



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Tuesday, 18 January 2011, at 1.25pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
R J Black
T J Burt (by telephone)

In Attendance: I Simpson (Chief Executive)
P R Jacques (Chief Financial Officer)
9(2)(a) [REDACTED] (Minutes)

1. Reinsurance

(a) Reinsurance Options 2011

The Board considered management's recommendation to continue with the existing programme and the options presented by Aon Benfield.

The Chairman pointed out that thought needed to be given to affordability. The Board needed to be clear about the financial implications of moving to increased reinsurance cover, bearing in mind that even replacing current reinsurance will be more expensive. Income and overall loss implications of reduced funds under management and extra expenditure need to be considered and endeavours should be made to keep reinsurance costs less than premium income.

The Board would like to keep the excess at \$1.5bn. Furthermore, there is a deficit of \$1.3bn in the Natural Disaster Fund as a result of the Canterbury earthquake. It was agreed this could be rounded down to \$1bn and pricing obtained for additional reinsurance up to this amount.

It was pointed out that reinsurers will be briefed by their own technical people on the nature of the risk and Aon Benfield are planning a technical trip in February to visit leading markets to discuss aspects of the modelling. It was agreed that EQC should include a technical resource in its renewal team to address various questions that might arise. At this stage it is envisaged that the Chief Executive and Hugh Cowan will form the Renewal team.

It was resolved:

That market quotes be obtained to maintain the existing programme structure and options considered for a further \$1bn. Based on initial quotes and market information from Aon Benfield, the Board will discuss strategy and make a final decision at the March Board meeting.

Treasury will be informed of any significant changes proposed for the programme.

9(2)(i)

Estimates in Melville Jessup Weaver report will need to be updated by the end of February to inform the approach to the reinsurance market. It will also need to be updated for the end of year financials.

(b) Reinsurer Visits

A number of reinsurers will be visiting EQC in the near future – reasons ranging from general information gathering through to a visit from 9(2)(i) who will be undertaking a claims audit and their own field work for modelling. They will also be focusing on our Catastrophe Response Programme. It was suggested that relevant information be collated – perhaps by a dedicated resource - and put onto a secure website so that it can be downloaded by reinsurers, as a cost-effective way of responding to their information requirements.

9(2)(a)

9(2)(i) was thanked for his attendance and left the meeting at 2pm.

2. Minutes of Meeting of 2 December

9(2)(a)

It was pointed out that the minutes did not record the attendance of 9(2)(i) as part of the Aon Benfield team who had attended the 2 December meeting. Subject to this amendment, the minutes of the Board meeting of 2 December were confirmed.

3. Matters arising from Minutes of Meeting of 2 December

Timetable for claims assessment – This has been included in the draft work plan presented to the Board.

Deed of Indemnity – This is still being worked through by the legal advisers. A final version should be available for signing at the next Board meeting.

4. Minutes of Board Teleconference of 17 December 2010

The minutes of the Board teleconference held on 17 December were confirmed.

5. Matters arising from Board Teleconference of 17 December

Communication to claimants – A report will be made to the next Board meeting regarding advice to claimants about top-up cover provided by private insurers and excess arrangements.

Redemption of Bonds – Following agreement by Treasury, redemption of bonds commenced on 17 January. A programme is in place for the foreseeable future; fewer international equities are being liquidated. It was agreed that cashing up of EQC investments should maintain the balance between government stock and international equities.

Diagram showing extent of EQC's responsibilities - Board members have said it would be useful to have a diagram showing EQC's responsibilities in the context of the whole of Government responsibility. The Chairman and Chief Executive will discuss this, perhaps with 9(2)(i) and Bryan Dunne will document his understanding of the areas of responsibility.

9(2)(a)

Bryan Dunne joined the meeting at 2.15pm.

6. Draft Work Plan 2011

The Chief Executive explained that the plan has been built around five principles:-

(1) Maintain Pace

EQC is still in the early stages of the Canterbury recovery. A better picture of the scale of the task ahead will emerge towards the end of the first quarter 2011 when all the claims will have been assessed. In light of this, the focus of the draft plan is to give measures which will demonstrate the growing momentum through the first three months.

As the plan is updated with longer term measures, targets will be set which balance the need to deliver shortest possible recovery time with the need to ensure quality, and manage the event cost.

(2) Ensure Quality

EQC has established the Fletcher Construction Project Management Office, and will coordinate land remediation through local councils, to help deliver on the government objective of ensuring long term public confidence in the Canterbury housing stock. The agreed contractor selection and inspection processes, target repair completion rates, and health and safety measures will ensure that this objective can be delivered.

Within EQC, targets have been set to measure the quality of the claims management processes, by monitoring customer satisfaction and re-work.

(3) Manage Financial Liability

The claims process should ensure that individuals receive their full entitlement under EQC cover, but no more. Clear policies, on-going staff training and claims audits will help ensure this result.

EQC will provide transparent event cost information to its reinsurance group and will ensure that costs are properly allocated between EQC, the Crown and the reinsurers. The Fletchers PMO will minimise post-event inflation by coordinating the demand for labour and resources generated by EQC managed repairs.

(4) Strengthen Public Engagement

EQC faces one of the largest public relations challenges in the country. A long term engagement strategy based around stakeholder needs and delivery channels has been drafted. In the short term, a proactive media plan will focus on the delivery of the short-term milestones.

(5) Build for the Future

Throughout the response the EQC team will continue to improve and refine processes, document key decisions and issues, and develop the its capability to ensure it emerges in a stronger position to manage the next large event.

The meeting discussed the draft plan and the following comments were made:

Claims Assessment - Targets for completing claims assessments should be demanding but not impossible to achieve.

Claims Settlement - More precision is required for Fletcher PMO and land remediation timelines. It was suggested that the April Board meeting be held in Christchurch during which time Tonkin & Taylor and Fletchers could brief the Board about their respective programmes. Tonkin & Taylor should give an indication of when land remediation will be completed and provide a clear statement on what will be achieved and whether it will be effective. The work should be peer reviewed.

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Spencerville – It was noted that an MOU with the contractor undertaking the Spencerville remediation has been signed, and work is scheduled to commence on 7 February.

EECA proposal – Lance Dixon is working with EECA on a prioritised approach to chimney repairs and heat pump installations, but there is a need to ascertain what EECA is committed to and how it fits within the PMO work. [redacted] (h) [redacted] It was agreed that a ministerial direction be sought for EQC (through the PMO) to carry out the EECA work, and in this regard it was suggested that an information paper be prepared and sent to the Minister for discussion at the meeting with him on 26 January.

Finance – Discussions will take place with Treasury on the overall risk level and future of the Natural Disaster Fund.

Communications – A draft of the overall communications plan needs more work. The role of the Recovery Commission and EQC's role need to be clarified and an understanding reached on responsibilities. It should be identified who is leading the initiative.

People and Infrastructure – It was suggested that there be some flexibility around terms of contracts and that people be kept informed to avoid false expectations. This is an area that will need to be considered by an HR Manager, to maintain morale.

CMS Upgrade – A full risk assessment will need to be done of the CMS upgrade.

Trevor Burt left the meeting at 4pm.

The Board endorsed the draft work plan on the understanding that it will be melded into "business as usual" activities. It will form the basis of the Statement of Intent. Management will be reporting to the Board against targets of time, cost, quality and risk on a monthly basis.

[redacted] 9(2)(a) [redacted] joined the meeting at 4.10pm.

7. [redacted] 9(2)(a) [redacted] report on Governance

[redacted] 9(2)(a) [redacted] elaborated on his report to the Board. He considers that the programmes of all contributing entities should be brought together to develop a high level overarching programme with clear objectives. He stressed the importance of regular reporting on these objectives and for processes and decisions to be documented and developed into a project procedures manual. This will be of interest to the Earthquake Recovery Commission and will be a useful reference for future events.

Giselle McLachlan suggested an outside resource to facilitate a workshop on what reporting the Board might want from management.

8. Investment report to November 2010

The investment report to November 2010 was taken as read.

9. UNPRI Assessment Report for Review Year 2009

The UNPRI's assessment of EQC's responses to its survey was noted.

10. Chief Executive's Report.

The Chief Executive introduced his monthly report and covered matters additional to those already canvassed under the 2011 draft work plan.

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It was noted that a complaints systems has been implemented, but mediation and arbitration are areas that require further investigation and advice.

A range of policy issues are being investigated and papers will be submitted to the Board as they are developed. The Chief Executive advised that a paper had just been received in which the Government is assigning the Department of Housing responsibility for temporary accommodation.

The Chief Executive will be on annual leave next week and Phillip Jacques will be Acting Chief Executive.

The Chief Financial Officer joined meeting at 4.50pm

11. Financial Report to November 2010

The Chief Financial Officer introduced the financial reports to November, saying that the key variance was in investment management expenses. This has been brought about by the reduction in assets under management and also by not having invested fully in active equities.

The amount for legal fees under PMO was considered to be high and management is to check whether the legal fees for the EECA MOU have been allocated in error to the PMO.

The CFO pointed out that all the Canterbury event expenses for which EQC (as opposed to reinsurers) have responsibility are likely to be paid from the proceeds of the sale of government stock from now on.

12. Financial Delegations

To improve the segregation of duties as recommended by KPMG and to ease the work load of the Finance Manager during the Canterbury event, it was agreed that the Canterbury Event Reporting Manager, Finance, be given the same level of delegation as the Finance Manager and that the delegated authority of the Assistant Accountant be extended. It was resolved:

1. That approval be given to the addition of the Canterbury Earthquake Reporting Manager, Finance, to the list of Group "A" cheque signatories.
2. That for the duration of the Canterbury Earthquake recovery response, delegation to approve invoices for any cost centre up to the value of \$25,000 be given to the Canterbury Earthquake Reporting Manager, Finance.
3. That for the duration of the Canterbury Earthquake recovery response, delegation to approve invoices for any cost centre up to the value of \$5,000 be given to the Assistant Accountant.

13. Audit Risk and Compliance Committee Meeting – 18 January

Denise Bovalrd, as Chair of the Audit Risk and Compliance Committee (ARCC), reported on the ARCC meeting held earlier in the day.

KPMG have completed most of their internal audit. The majority of their concerns relate to controls around the accounting and claims systems and these are being addressed. However, while some potential exists, there is no evidence of fraud and the systems have been operating well. With the Fast Track system of claims settlement, a higher than previously indicated risk has been detected and a wider sample of testing will be done. KPMG have stressed the importance of meeting with Fletchers to ensure that their controls are tight.

The recently appointed Risk and Assurance Manager will be commencing duties on 31 January and will oversee KPMG's work on the internal audit. She will be responsible for assessing the

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recommendations and seeing that they are put into effect as required.

Given some of the areas highlighted by KPMG, the ARC Committee may want to see the testing of transactions authorised by key people. A detailed work plan will be submitted to the Board.

14. March Board meeting

To enable the Board to discuss reinsurance strategy before the reinsurance renewal team left to take part in negotiations with reinsurers, it was agreed to put the Board meeting forward to Monday, 7 March – 12 noon.

15. Board fees

The Chairman advised that an adjustment to Board fees should be made in a few weeks following consultation with SSC and approval by Cabinet.

16. Next Board Meeting

Tuesday, 15 February

There being no further business, the meeting concluded at 5.25pm

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Tuesday, 1 February 2011, at 4pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
R J Black
T J Burt

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

Apologies: D K Bovaird

The Chairman pointed out that the purpose of the Board teleconferences was to ensure that Board members are kept apprised of what is happening between Board meetings and to bring forward items of interest/attention.

Agenda Items:

1. MOU with Christchurch City Council (CCC) and Waimakariri District Council (WDC) regarding land remediation works
2. Meeting with Ministers
3. Reinsurer visits

1. MOU with CCC and WDC

The Board considered the draft Memoranda of Understanding (MOUs) between the councils and the Crown (via EQC) for land remediation works beyond the scope of EQC's statutory obligations. The MOUs will be supported by a Ministerial direction for the work outside of EQC's functions to be carried out. The Government has asked EQC to negotiate the MOUs and is keen to have this resolved as soon as possible so that work can commence.

9(2)(h) [REDACTED]

[REDACTED] One change relates to the process of obtaining access to private land, which was not mentioned in the position paper. The councils are keen for EQC to take the lead on this. It was agreed that if EQC consents to this it should be noted to the Minister, with a copy to Treasury.

The Crown has made provision for up to \$140m for this work and Board members agreed that it should be made clear to the councils that EQC's expenses and those of the PCG are to come out of that amount. A budget incorporating cost of works and councils' administration costs should be pre-

agreed with the councils, and there may need to be a compromise between cost and performance to keep the work within budget. EQC should have some control or approval rights over the budgeting. With regard to the MOUs, it was suggested that the Project Budget (Clause 4.8) be linked to what EQC will pay the Councils (Clause 7.1).

It was accepted that unforeseen technical or other problems may arise during the construction phase and it was agreed that the concept design costing should include a contingency to cover these. If the \$140m is exceeded, the deficit will fall on the Crown and not EQC, and this should be made clear to all parties. The concept design will be submitted to Government in April.

No mention has been made of how EQC will receive the funding from the Crown, and it was suggested that this be clarified.

Linda Robertson left meeting 4.45pm.

It was agreed that the MOUs be reworded to reflect the meeting's discussions (following engagement with the councils). The amended version should then be emailed to Board members for approval, together with a covering memo from the CEO giving comfort that that the matters raised by the Board have been addressed. A supporting memo from Chapman Tripp should also be included. This should be done as soon as possible so that the MOUs can be signed before the Earthquake Recovery Commission meeting on 9 February.

It was suggested that the Board be given a better understanding of the scope of works by Tonkin & Taylor, at the next Board meeting.

2. Meeting with Ministers

The Chairman advised that he, 9(2)(a) Lance Dixon and Bryan Dunne had met with EQC's Minister and the Minister for Earthquake Recovery and officials last week. The EQC team were able to address and allay concerns about the settlement of claims and land remediation. It was agreed that it was essential for Ministers to be fully briefed and provided with fuller reports based on the work of the larger plan now approved by the Board.

3. Reinsurer Visits

EQC has had a number of reinsurer visits recently and more have been arranged over the next few weeks. Reinsurers who have visited, have seemed satisfied with what they have seen of EQC's operations and processes.

There being no further business the meeting concluded at 5pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Tuesday, 15 February 2011, at 12.45pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
R J Black
T J Burt

In Attendance: I Simpson (Chief Executive)
P R Jacques (Chief Financial Officer)
9(2)(a) [REDACTED] (Minutes)

1. Disclosures of Interest (9/1INT1)

Board members confirmed that there were no agenda items with which they had conflicts of interest.

Keith Taylor advised the following be recorded on the Conflicts of Interest Disclosure form.

- He is no longer on the Board of Catalyst Risk Management
- He has been appointed to the Board of Southern Cross Health Care
- 9(2)(a) [REDACTED]

2. Ministerial Delegation

The Chairman advised the meeting that he had been informed that morning by the Minister of Finance that he (Mr English) was signing that afternoon a delegation for Mr Brownlee to assume responsibility for the EQC on matters pertaining to the Canterbury Earthquake recovery. Mr English would retain ultimate responsibility for EQC's performance and "organisational health", and would not be delegating responsibility for matters such as the financial performance, policy on NDF structure and reinsurance, to Mr Brownlee.

This delegation will have some advantages, such as formalising a direct relationship with the Minister for the Canterbury Earthquake Recovery and cutting out some of the transaction costs and crossed communications associated with the current arrangements.

It will also require EQC to establish a well-structured and sure-footed relationship with Mr Brownlee and his office; and to manage professionally the interface between Mr English's and Mr Brownlee's interests and priorities.

The Chief Executive advised that Item 7 – Dispute Resolution – would be deferred until the March meeting when a recommendation will be made to the Board.

3. Minutes of Meeting of 18 January 2011

The minutes of the Board meeting held on 18 January were discussed and the following amendments were agreed :

Item 1 - Page 2 – Bond redemptions – clarify by amending sentence to:

It was agreed that discussions should be had with Treasury about bond redemptions so that we have \$1.5bn in investments other than government stock.

Item 12 - Page 5 – Financial Delegations – clarify by amending resolutions 2 and 3 as follows:

2. *That for the duration of the Canterbury Earthquake recovery response, delegation to approve invoices for any cost centre up to the value of \$25,000 be given to the Canterbury Earthquake Reporting Manager, Finance.*

3. *That for the duration of the Canterbury Earthquake recovery response, delegation to approve invoices for any cost centre up to the value of \$5,000 be given to the Assistant Accountant.*

Subject to the amendments above, the minutes of 18 January were confirmed.

4. Matters arising from Minutes of Meeting of 18 January

Reinsurance

Treasury has been informed while changes to the reinsurance programme are under discussion, it is too late to make significant changes to the structure in advance of the renewal.

A paper on the renewal of tender for reinsurance broking services is to be submitted to the March Board meeting.

Melville Jessup Weaver Report

Melville Jessup Weaver will be using statistical data in their reports until June when their model will be refreshed with data from the claims systems.

Advice to Claimants on Top up Cover and Excess

This advice is being included in the claimant communication to accompany Fletcher's operational policy. The final draft is expected in two weeks' time.

Diagram showing EQC Responsibilities

A diagram would be useful, but this should be deferred until the process is clearer.

Peer Review of Tonkin & Taylor Concept Design

The Canterbury Earthquake Recovery Commission has advised that a peer review of the concept design is not required before work is commenced.

Spencerville Project

The Spencerville project was to commence on 7 February, but the machinery from Germany has been delayed and is not expected to arrive until early April. Preparation work is due to start the week commencing 14 February. The project is being led by [REDACTED] 9(2)(a)

5. Minutes of Board Teleconference of 1 February 2011

The minutes of the Board teleconference held on 1 February were confirmed.

6. Matters arising from Board Teleconference of 1 February

Nil

7. Chief Executive's Report

The meeting considered the Chief Executive's report and noted that fieldwork on all claims from the 4 September earthquake will have been started by the end of March.

It was noted that as a step towards addressing concerns about increased fatigue, assessors' working hours have been reduced to half a day on Saturdays. It was suggested that alternate Saturdays off would better address the issue.

It was previously agreed that Fletchers would present to the Board at the April meeting, but it was agreed that this should be brought forward to the March Board meeting, together with a report on the status of the work of Fletchers PMO. This should include what has been channelled into the PMO process, work being done and EQC control.

In regard to the work on land remediation, both councils have made significant changes to the MOUs and this has delayed signing off. Board members were of the opinion that the cost for land remediation works beyond the scope of EQC's statutory obligations should not be borne by the Natural Disaster Fund or carried on EQC's accounts, and asked that clarity be sought.

The Board also sought some clarity around:

- targets for assessment of claims, ie, field work started, assessments completed and payments made.
- over cap claims.

It was noted that reporting on the Post-Event Review had not been included, and this will be included in the next report.

The Board asked for recommended targets at intermediate phases to be included in future reports. Original dates for completion should stand and a note made of any delay.

8. Land Remediation

9(2)(a) [redacted] and 9(2)(a) [redacted] joined meeting at 2.40 pm.

Land damage claims now number around 25,000. Of the original 16,000 received, 14,000 have been visited and T&T are on track to visit the remainder of the 16,000 before the end of March. With regard to the additional 9,000 claims, T&T are now doing double shifts and it is expected that all land damage claims will have been visited by the middle of April.

The design objective is to improve the level of performance related to that at 3 September. The cost of the perimeter treatment work (stone columns) is estimated to be well within \$140m, but the extent of the rafting (improving stiffness and compacting ground) won't be known until private insurers have assessed what is to be repaired or rebuilt. A paper identifying early works will be circulated to the Board.

9(2)(a) [redacted] advised that a further Ministerial direction is being sought, a draft of which is being considered by Treasury. Treasury has requested information about the early works and the concept design report.

The Board requested a report on expectations of, and financial risk to EQC. A decision will then be made about what will need to be discussed with the Minister.

