



**MINUTES OF A MEETING OF  
THE BOARD OF THE EARTHQUAKE COMMISSION  
HELD IN THE EQC BOARDROOM, CHRISTCHURCH  
7 DEANS AVENUE, HAGLEY, CHRISTCHURCH  
TUESDAY, 14 FEBRUARY 2012, at 10.00am**

---

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

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

**Apologies:** P Hughes

**1. Minutes of the Board Meeting 9 December 2011**

The Board approved the minutes of the Board Meeting of 9 December 2011 subject to the discussed amendments being made to pages 3 and 5 of minutes.

**2. Minutes of the Board Meeting 19 December 2011**

The board approved the minutes of the Board Meeting of 19 December 2011

**2. Chief Executive Report**

*Introduction*

The Chief Executive confirmed that all targets were reached for 2011.

Following December 23 event, EQC reverted to a revised approach for emergency repairs. These were managed through Fletchers rather than providing reimbursement for owner-initiated repairs. The CE confirmed that this will now be the preferred approach.

25% of urgent repairs were declined after Fletchers deemed them not urgent.

*Priorities for 2012*

Progress is being made on turning the four priorities for 2012, specified in the Statement of Intent, into specific goals with measurable targets.

The intention is to have everything that isn't a repair closed and settled by midyear.

This will require a particular focus on all areas where there are still cash settlements to be made.

#### *Current issues*

#### *Apportionment*

Issues and progress relating to apportionment were discussed.

It was noted that, as a result of the Declaratory Judgment, effectively the private insurers are not involved unless, in any one event, there is more than \$100,000 of damage. Generally, once that threshold has been reached, EQC cash settles and the claim is handed over to the private insurer.

If there is a subsequent event that causes more damage EQC will cash settle the further claim.

There are approximately 25,000 – 30,000 over cap claims with private insurers. Of these, about three hundred involve a substantive disagreement over the cost of the claim.

In these cases EQC and the private insurer assess the property together.

#### *TC3 site investigations*

There are around 30,000 residential properties in TC3. EQC has two interests in site investigations in TC3:

- To determine land damage to establish EQC's land liability.
- To carry out site investigations on properties where EQC will be responsible for repairs which involve foundation repair or renewal.

The first is substantially complete. The requirements for the second are dependent on foundation specifications from DBH and the Local Authority.

EQC has secured 6 drilling rigs through Tonkin & Taylor. These are available to CERA, DBH, and the insurers to carry out site investigations for their purposes (over and above EQC's requirements).

There are questions over who will pay for the latter as it is not covered by reinsurance. The CEO confirmed this was being worked on with the interested parties.

A further question was raised over whether EQC was getting more involved in the TC3 repairs and drilling when it only had a narrow interest in that area.

**Released under the Official Information Act 1982**

The CE said the insurers were happy for EQC to coordinate site investigations through T&T and the cost will fall on either EQC or the private insurers depending on who has final responsibility for the claim,(depending on the outcome of apportionment decisions).

*Change in average rating of EQC's reinsurers*

The CE flagged the change in average rating of the reinsurance programme to single A due 9(2)(i)

It has been proposed that Aon Benfield attend the next Audit and Risk committee meeting to discuss the broader picture of the state of reinsurance markets, including the credit rating of reinsurers.

Discussion on regaining the A+ rating for the programme will be covered in a Reinsurance paper at next board meeting.

*Canterbury Home Repair Programme*

The Chief Executive tabled an update on the Canterbury Home Repair Programme.

He noted the following points in the Fletcher report:

- In terms of delivery the expected pause over Christmas was exaggerated by the focus on emergency repairs
- Still ahead with targets
- There may be some variance around targets in the EQR Substantive Repairs Progress graph.

The Chair noted the board interest in reporting of quality of repairs.

The board endorsed the need for a more systematic approach to customer management and communication. A paper on some major initiatives in this area will be put to the next Board meeting.

*Output 1 – Claims Handling*

Currently 905 claims for Nelson, 32 not assessed and 242 rejected because the land damage was outside the building footprint.

There are currently 600 people working with EQC on these claims.

There has been generally positive feedback from reinsurers about EQC's processes around claims handling.

*GBS Contract*

9(2)(a)

The Chief Executive explained that [REDACTED] has been hired to engage with GBS around the commercial arrangement with GBS and for how long and on what conditions EQC might want to renew their contract.

#### 4. Finance

##### *5.1 Financial Report to December 2011*

Phillip Jacques joined the meeting at 11.25am

Following question and discussion on the Statement of Comprehensive Income the Board noted and accepted the financial report.

##### *5.2 Canterbury Event Loss Expenditure*

It was noted that there were apparent inconsistencies in the figures, notably:

- the claims handling expenses sum on the second page was inconsistent with claims handling year to date on the first page and;
- the actuarial estimates for events total costs of Canterbury were inconsistent with the amount for total costs to September.

The board asked for an explanation of these inconsistencies and, for future reporting to provide commentary on apparent inconsistencies.

#### 5. Investments

##### *Investment report to December 2011*

It was noted that two managers have been cashed up (T. Rowe Price & Tweedy, Browne).

#### 6. General Business

##### *6.1 Reinsurance Broker Tender*

The Chief Executive spoke about work that would need to be done to retender the broker role especially if a new broker was appointed.

The Board discussed the merits and risks of re-tendering the Aon Benfield contract at this time, recognising that it had already been rolled over following the first Canterbury earthquake. After considering a range of options, including splitting the reinsurance marketing from support for claims management:

**The board;**

**agreed that the case for not conducting a tender process for the reinsurance broking contract from 1 June 2013 has been made, the main points being:**

- **The impracticality of linking the on-going claims collection process with a new broking company or collection agency;**



**Released under the Official Information Act 1982**

- The specialist knowledge of Aon Benfield in relation to the EQC reinsurance programme and its innovative features, and the claims collection process to date;
- The amount of board and executive time the tendering process would occupy, in a period of intense and unprecedented activity.

resolved that a probity auditor be appointed and is to confirm the appropriateness of re negotiation of the Aon Benfield contract rather than the tender and to advise and report on the negotiation process itself.

approved that, after the renewal of the reinsurance programme on 1 June 2012, negotiations commence with Aon Benfield for a new contract to run for three years.

#### Controller and Auditor General

The CE confirmed that a discussion had been had with the Auditor General and that, in their forthcoming audit of the response to the Canterbury events, their focus was on the following:

- Insurance
- Procurement of services
- Statement of funding flows
- Audit of accountabilities and the risk of role confusion

#### **6.2 2012 Recruitment review report**

The Board received and discussed the KSJ report on recruitment. Management suggested that the naming of [REDACTED] within the report be withdrawn.

9(2)(a)

The Board decided to accept the report without change, but subject to:

- "formalising" of the report including it being put on letterhead, and with paragraph numbering, logos and a statement about the background of KSJ included within the report.
- wording around employment within the report needs to be checked by the contractors to ensure that "employee" and "contractors" were correctly defined; and
- that as part of due process [REDACTED] be given the opportunity to comment on the reference in the report [REDACTED]

9(2)(a)

The Chairman asked for detailed numbers on the exact amount of family members employed, through contractor companies and not, to EQC.

