Treasury contact: Kylie Kuan]</i></p>	<p>AQ's business and operations have been impacted by the recent weather events, as many of its customers, such as food producers and processors, have been affected. As of 17 February, AQ has ceased tuberculosis testing and auditing work in impacted areas. The demand for AQ's services from the impacted region is likely to decline, depending on the extent of damage to the produce and growers in these regions. It is also possible that some of AQ's services will cease permanently.</p> <p>AQ's current priority is to support its staff members who have been impacted by the weather events. It has 147 team members in significantly impacted areas, with 3 still unable to be contacted.</p> <p>The initial impact of these weather events on AQ's revenue is assessed to be circa [Redacted] AQ is currently working with its customers to understand the longer-term financial impacts and expects these will be material. ^{*s9(2)(b)(ii)}</p>
<ul style="list-style-type: none"> □ Kordia 	<p>Minister of Finance Associate Minister of Finance (Woods) Minister for State Owned Enterprises</p> <p><i>[Treasury contact: Catalina De Mendoza]</i></p>	<p>Kordia advises that it is was ^{s9(2)(g)(i)} [Redacted] functional in Gisborne as at Friday 17 February 2023, and is supporting other companies to get back online by sharing its Digital Mobile Radio infrastructure. However, the situation remains delicate with several of its sites running on generators.</p> <p>s9(2)(ba)(i)</p>
<ul style="list-style-type: none"> □ Network for Learning (N4L) 	<p>Minister of Finance Associate Minister of Finance (Parker) Minister of Education</p> <p><i>[Treasury contact: Eru Pomare]</i></p>	<p>During Cyclone Gabriel, N4L saw up to 400 schools across Northland, Auckland, Coromandel, Gisborne and Hawke's Bay lose their internet access. This was due to power outages and fibre cuts. There is likely to have been physical damage to the network hardware at some schools.</p> <p>At this stage, power and fibre access is being restored intermittently across the country, and N4L is seeing a number of schools coming back online. It is not yet possible to determine whether the schools still down have suffered damage to schools' network hardware, although N4L expects to need to replace equipment at some schools as a result of water damage.</p> <p>None of N4L's own premises or systems were damaged by the cyclone.</p> <p>As N4L moves into supporting the recovery, it is likely that staff will be needed to support schools where network hardware has been damaged. As such, there is likely to be an impact on the delivery of the long-term programme to support schools to monitor, maintain, and manage their networks, although this has not yet been quantified, including any financial impacts.</p>

More info?	Entity	Update
<p>□</p>	<p>MetService Minister of Finance Associate Minister of Finance (Woods) Minister for State Owned Enterprises <i>[Treasury contact: Zac Gadsby]</i></p>	<p>MetService has not reported any impact on its infrastructure or operations from either weather event. MetService have noted that it played a central role in recent events as New Zealand's weather forecasting authority. MetService provided multiple warnings throughout the weather phenomena and supported a number of emergency organisations, including NEMA and the wider Civil Defence Emergency Management community.</p> <p>MetService have indicated that the flooding in Auckland and Coromandel was a weather event beyond the current forecasting capability. MetService's Future of Environmental Prediction programme is addressing aspects of weather forecasting and the warning system that will improve its capability for severe weather events. MetService will also be part of the Auckland review of immediate response to severe weather events.</p> <p>In regard to Cyclone Gabrielle, this was a more predictable event. MetService advised that their forecasting and warning systems identified the weather event with sufficient time to communicate to customers and stakeholders but note that the cyclone was extraordinarily damaging in its impacts.</p> <p>In March the Treasury will be providing shareholding ministers with further feedback on MetService's weather forecasting performance over the severe weather event period (after consulting with the Ministry of Transport and other relevant parties).</p>
<p>□</p>	<p>Education Payroll Limited (EPL) Minister of Finance Associate Minister of Finance (Woods) Minister of Education <i>[Treasury contact: Amy Alder]</i></p>	<p>EPL has not been directly affected by the recent weather events. It is, however, expecting increased requests for 'out of cycle' pay and hardship payments from schools in the weather impacted areas. It is working closely with the Ministry of Education to ensure that these are processed in a timely manner.</p>
<p>□</p>	<p>City Rail Link (CRL) Minister of Finance Minister of Transport <i>[Treasury contact: Daniel Madley]</i></p>	<p>The City Rail Link (CRL) project in Auckland has been moderately affected by recent weather events. Portions of the tunnels were flooded and subsequently pumped dry. A small number of tools have been damaged as a result, but officials are advised it is unlikely that the cost to replace the tools will meet CRL's insurance excess. A makeshift dam was established in advance of Cyclone Gabrielle, however the project was not adversely affected by this weather event and construction has recommenced.</p>
<p>□</p>	<p>Airways Minister of Finance Associate Minister of Finance (Woods) Minister for State Owned Enterprises <i>[Treasury contact: Maruta Kanepa]</i></p>	<p>Airways New Zealand is working with the Rescue Coordination Centre, the New Zealand Defence Force, Air New Zealand and Government agencies to support search and rescue and wider recovery efforts.</p> <p>Temporary Restricted Airspace has been implemented to exclude aircraft not associated with rescue and recovery work or not providing lifeline services through the respective airports. Broader airspace restrictions covering the area from North of Gisborne to South of Hawkes Bay region were implemented on Saturday morning.</p>