9. Land Remediation - Flood Risk

As a result of the Canterbury earthquake, some areas have subsided by about 200mm. In some cases there is inundation, and some properties will be more flood prone.

EQC's legal liability is a difficult issue. Under its Act, EQC's general obligation is to "replace or

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reinstate any property that suffers natural disaster damage". As the land has become more flood prone, raising the land could be part of reinstatement. However, if the flooding risk is caused by "extraordinary" factors, ie, the raising of a local riverbed, then EQC is not responsible.

The extent of the flood risk is uncertain and information is being sought from various parties to clarify the nature of the risk, potential liabilities and options for treatment. A paper will be submitted to the Board at its March meeting.

It was noted that whatever action EQC takes will impact on Insurers and they should be advised of EQC's intentions as early as possible. Reinsurers should also be informed.

Although the Minister for Earthquake Recovery has been advised of the flood risk, this has not been discussed with the Earthquake Recovery Commission.

9(2)(a) [redacted] left the meeting at 4.15pm.

10. Reinstatement of Cover

Following a number of enquiries relating to whether and what EQC insurance cover exists after an initial claim has been made, nine key questions were compiled on the topic [redacted]

9(2)(h) [redacted]

The Board noted the questions and answers drafted for the Insurance Council, and it was suggested that they first be submitted to a private insurer for comment. The matter should also be discussed with the Minister of Finance and the Minister for Earthquake Recovery.

The Chairman left the meeting to attend a meeting at the Department of the Prime Minister and Cabinet. Keith Taylor continued as Chair of the meeting.

11. Deeds of Indemnity

9(2)(h) [redacted], and the Board resolved:

1. That it wishes EQC to enter into appropriate deeds of indemnity with each of its Commissioners;

9(2)(h) [redacted]

3. That it notes that, by virtue of section 62 of the Crown Entities Act 2004, the Commissioners are not interested in the matter of entering into the deeds of indemnity between EQC and each Commissioner and that, therefore, the Commissioners are not obliged to disclose details of an interest pursuant to section 63 of the Crown Entities Act 2004;

4. That EQC will enter into the deed of indemnity in the form attached with each of its Commissioners;

5. That it authorises, in respect of the deed of indemnity in favour of any given Commissioner, any two of the other Commissioners to execute the relevant deed of indemnity on behalf of EQC.

12. Procurement Policy

The overview of the proposal Procurement Policy was considered, and it was agreed that only two (not three) telephone quotations should be required for a procurement of up to \$10,000. The

Board resolved:

1. **That subject to the amendment above, the procurement policy as summarised in the overview be endorsed.**

It was acknowledged that a centralised Contracts Register is being developed to capture all goods and services contracts. The register will be finalised by the April Board meeting.

13. Financial Report to December 2010

It was questioned whether it was correct to show as Income the reinsurance recovery of claims to be paid. The CFO explained that this was because the claims cannot be netted against the reinsurance recovery.

Board members asked that a Forecast column be added to the Canterbury Events Expenses. This should show a total amount for the sub-headings and for loss adjusters.

14. Capital Expenditure

The Board considered management's request for a further \$500,000 for additional Capital Expenditure related to the Canterbury earthquake. The Chief Financial Officer explained that invoices were expected from GBS for expanding their capability, and more expenses were expected in setting up more field offices. The Board resolved:

That approval be given for a further \$200,000 be added to the budget for Capital Expenditure related to the Canterbury earthquake recovery response, but that a request any further amount should be submitted to the next Board meeting setting out more detail.

15. Minutes of Audit Committee Meeting – 18 January 2011

The minutes of the Audit Committee meeting of 18 January were noted.

16. Investment report to December 2010

The Investment report to December 2010 was considered. It was noted that EQC has an underweight position in Global Equities, and the SIPSP has been amended accordingly.

It was also noted that bonds had been sold in the period under review.

17. Avoiding Prejudice Letters

The Board noted that Avoiding Prejudice letters for the six months ended 31 December 2010 have been received.

18. General Business

Giselle McLachlan advised that she would be speaking on behalf of EQC at the ANZIF (Australian and New Zealand Institute of Insurance and Finance) Executive Breakfast in Melbourne on 17 March. It was suggested that the Minister be advised.

Denise Bovaird advised that she would be presenting at a Risk Management Conference. She will not be representing EQC, but the focus of her presentation will be on EQC.

Board members asked to be put on the circulation list for the news clipping service.

19. Next Board Meeting

Monday, 7 March

There being no further business, the meeting concluded at 4.45pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Friday, 25 February 2011, at 4pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
T J Burt
R J Black

In Attendance: I Simpson (Chief Executive)
H A Cowan (Research Manager)
B Dunne (
9(2)(a) [REDACTED] (Minutes)

In opening the meeting, the Chairman advised that the teleconference was called to:

1. Give Board members a shared understanding of the nature of the 22 February earthquake as it affects EQC.
2. Obtain endorsement of EQC's response to date, and in the immediate future.
3. Agree priorities for EQC's response, some of which will need fuller development and reporting to the Board.

The Board acknowledged the tragic loss of life and injuries in the event of 22 February. EQC, with more resources and more robust systems and processes in place, is in a much better position to respond to this event than it was on 4 September 2010. Also, the Chief Executive, as an attendee at Recovery Commission meetings and now a member of ODESC, is better able to engage directly with those most closely involved in the government response.

Nature of 22 February earthquake.

The 22 February earthquake occurred on a buried and previously unknown fault beneath the Port Hills of Christchurch. There is no obvious structure directly connecting the faults that ruptured in areas of September's earthquake with the fault that generated the 22 February event although the aftershocks overlap. The ground motion intensities were extraordinary for an earthquake of its size (magnitude 6.1), exceeding the 1-in-500 year elastic design spectrum for Christchurch. There is high potential for further aftershocks above magnitude 5 over the next 12 months. Initial assessments indicate that the severity of liquefaction is 2-3 times greater than September for some housing areas east and south of the CBD.

In the built environment, there is large social and economic disruption, and although a lot of built stock has performed adequately, people will be denied access for some time while detailed inspections are carried out.

An initial run of Minerva anticipates 100-130,000 claims. However, this is super-imposed on housing already affected by the 4 September and subsequent events. It will be a challenge to work out the actual number of claims and management will report on how this will be done.

Backup reinsurance cover will be discussed with Aon Benfield, and further and urgent thought will need to be given to the strategy for the next renewal. This will be a period of higher risk and it may be prudent to negotiate a reinsurance structure which differentiates risk in Canterbury from other parts of New Zealand.

Board members asked for a session on the science of New Zealand earthquakes so that they can better understand the context in which the recovery is planned. GNS will be asked to provide this and a list of topics and questions will be prepared.

Impact on EQC

All EQC staff and contractors have been accounted for. Casualties included two instances of glass cuts and one broken leg. The Deans Avenue premises incurred some damage but will be operational in a couple of days. All electronic data is centralised and hard copy files are secure. There were a few instances of papers blown out of windows. The earthquake highlighted the need for sprinklers, and this will be investigated.

150 EQC contractors have had to be rehoused. Those not living in Canterbury will be going home in the next couple of days until the recovery phase is further advanced, and they can be usefully employed.

EQC assessment crews are assisting Civil Defence and councils. EQC is paying for them but this will not be charged to reinsurers. Management will ascertain whether this is a legitimate charge under the Act and whether subsequent validation is required.

Planning for EQC's response to the latest event is under way and operations are being ramped up. Now that the country is in national crisis mode the priority will be to repair as many properties as quickly as possible, whether they are insured or not. Emergency repairs are likely to be a priority. It is also likely that work outside EQC's statutory obligations will be funded by the Crown and a ministerial directive will be sought for this. A directive will also be sought for continuity of EQC cover for all properties that were dwellings in September.

EQC Role

EQC is part of the whole of Government response and communications. The Chief Executive is a member of ODESC and attends Government sub-committee meetings. Government entities are being encouraged to share information, and the Privacy Commissioner has issued a note that Privacy Act restrictions will be withdrawn with regard to the recovery effort.

For the future, there is likely to be a review of the structure and future of the Fund. Meanwhile, priority will be given to arranging emergency repairs and settling claims as quickly as possible. The original plan for land remediation is likely to be revisited.

It has not yet been decided whether all damaged suburbs will be rebuilt, and to what standard. It was agreed that while EQC would be willing to assist, it should not be leading the operation. It was noted that Kaiapoi and Spencerville have not been significantly further affected by the 22 February event.

Management structure

New members of the management team are Ben Mitchell and Bryan Dunne. An HR Director has been appointed to commence next week and will also be part of the management team.

Advisers in HR and Communications have been seconded from Treasury on a short-term basis. They have brought with them an independent communications adviser with experience in relationships with Government departments, who will partner and advise the current Communications team.

Treasury's offer of short term secondments to assist with policy issues will be taken up. Secondments and/or other support will be required for other senior management roles, including financial reporting. Resources will also be sought to build an HR team, and for strategic IT.

Trevor Burt left the meeting at 11.35am.

Back Office Systems

There have been two outages caused by the number of concurrent logged-on users. IBM are working on a solution to improve capacity and capability of the system. A plan will be submitted to the Board for approval. The Board will be looking for deliverability and risks, and how risks are to be managed.

The Board noted that the Minerva modelling tool is now 10 years old and needs upgrading. Management envisage that a large tranche of the biennial grants budget will be directed towards improving EQC's modelling capability to inform future underwriting of New Zealand risk.

Policy Matters

Reinsurance – Bryan Dunne is preparing a plain language document on how reinsurance works and this will be useful for ministerial, internal and external communications.

It was suggested that if the Minister is planning a trip to London, meetings should be arranged with reinsurers. Alternatively, when EQC makes a reinsurance trip to Australia or Singapore later this year, it may be useful to include a senior government official.

Russell Black joined the meeting at 11.50 am.

Land remediation – EQC has signed a contract to undertake the perimeter works at Spencerville but it should not be assumed that the ERC will support this. Waimakariri District Council is willing to proceed but the Government should be fully informed of the risks involved (ie, raising expectations elsewhere). T&T have inspected several sites in Christchurch where ground improvement had been

undertaken to mitigate liquefaction, and initial assessment indicates good performance was achieved on 22 February at those sites where the stone column method had been used.

A paper on land remediation should be submitted to the Minister to confirm that this remains a priority. It was agreed that lessons could be learnt from the exercise, it would give confidence in EQC's capacity to respond, and would demonstrate action to those affected by the September event. A ministerial direction would be required.

Reinstatement of Cover – A note will be sent to joint Ministers on both reinstatement of cover and contracts work insurance to ensure that the Crown is aligned with the Board's view on roles and responsibilities. It was noted that Chapman Tripp, the Crown Law Office, Treasury and DPMC are also in agreement with the EQC's interpretation of the Act. This matter will also be discussed with the insurance industry. An information update will be prepared for reinsurers and insurers. The ERC will also be kept informed.

Land Remediation – Clarity needs to be sought on where EQC's obligation takes effect and to what extent. Flooding issues relevant to consideration of wider Crown liability need to be mapped and understood.

Cash vs Managed Repairs - Clarity should be sought on Government's views on the policy of managing repairs rather than making cash settlement.

The Board asked for more information on the following:

1. Plan – claims settlement and assessment – coincide timeline, risks, etc.
2. Assurance about IT capability.
3. Government decisions on EQC's roles and responsibilities.
4. Reinsurance strategy
5. EQC's statutory obligations for land – what is provided for under the statute and what the reinsurers understand.
6. EQC's support for land remediation and whether work at Spencerville and Waimakariri will proceed.

The April meeting was scheduled to be in Christchurch but a decision on this will be deferred.

The teleconference scheduled for Tuesday, 1 March, will be cancelled.

There being no further business, the meeting concluded at 12.25pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Monday, 7 March 2011, at 10.00am**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
R J Black
T J Burt

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

It was noted that representatives from Fletchers were unable to attend the Board meeting as planned because of pressure of work.

1. Disclosures of Interest (9/1INT1)

Board members confirmed that there were no agenda items with which they had conflicts of interest.

2. Minutes of meeting of 15 February 2011

In considering the minutes, the Board noted:

Item 4 – to be amended to:

Melville Jessup Weaver will be using statistical data in their reports until June when their model will be refreshed with data from the claims systems.

Item 9 – First paragraph and first sentence of second paragraph to be amended to:

As a result of the Canterbury earthquake, some areas have subsided by about 200mm. In some cases there is inundation, and some properties will be more flood prone.

EQC's legal liability is a difficult issue. Under its Act, EQC's general obligation is to "replace or reinstate any property that suffers natural disaster damage".

Subject to the above amendments, the minutes of the Board meeting of 15 February were confirmed.

3. Matters arising from the Minutes of 15 February

Tender of Reinsurance Services – to be discussed under Item 6.2.

Dispute Resolution – this will be reconsidered once new or revised arrangements for repairs have been agreed and are in place.

4. Minutes of Board teleconference of 25 February 2011

The minutes of the Board teleconference held on 25 February were confirmed.

5. Matters arising from Minutes of Board teleconference of 25 February

Policy Matters – Reinsurance – It was noted that the plain language document on reinsurance has been deferred due to pressure of work. It was noted also that there was still a need for this.

Land Remediation – a paper recommending the Board's confirmation of its decision on accelerated and early land remediation during discussion on 25 February has been included in Item 5 of the Board papers. Following confirmation, EQC will put proposals to Joint Ministers.

Denise Bovaird joined the meeting at 10.15am.

6. Chief Executive's Report

It was noted that EQC fieldwork has been temporarily suspended until 9 March, partly because of health and safety concerns for EQC teams in the field and also to enable emergency repairs to be carried out to EQC's Deans Avenue premises in Christchurch.

Fletchers PMO have gone into emergency repair mode, and are facilitating emergency repairs whether houses are insured or not. Records are being kept so that the sources of funding can be sorted out at a later date. Council inspectors are inspecting all properties to do safety checks and EQC carries out parallel inspection for its own purposes. Individual letters to property owners will follow, advising that emergency repairs only are being undertaken at this stage. While the emergency repairs are being undertaken in the east of Christchurch, repair work as originally planned will be continuing in the west and north where there is limited damage from the 22 February event.

There was only minor additional damage in Spencerville from the 22 February earthquake and it is proposed that land remediation will progress as planned. However, clarification is needed on government policy that people can leave if they want to. A formal report on the effectiveness of the stone column work has been commissioned and will be circulated when received.

EECA appear to be struggling with resources to keep up with installing heat pumps in homes that have lost their sole source of heating. The solution is that Fletchers will take over the coordination, with EECA providing their services to the PMO.

It was noted that EQC needs to move out of its alternative site in Manukau and establish an alternative backup office. Data is being moved to Datacom.

Treasury's Head of HR was seconded to EQC for a fortnight pending the arrival of the newly appointed HR Director (Heather Stewart) on 7 March.

Following a proposal from Catalyst Risk Management to report on basic work place risk, and the need to document policies and procedures in place, a Health and Safety person may be contracted to assist.

Questioned whether it was safe to have people working in the current Christchurch environment, the Chief Executive advised that all the people working at Deans Avenue were Christchurch residents. A priority for the new HR Director and OSH person will be to ensure that everything is being done to ensure safety in the working environment. Their review is intended to be practical and pragmatic.

John Goulter, Head of Communications of IRD, has been seconded for three months as Acting Manager, Public Relations (Canterbury). He will be building a team and helping to find a more permanent replacement.

Released under the Official Information Act 1982

Board members voiced their willingness to go to Christchurch to build staff morale if required.

The Board discussed the need for public education about aftershocks, same event, etc, and it was agreed:

That there is a requirement for authoritative public information on the nature of the September and February events and the implication for the likelihood of further earthquakes.

That there is a social responsibility to provide information on the series of Canterbury earthquakes.

That EQC's preference is that this be a joint exercise for ERC, EQC and GNS and that EQC would be prepared to commit funding.

That EQC will take responsibility for raising this with Ministers.

Lance Dixon and Ben Mitchell joined the meeting at 11.25am

7. Revised 2011 Work Programme

The Chief Executive introduced the work programme. The programme has been re-evaluated in light of lessons learnt from the response to the 4 September event.

Management described the proposed new rapid assessment procedure for fast response to the new and expanded claims. This is to provide early communication with claimants and better information on the next steps in addressing their claims, and the timing. It is expected that all properties will be visited for initial inspection within eight weeks. They will be categorised into four tiers for further action –

1. Urgent action (immediate)
2. Over the cap (full visit within 4 months - to be passed direct to insurers)
3. Structural damage but no habitability issues (full visit in months 4-6)
4. Non-structural damage (full visit in months 6-9)

MSD will be asked if they can provide a person to accompany the EQC teams.

Contents claims will be settled as quickly and consistently as possible. To address potential for fraud, there will be some process and instruction around level of proof and checking whether previous claims have been made.

It was suggested that it should be made clear to claimants to keep their insurance in place. If a property is not inhabited, the insurance lapses. These matters should be discussed with the Insurance Council.

The inspection process is being streamlined with the use of a system through which field staff can input data directly into the claims database with the use of I-pads. It is expected that this will enhance productivity and reduce back-office support needs. The I-pads were put on urgent order earlier in the week following approval by the Board.

Land

Tonkin & Taylor are starting street by street mapping of properties. It is expected that land remediation will go ahead in Spencerville and the contractor is likely to be mobilised within the next few weeks. Waimakariri District Council is keen to proceed with land remediation in Kaiapoi and will be announcing its rebuilding programme at community meetings in the next week or two.

The Government needs to be advised that land remediation is going ahead, and confirmation obtained. A Ministerial direction will be required to continue with the land remediation work.

Released under the Official Information Act 1982

Private insurers may not have the resources to undertake the demolition work on the original programme. It has been suggested that they should discuss this with the Minister.

Fletcher PMO

Fletchers' PMO is in emergency repair mode and undertaking emergency work on both insured and uninsured properties. Fletchers are still working under the MOU; completion of a contract is dependent on clarity on the number of houses being repaired so that performance measures can be put in place. Board members agreed it was desirable to put the Fletchers' arrangement on a formalised and regular footing as soon as possible.

Risk Management

Board members recognised the need to build a risk management framework around the revised programme of work. Another risk identified was the risk of further earthquakes.

At a meeting with the Minister for Earthquake Recovery last week, the Minister indicated that he was happy to announce the Rapid Assessment process.

The Board agreed:

That Board endorsement be given to the structure and timetable of the revised 2011 Work Programme.

8. Reinsurance Renewal 2011 9(2)(a)

Hugh Cowan and [REDACTED] joined the meeting at 2.20pm.

9(2)(a) [REDACTED] advised that the recent significant losses from both New Zealand and Australia have created some confusion in the reinsurance market and messages from reinsurers are changing from week to week.

9(2)(j)

[REDACTED]

9(2)(g)(i)

It was pointed out that right of reinstatement offers some certainty – which at this stage is more important to EQC than pricing.

The meeting noted some alternative structures and strategies put forward by [REDACTED] and agreed that these could be discussed with reinsurers on the renewal trip and evaluated by the renewal team.

9(2)(a)

9(2)(j)

[REDACTED]

It was resolved:

That management be authorised to initiate negotiations for the 2011 renewal of EQC's reinsurance programme on the basis of expiring terms and conditions, while also evaluating alternative options for Board consideration.

A telephone conference will be arranged, if necessary, for the Chief Executive to discuss options with the Board.

9. Reinsurance Broking Service Tender

The tender for EQC's reinsurance broking services is due for renewal this year. However, in view of the priorities for management in responding to the two events and in view of the desirability for stability in reinsurance relationships at the present time, it was agreed:

Released under the Official Information Act 1982

1. That a decision about tendering be deferred until next year.
2. That the contract with Aon Benfield be renewed to December 2012 at current terms and conditions.