9(2)(a)

Released under the Official Information Act 1982

The board;

accepted the report

noted that the report will be letter headed and formatted to reinforce it is an independent document

noted that a statement of credentials of reviewers be included in report

noted that the reviewers will check for accuracy references to "contractors" and "employees"

noted that 9(2)(a) will be given the opportunity, as part of proper process, to comment on the references [REDACTED]

9(2)(a)

#### ***Media approach to release of 2012 recruitment review report***

It is proposed that the reviewer and EQC's media team **will** be at the release of the report to speak to it and answer any questions raised.

The chairman noted that the CEO should also be present at the release

The board;

delegated authority to the Chairman to work with management and decide the media strategy for release

#### ***6.3 Business case for website and intranet redevelopment***

The Chairman noted that it is a Government requirement that website enhancements provide the ability for members of the public to interact with government organisations using the one government identifier.

The board;

approved funding of \$350,000 for website and intranet redevelopment and noted that it must be done in compliance with government standards

noted preference for it to be done within a shorter timeframe than the proposed 7-8 months

#### ***6.4 IBM contract renegotiation update***

The CE noted a paper for circulation after meeting for approval of the board to spend [REDACTED] to complete the work on disaster backup for EQC's systems.

There are currently two sites (Petone and Auckland), the live one being Auckland with IBM. There is a one way switch to flick from the Auckland site to Petone but there is no way to get back to the live system when wanting to go live.

With the funding there can be professional back up put in place.

**The board;**

**noted the IBM contract renegotiation update and asked for IT strategy to be included in further update.**

#### ***6.5 Deed of Lease – Deans Avenue***

Questions have been recently raised about the structural integrity and safety of the building after cracks to the concrete floor slabs were found when carpet was lifted.

A structural engineer's report is needed to confirm the safety and integrity of the building.

**The board;**

**approved the new lease and delegated two board members to sign the lease subject to a structural engineers report which confirms the integrity and safety of the building**

**approved the required unbudgeted fit out capex plus a 10% contingency**

#### ***6.6 Heads of Agreement – Wilsons – Lester Lane***

**The board;**

**granted authority to the GM Customer Services to sign a Heads of Agreement for the lease of the Ground Floor, 11 Lester Lane subject to the confirmation of the integrity and safety of the building**

**approved the required unbudgeted fit out capex plus a 10% contingency**

Phillip Jacques left the meeting at 12.36pm

#### **7. EQC Liability for Residential Land Damage**

Bryan Dunne (GM Strategy, Policy & Legal), Bruce Emson (GM Customer Services), [redacted] (EQC Legal Counsel), [redacted] (Chapman Tripp), [redacted] (Tonkin & Taylor) and [redacted] (Tonkin & Taylor) joined the meeting at 1.30pm.

[redacted]  
The Chairman expressed the importance of the decisions proposed in the Land Liability paper and asked the CE for context around size, scope, numbers and implications of the recommendations.

**Released under the Official Information Act 1982**

The CE explained the paper involves legal and geotechnical questions which were important for EQC, and would have implications at a national policy level. While the discussion at the last Board Meeting had allowed progress for TC1 and TC2, cash settlement versus reinstatement issues still need to be addressed.

Many organisations including CERA, DBH and the NZ Insurers were waiting for resolution on the issues scoped in the paper.

Management noted that the paper was complex, but this reflected the complexity of the underlying issues.

In terms of scale there are 120,000 homes in TC1 and TC2. There are 30,000 properties in TC3 and Red Zone to which approx 10,000 - 12,000 have foundation damage.

The GM Customer Services noted that in terms of reputation there are a number of parties who are using the resolution of EQC land issues as a reason why they could not move forward with claims.

*Hugh Cowan joined the meeting at 1.35pm.*

Management was asked how EQC would go about communicating the complexities of the land settlement to the approximately 12,000 customers in TC3 which have foundation damage.

The GM Customer Services explained that while it would be very labour intensive, an area wide solution was being developed which would involve using the most experienced people in dealing with land damage and customer service.

It was flagged that there will be a challenge involved in explaining to the property owner about how EQC arrived at the engineering criteria that are relevant to what they are eligible for.

The GM of Customer Services agreed that the importance of customer communication once a decision has been made is critical and noted that this area is being focussed on and worked on.

A communication strategy was suggested around releasing public information on land cover and thresholds using images to help explain complexity.

***Is there insured "residential land"?***

9(2)(h)

It was proposed that in difficult cases, it should be passed through in-house Legal Counsel, then on to the GM of Strategy, Policy & Legal for sign off.

The board

agreed that Management and Claims personnel determine on a case by case basis whether a particular property meets the definition of "residential land" subject to the proviso that information on non-qualifiers be collated for a separate public policy decision

*Is residential land "damaged" by the Canterbury earthquakes?*

There are 9 Categories of land damage.

Categories 1-7 have an immediate effect of making the land more difficult to use. Categories 8 and 9 (crust thinning and exacerbated flooding risk) have occurred where the effect of the earthquake has resulted in increased vulnerability to land damage from future natural disaster events.

With Categories 1 – 7, the position is straightforward.

At the previous board meeting it was agreed in principle that crust thinning and exacerbated flood risk would be considered damage.

There are complexities around crust thinning and liquefaction. Details of whether it is occurring at depth or closer to the ground surface are important. In reality there are layers of liquefiable soil and then layers that are not. The liquefaction susceptibility number (LSN) attempts to capture this complexity into a simple index.

The LSN approach will help better categorise the increase in vulnerability to liquefaction hazard than just physically measuring the crust thickness alone.

The board asked for peer review of the LSN approach involving an expert giving an opinion on the robustness of the approach.

It was confirmed that previous approval was given in principle, that category 8 constitutes land damage. However it was previously called "crust thinning". That term should be revised to capture the concept of "the increase in vulnerability to liquefaction hazard". The paper should be amended to reflect this.

**a) The board;**

confirmed its previous decision that claims for residential land damage where there are immediate effects to the land of the type that fall within Categories 1 to 7 (and which meet the applicable thresholds set for each category, set out at paragraph 11 of the Paper), should be accepted as constituting land damage for the purpose of the EQC Act.

**b) The board;**

agreed that Claims for residential land damage where land has become more vulnerable to land damage from future natural disaster events, of the type that fall within Categories 8 and 9, (and which meet the applicable thresholds specified for each

**Released under the Official Information Act 1982**

category, set out at paragraphs 17 to 29 of paper), should be accepted as constituting land damage for the purpose of the EQC Act *subject to*:

- (i) the crust thinning flow chart being refined by the pilot testing being done and the peer review;
- (ii) more work being done on the specific case of the Heathcote River mouth flooding

*How should EQC settle claims for that residential land damage having regard to the nature of the damage (i.e. the different categories of damage that have been identified)?*

**a) The board;**

agreed that the maximum amount of insurance available specified in section 19 for each event is to be determined in accordance with the approach and assumptions set out at paragraphs 33 to 40 of the paper, being:

- Current market value where it is able to be assessed; and
- Fair market value where the market distortions resulting from the earthquakes prevent a current market value being able to be established.