More info?	Entity	Update
		<p>Airways confirms that in the severely affected areas air traffic control services are restored with contingency requirements only necessary in the event of further power or communications failures. It also has full staff capability at Hawke's Bay and Gisborne Airports. The welfare of air traffic control staff is being monitored with support staff being deployed in both locations.</p> <p>From a system perspective, Airways' core network has experienced no significant issues and systems have proven resilient. As such Airways is not anticipating any long-term impacts. Airways has kept shareholding Ministers and the Treasury informed as the impacts became clearer.</p>
<ul style="list-style-type: none"> □ 	<p>Hawkes Bay Airport Limited (HBAL)</p> <p>Minister of Finance Minister for State Owned Enterprises <i>[Treasury contact: Kylie Kuan]</i></p>	<p>HBAL has experienced minimal impacts from Cyclone Gabrielle due to sufficient preparation in anticipation of the cyclone. The airport is open and fully operational. HBAL is a crucial lifeline facility and is being used for all necessary civil defence emergencies on a 24/7 basis. Air New Zealand resumed services on 15 February 2023, and these continue to grow.</p> <p>HBAL's key focus is on assisting with civil defence emergencies and ensuring Air New Zealand can operate efficiently. A backup generator was secured for its pump station to keep water levels down, and its in-house diesel generators are supplying electricity to the terminal.</p> <p>HBAL advises that it is difficult to estimate the full financial impact of the cyclone and its effect at this time, but expects it is unlikely to be material.</p>
<ul style="list-style-type: none"> □ 	<p>The Lotteries Commission (Lotto NZ)</p> <p>Minister of Internal Affairs <i>[Treasury contact: Amy Alder]</i></p>	<p>As of Tuesday 21st February, 13 Lotto NZ stores are not trading due to the cyclone (down from 99 stores on 14th February), with six in the Gisborne Region and seven in the Hawkes Bay region. The Auckland Airport Lotto store is not trading as a result of the Auckland flooding. Outside of the Hawkes Bay and Gisborne regions, power outages or staffing issues are the main reason stores are choosing not to open their Lotto counters.</p> <p>All Lotto staff (Auckland and North Island) are safe and accounted for. There was no impact to Lotto NZ operations, with Lotto NZ staff able to work from home as needed. Lotto NZ has not seen any material impact on its financial performance to date.</p>
<ul style="list-style-type: none"> □ 	<p>Accident Compensation Corporation (ACC)</p> <p>Minister of Finance Minister for ACC <i>[Treasury contact: Miranda Birchler]</i></p>	<p>ACC's focus has been on the welfare of staff; the needs of vulnerable clients, and ensuring core services continue to be delivered. ACC currently has no service or resourcing concerns, with Gisborne the only site that has not re-opened.</p> <p>ACC has now contacted all high-risk vulnerable clients in affected areas. Calls to other vulnerable clients are continuing, especially in Hawkes Bay and East Coast as communication channels improve.</p> <p>Along with the wider health sector, ACC faces challenges sourcing replacement equipment (wheelchairs, bespoke beds, etc.) and consumables for its clients but it is too early to assess what financial impact this may have.</p> <p>The direct long-term financial impact is likely to be minimal. Those who have died (and their dependents) or been injured as a direct result of the cyclone are entitled to financial assistance. However, it is assumed that the number of moderate and serious injuries will be partially offset by the reduction in other activities in affected regions.</p>

More info?	Entity	Update
<ul style="list-style-type: none"> □ Public Trust 	Minister of Finance Associate Minister of Finance (Wood) Minister of Justice Associate Minister of Justice (Russell) <i>[Treasury contact: Alex Ng]</i>	Public Trust does not seem to have been affected significantly by the recent weather events. s2(1)(g) 
<ul style="list-style-type: none"> □ Southern Response 	Minister of Finance Minister Responsible for the Earthquake Commission <i>[Treasury contact: Matthew Beilan]</i>	<p>At the request of the New Zealand Claims Resolution Service ('NZCRS'), Southern Response has provided staff with experience in insurance policies and regulatory and recovery matters on a secondment basis to support the work that NZCRS is doing. This secondment was initially to support the response to the Auckland floods but will now also support the recovery from Cyclone Gabrielle. The Head of NZCRS has advised that the Department of the Prime Minister and Cabinet has been very impressed with the collaboration between the two organisations.</p> <p>At this stage, Southern Response does not anticipate any adverse impact to its operations and in particular, the delivery of the Crown Proactive Package. If Southern Response was asked to provide further resource and assistance, it would reassess any impact that this might have on the business.</p>