9(2)(j)

10. Performance of IBM ClaimsCenter Application and Infrastructure

It was noted that while the claims management system is coping with running at twice its designed capacity, there have been a couple of outages. A number of points of failure have been identified, and options will be explored to fix or upgrade the system to reduce vulnerability. Operation on the existing system will continue for at least another two months while options are considered. The contract with IBM may be renegotiated.

It was confirmed that the data on the system is backed up at the Datacom data warehouse.

EQC's current approach to information technology is being reviewed and a proposal with expected timeframes and costs will be submitted to the Board at a later date.

The Finance Manager joined the meeting at 3.25pm.

11. Financial Report to January

The financial reports to January were considered and noted. It was agreed that in future reports the figures would be rounded to thousands of dollars.

Once the rapid assessment process is in place, the Board has asked management to include in the financial reports a forecast for claims expenses so that a monthly trend can be seen. Costs for loss adjusters, estimators, accommodation and Fletchers should also be set out. The Board needs to be assured through the Audit Risk and Compliance Committee that the costs for claims are reasonable and defensible because eventually they will be paid by reinsurers.

The Chief Executive advised that an offer has been received from the Defence Force to second an analyst team to EQC. It was noted that assistance may be sought for the preparation of the Statement of Intent as the Minister is expecting to receive the draft SOI and financial forecast for 2011-12 by 14 April.

12. Capital Expenditure

It was noted that approval of further capital expenditure relating to the Canterbury earthquake is required for the purchase of a number of items, including to streamline procedures and provide additional storage.

It was resolved:

That approval be given to a further \$2.5million for additional Capital Expenditure related to the Canterbury earthquake, authorisations as follows:

- Items up to \$50,000 – to be authorised by CFO;
- Items up to \$100,000 – to be authorised by CEO;
- Items over \$100,000 – to be authorised jointly by CEO and a Board member.

It was noted that the Board had approved a broad mandate for the CEO for Fletchers PMO expenses, but normal signoff procedures apply for other claims expense.

13. Draft Minutes of ARC Committee Meeting of 15 February

The draft minutes of the Audit Risk and Compliance Committee meeting of 15 February were taken as read and noted.

14. Investment Report to 31 January 2011

The Investment Report to 31 January was taken as read.

In noting that EQC has an underweight position in global equities (minimum allowed being 27%) it was agreed:

1. That the bottom range for global equities be temporarily reduced to 20% for a period of six months and then reviewed.
2. That it be noted that the Board's preference is to sell passive rather than active investments, and that rebalancing be effected by selling passive investments until they are down to \$1billion.

15. Canterbury Earthquake - Release of funds from Natural Disaster Fund

The Board noted management's intention regarding the funding process for meeting earthquake claims.

16. General Business

The Board noted the following Ministerial correspondence:

1. Transfer of responsibility of EQC relating to the Canterbury earthquake recovery to Hon Gerry Brownlee.
2. Advice to Ministers about EQC insurance issues: Reinstatement of EQC cover for claimants and Insurance Arrangements for the PMO project.
3. Annual letter of expectation. The Chairman will respond to this letter, giving assurance that the investment portfolio will be revisited in the course of the next twelve months.

17. Next Board Meeting

Monday, 11 April

There being no further business the meeting concluded at 4.15pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Tuesday, 29 March 2011, at 4pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
T J Burt
R J Black

In Attendance: P R Jacques (Chief Financial Officer)
L R Dixon (Chief Operating Officer)
B Dunne (Manager, Strategy & Policy)
9(2)(a) [REDACTED] (Legal Adviser)
9(2)(a) [REDACTED] (Minutes)

9(2)(a) [REDACTED] Board members met briefly before being joined by Phillip Jacques, Lance Dixon, Bryan Dunne and

1. Waimakariri District Council – MOU

The Board considered the proposed Memorandum of Understanding between EQC and Waimakariri District Council (WDC) and the accompanying attachments. It was noted that the changes earlier requested by the Board had been included. The major change in the updated version of the MOU was the inclusion of an indemnity in favour of WDC against any third party claim relating to the land remediation (including if the work does not perform as intended). WDC has accepted that they would bear the first \$1m of liability and would look to EQC for anything more. It was agreed that the likelihood of this being called upon is remote and whether EQC or the Government would bear any costs would be resolved at the time.

The Board requested that management submit a report to the 11 April meeting on the structure and processes of the Project Control Group to provide confidence that the group will ensure quality and control over the works and will generate reporting to provide continuing assurance that the quality, cost and timeliness is being maintained.

It was noted that the Crown's undertaking of \$140m for land remediation had been for both WDC and Christchurch City Council (CCC), and to cover EQC's related costs. Expectations will be that the cost of the WDC land remediation will roughly equate to that which would have been spent had the work for both WDC and CCC proceeded in tandem. The Board asked for assurance that fiscal responsibility will be exercised.

It was resolved:

1. That the Chief Executive or any two "Group C" signatories be delegated authority to enter into the MOU in the form submitted (subject to any non-material change considered appropriate) subject to:

9(2)(h)

- EQC receiving Ministerial direction in a form satisfactory to the Chairman.
2. That management reports to the 11 April Board meeting on the structure and processes of the Project Control Group to provide confidence that the group will ensure quality and control over the works and will generate reporting to provide continuing assurance that the quality, cost and timeliness is being maintained.

2. Rapid Assessment

Lance Dixon advised that the Rapid Assessment programme is progressing well, with 150,000 properties having been assessed. Each assessment is taking an average of 17 minutes. I-pads are being used to enter data directly into the system. Every effort is being made to ensure that claimants are not disadvantaged, and if there is any uncertainty, assessors are being urged to promote the level of the claim to the next priority category. Claims that were over the cap in September are not being revisited and property owners are being advised to talk to their private insurers about their claims.

It is estimated that the Rapid Assessments will be finished next week.

It was agreed that it would be useful to circulate the Rapid Assessment map to Board members to give an indication of level and pattern of damage assessed in this process.

The information generated by the Rapid Assessment process should be provided to EQC's actuaries to assist in arriving at claims liability estimates for the annual accounts.

3. Fletchers Emergency Repairs

Following the 22 February earthquake, Fletchers have been diverted to prioritise emergency repairs so that as many houses as possible are safe, sanitary, secure and weathertight before winter sets in. About 3,000 emergency repairs have been completed or are under way. Once the Rapid Assessment phase is completed, the focus will be on full assessments and repairs.

The Board asked for some assurance on how the process will work in practice. Members of management will be meeting with Fletchers later in the week to discuss a proposed work programme and performance measures. This will provide input into the revised long term plan for EQC's response to the Canterbury earthquakes.

4. Full Assessment Programme

The full assessment programme is now under way, with about 75 teams working on it. 100,000 full assessments have been completed to date. A technical team will be looking at claims to define the responsibilities of EQC and the private insurers.

Currently, there are 250 people in the field doing about five assessments a day. Limited availability of commercial space, accommodation and rental cars precludes resources being scaled up. However, management is confident that targets will be met or bettered. Board members stressed the need for a plan for the full assessment programme, including firm numbers of what is to be achieved, by when, to meet public and government expectations, and the resources needed.

The Board asked that priority be given to preparing a first draft of a plan for consideration at the next Board meeting. The plan should include likely risks and how they will be managed.

It was resolved:

That, for the 11 April Board meeting, management provides a first draft of a revised plan for EQC's response to the Canterbury events, taking account of the changes now required as a result of the 22 February earthquake. The plan will include claim assessments, the Fletchers emergency and long term repair programme, and land remediation.

Russell Black left the meeting at 4.55pm, and Linda Robertson and Lance Dixon left soon after.

5. Government Relations

It was noted that the Canterbury Earthquake Recovery Authority (CERA) has been created, with John Ombler as the temporary acting Chief Executive. The new department will be based in Christchurch.

Bryan Dunne advised that in the absence of the Chief Executive, he and Keith Taylor have been attending a weekly meeting with the Minister.

Requests have been received from the Civil Defence National Controller's staff to share data. Amassing this has sometimes proved to be time consuming and, where possible, the information prepared for Ministers or for management is being passed to the Controller's Office in response to the requests.

6. Insurance Council

There have been media reports that EQC and private insurers have been disputing reinstatement of EQC cover. Treasury, DPMC and Crown Law all agree with Chapman Trlpp's opinion on the matter, and it is understood that not all private insurers disagree with the opinion. The matter will be discussed with individual insurers.

A key message to policy holders is that they will not be disadvantaged. (This is a matter of apportioning cost between EQC and private insurers.)

7. Reinsurance

The Board requested that a report be sought from Aon Benfield on how payments from reinsurers will be made.

8. IBM System Upgrade

Phillip Jacques referred to the paper submitted to the Board at March meeting. Architects have now come up with a design that should handle the problems encountered and will provide extra capacity. A proposal is expected to be delivered on Thursday and will be the basis on which a recommendation will be made to the Board shortly.

9. Funding – Sale of Bonds

A further \$70m of bonds has been sold to provide cash flow to meet claims. Since September 2010, a total of \$210m of government stock has been sold back to the Government. It was noted that the global equity allocation is now approaching the bottom of the previously set range of 27-33%. Treasury have not indicated any discomfort with this.

10. Furniture from Civil Aviation Authority (CAA)

CAA are in the process of relocating from Lower Hutt to Wellington and have some surplus furniture which they have offered to EQC for maybe a small cost. It was noted that this is a sign of continuing co-operation from other government agencies.

11. General Business

Giselle McLachlan will be making a presentation on behalf of EQC at an ANZIF breakfast in Melbourne next week and asked that her paper be reviewed. The Chairman agreed to do this.

There has been some adverse comment on towards the \$2,000 limit on emergency repairs for earthquake damage in Canterbury, but management was of the opinion that this should not be changed at this stage. An exemption has been made for plumbing repairs where the limit has been lifted to \$3,000.

It was questioned whether a public statement on further land remediation should be made earlier rather than later, but after some discussion it was agreed that as this work is being done under Ministerial direction, and that the timing of decisions and announcements are matters for the Government, or maybe CERA, to decide. It was noted that Tonkin & Taylor will be reporting directly to CERA for this work.

There being no further business, the meeting concluded at 5.35pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date

7. IBM Claimcenter

Since the March Board meeting when a number of risks around the claims management system were identified, EQC and its external IT adviser have discussed options with IBM to resolve the issues. It was noted that some of the problems were due to EQC decision to minimise cost at the time of development, and in that respect the responsibility is not IBM's.

IBM has now submitted a proposal to replace the system hardware and upgrade the system in three phases over the next 8 to 10 months. The increase in cost and annual fees is high, and it was queried whether alternative options should be investigated. However, to change systems at this time may present too high a risk. Management was asked to provide a paper showing that the work proposed by IBM will provide value for money.

It was resolved:

- 9(2)(j) 1. That approval be given to placement of an order with IBM [REDACTED]
2. That it be noted that further papers seeking approval for phases 2 and/or 3 of the project will be submitted to the Board at a future date.
3. That it be noted that regular progress reports on the roll out of the project will be provided to the Board.
4. That a paper be provided to the Board, recording the case for the proposal and assurance of its value for money.

8. Deeds of Lease for 334 Lincoln Road, Christchurch

Deeds of Lease need to be executed for space taken for the Barrington field office. Chapman Tripp's letter of comfort regarding the deeds was noted, and it was resolved:

That Michael Wintringham and Keith Taylor be delegated to sign the Deed of Lease for 334 Lincoln Road, Christchurch.

9. Lease of Motor Vehicles for Assessors in Christchurch Field Offices

The Board noted a paper tabled by management that it has negotiated an agreement with Custom Fleet for the lease of vehicles for Christchurch-based assessors. This is more cost effective than the current arrangement with [REDACTED]

[REDACTED] 9(2)(j)

10. Audit Risk and Compliance Committee Meeting – 5 April

Denise Bovaird, as Chair of the ARC Committee, gave an oral report on the Committee meeting of 5 April.

KPMG Internal Audit Report - KPMG have substantially completed their work under the original engagement letter. Findings have been either dealt with or are being addressed. It was agreed that it needed to be demonstrated to the external auditors that the vast majority of findings in the report have been addressed.

No incidence of fraud was found, but the potential for fraud was noted and the Committee is keen to see more systematic auditing of payments.

In its draft report KPMG observed that prioritising the risk of responsiveness above all other risks had led to a reduced focus on fraud prevention. This did not accurately reflect the Board's position. Committee members pointed out that the Board, in deciding to implement the Fast Track claims process, did so with full consideration of the risk of higher claims costs, offset against lower claims administration costs. For the rest of the claims, and claims administration costs, the Board was concerned to ensure that the control environment was monitored, and for that reason, EQC had engaged KPMG to undertake the internal audit. It was agreed that this needed to be reflected in the report.



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Monday, 11 April 2011, at 10.00am**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
G A McLachlan
L M Robertson
D K Bovaird
R J Black

In Attendance: I Simpson (Chief Executive)
9(2)(a) (Minutes)

Apologies: T J Burt

The Chief Executive had been called to attend a meeting with the Minister, so it was agreed to defer agenda items that required his input until his return.

1. Disclosures of Interest (9/1INT1)

Board members confirmed that there were no agenda items with which they had conflicts of interest.

2. Financial Reports

Phillip Jacques joined the meeting at 10.10am.

It was confirmed that the \$3.2bn showing for Reinsurance Recovery in the Income Statement is an accrual and should be accounted for in the year of the event. \$3.2bn is the current estimate and is the figure to be used in the year end accounts. In the balance sheet, Outstanding Claims are shown as current liabilities whereas Reinsurance Recovery is shown as non-current. It was agreed the two should match.

Phillip Jacques confirmed that a programme of work is in place for the Melville Jessup Weaver report, and it was agreed that this should be signed off by the ARC Committee. Deloitte's actuary will review the work done by EQC's actuaries.

The Chief Executive joined meeting at 11 am.

Items that can be accrued will need to be identified for year end accounts. This will be discussed with the ARC Committee.

3. Additions to Financial Delegations

In considering the proposed additions to the financial delegations it was confirmed that the delegations apply to items that have been budgeted. It was resolved:

Released under the Official Information Act 1982

- That approval be given to the addition of the Director, Human Resources to the list of *Group A – Financial Delegations*.
- That delegation to approve invoices for Human Resources related work up to a value of \$25,000 be provided to the Director, Human Resources.
- That approval be given to the addition of the Manager, Strategy & Policy to the list of *Group A – Financial Delegations*.
- That delegation to approve invoices for Strategy and Policy related work up to a value of \$25,000 is provided to the Manager, Strategy & Policy.
- That delegation to approve invoices for Risk and Assurance related work up to a value of \$25,000 is provided to the Risk and Assurance Manager.
- That the change in title of Insurance Manager to Chief Operating Officer be incorporated in the financial delegations.

The Chief Executive advised that as part of an organisational restructure planned by the HR Director, attention will be given to consistency of job titles. The Board agreed that as long as job content and position in the organisation hierarchy remained the same, any changes to titles made in the delegated authorities document will not require further Board approval.

4. Budget for 2011/12 Financial Year

In considering the draft budget for the 2011/12, it was agreed that, consistent with Government policy, a high degree of restraint should be continued with “business as usual” expenses. For the additional expenditure resulting from the response to the Canterbury events, it should be demonstrated that they are necessary and cost effective and a significant proportion can properly be charged to our reinsurers.

For the public education budget, it was agreed that the focus should be on public education rather than sponsorship.

It was agreed an extra \$100,000 should be added to the Overseas Travel budget to allow for further re-engagement with our reinsurers if necessary.

The Board agreed that allowance should be made in the budget for developing a formal disaster recovery plan. Priority should be given to the planning and scoping of an alternative site to the Wellington headquarters, and resources found to document lessons learnt from the Canterbury events.

It was resolved:

That subject to the above amendments, approval be given to the 2011/12 budget for submission to the Treasury and the Minister in the Statement of Intent.

It was pointed out that the provision for reinsurance is commercially sensitive, and management will discuss with Treasury how this should be managed.

5. Investment Reports

The Investment report for February was received. It was noted that passive had outperformed active investments over the life of the overseas equity portfolio. Alliance Growth and Bernstein Value will be removed from the performance summary.

6. Annual Active Equity Manager Review for 2010

The annual review of active equity managers was received. Capital International’s performance was noted and it was agreed that they should be placed on “watch”. The CFO advised that in consideration of the Canterbury event, [REDACTED]

7. IBM Claimcenter

Since the March Board meeting when a number of risks around the claims management system were identified, EQC and its external IT adviser have discussed options with IBM to resolve the issues. It was noted that some of the problems were due to EQC decision to minimise cost at the time of development, and in that respect the responsibility is not IBM's.

IBM has now submitted a proposal to replace the system hardware and upgrade the system in three phases over the next 8 to 10 months. The increase in cost and annual fees is high, and it was queried whether alternative options should be investigated. However, to change systems at this time may present too high a risk. Management was asked to provide a paper showing that the work proposed by IBM will provide value for money.

It was resolved:

1. That approval be given to placement of an order with IBM [REDACTED]
2. That it be noted that further papers seeking approval for phases 2 and/or 3 of the project will be submitted to the Board at a future date.
3. That it be noted that regular progress reports on the roll out of the project will be provided to the Board.
4. That a paper be provided to the Board, recording the case for the proposal and assurance of its value for money.

8. Deeds of Lease for 334 Lincoln Road, Christchurch

Deeds of Lease need to be executed for space taken for the Barrington field office. Chapman Tripp's letter of comfort regarding the deeds was noted, and it was resolved:

That Michael Wintringham and Keith Taylor be delegated to sign the Deed of Lease for 334 Lincoln Road, Christchurch.

9. Lease of Motor Vehicles for Assessors in Christchurch Field Offices

The Board noted a paper tabled by management that it has negotiated an agreement with Custom Fleet for the lease of vehicles for Christchurch-based assessors. This is more cost effective than the current arrangement with [REDACTED]

10. Audit Risk and Compliance Committee Meeting – 5 April

Denise Bovaird, as Chair of the ARC Committee, gave an oral report on the Committee meeting of 5 April.

KPMG Internal Audit Report - KPMG have substantially completed their work under the original engagement letter. Findings have been either dealt with or are being addressed. It was agreed that it needed to be demonstrated to the external auditors that the vast majority of findings in the report have been addressed.

No incidence of fraud was found, but the potential for fraud was noted and the Committee is keen to see more systematic auditing of payments.

In its draft report KPMG observed that prioritising the risk of responsiveness above all other risks had led to a reduced focus on fraud prevention. This did not accurately reflect the Board's position. Committee members pointed out that the Board, in deciding to implement the Fast Track claims process, did so with full consideration of the risk of higher claims costs, offset against lower claims administration costs. For the rest of the claims, and claims administration costs, the Board was concerned to ensure that the control environment was monitored, and for that reason, EQC had engaged KPMG to undertake the Internal audit. It was agreed that this needed to be reflected in the report.

Management confirmed that in terms of quality, breadth and depth, KPMG's work has been of value. Timeliness of reports has been an issue, and management is addressing this. Management's response to the report will be circulated when completed.

Risk management – a draft policy and framework for risk management, prepared by the Risk and Assurance Manager, was submitted to the ARC Committee. Following discussion it was agreed that this should be revised for consideration at the next Committee meeting. It will then be submitted to the Board for approval.

11. General Business

Ministerial correspondence - The Chairman's response to the Minister's annual letter of expectation was noted.

The meeting adjourned for lunch at 12.30pm and reconvened at 1.10pm.

12. Board Fees

The Chairman advised the Board that he had been informed by Treasury that Cabinet has approved a one-off payment for the EQC Board of \$90,000, which is to apply from 4 September to the end of December 2011, and is subject to a number of conditions. Formal confirmation has yet to be received from Treasury.

13. Minutes of the Board Meeting of 7 March

The minutes of the Board meeting of 7 March were confirmed.

14. Matters Arising from the Minutes of the Board Meeting of 7 March

Reinstatement of Insurance

All parties are discussing this matter with their respective legal counsel and the Insurance Council will be discussing the matter with their member Chief Executives. The matter is also to be discussed with the Minister. If agreement cannot be reached, the EQC position may be subject to judicial review or other legal challenge.