During the discussion, the CE gave a theoretical example of a bare minimum lot size worth \$200,000 which would cost EQC \$100,000 to raise the land back to its pre-event status, and a house on that residential land that was completely undamaged worth \$300,000. In the example, in order to repair the land, you would have to remove the house. The land cover would pay towards demolition of the house, raising of the land and rebuilding the house. In this example, after deducting the amount required for the repair the land (\$100,000) there would be \$100,000 left to demolish and rebuild the house. The private insurer is not involved (because the house is undamaged), so the homeowner would be left to fund the shortfall and so would probably keep the EQC payment and continue to live in the house.

**b) The board;**

agreed the cost of reinstatement is an appropriate approach to quantifying the amount of damage. . However, the loss in value of the land approach (explained at paragraphs 44 to 50 of the paper) may in some cases be the appropriate approach to quantifying the amount of damage depending on whether the cost of reinstatement is disproportionate to the loss in value, how the damage affects the use of the land and whether the claimant intends to reinstate the land.

**c) The board;**

agreed that EQC may settle claims by cash settlement, carrying out reinstatement works, or a combination of both.



Released under the Official Information Act 1982

**d) The board;**

agreed that cash settlement of land damage is preferred, except in circumstances where reinstatement is appropriate.

**e) The board;**

agreed that reinstatement is appropriate in circumstances where:

- the reinstatement of the land is necessary in order for PMO building reinstatement to proceed;
- the insurer needs to reinstate at least part of the land in order to undertake the reinstatement of the dwelling. In this case the insurer should carry out the work and EQC should reimburse the insurer for the marginal cost;
- the land needs to be reinstated in order to resolve a material safety issue in carrying out the repair;
- a group repair solution is possible and agreement of the relevant stakeholders has been obtained.

**f) The board;**

agreed that where reinstatement is appropriate, EQC will reinstate in the manner set out at paragraphs 69 to 80 of the Paper

The Chairman flagged the possibility of a property having land damage but the property owner has not made a claim due to there not being any visible damage to the foundation.

As EQC has no discretion to provide cover to damage reported after the three month deadline s(2)(g)(i)

**g) The board;**

agreed that Management will assess reinstatement costs in a manner consistent with the flow chart set out at paragraph 54 of the paper

The board suggested combining the 3 boxes on the right of the flow chart with the two boxes below "determine the land liability contribution (for properties with types 8 and/or 9 land damage).

**h) The board;**

agreed that TC3 site investigation costs will be met by Insurers (for over cap building repairs) and EQC (for under cap building repairs)

EQC is currently working with the four major insurers for the TC3 areas and the current proposal is the cost of the investigations will sit with whichever party is liable for the claim. One of the insurers has proposed a cost share arrangement based on the number of over cap claims in total.

EQC is only committing to testing to TC3 properties with foundation issues.

*Bruce Emson, GM Customer Services, left the meeting at 3.07pm*

***Risk analysis***

The board;  
noted the existence of legal, operational and other risks identified in tables 1 and 2 of Part 2 of the paper.

***Risk mitigation***

The board;  
Noted that the legal, operational and other risks associated with the Canterbury land settlement policy can be substantially mitigated through various steps all of which involve:

- a) working collaboratively with claimants to ensure that the general policy framework established in the paper for the settlement of claims does not prevent the individual circumstances of each claimant's position being considered;
- b) continuing to work closely with EQC's reinsurers to ensure that they are well informed in the first instance and that their agreement is obtained to potentially contentious elements of the claims settlement process affecting them;
- c) obtaining directions from the High Court in relation to any important elements of the Canterbury land settlement policy that remain contentious with either claimants, private insurers or EQC's reinsurers as the views of those become unknown.

**8. Other Business**

***Catastrophe Response Plan***

The board requested an update of the Catastrophe Response Plan for the next Board Meeting Agenda (March 14, 2012).

There being no further business the meeting concluded at 3.55pm.

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  
on Tuesday, 28 February, 2012, at 2.00pm**

---

**PRESENT:** M Wintringham (Chair)  
G McLachlan  
D Bovaird  
R Black  
P Hughes  
G Smith  
T Burt (by phone)

**In Attendance:** I Simpson (Chief Executive)  
B Dunne (GM, Strategy and Policy)  
H Cowan (GM, Research and Education)  
9(2)(a) [redacted] (Aon Benfield)  
9(2)(a) [redacted] (Minutes)

**Apologies:** K Taylor

In opening the meeting, the Chairman pointed out that this special Board meeting had been called for the Board to set the strategic direction for the structure of the reinsurance programme for 2012/2013. Decisions made by the Board will also give the pre-renewal team an indication of EQC's requirements in their discussions with reinsurers starting next week. The pre-renewal trip will take place in the first fortnight of March, and the actual renewal trip will commence in Bermuda on 16 April. Targets will need to be in place by 1 June.

It was agreed that the Minister responsible for EQC would be informed of the Board decisions on the reinsurance strategy. The decisions would also be a starting point for discussions with Treasury on the wider consideration of the Government's appetite for risk.

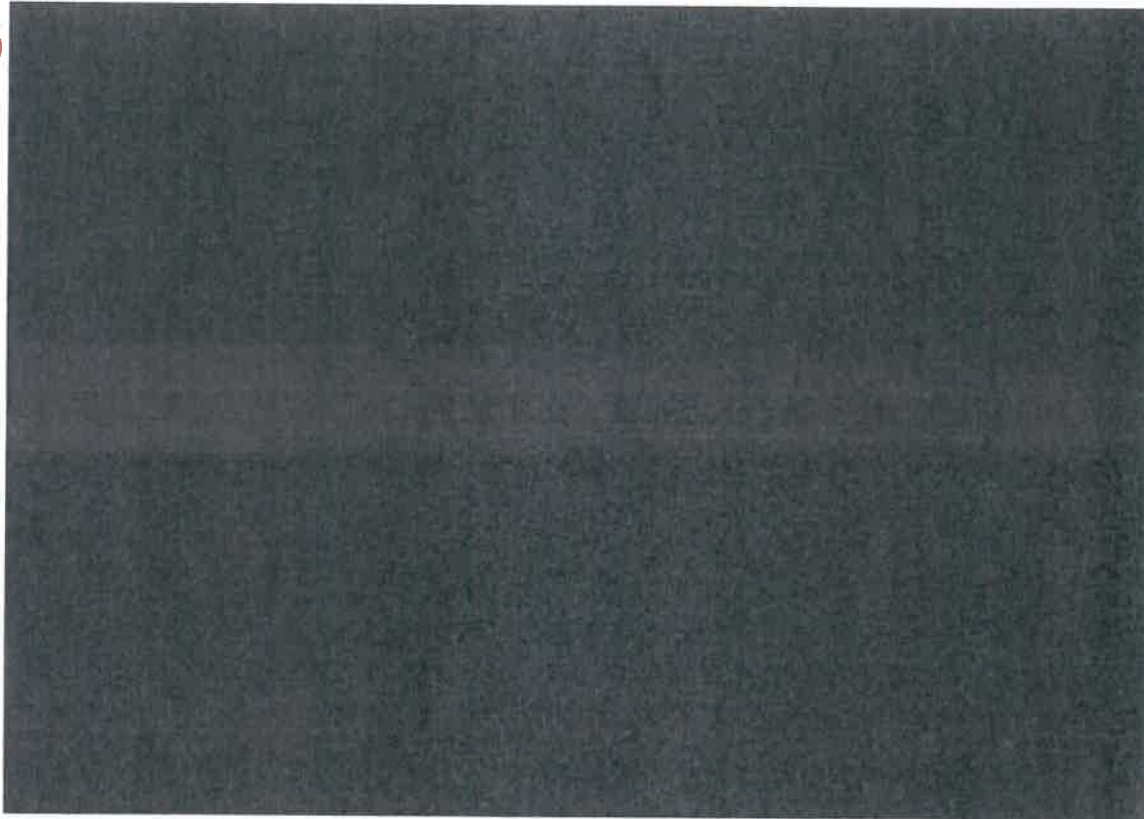
9(2)(g)(i)

[redacted] Consideration also needs to be given to the balance between having enough cover and retaining premium capacity. A degree of continuity should be maintained to maximise relationships and help preserve the favourable terms in current contracts. The possibility of credit downgrades and their impact on the overall programme should also be considered.