Lars Piepke
Manager, Commercial and Institutional Performance

Juston Anderson
Acting Manager, Commercial and Institutional Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance
Acting Minister for State Owned Enterprises

Hon Jan Tinetti
Minister of Education

Hon Michael Wood
Minister of Transport
Associate Minister of Finance

Hon Kiri Allan
Minister of Justice

Hon David Parker
Associate Minister of Finance

Hon Peeni Henare
Minister for ACC

Hon Barbara Edmonds
Minister of Internal Affairs

Hon Dr Duncan Webb
Minister for State Owned Enterprises

Hon Dr Deborah Russell
**Minister Responsible for the Earthquake
Commission**
Associate Minister of Justice

Annex One: Entities covered by this update**Commercial-Oriented Entities (COEs)**

Entities	Shareholding or Responsible Ministers
State-owned enterprises	
KiwiRail Holdings Limited (KiwiRail) + New Zealand Railways Corporation Limited (NZRC)	Minister of Finance Minister for State Owned Enterprises
Airways Corporation of New Zealand Limited (Airways)	Minister of Finance <i>delegated to Associate Minister of Finance (Hon Dr Megan Woods)</i> Minister for State Owned Enterprises
AsureQuality Limited (AsureQuality)	
Kordia Group Limited (Kordia)	
Meteorological Service of New Zealand Limited (MetService)	
Quotable Value Limited (QV)	
Electricity Corporation of New Zealand Limited (ECNZ)	Minister of Finance <i>delegated to the Associate MoF (Hon David Parker)</i>
Landcorp Farming Limited (Pāmu)	
Transpower New Zealand Limited (Transpower)	Minister for State Owned Enterprises
New Zealand Post Limited (NZ Post)	Minister of Finance <i>delegated to the Associate MoF (Hon David Parker)</i> Acting Minister for State Owned Enterprises <i>(Hon Dr Megan Woods)</i>
Animal Control Products Limited (Orillion)	Minister of Finance <i>delegated to Associate MoF (Hon Dr Megan Woods)</i> Minister for Biosecurity
Mixed ownership model companies	
Air New Zealand Limited (Air NZ)	Minister of Finance
Genesis Energy Limited (Genesis)	Minister of Finance Minister for State Owned Enterprises
Mercury NZ Limited (Mercury)	
Meridian Energy Limited (Meridian)	
Airport companies	
Christchurch International Airport Limited (CIAL)	Minister of Finance
Dunedin International Airport Limited (DIAL)	Minister for State Owned Enterprises
Hawke's Bay Airport Limited (HBAL)	
Crown entity companies	
Television New Zealand Limited (TVNZ)	Minister of Finance Minister for Broadcasting and Media
Statutory entities	
Public Trust	Minister of Finance <i>delegated to Associate MoF (Hon Michael Wood)</i> Minister of Justice <i>delegated to Associate Minister of Justice (Hon Dr Deborah Russell)</i>
Public Finance Act Schedule 4A companies	
Kiwi Group Capital (KGC)	Minister of Finance Minister for State Owned Enterprises

Public Benefit-Oriented Entities (PBOEs)

Entities	Shareholding or Responsible Ministers
Crown entity companies	
Crown Irrigation Investments Limited (CIIL)	Minister of Finance Minister of Agriculture
Radio New Zealand Limited (RNZ)	Minister of Finance Minister for Broadcasting and Media
Public Finance Act Schedule 4A companies	
Crown Infrastructure Partners Limited (CIP)	Minister of Finance Minister for State Owned Enterprises
Education Payroll Limited (EPL)	Minister of Finance <i>delegated to Associate MoF (Hon Dr Megan Woods)</i> Minister of Education
Network for Learning Limited (N4L)	Minister of Finance <i>delegated to Associate MoF (Hon David Parker)</i> Minister of Education
Ōtākaro Limited (Ōtākaro)	Minister of Finance <i>delegated to Associate MoF (Hon Dr Megan Woods)</i> Minister for Land Information
Southern Response Earthquake Services Limited (SRES)	Minister of Finance Minister Responsible for the Earthquake Commission
Statutory entities	
Te Waihanga	Minister for Infrastructure
Accident Compensation Corporation	Minister of Finance Minister for ACC
The New Zealand Lotteries Commission (Lotto)	Minister of Internal Affairs
Toka Tū Ake Earthquake Commission	Minister Responsible for the Earthquake Commission

²The Treasury is the secondary monitor of Public Finance Act 1989 Schedule 4A companies, Research and Education Advanced Network New Zealand Limited (REANNZ) and City Rail Link Limited (CRL), and Crown Research Institutes, AgResearch Limited (AgResearch), Institute of Environmental Science and Research Limited (ESR), Institute of Geological and Nuclear Sciences Limited (GNS), Manaaki Whenua Landcare Research Limited, National Institute of Water and Atmospheric Research Limited (NIWA), New Zealand Forest Research Institute Limited (Scion), The New Zealand Institute for Plant and Food Research Limited. The Treasury will include updates on these entities if appropriate.