Stone Columns Report

It was noted that a report on the performance of the AMI stadium stone columns is required from Tonkin & Taylor prior to finalising the concept design report.

15. Minutes of Board Teleconference of 29 March

The minutes of the Board teleconference held on 29 March were confirmed.

16. Matters arising from Minutes of Board Teleconference of 29 March

MOU with Waimakariri District Council

A draft of the Ministerial direction relating to the proposed MOU with Waimakariri District Council has been received and the Chairman has confirmed its acceptability. A final version is awaited.

Reinsurance payments

The Chief Executive advised that although reinsurance payments could be claimed now, it is likely they will be triggered towards the end of April. This was accepted by the Board, but it was agreed that for prudential reasons in light of the Japanese earthquake and tsunami, as much as possible should be paid as soon as possible.

17. Canterbury Earthquake Recovery Authority – CERA

The Chief Executive advised that he had met John Ombler, the acting Chief Executive of CERA. CERA is likely to have an advisory team of 40-50 people, and will operate from Christchurch.

18. Chief Executive's Report

The Chief Executive gave a general overview of his report. The Rapid Assessment programme has been completed.

The seismic design loading for Christchurch is being reviewed by a group including GNS Science. Any implications for land remediation design will be considered once any new loading is confirmed.

The Chief Executive's report was received and noted.

19. Revised Plan for Canterbury Response

Ben Mitchell and Lance Dixon joined the meeting at 2.10pm to introduce the revised plan. Board members were pleased with the content as a first draft and stressed the importance of including key performance indicators. It was confirmed that although Tonkin & Taylor contributed to the report, it is essentially EQC's.

The plan was discussed, and management took note of the comments and suggestions made by the Board.

It was agreed that the main objective should be managing repair so that as many houses as possible are habitable as quickly as possible. Priority should be given to activating delivery and the Board asked that a timetable be formulated.

The meeting was advised that a workshop with Fletchers was held the previous week. This involved representatives at both management and operational levels and resulted in a better level of understanding of respective processes and confidence that system bottlenecks could be reduced.

The draft plan is to be refined and submitted with KPIs to the May Board meeting for formal approval.

20. Additional Land Remediation – Draft Concept Design Report

The draft concept design report was received and the drafting team was commended on an impressive piece of work. Lance Dixon and his team were also thanked and commended for their efforts.

Lance Dixon left meeting at 3.20pm.

It was noted that land remediation in Spencerville is scheduled to proceed. With the review of the seismic design loading for Christchurch, changes may need to be made to the design of column work and possibly rafting foundations. Tonkin & Taylor have until Wednesday to present their views on the implications for this work, at which time a firm decision on remediation in Spencerville will be made.

Homeowners in Spencerville have been engaged throughout, and the Minister for CER has been advised.

It was suggested that the assumptions in the executive summary be made clearer and cross referenced to drawings. Although this is EQC's report there should be evidence of Tonkin & Taylor's professional sign off that the solutions proposed are technically sound.

It was resolved:

1. That it be noted that the drawings and technical specifications in the appendices will be used as the basis for a market tender to better inform the cost estimates in the report. This process will not commit any party to proceed with the remediation works.
2. That the draft concept design report be issued to Treasury for comment.
3. That it be noted that a final report including feedback from both the EQC Board and Treasury will be presented at the May Board meeting.

Ben Mitchell left the meeting at 4.30pm.

21. Reinsurance Renewal 2011

The Chief Executive expanded on his report on the reinsurance renewal. EQC's presentation had been well received by reinsurers, and the team met with most of the lead reinsurers. The Chief Executive is going to Sydney later in the week to meet with Australian reinsurers.

A few quotes have been received although they have been slow in coming, due mainly to the effects of the earthquake and tsunami in Japan. Indications are that, while capacity may not be affected, quotes will be high,

9(2)(j)

Pricing is expected to be received within the next few weeks, and management should be in a position to report in detail to the Board in May. Aon Benfield will be negotiating a pack with strategies, attachment points, etc.

The Minister has asked for a meeting with the Chief Executive about reinsurance.

22. EECA Heating Programme

9(2)(a) (on secondment from Treasury) joined the meeting at 4.40pm, to discuss the proposal to transfer the chimney replacement programme from EECA to Fletcher Construction Company. In terms of cost, it is expected that the scheme, including provision for the uninsured, will break even. Reinsurers will be assured that costs for the uninsured will be separated out. EECA have presented some invoices for large amounts, and these will be investigated.

It was resolved:

That the Board:

- a) Agrees, jointly with the EECA Board, the transfer of the EECA role relating to the chimney replacement programme being transferred to the EQC together with those resources and commitments requested by EQC;
- b) Delegates, jointly with the EECA Board, to the Chief Executive of EQC and the Chief Executive of EECA, executing that transfer in accordance with the operating parameters listed in paragraphs 20 to 30 of the proposal dated 4 April;
- c) Agrees to Fletcher Construction (Fletcher EQR) acting as agent to EQC for the delivery of the chimney replacement programme (subject to being satisfied that the arrangements contemplated in sub-paragraphs (d) and (e) are acceptable);
- d) Notes that for this arrangement to be effective, a direction will be sought from the Minister for Christchurch Earthquake Recovery to allow EQC to:
 - i. Take the role previously provided by EECA in sourcing and installing clean heating devices;
 - ii. Undertake work relating to the individual "overs";
 - iii. Fund heating devices from a funding pool created by the total assessed reinstatement costs; and

- 7 7
- Released under the Official Information Act 1982
- e) Notes that EQC will invite the Government to underwrite the risk that the "unders" and "overs" mechanism used to fund the chimney replacement programme will net to a deficit.

23. Next Board Meeting

A Board teleconference has been scheduled to take place on 26 April, but as this is the day after the Easter holidays it was agreed that it should be deferred for a few days. Board members will be advised of the new date by email.

Phillip Jacques rejoined the meeting at 4.50pm.

24. Additional Ongoing Separate Cost from IBM

A project change request has been received from IBM relating to the support provided by them to keep the system running and generating reports required following the September earthquake.

The change requests have previously been provided three monthly, but the latest is for a longer period with a [redacted] increase in resource over the next six months for [redacted]. As this is part of the first event, provision for payment will need to be included in the end of year financials. 9(2)(i)

Management was asked to satisfy itself of the merit of IBM's proposal.

25. Next Board Meeting

Tuesday, 10 May

There being no further business the meeting concluded at 5pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Thursday, 28 April 2011, at 3.30pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
L M Robertson
D K Bovaird
R J Black

In Attendance: I Simpson (Chief Executive)
9(2)(a) [redacted] (Legal Adviser)
9(2)(a) [redacted] (Minutes)

Apology: T J Burt 9(2)(a) [redacted]
G A McLachlan [redacted]

1. Reinsurance Update

9(2)(a) [redacted] joined the meeting. Aon Benfield are in the process of obtaining quotes from reinsurers and are suggesting a firm order at [redacted] 9(2)(j) rate on line for Layer 1, and [redacted] 9(2)(j) rate on line for Layer 2. It is estimated that this could cost around [redacted] 9(2)(j). It was agreed that under the circumstances this was acceptable although it should not be a benchmark for future renewals.

9(2)(a) [redacted] advised that automatic right of reinstatement could be obtained but that this [redacted] 9(2)(j)

The Chief Executive advised that he had given an informal briefing to the Minister of Finance the previous week. The Minister understands and accepts the situation.

Previously, EQC has decided on the price range based on previous years and incorporated a provision for this amount in the financial forecasts which form part of the SOI. Given the higher rates quoted, and the likely financial import, it was agreed that the Minister should be informed prior to finalising the reinsurance contracts for 2011. The Chief Executive will keep the Treasury informed and seek their advice about engaging with the Minister.

It is expected that negotiations will take about a week.

9(2)(a) [redacted] was thanked for his participation and left the meeting.

It was noted that Aon Benfield's contract has been extended for 12 months. At their suggestion, this this will be at current terms.

9(2)(a) [redacted] joined the meeting at 4.20pm

2. Reinstatement of EQC Cover

The meeting discussed the paper circulated earlier. Following the 22 February earthquake,

9(2)(h)

[REDACTED] All broadly concurred with the conclusions reached by Chapman Tripp and EQC has subsequently proceeded on the basis of that approach. The interpretation is being challenged by the Insurance Council and at least one large insurer.

EQC accepts that clause 6 of Schedule 3 of the Act lacks clarity and appears to be inconsistent with the regulations, and the Board agreed that it was in all parties' interests to have the matter resolved. Therefore, obtaining an urgent declaratory judgment was a sensible step if agreement could not be reached with the private insurers. Reinsurers will be notified as they may wish to present their own views.

EQC will continue to try to ascertain whether [REDACTED] there are any insureds who could "fall between the gap" of EQC cover and cover under private insurer policies.

9(2)(g)(i)

It was resolved:

1. That EQC continues with discussions to see whether agreement can be reached by all interested parties (including the insurers and reinsurers) on the correct interpretation of clause 6 of Schedule 3 of the Earthquake Commission Act;
2. That if such discussions are unsuccessful, EQC co-operates with the insurers (in consultation with EQC's reinsurers) in obtaining a fast track declaratory judgment from the High Court interpreting the correct application of the clause 6, Schedule 3 reinstatement provisions;
3. That a barrister be engaged to present a strong case for EQC's interpretation of clause 6, Schedule 3;
4. That EQC briefs the Minister for Canterbury Earthquake Recovery, the Minister of Finance, the Treasury and DPMC on these developments.

3. Land Remediation

The Chief Executive explained that CERA are working to try and get clarity on what the Government will be doing for residents of suburbs with the most land damage and other areas. The Minister for Canterbury Earthquake Recovery has given a timeline of mid/late May for this.

On 27 April, a workshop was held in Christchurch, during which Chapman Tripp, EQC and Tonkin & Taylor went on a tour of areas with different stages of land damage. The workshop discussed EQC's liability and the principles that might be applied to the different categories of land damage.

Management is mindful of Mr Brownlee's timetable, and a paper will be submitted to the May Board meeting, setting out basic principles of EQC's statutory obligations and applying them to a number of categories of land damage. It was stressed that EQC would not want either to overstate, or be seen to be unreasonable, about the contribution it is able to make in terms of its statutory obligations.

It was requested that visual reference be provided with the paper to allow Board members to better understand the situation, and that [REDACTED] and Ben Mitchell be asked to attend the May Board meeting to address any questions from the Board.

9(2)(a)

4. Telecommunications System

The Chief Executive advised that tenders had been called for the supply of a new telecommunications system – estimated cost \$800,000. Presentations had taken place that day and once a selection has been made a letter of intent will be prepared. To meet the desired timescale to send the letter of intent out the following week, it was resolved:

That the Chairman or Deputy Chairman be delegated to sign the letter of intent.

There being no further business, the meeting concluded at 5.10pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date

**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Tuesday, 10 May 2011, at 10.00am**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
L M Robertson
D K Bovaird
R J Black
T J Burt

In Attendance: I Simpson (Chief Executive)
9(2)(a) (Minutes)

Apologies: G A McLachlan 9(2)(a)

It was suggested that a Board meeting be scheduled to be held in Christchurch in the near future, with the opportunity to see EQC's operations on the ground, and the Chairman and Chief Executive will give this consideration.

1. Disclosures of Interest (9/1INT1)

Board members confirmed that there were no agenda items with which they had conflicts of interest.

2. Minutes of the Board Meeting of 11 April

In considering the minutes of 11 April, it was suggested that for clarity the title of Item 19 be extended to "Revised Plan for Canterbury Response". Subject to that amendment, the minutes were confirmed.

3. Matters Arising from the Minutes of the Board Meeting of 11 April

Melville Jessup Weaver Report

Melville Jessup Weaver will submit their report in time for the information to be included in the end of year figures.

Documentation of Lessons Learnt from the Canterbury Earthquakes

The Chief Executive has had discussion with the Legal Business School about documenting lessons learnt from the Canterbury earthquakes. For the future, the recently appointed Programme Office will be documenting any operational changes. Management will report to the June Board meeting on progress made with the larger exercise.

Reinsurance payments

Aon Benfield were given instructions at the end of April for reinsurance payments to be lodged.

4. Minutes of Board Teleconference of 28 April

The minutes of the Board teleconference held on 28 April were confirmed.

5. Chief Executive's Report

The Chief Executive elaborated on his report. A total of 316,000 claims have been received, of which 131,000 were from the February event. Cash payments made to date total \$856,000.

The winter heating programme is progressing but many installations are still to be completed.

CERA is currently staffed with temporary seconded personnel, and EQC attends weekly meetings with them. EQC has now withdrawn from attending local MPs meeting.

Field offices have been set up in Auckland and Hawke's Bay to respond to the weather related events, and loss adjusters from MacLarens and Australia are assessing the claims.

6. Reinsurance Renewal 9(2)(j)

Aon Benfield have had discussions with the lead panel. Quotes for a suggested firm order of 9(2)(j) for bottom layer, and 9(2)(j) for the second layer have ranged from 9(2)(j) Treasury have been kept fully briefed and have offered no comment. A note will be sent to the Minister informing him on what is being done and that we have engaged with Treasury on this matter. It was resolved:

That a firm order be given to Aon Benfield for placement of the whole reinsurance programme at 9(2)(j) or better, with no pre-paid reinstatement.

9(2)(j)

Ben Mitchell and Bryan Dunne joined the meeting at 11.30 am.

7. Revised Plan for Canterbury Response

The revised plan was the response to the Board's request for the inclusion of key performance indicators, and refinement of the first draft submitted to the April meeting.

Ben Mitchell advised that the most significant addition was Fletchers' reforecasting and planning. Board members voiced concern at the updated target completion of April 2015, and it was explained that resourcing is the critical and limiting issue. Fletchers have engaged NZIER to forecast construction labour requirements and their assessment is that there is a shortfall of 7,000 tradespeople over current estimated resources in Canterbury. Fletchers have proposed some means of boosting resources and further investigation of these will provide more reliable workforce numbers. It will be about two months before a final reliable plan is developed. At that stage it should be submitted to the Government for endorsement.

It was agreed that the KPIs will be included in the Statement of Intent.

The meeting adjourned for lunch at 12.45pm and reconvened at 1.25.

8. Concept Design Report

The concept design report has been reviewed and accepted by Treasury. It was then sent to the Minister for Canterbury Earthquake Recovery who has acknowledged it and given instructions for it to proceed. A copy has also been sent to the Minister of Finance seeking his approval.

EQC is on the project control group, which had its first meeting on Friday, 6 May. One of EQC's initial responsibilities is to obtain consent from property owners for access.

9. Spencerville

Physical works at Spencerville have been delayed and pressure is being applied on the contractor. New flood levels being set by the Council are awaited.

10. Ministerial Direction

The ministerial direction to enter into the Memorandum of Understanding with Waimakariri District Council was noted.

A list of ministerial directions received in relation to the Canterbury event will be circulated to Board members with the next Chief Executive's Report.

9(2)(a) [REDACTED] joined meeting at 1.40pm.

11. Canterbury Earthquakes Claims Management Programme

The scale and size of the Canterbury events has resulted in many changes for EQC and the programme is being developed to manage change and establish robust processes, systems and structures to enable effective handling of claims. The priority is to document the "base case" processes, and establish clear, documented procedures for initiating, approving and recording process change. The Programme Team will keep a register of documented changes, also ensuring consistency between Wellington and Christchurch.

It was confirmed that processes for payment of contractors are included in the programme. The Chief Executive advised that while there has been no evidence of any significant numbers of non-payment of contractors, KPMG have been commissioned to do a full audit of that area to provide assurance to both the Board and Government that contractors are being paid properly and promptly.

9(2)(a) [REDACTED]
Ben and [REDACTED] left meeting 2pm.

12. Lease of Motor Vehicles for Assessors in Christchurch Field Offices

At the April Board meeting, management advised that it had negotiated an agreement with Custom Fleet for the lease of new vehicles for Christchurch-based assessors, which was more cost effective than the current agreement with [REDACTED]. Since then, Custom Fleet have advised that as a result of the earthquake and tsunami in Japan, they have been unable to secure the new vehicles and have modified their proposal to supply used vehicles. The Board:

(a) noted the savings expected from the leasing of vehicles for Christchurch assessors (as opposed to renting from [REDACTED], and

(b) authorised Management to make the necessary arrangements with Custom Fleet NZ for the leasing of up to 250 used cars for a period of six months (with extensions as required).

13. IBM Claimcenter

In approving the replacement of the Claimcenter system hardware and upgrading the system, the Board had requested a paper recording the case for the proposal and providing assurance of its value for money. Management asked for more time to provide this paper.

14. GeoNet

While approving the GeoNet 2011/2012 work plan, the Board was of the opinion that the NZ dollar appreciation should help to contain capex costs and requested that these be locked in now wherever possible. It was resolved:

That management be authorised to sign the specification for Stage 11 of the GeoNet project for the 2011/2012 financial year at the level indicated for Year 11 in the agreed long term project plan (i.e. \$9.078 million).

Board members would appreciate a presentation on GeoNet at some time and management was asked to arrange this.

15. Minutes of Audit & Risk Committee Meetings – 5 April and 5 May

Denise Bovaird, as Chair of the Audit and Risk Committee gave a brief outline of the discussion at the Audit & Risk Committee meetings of 5 April and 5 May.

Jane Thomassen, the Risk and Assurance Manager, joined the meeting at 2.20pm.

16. Risk Management Policy

In seeking Board approval for the risk management policy, Jane Thomassen pointed out that currently EQC has no formal risk management framework in place [REDACTED]

9(2)(g)(i)

[REDACTED] Discussion ensued and it was agreed that the policy should be clear that it is the role of the Board to consider, accept and mitigate risks, and the role of the Audit and Risk Committee to ensure that management identifies and classifies the risks appropriately. Any risk ranked as critical or high should be signalled to the Board.

A few other minor modifications were noted, and it was agreed that the documents should be backed up by a risk register identifying the risks peculiar to EQC. The risk register should be considered by the Audit and Risk Committee and reported to the Board on a quarterly basis.

It was resolved:

1. **That the risk management policy be modified in accordance with Board discussion and resubmitted for approval.**
2. **That the risk management framework and matrix be approved subject to minor modification.**
3. **That a report, together with the risk register, be submitted to the Board on a quarterly basis from June.**

17. Audit & Risk Committee Terms of Reference

Having been considered by the Board, it was resolved:

That the Audit and Risk Committee Terms of Reference be approved.

18. KPMG Internal Audit Report

Board members were reminded that it was because of the Board's concern to maintain an adequate control environment despite the rapid growth and changes caused by the Canterbury earthquake in September, that the KPMG review had been commissioned. KPMG's brief had been to review claims processing and claims administration expenditure and offer views and recommendations on maintaining or improving controls.

Released under the Official Information Act 1982

In their testing, KPMG have found that the control environment could be strengthened and there are some areas of risk for incorrect payments and/or fraud. While incidences of incorrect payment are few and there is no evidence of fraud, KPMG have made recommendations which management have accepted and acted on.

It was pointed out that the external auditors, Deloitte, will be relying on the internal auditors' reports when they form their views on the adequacy of the control environment.

While the Board acknowledged that EQC's Catastrophe Response Programme had been stretched by the Canterbury events, it was felt that KPMG's report should recognise and implicitly acknowledge that a response plan and systems were in place at the time of the event. The Risk and Assurance Manager will discuss this with KPMG.

The Board noted KPMG's report and the actions taken by management.

Jane Thomassen left the meeting.

19. Financial Reports

The financial reports to March were received and noted.

Board members would like to see a cash forecast for the Canterbury events included in the financial reports even though it was likely that figures would change.

The Chief Financial Officer was asked to discuss with the National Bank putting a process in place to ensure that no EQC cheques are dishonoured. The risk was remote, and would arise only if there was a delay or technical problem in transferring funds from deposits to EQC's current account. However, the public confidence and reputational risks were disproportionately high.