9(2)(a)

[redacted] from Aon Benfield and Hugh Cowan joined the meeting at 2.20pm. Apologies were received from [redacted] from Aon Benfield, who was unable to attend the meeting due to illness. 9(2)(a)

9(2)(j)



9(2)(g)(i)

[redacted] To ensure that the Board's decision fits within these priorities, the Board will inform the Minister of the decision so that the Government (and the Treasury as the Government's advisors) can consider the "fit" of the decision within its wider priorities.

The Board agreed:

1. That management should approach the market with the intention of renewing the existing reinsurance programme for a target annualised premium if up to 9(2)(j)
2. That consistent with the objective of protecting the value of the Natural Disaster Fund, options should be explored to maximise additional cover, either in the form of private placements or alternative sources of capital, such as aggregate cover, reinstatement and catastrophe bonds, [redacted]

9(2)(j)

3.

9(2)(j)



4. That the Minister responsible for the Earthquake Commission be informed of the Board's decision and rationale.

**General Business**

***Actuarial Report***

Management advised that a draft of Melville Jessup Weaver's actuarial report was expected on 1 March and was to be finalised within two weeks following discussion with Treasury. A final version will be submitted to the Board for consideration at its meeting on 14 March.

***Board response to approaches from claimants***

In response to a suggestion for a tool for Board members to use in responding to direct approaches from claimants, management advised that plans and targets to meet customer service and improving customer interface will be submitted to the Board in March and April.

***Canterbury Earthquakes – Claim Repair Work***

A review of 8,000 of the completed claim repairs is to be undertaken, and the results will be made available to Board members for a better appreciation of the repair work completed to date.

***Select Committee Appearance***

EQC is scheduled to appear before the Finance and Expenditure Committee next week.

***KSJ Report on Assessor Recruitment Process***

John Ombier, Deputy State Services Commissioner, has advised the Chairman that the peer review of the KSJ Report has been completed and should be received within the next day or two.

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

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, WELLINGTON  
LEVEL 20, 100 WILLIS STREET, WELLINGTON  
WEDNESDAY, 14 MARCH 2012, at 10.00am**

---

**Present:** M C Wintringham (Chair)  
K B Taylor (Deputy Chair)  
D K Bovaird  
G A McLachlan (left the meeting at 4.17pm)  
T J Burt  
R J Black  
G Smith  
P Hughes

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

**Apologies:**

**1. Minutes of the Board Meeting 14 February 2012**

The Board approved the minutes of the Board Meeting of 14 February 2012 subject to minor amendments to be made to page 4 under *Reinsurance Broker Tender*, 6 under *Business case for website and intranet redevelopment* and 9 under *Is residential land "damaged" by the Canterbury earthquakes*.

**2. Minutes of the Board Meeting 28 February 2012**

The board approved the minutes of the Board Meeting of 28 February 2011 subject to an amendment being made to page 2, paragraph 2.

**4. Chief Executive's Report**

The Chief Executive elaborated on his report, noting the good progress being made around the objectives discussed at the February Board Meeting.

*Canterbury Home repair programme*

The CHRP reached a significant milestone with the repair of the 10,000<sup>th</sup> home completed and the rate of repairs increasing and remaining slightly ahead of plan.

The Commissioners raised the previous suggestion of a community led strategy to help identify the vulnerable within the community and prioritise their claims.

9(2)(g)(i)

Age and health were considered the primary prioritisation factors. EQC and MSD are currently working together on a framework for this.

*Communicating clearly and promptly to customers*

Work on the EQC Customer Value Proposition is under way and would be discussed by the GM Customer Services later in the board meeting. One project to improve customer information consistency across the organisation is to insource the majority of EQC's call centres.

The CE noted a suggestion to employ more case managers and explained that with a reasonable work load of approximately 40 claims per case manager and 400,000 building claims at hand, there needs to be a more strategic answer involving triaging claims and using the work flow systems to identify issues when they arise so that there is a sufficient number of staff in place that can provide a good service.

*Settling all eligible claims quickly and accurately*

Work is being done on setting clear targets this year for the different elements of cash settlement which include contents claims, under \$10,000 building claims, remaining over-cap claims (i.e. those subject to apportionment) and land claims.

The Chief Executive noted that there is a policy proposal currently being drafted to cash settle every claim over \$100,000 irrespective of whether it is cumulative damage or from a single event. The Chief Executive used an example of someone that had \$150,000 worth of damage from the September EQ noting that they would have been cash settled by EQC and would now be dealing with their private insurer regarding repair, rebuild or relocation. Whereas if someone had \$75,000 of damage from the September EQ and \$75,000 worth of damage from the Feb EQ, their claim would sit with EQC and be subject to apportionment.

The Chief Executive noted that there is an argument to cash settle formerly "over cap" claims and allow an "Opt in" process. He suggested that some people with higher value claims for residential damage, may want to relocate rather than repair or rebuild, even if that meant some loss in equity.

The Chief Executive observed that progress in these areas had been reduced as significant operational resource has been focussed on providing data for the claims liability update, and to assist with the [redacted] claim review.

The Board acknowledged the hard work of the teams involved with assisting in the liability update and [redacted] claim review.

*Replacing reinsurance cover*

The [redacted] Claim Review (which is being conducted by a Sydney based forensic accounting firm) is progressing well and has been beneficial, with the [redacted] having a clear picture of the scale and complexity of the issues that EQC is managing.

[redacted] will provide [redacted] with their report and then [redacted] will arrive in Wellington on the 29<sup>th</sup> of March 2012 to discuss the review with EQC.

*Relationships with the NZ Insurance Industry*

The CE noted that a Conference call is to take place on Friday with the Chief Executives of the Insurance Council to discuss progress made on a number of fronts, and with apportionment in particular.

*Apportionment*

9(2)(j)



Weekly CEO level meetings between EQC and the private insurers are to be held to review the progress, and make decisions, on an acceptable industry-wide approach to apportionment. A joint technical group has been in place for a number of months but they do not hold the level of authority to make decisions on the inevitable trade-offs between accuracy (sometimes more perceived than real) and the pragmatism which will be needed to achieve results within an acceptable time frame

A single model for apportionment to be used by all insurers is the preferred option. This is likely both to be more accurate and to lower the chance of inconsistent information being given to customers.