Reference: T2023/271

Date: 3 March 2023

To: Minister Responsible for the Earthquake Commission (Hon Dr Deborah Russell)

Deadline: 03 March 2023
(if any)

Aide Memoire: Meetings with Suncorp and IAG Chief Executives

On Thursday 9 March you are meeting separately with:

- Jimmy Higgins, Chief Executive of Suncorp, primarily to discuss issues raised in a story Mr Higgins wrote for the Herald on his thoughts about vulnerability to floods and Toka Tū Ake EQC's role.
- Amanda Whiting (CEO) and Bryce Davies (Executive Manager Corporate Relations) of IAG, by zoom.

We have included some suggested talking points and background information on the Treasury's Flood insurance project and on the role of Toka Tū Ake EQC.

This aide memoire provides you with:

- **talking points** to assist you in your meetings (below), and
- **an annex containing background information** on:
 - the meeting attendees
 - The Treasury's flood insurance project
 - The role of Toka Tū Ake EQC in cyclone recovery

Talking points

- I wanted to thank you (both Suncorp and IAG) for the work your teams are doing to assist those that have been impacted by recent weather events, and for all your engagement with government at both national and local levels as we respond to these events. I appreciate your engagement and collaboration during such a busy time.

Toka Tū Ake/EQC role in cyclone recovery

- Toka Tū Ake covers residential land against several perils including storm and flood damage, and landslide. Toka Tū Ake also covers up to the first \$300,000 of damage to residential buildings against the same perils, but excluding storm and flood damage (Toka Tū Ake covers only land and not buildings against storm and flood damage). The amount covered depends on when the customer's insurance policy last renewed - if it last renewed on or after 1 October last year, it will be \$300,000, but if not, it's \$150,000 until that renewal occurs.
- Toka Tū Ake EQC are supporting our Natural Disaster Response Model (NDRM) partners to respond to this event.
- Toka Tū Ake EQC is working to understand the potential impacts of these events on the Toka Tū Ake EQC scheme including financial impacts and loss modelling – though it will still be some weeks before there is a reasonable picture given claims are still being lodged.

EQC cap increase monitoring update

- The EQC cap on residential properties doubled (from \$150,000 to \$300,000) in October 2022. Treasury is monitoring the impacts of the cap increase on insurance prices. Initial results from the monitoring are broadly in line with expectations. High seismic areas are seeing downwards pressure on premiums and there has been a decrease in regional variation in premiums. There have been no material changes in availability of insurance.

Flood insurance project

- I understand you (both Suncorp and IAG) have actively participated in the engagement on flood insurance last year. You met with the previous EQC Minister, Treasury officials directly, and as part of the Insurance Council of New Zealand (ICNZ) Flood Working Group – thank you for your time and feedback. I appreciate your engagement on this issue, and I am heartened that we share common goals to maintain affordable and available insurance for New Zealanders.

- Treasury has recently provided advice to Ministers on Flood insurance issues. We are actively considering this advice and Treasury officials will be in touch when any decisions have been made.
- Ministers are also in discussion about our broader response to natural hazard risks and the impact of climate change, including integrating with climate adaptation policies and flood risk management generally. The issues are connected and the solutions need to cover the full spectrum of risk reduction options.
- I believe there is merit in greater engagement between central and local government and insurers. Insurers' information and view of risk could support better decision making by central and local government. I am interested in your views about how we could work together better.
- I would also be interested in your views on whether recent events have impacted how you think about risk or any ambitions to integrate risk-based pricing for flood risk into your offerings.

Lisa Davies, Senior Analyst, Financial Markets, s9(2)(k)

Steve Cantwell, Principal Advisor, Financial Markets, s9(2)(k)

Annex one: Background information

Meeting attendees

Jimmy Higgins and Suncorp

- Jimmy Higgins became CEO of Suncorp in October 2020. He has been with the Suncorp Group since 2008, moving to New Zealand to set up and manage the Canterbury Earthquake Recovery programme. Prior to joining the Suncorp Group, he held several senior roles across the financial sector, including as a Chartered Accountant for KPMG and later McGrath Nicol.
- Suncorp New Zealand is a group of companies including Vero and AA Insurance brands (AA is jointly owned with the Automobile Association). It is a subsidiary of Australia-based Suncorp Group – a large ASX listed insurance and banking company. Suncorp is New Zealand's second largest general insurer, with approximately 30 percent (including AA Insurance) of the domestic property insurance market.