20. Financial Delegation for Claims Expenditure

The Board considered a paper clarifying the delegated authority for unbudgeted claims expenditure, and it was resolved:

1. **That in respect of any event that gives rise to claims, management be delegated authority for expenditure, other than the direct payment of claims, of up to 20% of the estimated claims payments as if such expenditure were budgeted. This delegated authority is subject to the normal limits of financial delegation given to specific officers.**
2. **That reports of any such expenditure be submitted to the Board on a monthly basis.**

21. Investment Reports

The Investment report to March was received. Investment in global equities for March amounted to 27.12% of the total portfolio, and the CFO advised that by April this had dropped to 26% because of currency rates. Management was asked to "asterisk" this on future reports to denote that Board approval had been given at the March meeting for the bottom range for global equities to be temporarily reduced to 20% for a period of six months, when it would be reviewed.

22. Dates for Teleconferences

Board members were asked to mark the proposed dates for teleconferences in their diaries.

A date for the December Board meeting will be arranged by email.

The meeting adjourned at 3.15pm to give Board members time to read the paper on EQC's liabilities in relation to damaged land, and reconvened at 3.45pm.

23. Land Damage – EQC Liability

9(2)(a) and 9(2)(a) joined the meeting and elaborated on the paper and attachments advising on broad guidelines for EQC's response to its insurance obligations in relation to residential land damaged by the Canterbury earthquakes. Discussion ensued and the following questions were raised:

9(2)(h)



Russell Black left the meeting at 5pm.

It was agreed that a further paper answering the Board's questions would be prepared and circulated on Friday, 13 May.

24. Next Board Meeting

Tuesday, 14 June

There being no further business the meeting concluded at 5.15pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



MINUTES OF A TELECONFERENCE OF THE BOARD OF THE EARTHQUAKE COMMISSION Tuesday, 24 May 2011, at 3.30pm

PRESENT: M C Wintringham (Chair) K B Taylor (Deputy Chair) L M Robertson D K Bovaird R J Black T J Burt

In Attendance: I Simpson (Chief Executive) 9(2)(a) (Minutes)

Apology G A McLachlan 9(2)(a)

1. Reinsurance Update

Board members noted the Chairman's letter to the Minister giving an update on the renewal of EQC's reinsurance programme.

At its meeting on 10 May, the Board had resolved that a firm order be given to Aon Benfield for placement of the whole reinsurance programme at or better, with no pre-paid reinstatement.

The Chief Executive advised that to date, quotes received from reinsurers of for the first layer and for the second layer, with paid reinstatement, indicate that the placement could be made for. The Chairman has given authority for a firm order to be placed as this is required by the end of day.

While is still required to fill the first layer, confirmation is awaited from reinsurers placing of expiring lines and Aon Benfield are reasonably confident that the first layer will be filled. With the second layer there is just under to be filled and again confirmation is awaited from reinsurers placing of expiring lines. New capacity of cover has been found, largely from but has been lost from existing reinsurers declining to offer lines at the firm order rates, the largest being who advise that their offer is their absolute lowest.

When a firm price is received, it will be necessary to move quickly, and Board approval will be sought by email. As part of the formal recommendation, the Chief Executive will ascertain the claims paying ability of the participants in the programme and how this relates to EQC's policy on security.

In the event of there being a shortfall in cover, alternatives could be considered. The Chief Executive explained how a reinstatement protection policy would work and following some discussion Board members agreed that this could be a useful backup. of the second

9(2)(j)

9(2)(j)

layer was also considered an option. [REDACTED] was another alternative mentioned. If alternatives are required, the Chief Executive will submit a separate proposal to the Board.

2. Damaged Land – EQC Obligations

9(2)(a)

The Chief Executive acknowledged with thanks the work of [REDACTED] of Chapman Tripp in their efforts to clarify what EQC's obligations are in relation to damaged land. Their advice, together with Tonkin & Taylor's revised report, had been earlier emailed to the Board, and points needing clarification were discussed.

Management is meeting with Chapman Tripp and Tonkin & Taylor in Christchurch on 25 May for further discussions to devise a set of rules and formulae to establish EQC liability, and these will be submitted to the Board when available.

The Minister for Canterbury Earthquake Recovery has indicated that he wants to make an announcement on 31 May to clarify the situation and management is hopeful of having estimates for its meeting with the Minister on Monday, 30th.

Private insurers are having separate discussions with the Minister.

3. Next Meeting in Christchurch

It was agreed that the 14 June Board meeting would be held in Christchurch to give Board members the opportunity to see some of the activities in the field. This will mean that the Board meeting will be shorter, with just two or three major items on the agenda. Some of the regular reporting will be omitted and this may mean that an extra Board meeting will be called if required. Details around the timing for the June Board meeting will be emailed within the next week.

There being no further business, the meeting concluded at 4.35 pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date

**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Tuesday, 14 June 2011, at 9.50am**

PRESENT: MC Wintringham (Chair)
KB Taylor (Deputy Chair)
LM Robertson
DK Bovaird (by telephone)
RJ Black
GA McLachlan

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

Apologies: TJ Burt
9(2)(a) [REDACTED]

Bryan Dunne and [REDACTED] from Chapman Tripp joined the meeting.

1. Reinstatement of EQC Cover - Proceedings by Tower against EQC

A paper was tabled informing the Board that Tower Insurance had the day before issued proceedings against EQC seeking a declaratory judgement on the interpretation of reinstatement of EQC cover under the Earthquake Commission Act. [REDACTED]

9(2)(h) [REDACTED]

It is anticipated that a hearing will be set down by the end of August and, as the Judge is aware of the urgency, a judgement may be made within a matter of weeks. Board members stressed that payment of claims should not be delayed and it was suggested a trust account or similar might be set up into which claims payments can be made while awaiting a declaratory judgement.

9(2)(a) [REDACTED] left the meeting at 10.25am.

2. Government Policy Decisions

In response to recent events, some of the policy decisions to be made by the Government, particularly about land "retirement", will need to be brought forward to give some certainty to the people in Canterbury. To this end EQC is working with Tonkin & Taylor to estimate liability for land

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damage on a section by section basis. A timeline is to be agreed within the next two weeks. Bryan Dunne left meeting at 11am.

3. Disclosures of Interest

Board members confirmed that there were no agenda items with which they had conflicts of interest. Denise Bovaird declared that she is doing consultancy work with Winstone Wallboard which is part of Fletchers.

4. Minutes of Board Meeting of 10 May

The minutes of the Board meeting held on 10 May were confirmed.

5. Matters Arising from the Minutes of the Board Meeting of 10 May

Documentation of Lessons Learnt from the Canterbury Earthquakes

The Chief Executive advised that he has had further discussions with the Legal Business School and they will be recommending students to undertake this work.

6. Minutes of Board Teleconference of 24 May

The minutes of the Board teleconference held on 24 May were confirmed.

7. Reinsurance for 2011

The Chief Executive confirmed that reinsurance for 2011 had been placed and signed. EQC will be self insuring a small percentage of the second layer. The amount and conditions of the cover will be close to what has previously been in place except for the three year programme. The gross cost to EQC will be [REDACTED] which includes the Reinstatement Premium Protection contract.

8. Risk Management Policy

The Board noted that the Risk Management Policy had been modified in accordance with discussion at the April Board meeting, and it was resolved:

That the Risk Management Policy be approved.

9. Earthquake Recovery PMO and Land Remediation

The update on PMO and land remediation activities was noted.

With regard to the two large earthquakes the day before, the Chief Executive advised that although specific damage was as yet unknown, it is understood that there had been more damage sustained in areas where there is already significant damage. In terms of EQC's own operations, the Deans Avenue building had suffered some damage and had been evacuated. However, there were no reported injuries. An engineer's report on the building will be received later in the day. The two earthquakes will be treated as one event.

The upgraded claims system is expected to be in place by the end of July. Until then, the system is limited in terms of numbers of users, and places a constraint on the claims settlement process.

Heat pump installations under the winter heating programme are likely to be completed by the start of July.

With regard to land remediation, work at Spencerville has commenced. Waimakariri District Council's programme had demolition starting in two weeks with land repairs commencing mid-July. However, the Minister has asked that work be held until re-evaluation of the land as part of the process to determine what land may be retired. Tenders are being called for the first perimeter works on the North Bank. These are due to close 22 June with award in late July.

Contents claims have built up and this could become an issue. GBS have been asked to take more space and ramp up resources to handle these claims. Processing staff will be increased by 50 until the upgrade of the claims system is completed and then a further 50 will be taken on.

It was confirmed that the Ministers' offices are being kept informed on progress.

10. Deed of Lease – Woolston Field Office

A field office has been established in Woolston and Board approval was sought for the execution of a Deed of Lease for the two levels occupied. [REDACTED]

9(2)(h) [REDACTED] It was resolved:

That two Commissioners be delegated to sign the Deed of Lease for 31 King Edward Terrace, Christchurch.

11. Ministerial Directions

The Ministerial directions received in relation to the Canterbury events were noted.

12. Fraud Policy

The Board acknowledged the need for a robust fraud policy and procedures. The Chief Executive advised that a secondee will probably be engaged to develop these. The Board asked that the general approach and draft policy accompanied by a flow diagram showing investigation and escalation processes be presented for endorsement through the Audit & Risk Committee.

It was agreed that the Board should be advised when any matters have been placed in the hands of the police or SFO.

13. Chairman's Overseas Travel

It was noted that the Chairman will be overseas on EQC and other Government business from 18 to 30 June. The Deputy Chairman will also be out of the country at that time. However, the Chairman confirmed that he would be accessible by phone for any major matter, and Linda Robertson also confirmed her availability in Wellington if required.

14. Financial Reports

An error had been discovered in the figures for the Canterbury Event Loss Expenses Recoverable and a replacement page was circulated. The financial reports to April were received and noted.

The Board was advised that Melville Jessup Weaver's draft revised estimate for September has increased the estimated loss by \$.25b, and reinsurers will be advised. Work for February is being held back but an estimate is expected by financial year end.

15. Investment Report

The investment report to April was taken as read.

16. Next Meeting

The next Board meeting will be held on Monday, 11 July, in Christchurch.

A Board teleconference is scheduled for Tuesday, 28 June.

There being no further business, the meeting concluded at 12.20pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION**

Tuesday, 28 June 2011, at 3.30pm

PRESENT: L M Robertson
D K Bovaird
R J Black
T J Burt
G A McLachlan

In Attendance: I Simpson (Chief Executive)
9(2)(a) (Minutes)

Apology M C Wintringham
K B Taylor

The Chief Executive updated Board members on recent events.

1. Government Announcement on Land Compensation

Media statements on the Government's plans for land compensation were released on 23 June, by both the Minister of Finance and the Minister for Canterbury Earthquake Recovery. These were circulated to Board members. The Chief Executive pointed out that currently this is an offer from Government and not a compulsory acquisition.

9(2)(h)

Consultation will then take place with CERA on information to be disseminated to affected property owners.

Currently, enquiries to EQC's call centres about this matter will be diverted to the CERA call centre to ensure there is just one source of information.

Board members would like to see a rational communications plan developed, with all of the scenarios.

In terms of EQC's work plan, the focus will be to complete assessments in the red and orange zones within the 8 weeks targeted by the Government, while keeping the Fletchers repair process going in the green zone. The Minister for Canterbury Earthquake Recovery has been informally advised of the timelines and is comfortable with these.

2. Contractor Payments

The amount of recent publicity about contractors not being paid has prompted internal investigations and it has been found that the majority of invoices are being paid on time. There are 6,000 invoices outstanding, half of which are over \$2,000 and need working through. Time is taken querying invoices that do not itemise work done, and contain excessively high hourly charges and

unacceptable surcharges. Contractors who feel they are not being paid have been asked to contact EQC. Complaints continue to evolve from a small select group of contractors and Chapman Tripp are assisting in the handling of this matter.

Living in Christchurch, [2)(a)] encounters questions about contractor payments, and it was suggested that he be sent the key response to contractor issues.

It was agreed that first hand experience about contractors not being paid is of more concern than media reports and thought should be given to mitigating brand damage. It has been suggested that EQC runs a more proactive campaign and briefs the media off the record or offers an exclusive to one of the journalist.

The Chief Executive was commended for the recent article in the Listener, putting across EQC's point of view.

Trevor Burt left the meeting at 4.05pm.

3. Contents Claims

The Chief Executive advised Board members that the backlog of contents claims is an issue that is growing. No meaningful headway can be made entering them into the claims system until after July. It may be that a minor version of Fast Track with a lower dollar limit will be activated to quickly settle the smaller claims. Another alternative is to manage public expectations through the media.

The Board asked that a plan be submitted to the next Board meeting.

4. Claims System Update

Board members asked about progress on the claims system update and were advised that despite an earlier setback it is now back on track to be completed by the end of July. The Risk & Assurance Manager is tracking progress and will provide updates to the Audit & Risk Committee.

The Government has engaged Trade Me to put together a communications website on progress in Canterbury. It was suggested that EQC create a link into the Government website, perhaps showing progress on assessments.

5. PMO Service Agreement

The Chief Executive advised that the contract with Fletchers for the management of the PMO is ready for signing but Board authority had yet to be obtained. So that the contract can be signed before the next Board meeting, a paper summarising the main aspects of the contract will be circulated to Board members, together with [redacted], so that approval to sign the contract can be obtained by email.

[9(2)(h)]

6. Next Meeting – 11 July

Given the current situation, it was questioned whether all Board members and executive staff should be meeting in Christchurch for the next Board meeting on 11 July. The Chief Executive undertook to discuss this with the Chairman, and Board members will be advised.

7. TV Appearances and Media

Board members asked to be advised, where possible, in advance of TV appearances or media coverage.

There being no further business, the teleconference concluded at 4.15pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the Boardroom
Level 3, 7 Deans Avenue, Christchurch
on Monday, 11 July 2011, at 10.40am**

PRESENT: M C Wintringham (Chair)
L M Robertson
D K Bovaird
G A McLachlan
T J Burt

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

Apologies: K B Taylor
R J Black

- 1. Disclosures of Interest**

Board members confirmed that there were no agenda items with which they had conflicts of interest.
- 2. Minutes of Board Meeting of 14 June**

It was pointed out that Denise Bovaird had participated in the meeting by telephone and this should be recorded in the minutes. Subject to this amendment, the minutes of the Board meeting of 14 June were confirmed.
- 3. Matters Arising from the Minutes of the Board Meeting of 14 June**

Reinstatement of Cover
The Chief Executive advised that he had not yet discussed with the Insurance Council continued payment to claimants while awaiting declaratory judgement.
- 4. Minutes of Board Teleconference of 28 June**

The minutes of the Board teleconference held on 28 June were confirmed.
- 5. Matters Arising from the Minutes of Board Teleconference of 28 June**

Contents Claims
Settlement of contents claims has fallen behind target for two reasons. First, when contractor payments for emergency works became an issue, resources from the Contents team were diverted to handle contractor payments. Now this has been addressed they will return to settling contents claims. Second, the claims system is at capacity, and significant numbers of additional claims settlement staff cannot be connected to the system until the upgrade is completed by the end of the month. Every effort is being made to alleviate the backlog and GBS have increased their resources in this area by 50 working from Brisbane, Sydney and Perth. A further 50 people are being trained so that they can start inputting as soon as the claims system upgrade is complete and can take more users. The target is to have all current contents claims settled by Christmas. The Minister is being briefed on this weekly.

A scheduled plan is being devised and will be submitted to the Board when complete.

6. Chief Executive's Report

The Board noted the significant effect of Government's announcement on EQC activities, with half of the assessment teams focusing on the red, orange and white zones, and the other half on the green zone areas to keep the Fletcher hubs "fed". The aim is to have all areas assessed within the next two months. The i-pads are working well and interface with the Fletchers' system. However, there is as yet no satisfactory link to the EQC claims system. This is being addressed.

All land remediation work has been suspended. The most cost-effective way of putting the Spencerville pilot programme on hold is being investigated. The Board noted that the land remediation programmes had been planned with a sense of urgency following the first event, but that further event, and the additional land damage, had changed the Government's policy option. Discussion then ensued on planning to respond to another large event – whether in Christchurch or elsewhere in New Zealand. It was agreed that the Board should meet separately to discuss how it could be most effective in responding to a future large event.

There has been much media attention around outstanding contractor payments. The Chief Executive advised that there are currently around 5,000 contractor invoices in the system, 2,000 of which were received in the last week. Payment has been held and invoices investigated in instances where it is believed rates are excessive, work in excess of \$2,000 has not been authorised by EQC, and work invoiced has not in fact been undertaken. EQC has spoken to the local Police, and 9(2)(h)

It was noted that the hearing date for a declaratory judgement on the interpretation of the EQC Act has been brought forward to 4 and 5 August. It was confirmed that EQC would be represented at the hearing. Giselle McLachlan will be kept advised.

Following confirmation from the Insurance Council that their members would not accept a proposal to renew EQC's contract works policy, 9(2)(j)

Board members noted the proposed virtual school trip where Canterbury school students can share their experiences with others, and it was suggested media coverage be organised for this.

The Chief Executive advised that he had asked Lance Dixon to take on a new Chief Advisor role reporting to the Chief Executive, and leading a business improvement team responsible for documenting and reviewing decisions made and lessons learnt from the Canterbury events. This information will be used to shape the organisation going forward. Lance had been Chief Operating Officer (COO) for the Canterbury event since September and his work in this role was commended. In the interim John Kinnane will take over as COO in the current structure, and until a General Manager Residential Customer Services is appointed to take over the leadership of the operations. It is hoped that a Canterbury based person could be recruited for this role.

7. Majestic Centre – Level 23

The Board considered management's paper seeking approval to negotiate and finalise a lease for Level 23 Majestic Centre 100 Willis St. This additional space will cater for a growth of staff numbers of approximately 50 people as well as providing more meeting rooms.

It was resolved:

1. That approval in principle be given to the leasing of Level 23 Majestic Centre, 100 Willis Street, and that management be delegated to negotiate and finalise a lease within the guidelines as set out in the independent valuer's report;

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2. That as part of the plan in the 2012 Statement of Intent, the Board consider for the longer term, the location of EQC headquarters from a risk management perspective.

8. Investment Report

In discussing the Investment Report to May, Board members voiced the need to understand the position of the Fund in the event of another disaster. They requested a brief report on the structure of the Fund, taking into account the timing and nature of the cashing up of the Fund's assets as a result of the Canterbury earthquakes.

9. Master Programme Commentary

Ben Mitchell joined the meeting at 12.05pm and expanded on his report commentary which had been circulated at the meeting.

Claims Management – Assessment Programme

55% of EQC's assessors have been allocated to assess the red, orange and white zones, and the remaining 45% are supporting Fletchers with assessment of the priority green zones.

Land damage in the Port Hills is being examined by Tonkin & Taylor this week to find out how many will be red zoned.

A sample of 800 repair assessments has been completed and a draft report has been received. Of \$8bn of repairs \$2.5bn is considered to be EQC's responsibility and \$2.5bn private insurers'.

Emergency repairs for the uninsured stopped at the end of April. People opting out of the Fletcher's process will be reported on next month.

The priority winter heat work is beginning to abate with around 8,000 units installed or repaired at the beginning of July, of which roughly two-thirds were heat pumps. It is now thought that there are few, if any, who are without some source of heating.

10. Accountability Structure

Heather Stewart joined the meeting at 12.55pm and advised the Board of the process followed by the Executive Leadership Team to map accountabilities and review the structure of EQC's senior management. The proposed structure was presented to the Board for comment and noting.

Further workshops will be held to refine accountabilities for each position.

Heather left the meeting at 1.25pm.

11. PMO Services Agreement

It was confirmed that Board approval had been received by email 29/30 June for the PMO Services Agreement with Fletchers to be executed.