9(2)(j)



*TC3 site investigations*

Agreement on how the costs of site investigation will be shared between EQC and the private Insurers has not yet been reached.

Rather than allowing the drilling rigs to sit idle, EQC has started the site investigation programme for our customers..

*Statement of Intent*

The Chief Executive noted that, while EQC's current priorities are still largely based on the current Statement of Intent, there will need to be a restatement of EQC's priorities, and measures, for the next SOI. This will be provided to the Board for review and approval at a future meeting.

*Financials*

Canterbury Home Repair Programme Progress Update

Wording of "completion" within the update was clarified to mean: "invoice paid subject to retention from quality assurance process".

Quality Assurance Brief

Amendment to be made to Page 3 under "Defect Liability Period", 2<sup>nd</sup> bullet point, fourth line down to remove the wording "wishes to Opt Out of a final"



Amendment to be made on Page 2, last paragraph to read: "Contractors are responsible for work performed by their staff and their sub contractors."

The Board requested confirmation that an adequate quality control system and complaints mechanism is in place and working.

**5. Improving Customer Service – Presentation**

The GM of Customer Services joined the meeting at 12.09pm.

*Customer Service*

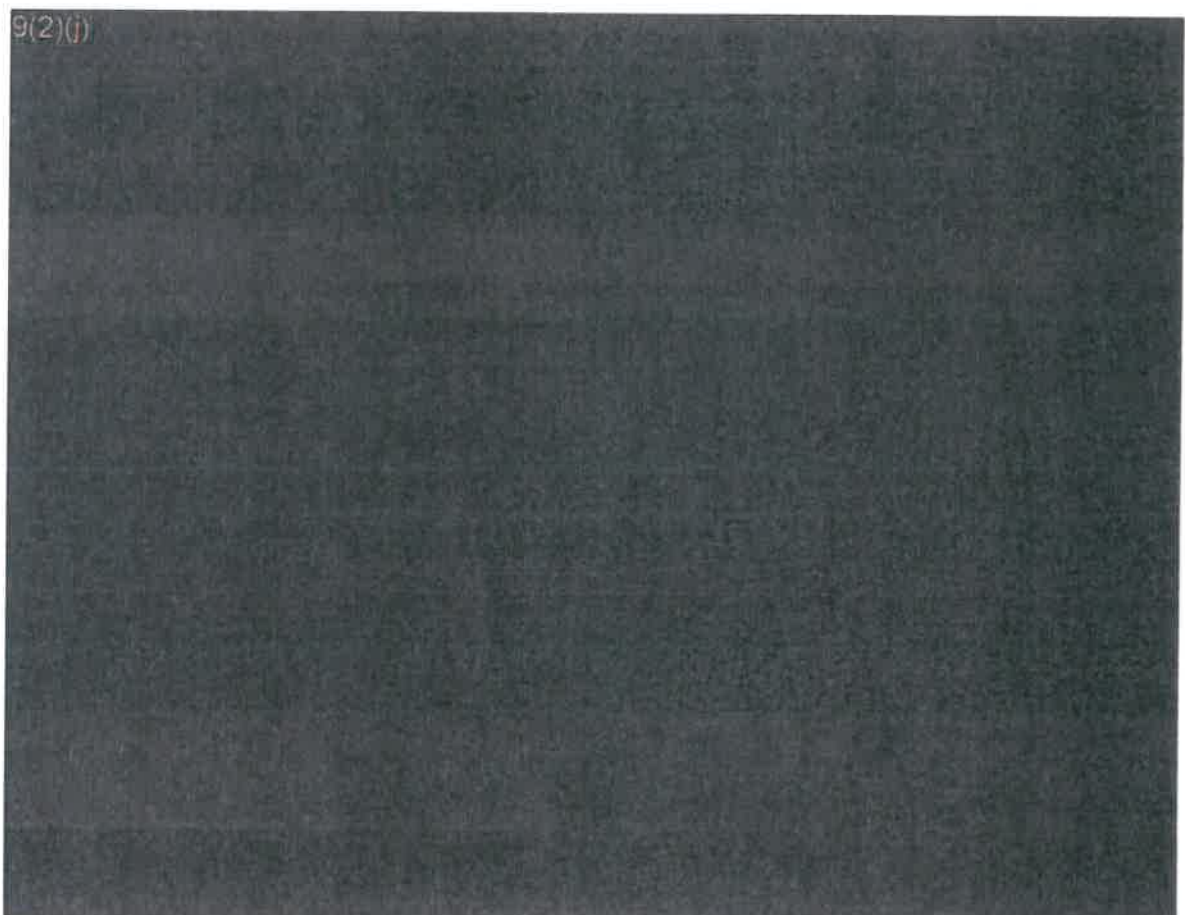
The GM spoke to a goal of wanting EQC to be recognised nationally as a responsible, community driven organisation that delivers excellent customer service.

He observed that EQC needs to be a flexible, sustainable and scalable organisation fit for purpose in the case of future event(s). A large part of getting there will be a process of communication: with stakeholders, customers, and staff; and investing in our people.

The Commissioners suggested that there is a clear opportunity at the moment to educate the public on what EQC does.

**6. EQC Liability Update – Melville Jessup Weaver Report 9(2)(a)**

9(2)(a) [REDACTED] (MJW), 9(2)(a) [REDACTED] (MJW), [REDACTED] (MJW), Phillip Jacques (CFO), Josie Vidal (Acting GM Strategy and Policy) and Joanne Clough (Finance Manager) joined the meeting at 1.40pm.



9(2)(j)



9(2)(a) [redacted] (MJW), 9(2)(a) [redacted] (MJW) and 9(2)(a) [redacted] (MJW) left the meeting at 3.25pm.

The Board;  
accepted the report Earthquake Commission Insurance Liability Valuation as at 31 December, (draft dated 9 March 2012) as the best estimate available of EQC liabilities;

noted that the draft will be further refined, with the likelihood of further marginal changes in the estimates of EQC's liabilities;



**Released under the Official Information Act 1982**

agreed that the Minister and Treasury be briefed on the main points and implications of the report ;

agreed that the report, refined as noted above, should be made available to Reinsurers;

noted that a further valuation of EQC's liabilities will be carried out for EQC's 30 June 2012 accounts;

requested that this further valuation be carried out in sufficient time for Board consideration prior to the finalisation of the 30 June 2012 accounts.

## **7. Audit and Risk**

The Board noted that a substantial amount of work has currently been done on the Catastrophe Response Plan.

### **7.1 Draft Minutes of the Audit & Risk Committee 29 February 2012**

**The Board;**  
noted the minutes.

### **7.2 Summary Risk Report**

Within the Risk Report there is a recommendation to the Board to accept that the risk "Stakeholder Management; Government" is evaluated as a critical risk and that current management actions are appropriate; such that no further treatment is required.

The Chairman noted that the wording on Page 4 bullet point 1 of the Risk Report could be misinterpreted, and asked that it be reworded along the lines that 'EQC may not be able to respond adequately to Government decisions'.

The Audit and Risk Committee agreed that not all risks are currently captured within the risk matrix (or example the adequacy of, and risks to, the plan to rebuild the NDF). Therefore the Committee recommended the Board hold a strategy session at a forthcoming Board Meeting.