Amanda Whiting, Bryce Davies, and IAG

- Amanda Whiting was appointed IAG New Zealand Limited's Chief Executive Officer and appointed as an Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 1 July 2021, after leading IAG's Intermediated and Direct Insurance divisions in Australia. Amanda joined IAG from iiNet in 2008 and has more than 20 years of experience in both general and health insurance, having held senior roles in these industries as well as telecommunications. Amanda is Vice President of the Insurance Council of New Zealand and is a member of the Steering Committee of the Climate Leaders Coalition and the Advisory Board of the Sustainable Business Council.
- Bryce Davies is Executive Manager Corporate Relations. Bryce is responsible for IAG's presence and standing within New Zealand through its relationships with governments and its social responsibility. Bryce has a strong and long-standing focus on climate change adaptation and natural hazard risk reduction. He has been part of numerous government and business working groups focused on these matters, including the Government Climate Change Adaptation Working Group. Bryce also speaks regularly on these topics, with a particular focus on their connections to insurance and keeping New Zealand well insured.
- Insurance Australia Group Limited (IAG) is the largest general insurance company in Australia and New Zealand. The Group's businesses underwrite over \$13 billion of premium per annum, selling insurance under many leading New Zealand brands including NZI, AMI and State.

Treasury's Flood insurance project

General information on the flood insurance project

The Treasury is currently undertaking a project considering residential flood insurance issues in the context of insurers' increasing use of risk-based pricing and against the backdrop of risks being exacerbated by climate change. The Minister of Finance is interested in this work and how it links to broader risk reduction and climate adaptation policy settings.

The genesis for this project was Tower informing the Government in 2021 of its intention to begin phasing in more granular flood risk pricing for residential property insurance (which it subsequently implemented). In early 2022, IAG and Suncorp committed that they will not move towards great risk-based pricing of flood risk for at least two years (i.e. until early 2024 at the earliest), but the pace and phasing of any change from that point is uncertain. IAG have recently advised officials that they do not think that the recent weather events would change these timeframes.

At the end of 2022 Ministers (the Minister of Finance, Associate Minister of Finance, and Minister Responsible for EQC) received advice from the Treasury regarding residential flood insurance issues. Ministers are still actively considering the advice as well as any next steps that may arise from it. As the advice is still under consideration, it hasn't been discussed with stakeholders outside of government. Treasury will contact stakeholders as soon as we are able to provide a meaningful update.

To help the Government keep track of shifts in the insurance market, ICNZ has proposed enhanced monitoring of insurance uptake and premiums. This could potentially build on the existing monitoring by EQC and the Treasury as part of the EQC cap increase evaluation.

ICNZ has also indicated willingness to explore greater collaboration with central and local government to support resilience measures, including sharing more information about higher risk areas, and improving the industry's guidance on flood risk management and climate adaptation (e.g. local government rules on minimum flood heights).¹

Our initial view is that there could be merit in greater engagement between central and local government and insurers. Insurers' information and view of risk could support

¹ ICNZ's submission on the National Adaptation Plan (NAP) recommended Government "establish a new framework for collaboration between itself, other public sector organisations, territorial local authorities, and the private sector including the financial sector and insurers" to support "a common understanding of the risks, appropriate risk governance and investing in risk reduction". IAG's submission noted the role of insurers is, among others, to help to "inform central government guidance on the management of climate hazards, e.g., through the proposed national Planning Framework, [and] amplify local government development decisions by reflecting a similar view of risk through pricing and underwriting of the specific risks faced."

better decision making by central and local government (e.g. land-use, building code), and provide a forum for the insurance industry to identify areas where it sees future insurability issues, and work with government on solutions before insurance affordability or availability becomes an issue.

Flood insurance issues raised in submissions on the draft national adaptation plan.

ICNZ made a submission on the draft national adaptation plan regarding flood insurance, risk reduction and managed retreat. Suncorp did not make a submission, but there were submissions from other insurers (e.g. IAG), and several District Councils. The key themes on insurance can be summarised as follows:

- Insurance is currently readily available and affordable and will remain so over the coming years (ICNZ, IAG).
- There are places where premiums are already high due to flood risk.² There needs to be an appropriate balance of management options that seek to reduce underlying flood risk. Risk reduction has wider wellbeing benefits than insurance interventions, and other non-insurance options may be more cost effective in the long-term, both in terms of resilience and promoting affordable/available insurance. (ICNZ, SBC, Chatham Island Council, Napier City Council, individual, Ora Taiao NZ Climate and Health Council, Forest and Bird, Gisborne DC, Resilience National Science Challenge, BRANZ).
- Insurance does provide a useful price signal (although not perfect), particularly when insurance is unavailable. Muting the price signal through insurance interventions creates moral hazard risks which does not support adaptation (ICNZ, Waikato Regional Council, Ruapehu DC, Water NZ).
- Supporting only residential house insurance neglects the impact of flooding on low socio-economic people who typically rent and face significant contents and vehicle flood losses (Napier City Council).

IAG's "3 step plan" for natural hazard prone homes:

IAG have been promoting publicly and with Government a "3 step plan" for natural hazard prone New Zealand homes, with a commitment to be part of any solution. A news release with further detail can be found here: [IAG seeks three step plan for natural hazard prone New Zealand homes](#).

The three steps are:

² Chatham Islands Council noted that people already have difficulty obtaining insurance and face higher costs than those on the mainland, while Napier City Council said insurers are already factoring flood risk into decisions and premiums.