12. Financial Reports

In considering the financial reports to 31 May, it was noted that if the Fund falls to \$2.5bn - \$3bn it will be below "sustainability" as determined in the policy work which had been proceeding prior to 4 September 2010. This, together with a doubling of reinsurance costs and another year of substantial losses, will mean that the policy issues on size and structure of the Fund will need to be revisited not later than 2012. The Minister should be advised of the overall picture, once Melville Jessup Weaver have completed their work.

Government consideration will also need to be given to EQC cover and what the Act is meant to achieve. There was consensus among Board members that these matters should be outlined in the briefing for the incoming Minister after the general election.

13. Role of the Board

EQC is part of an overall Government response to the Canterbury earthquakes. This has meant that EQC has taken on new roles and that these, and the operational component of the organisation (ie, claims management) have been closely monitored or directed by the Government. This has challenged the Board to discharge its statutory responsibilities in a responsive way, and in a fast moving and sometimes changing environment.

The Board discussed how it could best add value. The Chairman will bring a brief paper on this matter to the next meeting.

14. Monte Carlo Reinsurance Convention

For the last couple of years EQC has not been represented at Monte Carlo, mainly because the benefit to EQC was insufficient to justify the cost. However, this year the Chairman has agreed in principle that the Chief Executive attend the convention as it will provide an opportunity to engage with major reinsurers on the latest loss estimates from Canterbury, and on related matters such as the management and segregation of claims. The Chairman will inform the Minister.

15. Next Meeting

The next Board meeting will be held on Thursday, 11 August, at EQC's offices in Wellington.

A Board teleconference is scheduled for Tuesday, 26 July, at 3.30pm.

There being no further business, the meeting concluded at 1.45pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date

**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Thursday, 11 August, at 10am**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
R J Black
G A McLachlan
T J Burt

In Attendance: I Simpson (Chief Executive)
9(2)(a) (Minutes)

In opening the meeting, the Chairman acknowledged the contributions to the Board and the Audit & Risk Committee of Linda Robertson whose term as EQC Commissioner had ended on 9 August. He undertook to write her a letter of thanks on behalf of the Board.

1. Disclosures of Interest

Board members confirmed that there were no agenda items with which they had conflicts of interest.

2. Minutes of Board Meeting of 11 July

It was pointed out that under Item 9 – Master Programme Commentary – the second sentence of the third paragraph under Claims Management Assessment Programme, should read *“Of \$8bn of repairs \$5.5bn is considered to be EQC’s responsibility and \$2.5bn private insurers”*. Subject to that amendment, the minutes of 11 July were confirmed.

3. Matters Arising from the Minutes of the Board Meeting of 11 July

Majestic Centre – Level 23

The lease for Level 23 of the Majestic Centre is expected to be finalised later today.

Monte Carlo Reinsurance Convention

The Minister for Canterbury Earthquake Recovery has confirmed that he will be attending the reinsurance convention in Monte Carlo in September. Aon Benfield are assisting with the arrangements.

Public Education

It was suggested that EQC in its public education role should partner with private insurers to inform the people of Christchurch on the implications and advantages of buying insurance.

Contractor Payments

Payments to contractors are currently up to date, with the oldest invoice (other than those that are being queried by EQC) being dated 4 July.

4. Chief Executive's Report

S&P Credit Rating

Commissioners noted that on 5 August Standard & Poor's affirmed its AAA credit ratings on EQC. Last year it had been confirmed that under the proposed Ratings and Inspections Act EQC would not be required to have a credit rating and the Board had agreed that once the Act came into effect this was an unnecessary expense. Commissioners agreed that, in the current environment, to help maintain public confidence that EQC can meet its liabilities, it may be useful to continue applying for the credit rating.

External and Internal Communications

The Chief Executive advised that he will be travelling to Christchurch tomorrow to meet with a journalist from the Christchurch Press and attend communication cafes for staff at Deans Avenue. It was suggested that engaging external communication consultants may be useful.

Section 29

Section 29 of the EQC Act states that payment of claims must be made within 12 months from when a claim is quantified. In the event that we may soon be technically in breach of the Act, a paper is being written for the Minister on options to change the Act through regulations or through the Canterbury Earthquake Act.

Declaratory Judgement

A ruling is expected within a week's time.

Fraud Matters

██ has been contracted to review, on behalf of managers, the process followed by EQC dealing with suspected fraud by claimants or contractors. He is also available to assist with other related matters.

Claims Settlement

While performance of the claims system did not improve immediately following the upgrade, it is now operating satisfactorily and will be further improved by more fine tuning. The Chief Executive has requested a report on what it will take to have all contents claims resolved by Christmas. Claimants who need to furnish more information will be called and given a deadline to provide the required data. A call centre is being engaged to handle claims under \$2,000.

Plans for completing contents claims and Fletchers assessments will be submitted to the Board in September.

Reinsurance Security

Notification of a downgrade of a reinsurer had recently been emailed to Commissioners. The Board requested that such notification in future be made in the form of a report with recommendations from management.

PMO and Land Remediation Update

Ben Mitchell joined the meeting at 11.30am and presented an update of the PMO revised plan and land remediation.

The Board requested that a plan setting out what is to be achieved, together with timelines, constraints and options, be devised in conjunction with Fletchers for submission to the Board as soon as possible. Once approved by the Board, it can be presented to CERA to ensure it fits within the overall recovery plan. CERA can then make a call on priorities and manage public expectations. It was agreed that for planning purposes, a key assumption should be that there will be no further events.

The Chief Executive will engage with CERA for early high level discussions on this matter.

5. UMR Survey Presentation

Tim Grafton from UMR Research joined the meeting and gave a presentation on a survey undertaken by his company of Claimants, Contractors Stakeholders and Christchurch residents (see attached).

Mr Grafton was thanked for his presentation and left at 1.50pm.

The Chief Financial Officer joined the meeting.

6. Financial Reports

It was noted that the annual accounts are close to finished. Claims costs are still subject to the work of actuaries.

The cost of the claims system upgrade will be amortised over its lifetime.

There was some discussion about the timing of the meetings of the Audit & Risk Committee and the Board so that the annual accounts can be signed off to meet the deadline of 26 August. The Chairman and Chief Executive will discuss and Board members will be advised.

7. Investment Report

The increasing value of the NZ dollar has resulted in a more than 10% reduction in value of investments.

It was suggested that thought be given to engaging a separate resource to begin mapping out options for future Fund structure and investment strategy.

8. Position of NDF as a result of Canterbury Earthquakes

The paper prepared by the Manager Investment Strategy was noted.

The Board asked that future Board papers should be from management but could identify the author.

9. Delegated Authorities

It was noted that the changes to the claim authorisation limits are sought because:

1. the current delegations are title specific and with the growth in claims staff there are many doing the same job but have different titles
2. the authority of the Chief Operating Officer will be taken over by the role of the General Manager Residential Customer Services when appointed, and in his absence the Chief Advisor.

It was resolved:

1. That the above delegations be approved;
2. That it be noted that the delegation structure as a whole is being reviewed.
3. That the amended Claim Authorisation Limits be circulated to the Board.

10. Estimation of EQC's liabilities

Hugh Cowan joined the meeting and introduced the 9(2)(a) report on building liabilities. Currently the information in the report is more representative than that from the claims database, and will be cited by the actuaries in their report. The actuaries' report will be reviewed by EQC's external auditors, Deloitte.

In considering the report the Board noted that the numbers in the 9(2)(a) report, plus current estimates of land, contents and administration costs, will have greater negative impact on

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the Fund than previously estimated. Management was requested to develop a revised estimate in consultation with the Chairman, making the underlying assumptions and method explicit. The Ministers and Treasury should be kept informed.

It was agreed that the release of the actuaries' report to reinsurers will need to be coordinated with the release of EQC's annual report.

Hugh Cowan left the meeting at 3.10pm.

11. Draft Audit and Risk Committee Minutes of 2 August

Denise Bovaird as Chair of the Audit and Risk Committee, pointed out the key areas from the meeting:

1. Some claims fast tracked from the September event may not have followed the process advised to the Board.
2. Structural engineers looking at seismic loading of Deans Avenue premises – leading to consideration being given to business continuity.
3. Breach of EQC's procurement policy which may incur some cost

The draft minutes of the Audit & Risk Committee meeting of 2 August were received.

12. Fraud Policy

The Board considered the draft Fraud policy and suggested that it be shortened to, say, 3 pages. It should then be submitted through the Audit & Risk Committee to the Board for final approval. It was resolved:

That the draft Fraud Policy submitted be adopted as an interim policy

13. General Business

EQ East

Many of the matters raised in EQ East's letter to Commissioners, have already been investigated.

9(2)(a) [redacted] has been asked to provide more information. 9(2)(a) [redacted] will investigate the substance of the allegations. The Board was of the view that any allegations of criminal behaviour made by

9(2)(a) [redacted] (or others) should be put it in hands of police.

Upcoming General Election

It was agreed that simple guidance should be made available to EQC staff and contractors about appropriate behaviours of employees of state sector organisations prior to the upcoming general election.

14. Next Meeting

The next Board meeting will be held Thursday, 8 September, 10am.

A Board teleconference is scheduled for Tuesday, 23 August, 3.30pm.

At 3.45pm, the Board met in committee to discuss governance matters.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A TELECONFERENCE OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Thursday, 25 August 2011, at 3.30pm**

PRESENT: M C Wintringham
D K Bovaird
R J Black
K B Taylor
G A McLachlan

In Attendance: [REDACTED] (Deloitte)
9(2)(a) [REDACTED] (Deloitte)
[REDACTED] (Deloitte Actuarial)
I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

Apology T J Burt

The Chairman welcomed 9(2)(a) [REDACTED] and 9(2)(a) [REDACTED] (Actuary) from Deloitte to the meeting.

1. Draft Minutes of Audit & Risk Committee Meeting of 23 August

Denise Bovaird, as Chair of the Audit & Risk Committee, confirmed that the draft minutes reflected the substance of the meeting. The Committee had received Melville Jessup Weaver's report which was considered and discussed in detail. The actuaries outlined the uncertainties that they had in determining the estimated liabilities. The Committee was satisfied that the liability figures calculated were appropriate and agreed to recommend to the Board that a 75% probability of adequacy be assumed.

Issues raised by the Committee were noted by the actuaries and were addressed in an amended version of the report emailed to Board members earlier in the day. The most significant change had been the inclusion of payments for Fletcher's PMO in the tables.

Referring to the draft minutes, it was pointed out that while the actuaries acknowledge that the outcome of the Declaratory Judgement will have an impact, this has not been factored into their calculations as stated in the minutes. This should be amended accordingly.

At the A&R Committee meeting, the Chief Executive had advised that the Prime Minister had also been briefed about the financial position of EQC and this should be recorded in the minutes.

2. Financial data for the Crown Financial Reporting Package

Using the estimates from Melville Jessup Weaver's report on EQC's "Insurance Liability Valuation as at 30 June 2011" the Natural Disaster Fund balance will be reduced to a deficit of approximately \$829m. The Board discussed the accounting treatment of the deficit. Under S16 of the Earthquake Commission Act the Crown is liable for any deficiency in the Fund and it is in respect of this obligation that Crown fees are payable by the Commission each year.

Treasury have stated a preference to show in EQC's accounts that a letter of comfort has been provided to the effect that the Crown Guarantee will be honoured. The consensus of the Board was for the Crown Guarantee to be shown as a receivable in the accounts, but acknowledged that as this would place a liability on the Core Crown Accounts the Minister may direct otherwise.

A decision will not be required before the full Crown and EQC accounts are published, but it was agreed that the Board should form its view on the matter beforehand.

It was agreed that the financial information provided for consolidation into the Government's financial statements should clearly indicate that the treatment of the deficit still needs to be decided on. Over the course of first half of next week a legal opinion should be obtained, the matter discussed with the auditors and a recommendation submitted to the Board for discussion next Wednesday, 31 August.

The auditors need to sign off on the CFIS data tomorrow, but will confer with the Chief Executive and Chief Financial Officer beforehand.

It was resolved:

- 1. That the Board accepts the Actuaries' report.**
- 2. That the Board notes the likely call on the Crown Guarantee under Section 16 of the Earthquake Commission Act, and the resulting creation of a receivable from the Crown in the EQC accounts.**
- 3. s(2)(h)**
- 4. That the Board will decide on the accounting treatment s(2)(h), accounting standards and principles, views of its auditors, and any other relevant matters.**
- 5. That the Board accepts management's adoption of 75% for the probability of adequacy.**

It was agreed that the latest version of the financial data for the Crown Financial Reporting Package tabled at the Audit & Risk Committee meeting would be circulated to the Board for approval by email the next day.

It was resolved:

That subject to Board approval, the financial data for the Crown Financial Reporting Package dated 23 August 2011 be provided to the Treasury with a note to the effect that the treatment of the Crown's obligation under Section 16 of the Earthquake Commission Act has yet to be decided.

It was noted that the auditors had been offered a meeting with the Board without management but had considered this unnecessary.

It was suggested that because of the risk of subsequent events, the end of year accounts should be finalised and signed off as soon as possible and, if necessary, ahead of the published Annual Report.

9(2)(a) [REDACTED] undertook to ascertain whether there were any issues involved, and will advise management before the end of the week.

EQC Presentation to Cabinet

The Chief Executive advised that EQC has been asked to make a presentation on its plan going forward, at a special meeting of Cabinet to be held in Christchurch on 5 September. It is likely that the change in liability estimate will be included, and it was recommended that information and assurances about contents claims should also be incorporated.

The meeting agreed that the plan should first be received by the Board for endorsement. Fletcher's plan is expected to be received by the end of the week so an outline and supporting documentation could be sent to the Board on Monday, 29 August. If possible, the Board could meet to discuss on Wednesday, 31st.

Anniversary of 4 September

The Chief Executive confirmed that the anniversary of 4 September will be recognised by a morning tea hosted at each office by a member of the Executive Team. This will be an acknowledgement of the work of staff and of what has been achieved over the last twelve months.

The teleconference concluded at 4.50pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date

**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Wednesday, 31 August, at 2pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
R J Black
G A McLachlan

In Attendance: I Simpson (Chief Executive)
9(2)(a) (Minutes)

Apologies: T J Burt
(attempted to join by teleconference but due to technical difficulties did not connect).

1. Disclosures of Interest

Board members confirmed that there were no agenda items with which they had conflicts of interest.

2. Minutes of Board Meeting of 11 August

The minutes of the Board meeting of 11 August were confirmed.

It was agreed that notes from the UMR presentation should be attached to the minutes and an action point listed to ensure that comments from the presentation are followed up and addressed by the Board at a future date. In future, action lists from meetings will include outstanding actions from previous meetings.

3. Matters Arising from the Minutes of the Board Meeting of 11 August

Deans Avenue Premises

Following an engineer's investigation of the premises, it is understood that there is minimal risk to staff. Management is awaiting a written report.

4. Minutes of Board Teleconference of 25 August

It was agreed that the minutes should reflect the Board's acknowledgement of the uncertainties in determining the estimated liabilities outlined by the actuaries.

In minuting that a decision on the treatment of the deficit in the annual accounts would not be required before the accounts are published, it was agreed to omit the timing of publication (ie, October).

Subject to the amendments above, the minutes of the Board Teleconference of 25 August were confirmed.

5. Presentation to Cabinet Meeting

EQC has been asked to present its plans for residential repairs and settling contents claims to a

Cabinet meeting to be held in Christchurch on 5 September. Board endorsement of the information to be presented was sought.

Fletcher EQR Canterbury Repair Plan

Ben Mitchell joined the meeting.

Fletcher's repair plan had earlier been circulated to Board members. This sets out assumptions, conditions and risks in completing 100,000 repairs by December 2014.

The Board agreed that presentation should be explicit about what is required to achieve this target, making clear what is within EQC's control and accountability and what is out of EQC's control and needs commitment from other Government agencies. It needs to be made clear also that if work continues with the current resources and at the current rate to achieve 50,000 repairs in the last half of 2014, it will be late 2017 before 100,000 repairs are completed.

Settling Contents Claims

9(2)(a) [redacted] joined meeting at 3.10pm.

Clearing all contents claims by Christmas could be achieved by increasing claims processing staff dedicated to contents claims from 110 to 220 full-time equivalents, ramping up payment processing rates to 9 per worker per day, and receiving adequate contents schedules for all claims. While many of the new staff at Gallagher Bassett are still learning the system, GB have made a commitment of completing 10 payments per worker per day.

Claimants who have not provided adequate contents schedules will be contacted by phone and then again by email or letter, giving them a total of 35 days to submit the required documentation. A major communications initiative will ensure that claimants are properly informed of the timing of claims settlements and their obligations.

If settlements fall behind target, more people will be recruited.

In response to the Board's view that one person should be put in charge of, and be dedicated solely to this process, the Chief Executive gave his assurance that this was in hand.

9(2)(a) [redacted] left the meeting at 3.35pm.

Proposed Presentation

Bryan Dunne joined meeting and tabled the draft presentation for Cabinet. It is understood that EQC will be presenting with Tonkin & Taylor, and the Board stressed that, to avoid confusion, Tonkin & Taylor should make clear what they are doing for EQC, and what they are doing for others such as CERA.

The Board was supportive of the plan and targets to be presented to Cabinet. It was agreed that if the Government requires EQC to commit to repair 100,000 houses by the close of 2014, then the implications for resourcing need to be made clear to Government, and a commitment to making these resources available obtained.

It was confirmed that the Chairman and CEO will be making the presentation to Cabinet.

Ben Mitchell and Bryan Dunne left the meeting at 4.20pm.

It was agreed that, subject to Cabinet's acceptance of the presentation, the plan would be considered for endorsement at the next Board meeting.

6. Section 16 – Deficiency in the Fund

The Chief Executive advised that in relation to this matter, EQC had had strong support from Ministers.

9(2)(h)

The Board discussed how the deficiency should be treated in finalising the annual accounts and what asset should be shown to offset the deficit. Section 16 places a requirement on the Minister to remedy the deficiency, by way of either a grant or advance. This is at the Minister's discretion, but Board members stated a preference for a grant, perhaps in the form of a bond. An advance suggests that a repayment may be required. It was pointed out that annual fees have been paid by EQC to the Crown in respect of Section 16, in a way similar to reinsurance premiums.

The Board agreed:

1. That it take a "balance sheet" view rather than a "liquidity" view in terms of the deficiency in the Fund.
2. While responsibility under S.16 is on Minister to make up the deficiency the EQC Board has an obligation to engage with the Minister to make good that deficiency.

Advice will be sought from Treasury on how the Minister is likely to discharge his statutory obligations, 9(2)(h) will be made available to Treasury.

A further assessment of liabilities will be undertaken in February, using figures available in December. An assessment of liabilities may be required in November to be included in the pre-election financial update, but this will be done only if a request is received.

7. Declaratory Judgement

A judgement has not been made yet. The Chief Executive advised that it has been agreed with the Insurance Council that whatever the outcome, EQC and the Insurance Council will make no public statements for the first 24 hours. The Chief Executives of the two organisations, together with any Chief Executives of the private insurance companies who wish to be included, will then call a joint press conference to discuss moving forward. It was important that reassurance to Canterbury policyholders that their legitimate claims would be met, was of paramount importance - whatever the judgement, and the decisions in response by EQC or the private insurers.

8. General Business

Board Meeting scheduled for 8 September

The Chairman undertook to discuss with the Chief Executive whether it will be necessary to have a Board meeting on 8 September, and Board members will be advised.

There being no further business, the meeting concluded at 4.55pm.

These minutes were approved by the Board as a true and correct record.

MC Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
on Wednesday, 21 September, at 1.55pm**

PRESENT: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
G A McLachlan
R J Black (by telephone)
T J Burt (by telephone)

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

1. Disclosures of Interest

Board members confirmed that there were no agenda items with which they had conflicts of interest. Giselle McLachlan advised that she has relinquished her position as a Director of the Institute of Financial Advisers and this entry should be deleted from the Interests Register.

2. Minutes of Board Meeting of 31 August

The minutes of the Board meeting of 31 August were confirmed.