The Board also noted that, at a presentation from Aon Benfield, EQC's policies around Reinsurer Ratings were discussed and that some of EQC's Reinsurers ratings have dropped due to their country's sovereign rating dropping.

**The Board;**  
noted EQC's Risk Map and the current status of Critical and High Risks;

noted the new issues of significant concern and management's response.

agreed that these will be further reviewed at a Board strategy session.

## **8. Finance**

### 8.1 Financial Report to January 2012

The CFO spoke to this item. The main matter drawn to the Board's attention was under-expenditure against budget of reinsurance expenditure. However the current reinsurance programme expires at 31 June 2012 and a substantial increase in Reinsurance premiums is expected which is likely to eliminate most of the budget variance.

**The Board;**  
**accepted the financial report to January 2012**

### 8.2 Forecast for year 30 June and Annual Budget for year end 2013

The Board considered the 2012/13 Budget, which had been prepared following a comprehensive, "bottom up" process by management, and which included the testing of all expenditure items for relevance and priority given the forecast financial position of EQC as a result of the Canterbury events.

In that context, the Chairman noted that it is a critical to keep claims management expense disciplined by holding to those targets previously discussed with the GM of Corporate Services. It was noted that the sooner there is agreement with Insurers around apportionment and land settlement then one of the biggest contributors to claims costs will be more stable.

It was clarified by the CFO that the extra \$40 million has been built into the Reinsurance on page 6 of the Forecast.

The Communications team has proposed not to proceed with the 5 year sponsorship renewal with Te Papa and instead use part of the funding in targeted projects, capitalising on current awareness, to achieve more effective public education outcomes.

The Board endorsed the principle of breaking up the budget by cost centre and translating that into management responsibility.

The Board requested the following amendments:

- Remove point 4 on Page 4 under 'Other Notes'.
- On Page 5: *Budget for Financial Year* table, show separately Corporate Services/ CEO and Board expenditure.
- There should be a separate category for IT expenditure in future reporting.

**The Board;**  
**approved the 2012-13 budget for submission to the Treasury and the Responsible Minister for the 2012/13 EQC Statement of Intent.**

## 9. Investments

### 9.1 Investment Report to January 2012

The CFO noted two points: that last month's currency movement was a significant driver of investment return with the NZD up 5% and; secondly the transition of two active equity managers is complete and proceeds are now in New Zealand banks. [redacted] and [redacted] 9(2)(j) are next to be sold down. This will occur towards the end of March.

**The Board;**  
noted the Investment Report.

### 9.2 Bank Credit Ratings – Impact on NDF

The CFO explained that the current SIPSP states that, if a bank has a negative outlook, then EQC cannot invest with it. Currently 2 of the 7 banks in New Zealand have a negative outlook. In the future, if fewer than four of the banks are on stable/positive credit watch, there will be a problem in limiting the Fund's cash portfolio to 25% with any one bank.

Removal of the negative outlook criteria will allow EQC to invest with Kiwibank and Rabobank again.

**The Board;**  
noted that Kiwibank and Rabobank have short term ratings of A1+ notwithstanding the negative outlook and in these circumstances the board;

approved the removal of the negative outlook rating constraint for Kiwibank and Rabobank from the Statement of Investment Policies, Standards and Procedures.

## 10. General Business

### 10.1 Business Case for ClaimCenter Disaster Recovery – Capability Upgrade

The Board noted that the wording in the last sentence of Page 2 should be amended to read: "It should be noted that the High Availability options remain, *should we wish to move to a higher availability service in the future, as an extension to the DR capability recommended.*

**The Board;**  
approved the ClaimCenter Disaster Recovery Capability Upgrade at a cost not exceeding \$144,000. The expenditure is capex only and does not result in any increase in Opex for the ClaimCenter System.

### 10.2 Major Upgrade to the Claims Management System

**The Board;**  
noted the upgrade to the CMS is under consideration by management and requested a presentation on the current IT situation and strategy for the next Board meeting.

### 10.3 SSC Peer Review Report

**Released under the Official Information Act 1982**

It was proposed by management, and agreed by the Board, that the KSJ report, the SSC Peer Review, and covering note by EQC, not be posted on the EQC website.

**The Board;**

**noted that the State Services Commission has confirmed that the key conclusions in the report by KSJ Associates Ltd on the 2012 Canterbury field staff selection processes (including those relating to alleged favouritism, bias or nepotism) are sound and that the EQC can have confidence in their findings.**

#### **10.4 Proposal to insource Call Centres**

In this proposal it was recommended to the Board that EQC moves from a predominantly outsourced call centre model to a predominantly in sourced or internal call centre for the remainder of the Canterbury Earthquake.

This change will support EQC's strategy to provide an increasingly customer focussed and proactive response to our Canterbury customers by providing flexibility and control needed to deliver the quality, accuracy and consistent high levels of service, with all call centre interaction.

Going forward, this will help in having a well established model for call centres when EQC does go back to outsourcing.

The Board noted that the quality of the new call centre staff is paramount.

The Board asked the question why the proposal is for call centres to be in Wellington over Canterbury to which the GM Customer Service explained there is simply no available real estate in Canterbury and the proposal means it will bring all the Wellington Customer Service staff into one location.

**The Board;**

**agreed to move from a predominantly outsourced call centre model to a predominantly insourced or internal (EQC employed staff) model for the remainder of the EQC response to the Canterbury earthquake events;**

**approved a rental agreement for the lease of level 1, 8 Willis Street, Wellington at estimated cost of \$168,147 plus GST per annum**

9(2)(i)

#### **10.5 Lease of Lot 3, 55 Princess Street, Addington, Christchurch**

9(2)(a), 9(2)(g)(i)

Statistics New Zealand has had the tenure of a building in Addington since the disestablishment of the census in 2010. The building is two floors and apart from minor damage from the September Earthquake, is structurally sound.

Kirk Roberts Consulting Engineers has completed a detailed analysis of the lateral stability system. Their report proposed strengthening work that included adding a new lateral

**Released under the Official Information Act 1982**

stability system by introducing two eccentrically braced frames at each end of the building, and new steel drag beams which will pull the seismic loads out of the floor diaphragm into the EBF.

On completion of the proposed strengthening works Kirk Roberts professional opinion is that the building will be adequately strengthened above that required currently under the Building Act.

The landlord has confirmed that work is currently in progress to complete the proposed strengthening works and will be completed by 31<sup>st</sup> March 2012, prior to lease commencement.

The ground and first floor property offers a New Building Strength compliant location enabling the consolidation of accommodation for EQC's Field Operations, CRT, Claims Settlement and Management teams.

The Lease Term and Commencement Date is Five Years with the right to renew one additional term of one year.

Rental fee will be \$280 per m2 for the ground floor (covering 1152 m2) and the first floor (covering 1155 m2) plus outgoings for the premises excluding GST.

**The Board;**

**Granted authority for the General Manager of Customer Services to sign a Heads of Agreement "in principle" for the lease of premises located at Lot 3, 55 Princess Street, Addington, Christchurch "subject to and pending the formal execution of a Deed of Lease by the Board".**

There being no further business the meeting concluded at 4.31pm.