- (1) Establishing a joint government and private sector project to build a common understanding of priority flood-prone communities;
- (2) Introducing a National Policy Statement to cease development in flood-prone locations; and
- (3) Establishing a national programme of investment in flood protection.

Essentially, this plan seeks to reduce flood exposure (with positive implications for affordability and availability of flood insurance).

We understand Minister Parker has met with IAG about the plan, and may have asked them to draft a National Policy Statement for officials to consider.

IAG may raise the plan with you given their focus on 'nesting' flood insurance within the broader risk management options and tools that are available to the Government and wider society.

We note that departmental responsibility for risk reduction for flooding sits across multiple government agencies (including DIA and MfE) and Treasury has a relatively narrow focus / remit in this area.

From our perspective, any reduction in flood risk would indirectly improve insurance availability and affordability for otherwise high flood risk homes. We also agree with IAG's underlying point that insurance should not be thought of in isolation and rather should be considered within the context of wider risk management options, including avoidance (land use planning and any future managed retreat policy), control (engineering solutions), and acceptance (post-event response).

Natural Hazards Insurance Bill process

The Natural Hazards Insurance (NHI) Bill passed its third reading on 21 February 2023. The Bill specifies that the Natural Hazards Insurance Act will commence on July 2024.

This Bill will replace the Earthquake Commission Act 1993 (the EQC Act). The changes from the EQC Act reflect both the experiences of the Commission and the recommendations of the March 2020 Public Inquiry into the Earthquake Commission. The 3 overarching objectives of the changes are:

- enabling better community recovery from natural hazards;
- clarifying the role of the Commission and the cover provided by the Bill; and
- enhancing the durability and flexibility of the legislation.

Earthquake Commission Cap Increase

The EQC cap on residential properties doubled (from \$150,000 to \$300,000) in October 2022. Insurers were consulted before Government made this decision. Suncorp did not express any strong views on the cap, however ICNZ (the industry representative) questioned the rationale for intervention during the policy process, suggesting that increasing the cap simply shifts risk from private insurers to EQC without changing the overall cost.

The Treasury is working with EQC to monitor the impacts of the cap increase around the country and across zones exposed to different perils. In December 2022 Treasury provided an initial update on the monitoring to the previous EQC Minister. The results were broadly in line with expectations with high seismic areas seeing downwards pressure on premiums and a decrease in regional variation in premiums. There were no material changes in availability. The monitoring also highlighted that there are a number of factors driving premium changes, e.g., increases in construction costs, reinsurance costs, and natural peril costs. The monitoring results were shared with ICNZ.



Treasury Report: Toka Tū Ake EQC request to extend the Deficiency Funding Deed - 2023

Date:	27 March 2023	Report No:	T2023/447
		File Number:	CM-1-3-15-4-4

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	None	N/A
Hon Dr Deborah Russell Minister Responsible for the Earthquake Commission	Agree to extend the term of the Toka Tū Ake EQC Deficiency Funding Deed by 12 months to 27 August 2024 Sign the attached letter to the Chair of Toka Tū Ake EQC	10 April 2023

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Phoebe Slee	Analyst, Commercial and Institutional Performance,	s9(2)(k)	N/A (mob) ✓
Emily Howe	Manager, Commercial and Institutional Performance	s9(2)(g)(ii)	

Minister's Office actions (if required)

<p>Return the signed report to Treasury.</p> <p>Sign and send the attached letter to the Chair of Toka Tū Ake EQC.</p>
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Note any feedback on the quality of the report

Enclosure: Letter to the Chair of Toka Tū Ake EQC

Treasury Report: Toka Tū Ake EQC request to extend the Deficiency Funding Deed - 2023

Purpose of Report

1. This report seeks your agreement to extend the term of the Toka Tū Ake Earthquake Commission (Toka Tū Ake EQC) Deficiency Funding Deed (**the Deed**) by 12 months, to 27 August 2024.

Background

2. Section 16 (s16) of the Earthquake Commission Act 1993 (**EQC Act**) states that if the assets of Toka Tū Ake EQC's Natural Disaster Fund (the Fund) are not sufficient to meet current claims liabilities, then the Minister Responsible for the Earthquake Commission (**the Minister**) shall provide the entity such sums by way of grant or advance as may be necessary to meet the deficiency. The provision of sums shall be provided upon such terms and conditions the Minister determines.
3. To operationalise s16 ahead of Toka Tū Ake EQC's first request for Crown funds in 2018, the Deed was agreed between Toka Tū Ake EQC and the Crown [T2020/2927 refers]. The Deed lays out the process for payment requests, reporting requirements, and the obligations of both Toka Tū Ake EQC and the Crown.
4. The purpose of the Deed is:
 - a to avoid the administrative burden that would arise if Toka Tū Ake EQC had to seek funding only at each point in time when the assets of the Fund were insufficient for Toka Tū Ake EQC to pay its liabilities as they became due; and
 - b to provide a process where the Minister can:
 - i assess whether a deficiency in the Fund is foreseeable and proximate; and
 - ii quantify the sums of public money necessary to meet that deficiency.
5. The Deed's original term was for a period of one year, beginning 18 September 2018 and allowed for a one-year term extension. During 2019 Toka Tū Ake EQC requested and was granted an extension of the term to 27 September 2020.
6. In August 2020 the Deed was amended and restated to allow multiple renewals [T2020/2927 refers]. The Deed now allows for Toka Tū Ake EQC to request an extension of the term by giving notice to the Crown in writing no later than 90 days prior to the end of the term. The current term of the Deed ends on 27 August 2023.
7. Toka Tū Ake EQC can request funds when it forecasts that the balance of the Fund will drop below an operational buffer of \$50 million. The Secretary of the Treasury has been delegated authority to authorise individual payments of up to \$60 million; any payment above this requires your approval [T2018/2708 refers].
8. On 15 March 2023, the Chair of Toka Tū Ake EQC wrote to you seeking an extension to the current term of the Deed for a further 12-month period. You may agree to the extension of 12 months, agree to a shorter extension, or deny the request to extend the Deed.