The Chairman referred to the Board teleconference held on Sunday, 18 September, to discuss whether or not to appeal the Declaratory Judgement. Brief minutes of that meeting for the record will be circulated for approval.

3. Matters Arising from the Minutes of the Board Meeting of 31 August

An action list from the 31 August and previous meetings was tabled and noted. This will be presented as a consolidated, rolling action list in future.

Contents Claims

A Contents Manager has been appointed and will commence this week. He will report to the Claims Manager and will be responsible for the oversight of end to end processing of contents claims.

Fund Structure and Investment Strategy

The Chief Executive advised of the intention to engage an in-house resource to map out future options for the Natural Disaster Fund. It was noted that this would also be addressed at the Board strategy meeting on 5 October.

4. Ministerial Direction

The Board noted the draft Ministerial direction, provided to the Chairman for comment as required by statute, revoking and replacing the Direction dated 30 October 2001 on the Natural Disaster Fund's investment portfolio limits and the Commission's cash holding limits. The final version has since been received.

5. Chief Executive's Report

The Chief Executive elaborated on his written report. The meeting was advised that the Chairman, Chief Executive and General Manager Strategy & Policy had met with the Minister of Finance, Associate Minister of Finance and Minister for Canterbury Earthquake Recovery the day before.

The immediate priorities for EQC are achieving the targets for completing assessments and contents claims by the end of the year and putting in place the new structure of the organisation. An advertising campaign is in place stating that contents claims with valid schedules received by 24 October will be settled by Christmas.

Almost all assessments in the Red and Orange Zones are now completed, and the Green Zone is being assessed street by street. The vast majority of Green Zone assessments will be under cap.

The process for the assessment for land has been agreed but technical advice is required to inform decisions. Bryan Dunne will be discussing with Tonkin & Taylor to clarify. It is anticipated that estimates for each suburb will be received by next Monday in time for the meeting with the Minister.

Reinsurance Convention - Monte Carlo - The Chief Executive advised that he had met with the global heads of a large number of reinsurers on EQC's programme and was able to talk them through many of the issues or questions of concern to them. Most reinsurers were focused on current loss numbers rather than the future programme.

Hon Brownlee's presentation had been well received.

General Manager, Customer Services – It was noted that Bruce Emson had commenced his duties the day before.

Declaratory Judgement – EQC's decision not to appeal has been passed on to the Minister, the insurance industry and to reinsurers. It had been agreed that major press announcements were not required.

It was agreed that the Board should receive consistent reporting on land, buildings, contents and people, with the plan, or basis of reporting, being the commitments made at the Christchurch Cabinet presentation.

9(2)(a)

Ben Mitchell and [REDACTED] joined meeting at 2.35pm.

6. Changes to Regulation

9(2)(a) [REDACTED] advised that two changes in the legislation are being sought:

1. S.29(4) – claims to be settled not later than 1 year after the amount of the damage has been duly determined. Ministers have agreed that the deadline should be suspended but will not be committing to a timeframe.
2. Clause 1 of Third Schedule – Deducting excess. When settling by cash, excess can be deducted from final payment. However, in the case of reinstatement it is difficult to recover the excess, and regulatory change is being sought to allow EQC to invoice claimants for the excess.

Given that claimants have had to wait some time for settlement, the Board discussed whether it was fair to pursue recovery of excess. However, it was pointed out that in the interests of equity (excess having been recovered from cash settlements) and because excess on all claims will have to be taken into account for reinsurance purposes, the change in regulation should be sought anyway to provide a mechanism to recover the excess. It was agreed that an acknowledgement by claimants of the requirement for an excess should be included in Fletcher's documentation, and that claimants should be informed

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 about this requirement from the outset of the engagement with Fletchers. The principles will be discussed with the Government and Treasury.

No steps have been taken to change the legislation on the reinstatement of EQC cover and no other regulatory changes have been sought at this stage. There has been some discussion between Ministers and their advisers on a possible increase in EQC levies.

9(2)(a) [REDACTED] left meeting at 2.50pm.

7. Fletchers' PMO

Ben Mitchell elaborated on the update included in the Board papers.

The discussion on EQC's responsibility for residential repairs through the Fletchers PMO focussed on four aspects:

1. The pace at which Fletchers is ramping up to full capacity;
2. What "full capacity" might be, or on which Fletchers could reasonably be held to account;
3. How to balance EQC's responsibilities (and the reasonable expectations of claimants and the Government) to get the residential repairs completed as quickly as possible, with other demands for scarce skills as the wider Canterbury rebuild gathers pace; and
4. By implication, the extent to which EQC itself should assume responsibility for facilitating the availability of a supply of suitable labour (through the provision of accommodation for example).

There was acknowledgement that Ministers have not been satisfied with the rate of progress on residential repairs. This has also been a concern for the Board. The Board acknowledged however:

1. That emergency repairs and the winter heating programme have delayed the ramp up of residential repairs;
2. The early teething difficulties of aligning EQC assessments with the requirements of Fletchers' hubs for specifications for planning and costing repairs;
3. That the diversion of EQC's assessment teams into the red and orange zones to assist Government decisions on residential purchase offers had slowed the feed to Fletchers' hubs; and
4. That each hub required a period to work up to full capacity.

However, as most of these are, or soon will be, resolved or completed, the Board expects to see a marked quickening of the pace of residential repairs. Furthermore, given the experience Fletchers now has in commissioning a number of hubs, the Board expects to see the lead time reduced between the establishment of a hub and its operation at full capacity.

As labour is not yet a significant constraint, this is the time to secure and bring labour into the Fletchers system.

For its part EQC will need to manage the pattern and flow of green zone assessment to ensure that the hubs are "fed".

The Board considered whether it should ask management for a business case for EQC to commission the construction of temporary worker accommodation, and for advice on whether this would be a cost acceptable to reinsurers. The Board decided not to take this step, for two main reasons: the estimation of the total labour force for the Canterbury rebuild, the relative priority to be given to the respective components of the rebuild, and the extent to which the Government intervenes to facilitate labour supply, are matters beyond EQC's mandate, (and are most likely a core responsibility of CERA). Going it alone at this time may be a distraction from the immediate

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priorities to support the Government's land retirement programme, complete assessments, increase the pace of repairs and settle contents claims.

However, CERA needs to be fully informed of the residential repair programme, and the potential constraints and bottlenecks, and EQC must align with and support the development of any Government policies to address these.

Trevor Burt and Russell Black excused themselves from the meeting at 3.35pm.

The Board concluded that the immediate objective for the PMO was to achieve 1500 completions a month by the end of February, and then to increase that rate to a point where significant labour shortages proved an insurmountable constraint. Fletchers should be encouraged to look for solutions to labour shortages in advance, such as recruiting overseas, and CERA will be kept informed by EQC of this programme, the risks and constraints, the actions taken to mitigate them, and any actions which the Government could take to facilitate the supply of skilled labour.

The Board:

1. **Ratified the Fletchers PMO plan based on a rate of completions of 1500 per month as the minimum base case.**
2. **Agreed that this rate should be achieved by the end of February at the latest.**
3. **Agreed that repair rates should be accelerated beyond 1500 per month to the highest rate with the resources available.**
4. **Requested that progress on achieving the base case and the plan for increasing the rate beyond 1500 be reported back to the Board for its November meeting.**
5. **Agreed that CERA be briefed on the base case plan, the intention to accelerate the rate of repairs to the maximum feasible above 1500 per month, the constraints and risks to achieving significantly increased performance above this level, and the actions needed to address these.**

Ben Mitchell left the meeting 3.50pm

8. Contents Claims Processing Forecast

The contents claims processing forecast was taken as read and noted.

9. GBS Contract

The Board:

Agreed in principle that the GBS contract should be extended but requested that management, before finalising the contract, provide a paper satisfying the Board that concerns about performance and contents claims have been addressed and proper KPIs have been established.

The Chief Financial Officer joined meeting at 4.15pm

10. Deed of Lease – Carparks at 15 Lester Lane, Christchurch

The meeting was advised that the carparks in Lester Lane are located behind Deans Avenue where there is limited alternative parking. The proposed cost is [REDACTED] per week per carpark.

It was resolved:

9(2)(i)

That the Board delegates two Board members to sign the Deed of Lease for 100 carparks at 15 Lester Lane, Christchurch.

11. Audit & Risk Committee Meeting – 21 September

A number of recommendations made at the Audit & Risk Committee earlier in the day were considered, and the Board:

1. **Approved the Financial Statements and Statement of Service Performance for the year ending 30 June 2011 subject to minor amendments agreed at the ARC meeting and final agreement on the note relating to the Government Guarantee and receipt of a letter from the Minister.**
2. **Accepted Deloitte's report to the ARC subject to minor amendments agreed at the ARC meeting.**
3. **Noted that the Chief Financial Officer will provide a statement that the letter of representation to the auditor is true and correct.**
4. **Approved the Internal Audit Charter, subject to minor amendments agreed at the ARC meeting, and moving to a three year internal audit plan.**

Prior to leaving the meeting, Trevor Burt and Russell Black had confirmed their support of the Board's resolution approving the annual financial statements.

12. Financial Reports to July 2011

The financial reports to July were taken as read and noted.

13. Financial Report on Canterbury Event

The Board found the extra information on the cost of the Canterbury event useful and agreed it should be updated and submitted to the Board on a regular basis.

14. Investment Report to July

The Investment report to July was taken as read and noted.

15. Avoiding Prejudice Letters for the Six Months ended 30 June 2011

The Board noted that the six monthly Avoiding Prejudice Letters had been received from all four active investment managers.

16. Extension of Temporary Lower Range for Global Equity Investments

Earlier in the year, to avoid constant rebalancing, the Board agreed to lower the minimum of the range for global equities to 20% of the Fund for a period of six months. Extension of the six months was sought to allow flexibility in managing the sale of the Fund's assets.

It was resolved:

That approval be given for a 6 month extension for the minimum range for global equities to be 20% of the Fund.

17. General Business

Items of Interest

The items of interest were noted.

Directors and Officers Liability Insurance

Giselle McLachlan cited a recent case where Directors and Officers Liability Insurance covered damages but not defence costs. Management were asked to check that the liability insurance in place for Commissioners covers both costs and damages.

EQ East Ltd - [REDACTED] - [9(2)(a)]

The Chairman gave an update on the allegations made by [REDACTED] [9(2)(a)] has been requested by the Chairman to provide details to support his allegations and to discuss these with [REDACTED] [9(2)(a)]. However, to date, he has not acceded to these requests.

Update on Lessors Learned

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A proposal has been received from Martin Jenkins to facilitate this piece of work.

There being no further business, the meeting concluded at 4.40pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
AND TREASURY**

**Held In the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
Thursday, 27 October, at 3.00pm**

Present: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K BovaIRD
G A McLachlan (by telephone)
R J Black
T J Burt (by telephone)
Gordon Smith
Peter Hughes

In Attendance: I Simpson (Chief Executive)
Bryan Dunne (GM Strategy & Policy)
Bevan Lye (Treasury)
Joanne Hughes (Treasury)
[REDACTED] (Minutes)
9(2)(a)

1. The meeting was called to respond to Treasury's proposed TOR for a review of EQC. Treasury is planning to discuss review options with MOF on 1 Nov 2011 and sought the Board's views on scope, timing and lead agency/party for the review.
2. The Chair stated that the Board welcomed the review and appreciated the opportunity to discuss review options prior to the TOR being finalised.
3. Treasury presented three options for the review:
 - a first principles review starting from a decision on the role of the Crown;
 - a "medium-scale" review aimed at making the current model work better.
 - a mini-review in effect tweaking the current model.

The Board noted that, given its role was to operate under the current legislative framework, it did not see itself having a major role in a "first principles" review, but could provide insights and experience on the workability of different options which might emerge from such a review.

The Board also considered that a mini-review would not generate any marked improvement in the scheme or be publicly acceptable.

4. Keith noted that a review of policy settings, rather than EQC's operational response to date, was the most pressing issue. The forecast cost of the Canterbury earthquake series to the NDF makes it critical that the government considers current settings including coverage, caps, excesses, levies, investment profile/structure and whether the NDF should be part of the consolidated Crown

2 2
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accounts. Keith noted that all of these had been set by the Treasury (although previous EQC BIMs had made it clear that the Board considered these required changing) and all required revisiting in light of recent events.

5. For the purposes of the Review, Denise stated a preference for greater emphasis on EQC's scope during the recovery process, differential levy pricing and EQC's automatic assumption of risk based on private insurer decisions.
6. Trevor and Russell voiced the need for a substantial review of building standards and regulations. Bexley was noted as an example of an area with marginal land quality and noted myriad different regulations used across the Country.
7. The Chair noted that a review focussed on operational response would need to take into account the expansion of EQC's role to encompass activities that the Government had requested EQC undertake, but where EQC had not originally planned for as part of the CRP. In the current environment, with claims outstanding and insurers under some pressure, such a review would also need to recognise a number of financial and market positioning incentives.
8. The Board noted the keen interest of the insurance industry in the outcome of the Review and the need for a timely outcome.
9. Treasury stated they are thinking of a two-stage approach for the Review:
 - The first involving "internal thinking", EQC's objectives, the range of options available and the understanding of cost and benefits.
 - Treasury then plan to publicly analyse options to tap into a wider knowledge base.
10. Treasury stated that the first stage of the Review will likely be undertaken during the first half of 2012.
11. The Board requested clarification of whether there would be any involvement of The Royal Commission in the Review. Treasury confirmed there will be no involvement.
12. The matters discussed included:
 - The short term requirement, irrespective of the nature and scope of the review, for the Government to manage the fiscal risk of another major natural disaster. The Board offered EQC as the vehicle for this given its reinsurance expertise and market presence.
 - The need to provide confidence that EQC cover will remain available in the short to medium term, irrespective of the state of the NDF and pending any major policy and legislative changes.
 - The balance between personal responsibility for preparing for natural disasters (including physical preparedness and private insurance) and the provision of Government support. **The limited public understanding of EQC's role is part of this.**
 - The preference of the Board for EQC not to have responsibility for contents cover.
 - The problems, and cost, of land cover, including that no premium was charged for the cover.
 - Making more explicit the cost of maintaining "standing" operational capacity, including for the "extra" responsibilities asked of EQC post September 2010.

- The need for clearly defined boundaries around EQC coverage, The declaratory judgment and uncertainties about the application of the Act consumed a large amount of management time.
 - The Board also noted that a review of EQC's processes and systems would be straightforward and that such an internal review was already under way.
13. The Board asked what Treasury's preference was for the scope of the review and if it would be to follow option one of their paper. Treasury considered it would be hybrid, mainly in option 2 but with some aspects of option 1.
14. Treasury was asked whether the status quo for EQC's role and policy settings would likely be maintained until 2012/2013. Treasury confirmed this was the case.
15. The Board noted that its current major concern is another event in New Zealand while dealing with Canterbury. Multiple events have led the Board to reassess risks and priorities.

There being no further business, the meeting concluded at 4.40pm.

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
Wednesday, 9 November 2011, at 10.00am**

Present: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
G A McLachlan
R J Black
G Smith
P Hughes

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

Apologies: T J Burt

- 0. Disclosures of Interest**
New Commissioner Peter Hughes submitted a list of items to be added to the Conflict of Interest Disclosure form and declared a conflict of interest with Agenda item 11.
- 1. Minutes of Board Meeting of 21 September**
The minutes of the Board Meeting of 21 September were confirmed.
- 2. Matters arising from the Minutes of Board Meeting of 21 September**
Treasury Review
Chairman flagged the question of how EQC positions itself structurally to engage with Treasury on the review.
- 3. Minutes of Board Meeting with Treasury 28 October**
The minutes were confirmed.
Amendment is to be made to Item 6 to reflect both speakers on this item.

Matters Arising from the Minutes of Board Meeting with Treasury 28 October
Treasury has met with the Minister and the feedback is in the pack.
- 4. Chief Executive Report**
The Chief Executive noted that the recent accountability mapping exercise and resulting organisational restructure were delivering clear performance improvements. The immediate focus was on clearing contents claims and completing building assessments.

Contents Claims

The "Sorted by Christmas" campaign was well received, although 39,000 contents claims are still without adequate documentation. The other 50,000 claims are to be closed (paid, declined, withdrawn) by December.

There are processes in place to tidy up open contents claims that are still awaiting documentation.

Dwellings Claims

The Chief Executive was confident that dwelling claims assessments would meet the deadline of 17 December. Staff are still working through the complexity of allocation of costs between events.

A set of protocols with Insurers is close to being finalised.

Land damage assessment and remediation

The main issues with land are:

- The announcement of technical categories TC1, TC2 and TC3 has given more certainty to the majority of people in the affected areas. However in TC3 there is continued uncertainty about the respective roles of enhanced foundations, and land repair or strengthening, and the respective obligations of EQC and the private insurers.
- Significant numbers of people had lost their houses pre June and moved away but may have had repairable land. After the June event they did not make a claim for further damage to their land. Numbers are not known yet.
- EQC's land liability is limited to the market value of the insured area of land on the day of the earthquake. EQC has engaged professional valuers to advise on pre June land market valuations, when the property market in Canterbury had effectively stalled.

Action: Chief Executive to provide new commissioners with the document from Chapman Tripp and T & T on Land Damage and EQC's obligations.

Action: Chief Executive to bring information on outstanding BAU claims, in particular the age of claims, to December Board Meeting.

Administration of the Act (Output 5)

- The Chairman asked for clarification re comment "additional support charges are currently not being charged" for Catastrophe Response.

Action: Chief Executive to email information to Chairman

- The Chairman asked if sponsorship deals were going ahead. The Chief Executive replied that they are on hold and are to be reviewed.
- The Board discussed the claims handling expense and the need for consistent reporting around targets.

9(2)(h)

5. Tonkin and Taylor Update on Land Damage

9(2)(a) [redacted] joined the meeting at 11.11am and was introduced by the CE to the Board as an international expert on liquefaction currently working for T&T.

Bryan Dunne joined the meeting at 11.13am.

9(2)(a) [redacted] made a presentation to the Board on the nature and extent of land damage from each of the major Canterbury earthquakes. This is important context for determining EQC's liability.

Peter Hughes and Bryan Dunne left the meeting at 12.50pm.

11. Fletcher PMO Report

Bruce Emson, General Manager Customer Services and Ben Mitchell, Project Director joined the meeting at 1.25pm

There were two overriding issues.

- The need to have a plan and timeframe for repairs to give certainty to claimants is essential, and community buy-in to this timeframe is key for its acceptance.
- A plan for resource requirements is essential, with regard to trade availability especially to meet 2014 deadline. Help is needed with resource and accommodation.

The Chair noted that the relative responsibilities of EQC and Fletchers, for obtaining the resources to do the job, needed to be clear. For example, EQC had not signed up to responsibility for building workers' accommodation, nor had the Government agreed to extraordinary measures to secure off-shore labour. The EQC role in the wider rebuild also needed to be defined and agreed with CERA.

The GM Customer Services stated EQC's involvement in this programme needs to be more hands on, that communication with customers is critical and EQC involvement in logistics of Fletcher programme is important.

The Board is looking for assurances around discrepancies between claims made and work done and the follow up with claimants who are not happy with residential work.

Bruce confirmed that quality is an utmost priority and that assessments supersede resources needed to fix discrepancies between claims and work done.

The Chief Executive outlined the three-tier approach to land repair.

The Board accepted and noted the paper, and noted also that a further paper with a more detailed plan and timeframe for residential repairs would be presented at the December Board meeting.

Bruce and Ben left the meeting at 2.03pm.

6. Briefing Incoming Minister (Early Draft)

Bryan Dunne joined the meeting at 2.04pm.

The Board discussed the style and content of the draft BIM. Comment included:

- Some considerable editing is required;
- There needs to be a clear statement of what an incoming Government will be required to focus on immediately;
- There needs to be a balance between Canterbury and the other aspects of the EQC scheme.
- An historical perspective of EQC is required.