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, WELLINGTON  
LEVEL 20, 100 WILLIS STREET, WELLINGTON  
WEDNESDAY, 11 APRIL 2012, at 10.00am**

---

**Present:** M C Wintringham (Chair) (Left the meeting at 12.07pm)  
K B Taylor (Deputy Chair) (Acting Chair from 12.07pm)  
R J Black  
D K Bovaird  
T J Burt  
P Hughes  
G A McLachlan  
G Smith

**In Attendance:** B Dunne (GM Strategy, Policy & Legal)  
P Jacques (GM Corporate Services)  
9(2)(a) [redacted] (Minutes)

**Apologies:** I Simpson (Chief Executive)

**2. Minutes of the Board Meeting 14 March 2012**

The Board noted the minutes of the Board Meeting of 14 March 2012 subject to amendments being made.

**3. Chief Executive's Report**

The GM Corporate Services spoke to the Chief Executive's report noting the Chief Executive's recent involvement in 26 EQC 'Straight Up' sessions with EQC staff. He advised that the sessions have allowed 650 EQC staff to discuss their ideas, concerns and frustrations directly with the Chief Executive and the Executive Team. The main themes emerging were the need for improved inter-team communication and better talent management. These sessions also uncovered some untapped talent within the organisation. The GM Corporate Services advised that the Chief Executive plans to repeat the tours every three months.

**9(2)(j) Review**

A debrief was held with 9(2)(j) following the 9(2)(j) claims review. 9(2)(j) were conducting the review of behalf of 9(2)(j). 9(2)(j) have sought extra information from management.

A draft of the executive summary of the 9(2)(j) review, including recommendations, has been received and EQC management have had initial discussions with 9(2)(j) on the recommendations. Once finalised, the main findings of the 9(2)(j) review will be presented at the May 2012 Audit & Risk Committee meeting.



## Released under the Official Information Act 1982

*People*

The Board requested more detailed staff number forecasts and actuals.

The GM Customer Services joined the meeting at 11.03am.

*Gallagher Basset Services*

The GM Customer Services was asked by the Board for an update on the current contract negotiation with GBS.

The GM Customer Services outlined the arrangements in place with GBS prior to September 2010. [REDACTED]

9(2)(j)

9(2)(g)(i)

[REDACTED] An alternative arrangement had been sought in order to provide greater value for money, in light of the volume of claims and projected settlement timeframes. [REDACTED]

9(2)(j)

The GM Customer Services confirmed that EQC is looking to retain, if possible, GBS's services on a commercially sustainable model. [REDACTED]

9(2)(h)

*Land Settlement*

The GM Customer Services explained that the settlement process for land claims and implementing the strategy will require additional resource. The current settlement priorities are to settle:

- Red Zone claims
- Under \$10,000 Dwelling Claims
- Contents Claims (where proof of loss/Schedule of Contents has been provided)
- Claims where agreement has been reached with Private Insurers on damage and/or repair methodology

Land claims assessment alone is projected to require approximately 50 two-person field teams. The GM Customer Services noted that current employment growth in Canterbury could impact on skills availability and costs.

The GM Strategy, Policy & Legal suggested that there is a risk of litigation or disputes resulting from land settlement, arising partly from a lack of understanding of EQ Cover. He noted that settlement would be preceded by a communications campaign to educate and explain to customers what is covered under the EQC Act and what is not. He also noted that there appears to be an unresolved difference of opinion with some other agencies about the extent to which EQC is obliged to remediate/reinstate damaged land. Management believe EQC's position is correct, that:

- EQC has a discretion to settle claims by reinstatement of land instead of paying the amount of the damage.
- 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. EQC is not bound to reinstate exactly or completely, but only as circumstances permit and in a reasonably sufficient manner.

The Board supported and endorsed the policy work underway by Management on the settlement process for land claims. The Board agreed to defer discussion and consideration of the Land Settlement Communications Update (Item 5 on the Board agenda) until the next Board meeting when it could be considered as part of the broader land settlement operational plan.

**The Board;**

**noted that the GM Customer Services is currently developing the operational plan to give effect to the Board's decisions of 14 February 2012 on forms of land damage and on its preference to cash settle land claims;**

**noted that advice on the resources required to support the operational plan is currently under development;**

**requested that management provide at the next Board meeting:**

- **the Land Settlement policy paper**
- **a communication plan for the policy paper**
- **a stakeholder management plan; and**

**requested three separate reports each month on progress against targets in settling Land and Contents claims and progress with the Canterbury Home Repair Programme**

**4. Canterbury Home Repair Programme - Progress Update**

The GM Customer Services spoke to this paper noting that the private insurers' residential repair and rebuild programmes have yet to fully ramp up. Information from the major insurers suggests that only 13 rebuilds have been completed in total in the last 3 months compared with the around 12,000 repairs completed by EQC to date.

The GM Customer Services noted that, as the private insurer rebuild programme gains momentum, EQC expects to see the emergence of a shortage of key trades and the migration of contractors from the EQC PMO to other sources of work.

There are 1,022 contracting companies accredited to the EQC PMO and some 12,385 individuals who have passed through the induction process. Actual FTE resource data is hard to collect, but preliminary estimates suggest over 3,800 FTEs working in the programme at present, growing to over 4,600 over the next three months.

The GM Customer Services confirmed that Fletchers' performance to date is good with approximately 93 homes per week being completed, but there are still contractual and commercial elements to be negotiated or agreed.

9(2)(g)(i)

**The Board**

**noted that EQC is working with Fletchers to develop a structured approach to Health and Safety and requested monthly reporting on this to be included in the CHRP update to the Board.**

*Accommodation for Workers and Displaced Homeowners*

The ability to achieve EQC's target of 80% repairs completed by the end of 2014 remains contingent upon availability of sufficient accommodation to support the needs of the incoming workforce and displaced residents.



### Released under the Official Information Act 1982

All private insurer PMOs are working with developers to scope out possible temporary accommodation options, however nothing has been committed yet. The GM Customer Services understood that CERA had prepared and presented a policy paper to the Minister for Canterbury Earthquake Recovery on options and approaches. He suggested that CERA is forecasting a shortage of around 10,000 homes for workers and displaced homeowners assuming all PMOs' target programmes were achieved. The GM Customer Services noted that EQC is currently working with Fletchers to model impacts of this housing shortfall on the EQC programme.

#### *Achieving \$50k Repairs by June 2013*

The GM Customer Services observed that EQC's ability to meet the publicised target of completing the greater than \$50,000 home repairs by the end of June 2013 is dependent upon two key determinants:

- Agreement with insurers on settlement and allocation of work between EQC's or the Insurer's PMO, allowing EQC to get a better forecast of how many properties fall into this category, and
- Clarity of approved foundation repair approaches and consent requirements in TC3 from DBH and CCC.

Should this target be at risk, alternative strategies to ensure delivery are being considered and if there is a need to reset that target, a paper will be provided to the Board no later than June (2012) for endorsement.

#### *Quality and Complaints*

The GM Customer Services advised that complaints management and resolution is being reset, including the development and implementation of a disputes resolution process. The Fletchers complaints handling process will be built into this model and the objective is to have all complaints flow through a single filter.