9. We note that Toka Tū Ake EQC is seeking only to extend the term of the Deed, and all other terms and conditions of the Deed will remain unchanged.

Analysis

10. Toka Tū Ake EQC's Natural Disaster Fund growth has been steady and is sitting at circa \$325 million as of 31 January 2023. Steady growth of the Fund was expected to continue, provided no large natural hazard events occurred which result in a significant number of submitted insurance claims.
11. The balance of the Fund remains well below the current \$1.75 billion reinsurance deductible that Toka Tū Ake EQC would need to meet before being able to claim on its reinsurance ^{s9(2)(i)} [REDACTED]
[REDACTED] The possible financial costs from the recent Nelson/Marlborough and upper North Island floods, and Cyclone Gabrielle are yet to be understood, but the value of the Fund is expected to be significantly depleted.
12. As such, it is possible that the Crown guarantee would be called upon in response to the recent events or if there should be another significant event in the next twelve months.
13. Considering the Fund's available assets compared to its reinsurance deductible, the expected depletion of the Fund following the recent natural hazard events, and the administrative certainty that the Deed provides, the Treasury recommends that the Deed is renewed for a further 12 months, extending the term to 27 August 2024.
14. We note that the EQC Act, containing s16, will be replaced by the Natural Hazards Insurance Bill 2022 (NHI), come July 2024 (enacted 12 months after Royal assent). Advice will be provided once the impact on the Deed process for next year is determined. The forthcoming legislative change does not impact the ability to action this current request.

Next Steps

15. If you would like to discuss the Deed or any other details in this Treasury Report, a meeting with Treasury officials can be arranged.
16. If you agree to extend the term of the Deed by 12 months, we recommend that you sign and send the attached letter to the Chair of Toka Tū Ake EQC.

Recommended Action

We recommend that you:

- a **agree** to extend the term of the Toka Tū Ake EQC Deficiency Funding Deed by 12 months to 27 August 2024.

agree / disagree.

- b **agree** to sign and send the attached letter to the Chair of Toka Tū Ake EQC.

agree / disagree.

- c **note** that the EQC Act will be replaced by the Natural Hazards Insurance Bill 2022 (NHI), planned to be enacted in July 2024, and advice will be provided once the impact on the Deed process for next year is determined.

pp. Emily Howe
Manager, Commercial and Institutional Performance

Hon Dr Deborah Russell
Minister Responsible for the Earthquake Commission

_____/_____/_____

Hon Dr Deborah Russell MP

MP for New Lynn

Minister of Statistics

Minister Responsible for the Earthquake Commission

Associate Minister of Justice

Associate Minister of Revenue



Chris Black
Chair
Toka Tū Ake Earthquake Commission
PO Box 790
Wellington 6140

Dear Chris

EXTENSION OF THE TOKA TŪ AKE EQC DEFICIENCY FUNDING DEED

Thank you for your letter of 15 March 2023 requesting a 12-month extension to the term of the current Deficiency Funding Deed (the Deed) for Toka Tū Ake EQC.

I note that the recent Nelson/Marlborough and upper North Island floods and Cyclone Gabrielle events have placed uncertainty on Toka Tū Ake EQC as the total financial cost of losses resulting from these natural hazard events remain unknown.

I also note that while the full cost of financial losses incurred from the recent events is undetermined, the value of the Natural Disaster Fund (the **Fund**) will likely be significantly depleted given the current value of the Fund, and therefore the Crown Guarantee may be called.

Given the uncertainty regarding the estimated financial cost of losses after the recent events, the likelihood of the Fund depletion given its current value, and the administrative certainty provided by the Deed, I agree to extend the term of the Deed for a further 12 months to 27 August 2024.

Please pass on my thanks to the rest of your Board, the management team, and the staff of Toka Tū Ake EQC for their continued efforts in the response to the recent natural hazard events, in settling outstanding claims, and for the work that is being carried out to build a more effective and efficient response to future events.