Bryan agreed to edit the report and noted the need to focus on short, medium and long-term decisions. An open realistic tone would be best.

Recommendation: The Board made suggestions around contents and structure of the BIM draft and it was agreed that the Chairman would work with management to finalise the BIM before the election.

Bryan Dunne stated that the Annual Report would be published on Thursday 17 November.

8. Audit and Risk Committee Meeting

The Board noted draft minutes of Audit and Risk Committee.

It was agreed the updated version of ARC minutes to go to ARC first then be included in December Board pack.

Fraud Policy

Recommendation: Board approved the fraud policy.

9. Financial Reports to September

Phillip Jacques joined the meeting at 2.30pm.

The Board noted financial report.

9.2 Financial report on Canterbury Event.

The Board noted the financial report.

Action: It was agreed for the December Board Meeting a paper would be provided on setting a target for claims handling expenses as a proportion of claims, with supporting rationale and implementation plan.

9.3 Reinsurer Downgrades

The CE noted the rating change for 9(2)(i) from A+ to A++.

Action:

9(2)(i)

10. Investment report to August/September

The investment report was taken as read and noted.

10.2 Global Equities intended sell down

Action: It was agreed that Finance would consult with investment advisors and come back to the Board with a plan for the selling down of EQC's assets in the light of the forecast that the fund would be exhausted by a certain date.

10.3 Benchmarking paper for 2010

The Board agreed to the two recommendations in the paper regarding the results of the survey and the decision to no longer take part in the survey.

10.4 EQC's UNPRI Assessment Result

The Board noted the results of the UNPRI assessment of the 2010-year.

10.5 RI Agreement Assessment

The Board noted management's positive assessment of the CFIs' Responsible Investment Agreement with the RI unit.

10.6 Recommendations: Investment Authorities (Equities)

The Board noted the approval given previously by email.

12. General Business

12.1.1 Standard and Poors rating Downgrade

The Board noted the Standard and Poors rating downgrade.

12.1.1 Cancellation of MOU with Waimakariri Council

The CE noted that some costs which will be incurred (and recovered) in closing down the arrangement. The Board also noted that the cancellation does not include the Spencerville pilot.

12.5.1 IBM Contract renegotiation update.

The Board noted progress and that a paper will be brought forward to the December Board Meeting.

It was noted that a new role for a Commercial Manager has been established and the CEO described the role's responsibility in the context of major EQC contracts.

Other Business

Giselle McLachlan asked if there was any information for the board from The Royal Commission, in particular in relation to GNS given the importance of the EQC/GNS relationship.

The Chief Executive said that Research would provide a report to the Board on these matters.

The CE noted that about a third of Fletcher's contractors will receive notice that they will not be given more work by Fletchers until they have an acceptable Health and Safety strategy.

There being no further business the meeting concluded at 3.18pm.

These minutes were approved by the Board as a true and correct record.


M C Wintringham


Date

**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
Friday, 9 December, at 08.30am**

Present: M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
G A McLachlan
T J Burt
R J Black
G Smith
P Hughes

In Attendance: I Simpson (Chief Executive)
9(2)(a) [REDACTED] (Minutes)

1. Disclosures of Interest

Commissioner R J Black declared that he had been appointed to the Board of Northpower Ltd with effect 1 December 2011.

2. Minutes of the Board Meeting of 9 November 2011

The minutes of the Board Meeting of 9 November were confirmed.

Amendment to be made on page two to reflect the need for consistent monthly reporting on the land, contents and dwelling repair programme.

3. Matters arising from the Minutes of the Board Meeting of 9 November 2011

4. Minutes of the Board Meeting 8 September 2011

The minutes were confirmed.

Amendment to be made to page two, paragraph three around wording.

5. Minutes of the Board Teleconference 18 September 2011

The minutes were confirmed.

6. Chief Executive Report

The Chief Executive expressed full confidence in the current short term targets stating as of last week there were less than 3000 properties to assess and reaching those deadlines will be definite. Currently EQC is in the process of winding down assessment resource.

Royal Commission

It was noted that EQC has received a summons to appear before the Royal Commission of Enquiry into Building Failure caused by Canterbury Earthquakes.

GBS and IBM Contracts

The contracts with IBM and GBS are to be formalised contractually, moving from a relationship based approach to a more commercial approach.

The previous contract with Gallagher Bassett had EQC buying a service from them but EQC will now be using them as a resource.

A reduction in staff is in process to which 50 staff has gone and another 150 have received notice.

Claimant Satisfaction Survey

The Claimant Satisfaction Survey produced positive results but was flagged as potentially being based on older data.

Business as Usual Claims

The Chief Executive stated that excluding Canterbury, 2011 has been the biggest year in EQC history for Land Claims.

People

The Chief Executive announced that the Leadership Development Centre, who runs an annual Fellowship Programme where they select two or three individuals from the State Sector for funding for their leadership development, has awarded Bryan Dunne (GM of Strategy and Policy) a scholarship for International Education. Mr Dunne will be attending courses at the Wharton School of Economics in Philadelphia and The London School of Economics in 2012.

7. Reinsurance – Aon Benfield Presentation

9(2)(a)

[REDACTED] from AonBenfield joined the meeting at 10.18am and gave a presentation on Reinsurance renewal which covered:

- Review of current programme
- Current market environment
- 2012/13 renewal considerations

It was raised that the Chief Executive should get support from an Actuary.

9(2)(a)

[REDACTED] left the meeting at 11.41am.

Importance of considering credit rating and expenditure within the proposal were raised.

The Board:

agreed for the Chairman and the Chief Executive to further develop work on renewal and circulate to Board;

agreed that the current renewal proposal is a good base but needs more work done on it.

8. Fletcher PMO Report

1.12pm Bruce Emson (General Manager of Customer Services), Ben Mitchell (Project Director) and Debbie Barber (General Manager of Communications) joined the meeting.

The Board noted the paper as read.

The Chairman flagged two concerns in reference to the proposed Canterbury Home Repair Programme:

1. The inconsistencies around the FTE numbers and,
2. CERA's role within the plan.

The GM of Customer Services expressed the importance of focussing on what the next steps will be and the need for walking customers through the process.

He spoke of the three main tiers to the proposal of Scenario 2:

1. Complete all high priority repairs by December 31st 2012

We invite local communities to guide the highest priority needs for repairs to EQC via Community Advisory Groups which means there will be a close hub-by-hub interaction with the local communities.

Initial thinking is to form five regional Community Advisory Groups, overseen by a Community Advisory Panel that establishes criteria.

The 12 month timeframe shows the seriousness about meeting the needs of the vulnerable within the community

2. Complete all repairs over \$50,000 by June 30 2013

This shows the community that we are seeking to repair the most damaged homes first and;

It demonstrates to the contracting community that if they stay with the PMO programme in the medium term they will get the larger scope repairs. This creates a sense of structure around securing the workforce.

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For every large repair allocated to a contractor, the proposal is that the same contractor also undertakes a number of small repairs in the same neighbourhood to ensure we optimise contractor efficiency.

This presumes substantial additional resource is applied to the Settlement and insurer agreement process for those claims with damage from multiple events.

3. Complete 80% of home repairs by December 31st 2014

This reinforces the message that the least damaged homes will be repaired last. This programme is dependent on the following assumptions:

- *There are no more major events*
- *We can secure and keep the required number of key trades and contractors in the repair programme, and*
- *Sufficient temporary accommodation is available for workforce and temporarily displaced homeowners.*
- *That up to 20,000 Cantabrians will be willing to be last in the queue beyond 2014 and won't become impatient and opt-out at a later stage.*

The GM of Customer Services reported that he had engaged with CERA over the proposal of worst affected first and stated that CERA was supportive of the plan.

The Chairman flagged the point that EQC is currently working under a government decision to discourage opt out and hold on to as much through PMO as possible to control costs and maintain quality which means this will not be a unilateral decision.

It was clarified by the GM of Customer Services that the Opt-Out process meant that EQC pay on completion of repairs, not a cash out payment.

The Chairman raised the need for assurance that there is information, systems and processes in place to have constant and productive engagement with customers.

Comms Strategy

The GM of Communications spoke of the lessons learned around releasing targets and deadlines and the ability to turn things around. The strategy around Comms is intended to guide the community engagement activities of EQC as it enters the substantive repair phase with partner Fletcher Construction.

The key objectives to the Communication Strategy are:

1. Setting the scene with timeframes
2. Direct communication with customers and;
3. Involving the community with determining who gets seen first by using a Committee and sub committees.

It was noted that Treasury's paper stating a 6 year timeframe had been released and The Press have a copy of this paper.

The Board:

agreed to endorse Scenario 2 of the proposed programme which includes the three priorities and high emphasis on the level of services to EQC's customers

noted that mental health and financial strains should be built in to the high risk evaluation criteria;

noted the need for assurance around the quality of information communicated to customers;

noted the value of broader consultation across government.

9. Audit and Risk

The Chairman declared that Commissioner G Smith will replace the Deputy Chairman on the Audit and Risk Board to which the Board agreed.

9.1 Audit and Risk Draft Minutes 28 November 2011

The Board:

noted the minutes

9.2 & 9.3 Risk Report and Legal Risk Report

11.52am Jane Thomassen and Phillip Jacques, Chief Financial Officer joined the meeting.

The Board was asked to:

accept the Risk Map and the current status of Critical and High Risks including the confirmed risk treatments and stated timeframes;

accept the Legal Risk Map and the current status of the risks identified

The Board:

accepted the Risk map and the current status of Critical and High Risks including the confirmed risk treatments and stated timeframes;

accepted EQC's Legal Risk Map and noted that legal risks should be integrated into the overall risk matrix

9.4 Internal Audit Update

The Board:

noted the Internal Audit Report.

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9.5 Risk Evaluation and Management Matrix

The Board was asked to approve the revised EQC Risk Evaluation and management Matrix

The Board:

approved the revised EQC Risk Evaluation and Management Matrix;

noted that this will be tested in practice and modified accordingly as applied.

9.6 Delegations Framework

The Board was asked to approve the proposed Delegated Authorities.

The importance for clarification between insurance claims and claims under contract within reporting was raised.

The Board:

approved the proposed delegated authorities;

noted an amendment to be made around wording of claim on page 5, item 3.

9.7 Accountability Structure

The Chairman raised the technical issue of the CE having joint accountability with subordinates on Page 3 of the paper.

The Board:

noted the Accountability Structure;

noted an amendment be made to page 3.

9.8 ARC Proposed Timetable 2012

Action: G Smith to confirm availability for proposed times.

The Board:

noted the Proposed Timetable

Jane Thomassen left the meeting at 12.18pm

10. Finance

10.3 Statement of Cash Flow

The Board:

noted the need for more consistent and conventional reporting against plan and budget.

10.4 Commentary on Canterbury Earthquake Expenditure

The Board:

noted the paper and an amendment to be made within the Claims Expenditure Summary to reflect estimated recovery for reinsurers and estimated recovery by EQC and crown guarantee.

Action: CFO to provide Board with final projected figure for Quarterly CHE.

11. Investments

11.1 Investment Report to October

The Board:

noted the Investment Report as read.

11.2 SIPSP Annual Review

The Board was asked to accept management's recommendation, as a result of the review, not to change the SIPSP.

Management will notify Treasury that the review has been completed and no changes are required

The Board:

deferred consideration of the SIPSP Paper and concluded no change;

directed management to notify Treasury that the SIPSP is still under consideration;

flagged the potential of a review of the SIPSP at the December 19 2011 Board meeting.

11.3 Investment Consultant requirements for 2012 – 2013

The Board was asked to approve the current Russell contract not be renewed when it concludes in June 2012, and that EQC management arrange the purchase of investment consulting resources on an 'as required' basis.

The Board:

approved the recommendation for the contract not to be renewed subject to discussions with Russell with a view to an early termination on satisfactory terms

delegated the Deputy Chair to be provided with the outcome

11.4 Russell Investments' proposals regarding the sale of global equities from the NDF

The Deputy Chair recommended:

- Agree to sell down equities positions over the next 5 month period
- Use a transition manager
- The order of sale to be, in general, the style managers, core managers and passive managers.
- Currency position to be closed contemporaneously effectively
- Invest short term securities subject to diversification
- SIPSP to be updated to reflect this decision

Action: CFO to modify SIPSP to reflect decisions and notify Treasury of plan.

Action: Deputy Chair to review modified SIPSP

The Board:

agreed to the Deputy Chairman's recommendations

12. Research and Education

The Board was asked to approve funding of \$707,000 over two years (2012/13) for 18 research proposals recommended by the Biennial Grants Research Panel.

The Chairman recommended a more comprehensive review and evaluation of the future of Public Education and Sponsorship and Research Policy in light of the Canterbury Earthquakes, EQC's financial position and EQC's current functions and duties under the Act.

The Board:

approved funding of up to \$707,000 over two years (2012/13);

delegated the Chairman authority to determine the relevance of the projects required in context of the Canterbury earthquakes and the immediate research priorities and decides the final amount within the \$707,000;

requested for the February meeting a comprehensive review on the future nature and scope of EQC's public education sponsorship and research funding (including Geonet funding) in light of the Canterbury earthquakes and EQC's financial position;

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agreed that the Minister be informed of the Board's intentions within a sufficient time frame to enable a response if required

13. General Business

Board Fees

The Chairman noted that the Government had agreed post September 2010 that there will be a top up of fees which are to be distributed according to the Boards judgment of responsibilities. The Chair stated that the Deputy Chair will be in charge of this. The Chairman stated that he had raised the matter with Treasury to which their response had been that the Board Fees for EQC will be reviewed as a new steady state.

13.1 Deed of Lease for 12/75 Peterborough Street, Christchurch

The Board:

agreed and delegated authority to the Chairman and Deputy Chair for signature.

13.2 IBM Contract Renegotiation

It was noted that the paper should have the IBM relationship in context with the IT Strategy.

The Board:

noted the paper;

agreed that a report on progress on the matters outlined in the paper be provided to the Board at the February Board Meeting

13.3 Seismic Safety Paper – Update on sites occupied by EQC

The Board:

noted the paper.

There being no further business the meeting concluded at 2.22pm.

10¹⁰
Released under the Official Information Act 1982

These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date



**MINUTES OF A MEETING OF
THE BOARD OF THE EARTHQUAKE COMMISSION
Held in the EQC Boardroom
Level 20, Majestic Centre, 100 Willis Street, Wellington
Monday, 19 December 2011, at 10am**

PRESENT:
M C Wintringham (Chair)
K B Taylor (Deputy Chair)
D K Bovaird
R J Black
T J Burt
P Hughes
G A McLachlan
G Smith

In Attendance:
I Simpson (Chief Executive)
B Dunne (GM Strategy, Policy & Legal)
9(2)(a) [redacted] (Notes)
9(2)(a) [redacted] (Chapman Tripp)
9(2)(a) [redacted] (Tonkin & Taylor)
9(2)(a) [redacted] (Tonkin & Taylor)
9(2)(a) [redacted] (Chapman Tripp)
9(2)(a) [redacted] (Chapman Tripp)

The Board considered three papers with a view to determining the parameters that establish EQC's liability for land damage. The papers are:

1. *EQC Liability in Relation to Damaged Residential Land* (Chapman Tripp and T&T)
2. 9(2)(h) [redacted]
3. [redacted]

The Board decided:

Item	Decision
3.2 EQC Liability In Relation to Damaged Residential Land	<p>Noted that there were nine categories of potential damage that need to be considered by the Board:</p> <ul style="list-style-type: none">• seven categories that have the immediate effect of making the land more difficult to use for its present/normal use (referred to at the meeting as Categories 1 to 7); and• two categories (crust thinning and exacerbated flooding risk) where the effect of the earthquake does not have an immediate impact on the utility of the land, but results in increased vulnerability to land damage from certain future natural disaster events (referred to at the meeting Categories 8 and 9).

Agreed that:

- Categories 1 to 7 be accepted as land damage for the purposes of the EQC Act, and requested that Management prepare a briefing on how those claims should be settled.

- Where EQC does have a liability under s 19 in relation to land damage for Categories 1 to 7 only, the following principles apply:
 - a) EQC insures "residential land" up to the monetary limit specified in section 19 of the Act.
 - b) EQC may not expend more in reinstatement than the land cap per section (s 19).
 - c) EQC has the option to either reinstate the land or pay out. The amount of the damage is the cost of the reinstatement.
 - d) EQC may not expend more in reinstating the land than the limit quoted referred to above. Nor can EQC settle a claim by paying more than the limit.
 - e) If EQC decides to reinstate the land, its general obligation is to reinstate the land to the physical condition in which it was before the natural disaster damage.
 - f) EQC is not bound to reinstate exactly or completely, but only as circumstances permit and in a reasonably sufficient manner.

In respect of Categories 8 and 9:

- **Agreed that** (subject to certain thresholds) an adverse material physical change to residential land giving rise to increased vulnerability to damage – namely crust thinning and exacerbated flood risk – in certain future natural hazard events is a form of damage for the purposes of s 19 of the Act.

In respect of Category 8 (crust thinning):

- **Approved** the general approach to the thresholds in the flow chart in Figure 1 on page 12 of the draft Tonkin & Taylor paper dated December 2011.

- **Agreed** to the first two "gates" in that flow chart.

- **Requested** further advice on the subsequent gates in the flow chart.

- **Noted** that in agreeing to the first two "gates", the Board effectively allowed repairs in current TC1 and TC2 zones to progress without unnecessary delay. That decision does not prevent individual homeowners from obtaining engineering reports that could be used to determine if there was a level of change sufficient to constitute crust thinning "damage".

In respect of Category 9 (exacerbated flood risk):

- **Approved** the general approach to thresholds for exacerbated flooding risk set out at Figure 2 on page 30 of the Chapman Tripp paper entitled *EQC liability in relation to damaged residential land* dated 13 December 2011, and requested further advice on the thresholds in Figure 2.

In respect of Categories 8 and 9:

- Requested that Management prepare a briefing (setting out recommended principles for dealing with a settlement framework for Categories 8 and 9) for discussion at the February 2012 Board meeting.

Agreed that EQC does not cover improving residential land beyond the condition that it was in immediately before the natural disaster event. In particular, increased knowledge of existing natural hazard risks is not a form of damage for the purposes of the Act.

3.3 Canterbury
Land Damage
Multi events:
Basis of Valuation

Adopted in principle the approach of using the current market value of land where there is sufficient comparable sales data to support that approach.

Noted that for residential land damaged in the second and/or third earthquakes (February and June) that is located in areas that had already suffered land damage in a previous earthquake (whether or not the individual pieces of land had previously been damaged), the relevant localised market for residential land had been so badly affected by the earthquake events that there is insufficient evidence to determine a current market valuation.

Agreed that in these circumstances another basis of valuation has to be used.

Agreed in principle the approach of using the fair market value of land where a current market value is not able to be assessed, and where it is necessary to remove market distortions resulting from the earthquakes. First, the assessment could look back to the market value that existed immediately prior to the earthquake events that gave rise to these market distortions, with the first earthquake on 4 September 2010. For some areas, the market distortions may only have been caused by the second earthquake, (e.g. on 22 February 2011). In those cases fair market value for subsequent earthquakes will be determined by reference to the market value immediately before the earthquake that caused the market distortion for that area.

Agreed that detailed methodologies be developed for approval by the Board, to determine:

- (a) which valuation approach to apply in relation to affected properties;
- (b) a fair market value in the various circumstances.

Agreed that EQC's valuers undertake further assessments of properties to minimise, as far as reasonably practicable, any over-valuation arising from using the minimum lot size.

Agreed in principle that the assumptions set out in [REDACTED]

[REDACTED] (h)

December 2011 are to be used as the basis of the initial valuations, rather than undertaking detailed individual site assessments.

Agreed that once the Board has approved in principle the appropriate valuation approaches, assumptions and detailed methodologies, these are to be discussed, and

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These minutes were approved by the Board as a true and correct record.

M C Wintringham

Date