Kind regards

Hon Dr Deborah Russell
Minister Responsible for the Earthquake Commission

cc Tina Mitchell, Chief Executive, Toka Tū Ake EQC, s9(2)(a)



Reference: T2023/490

Date: 29 March 2023

To: Minister Responsible for the Earthquake Commission (Hon Dr Deborah Russell)

Deadline: None
(if any)

EQC Insurance Liability Valuation Report as at 31 December 2022

On 16 March 2023, Toka Tū Ake EQC provided you with an update on the changes to its total and remaining outstanding claims liabilities (OCL) as at 31 December 2022. The EQC Briefing [BNR 22-23 011 refers] summarised the key findings of its six-monthly Insurance Liability Valuation Report (ILVR) prepared by its independent actuaries, Melville Jessup Weaver (MJW).

This Aide Memoire focuses on the central estimate of the OCL, as this measure informs the modelling that Toka Tū Ake EQC uses to create its forecasts, which impact on core Crown accounts¹. The OCL informs the probability of Toka Tū Ake EQC requiring funding from the Crown under section 16 of the EQC Act 1993 (the Act).

The December 31 report has not shown any significant shifts in valuation. We did not find anything to be of concern within the report but note that this valuation is set before the North Island weather events that occurred earlier this year.

Overall Outstanding Claims Liability by Event

As at 31 December 2022, Toka Tū Ake EQC's central estimate OCL was \$333 million. The Canterbury Earthquake Sequence (CES) contributed the majority of this liability at \$293 million (including expected reinsurance recoveries), with Kaikōura at \$8 million, and other events at \$85 million.

¹ The ILVR will be incorporated into EQC's financial forecasts which will be submitted to Treasury in April as part of the Budget Economic and Fiscal Update.

Table 1: Central OCL by Event as at 31 December 2022 and 30 June²

Event	31 December 2022 (\$ million)	30 June 2022 (\$ million)
Canterbury Earthquake Sequence (incl. reinsurance)	240	316
Kaikoura	8	12
Other Claims	85	27
Total*	333	355

* Totals may not add up due to rounding

Canterbury Earthquake Sequence

Table 1 above highlights the estimated OCL for CES has decreased by \$75 million since the 30 June 2022 valuation. This is despite the gross estimated cost of CES increasing by \$8 million to a total of \$12.250 billion. The decrease in the OCL compared to the increased gross estimate is due to movements in the building claims costs and an associated claims handling expenses (CHE) movement.

The main drivers of the change in the CES OCL are:

- claims paid out equalling 65 million, excluding CHE
- an increase in the number of claims expected to reopen
- an increase in the reinsurance recoveries.

Key challenges since last valuation

Reopened Claims

MJW notes that there remains a clear relationship between the duration for which a property has been closed and the likelihood that it will reopen. They suggest that the patterns driving the number of reopened claims will exhibit a gradual downward trend over the coming years. The tail of claims related to the Canterbury earthquakes continues to lengthen, creating a question around when all associated claims will end.

Insurer Finalisation

Insurer Finalisation settlements were concluded with each of the four insurers who were in negotiations with Toka Tū Ake EQC in December 2020. s9(2)(b)(ii) and s9(2)(j)

² Not including the risk margin.

Kaikōura

The estimated ultimate cost of the Kaikoura event has increased by \$4 million to \$672 million, primarily relating to a large multi-unit building claim settling for more than had been allowed in its case estimate.

Funding Requirements

As at 31 December 2022 Toka Tū Ake EQC is currently cash positive, not including the recent weather events in the upper North Island. The quantum of total claim costs for both the Auckland Anniversary floods and cyclone Gabrielle is still uncertain at this stage. We continue to engage with Toka Tū Ake EQC and will provide advice, as necessary, regarding any risks to the estimates contained in the December 2022 ILVR.

The main risk to the Crown is dependent on whether the assets in the Natural Disaster Fund (NDF) are sufficient to cover Toka Tū Ake EQC's liabilities. The NDF, as at 31 January 2023, was circa \$325 million and is still rebuilding after it was depleted following the Canterbury and Kaikōura earthquakes. Should the fund not be sufficient, the Crown will be obligated under section 16 of the Earthquake Commission Act 1993 to cover any financial shortfall of the NDF (via the Crown Guarantee).

Toka Tū Ake EQC recently requested an extension to the term of the Toka Tū Ake EQC Deficiency Funding Deed (the Deed) by 12 months, to 27 August 2024 [T2023/447 refers]. Any potential draw on the Crown Guarantee will be driven by the scale of the losses from the recent events or if there should be another significant event in the next twelve months. Further advice on any funding from the Crown under section 16 of the Act will be provided once Toka Tū Ake EQC is able to estimate the expected liabilities more accurately from these events.

Jess Lee, Analyst, Commercial and Institutional Performance, s9(2)(k)
Alecia Cole-Bowen, Principal Advisor, Commercial and Institutional Performance,
s9(2)(g)(ii)