#### **The Board;**

**noted the progress being made around the complaints handling process and asked for the inclusion of trend analysis in the future reporting.**

#### *Christchurch move from Deans Avenue Update*

The GM Customer Services informed the Board that due to the delay of the structural support beams, the move has been pushed out by one week and will now commence on the 26<sup>th</sup> of April.

The GM Customer Services left the meeting at 12.36pm.

#### **5. Land Settlement Communications Update**

As noted above (refer item 3) the Board agreed to defer discussion and consideration of the Land Settlement Communications Update until the next Board meeting when it could be considered as part of the broader land settlement operational plan.

#### **6. Technology Update - Presentation**

Linda Smith, Chief Information Officer (CIO) joined the meeting at 1.15pm.

The CIO provided an overview of current IT priorities and projects, noting that enhancement and developing of the current systems is being looked at and work on address matching within the Claim System is in progress. She advised that the

**Released under the Official Information Act 1982**

redevelopment of Minerva, a programme model used to address losses, is still to be addressed.

*Claim Centre*

Claim Centre has had a hardware upgrade to improve performance and has been load tested with 2,000 users.

*Disaster Recovery (DR)*

The CIO noted the upgrade of the ClaimCenter hardware upgrade did not alter the Disaster Recovery (DR) architecture, which has always allowed EQC to cut over to the back-up system in Petone (from the primary in Auckland), but while we can switch over to the Petone DR system, there is no simple way of "getting back" from DR. A project recently signed off by the board is underway implementing a more robust switchover mechanism so that production can regularly be switched between one site and the other. The upgrade project did however implement extra testing environments which have improved management of released changes.

*Guidewire Report*

Changes to activity roles and permissions within Guidewire are currently under way.

*Ipad Issues*

Claims assessments are still being done using iPads. An audit has been completed on user logons and, together with a code review, has provided assurance on data security.

*New Website*

A tender has been done for the new website; a supplier selected and it is currently in the contractual stage.

*IBM contract renegotiation*

The CIO noted that hardware and infrastructure for EQC's Claim Centre system is covered by a ten year contract which has 5 years remaining but no cover for software development and application support. As a result, an interim 6 month agreement has been put in place to ensure application support and service level hours.

**The Board requested that an IT road map be provided at the next Board Meeting that includes:**

- **defined projects, milestones, risk mitigation and funding (agreed or proposed) and how these project support a current or future business need**
- **a longer term view of funding required to support the ongoing IT strategy**
- **an update on the current IBM contract re negotiation**

The Chief Information Officer left the meeting at 1.39pm

## **7. Finance**

### **7.1 Financial Statements – February 2012**

*Actuarial liability*

The GM Corporate Services confirmed the MJW actuarial numbers within the report were from the most current valuation.

*Statement of Comprehensive Income*

The Board requested two changes:

- the line item “Operating Costs: Chief Executive” should be changed to “Operating Costs: Chief Executive Office” to reflect the actual nature of these costs; and
- the line item “Corporate Services” be split to identify IT costs separately from corporate services.

*Financial Report to 29 February 2012*

*Geonet item*

The report stated that GeoNet have incurred costs earlier than anticipated by the budget. GeoNet have advised they will be cutting back on expenditure in the last quarter and will be in line with budget by June 2012. The Board suggested having an annual spending track for GeoNet that can be reported against. An agreement should be made on a monthly spending basis.

**The Board;**

**noted the Financial Statements to February 2012 subject to amendments being made**

**7.2 Financial Report on Canterbury Event Loss Expenditure**

*Cash flows and Funding*

The GM Corporate Services corrected the following two tables under Cash flows and Funding:

- third box down to read “Ultimate cost per December 31 actuarial update (all undiscounted)” and
- last box under Reinsurance to read “Total expected reinsurance recoveries (per December actuarial forecast – undiscounted.”

*Claims Handling Expense*

The Board requested more detail on “Other” expense type in future reporting.

**The Board**

**noted the Financial Report on Canterbury Event Loss Expenditure subject to above comments**

**8. Investments**

**8.1 Investment Report to February 2012**

The GM Corporate Services explained that Capital International and PanAgora have been sold down, effectively making all active managers cashed up.

It was confirmed that the Investment statement is reconciled with the balance sheet each month.

**The Board;**

**noted the Investment Report**

## 8.2 Update on EQC Investment Issues

The GM Corporate Services spoke to the paper, noting that

- EQC was bringing the agreement with Russell Investment to an early conclusion.
- EQC has notified the RI Unit of the NZ Superannuation Fund that EQC's global equities program will come to an end in the first half of 2012 and has provided the required three months formal notice to end the Agreement. EQC will continue to pay the fee until financial year end 30 June 2012.
- EQC has not renewed its contract with MSCI on its renewal date of 1 January 2012, and that MSCI has allowed EQC access to the online research platform while it still has global equities, up to a limit of 30 June 2012.
- EQC will no longer take part in the CEM Investment Benchmarking Survey
- EQC, using transition manager Russell Investment Services in Sydney, completed the repatriation of funds formerly held with active managers Tweedy Browne and T Rowe Price on 10 February 2012. The final two active managers (Capital and PanAgora) have been transitioned with the Passive manager to follow in April/May.

**The Board;**

**noted the paper "Update on EQC Investment issues following the December 2012 Board meetings"**

## 8.3. SIPSP - Interim

The GM Corporate Services spoke to the paper noting that the revised SIPSP was intended to apply during the period from the 30 June 2012 (when it is anticipated that all global equities have been sold) until such time as it is decided what form the NDF will take in the future.

**The Board;**

**approved the changes to the SSIPSP reflecting the sale of global equities, and also the changes reflecting the selling down of the Fund and the required widening of the fixed interest allocation ranges.**

## 9. General Business

### 9.1 Statement of Intent Measures Update

The GM Strategy, Policy & Legal outlined progress in developing the 2012-15 Statement of Intent noting the key proposed changes:

- Adopting new measures relating specifically to the CHRP
- Removing Policy as a separate Output category
- Delineating Output measures by quantity, quality and cost
- Identifying targets across each relevant financial years.

**Released under the Official Information Act 1982**

The GM Strategy, Policy & Legal explained the intent was to include measures that specifically address the response to the Canterbury events, in addition to EQC's general performance across the remaining outputs.

The Board will be provided with a near final draft for comment, incorporating the measures and changes outlined in the paper, for the 16 May 2012 Board Meeting.

**The Board;**

**noted the paper and approved the four proposed key changes within the paper**

## **9.2 EQC Performance Measures and Claims Analysis**

### *Performance Measures*

The GM Corporate Services updated the Board on progress between the EQC Business Information Unit, EQC Management and LSI in developing a suite of Performance Reporting Templates and Performance Measures for EQC.

The GM Customer Services informed the Board that EQC has done everything possible to encourage customers to submit all relevant paperwork for their contents claims and that management will need to consider when it is appropriate to close contents claims that do not have supporting "proof of loss".

**The Board**

**noted the performance reporting templates and asked for forecast to be included where appropriate.**

**noted the EQC Claims Report and requested that comparative data against previous month be included in the "status of exposures" table**

## **9.3 MJW Update**

A draft Actuarial Liability Valuation as at 31 December 2011 (dated 9 March 2012) had been tabled by Melville Jessup Weaver (MJW) at the Board meeting on 14 March 2012.

The Chair advised that, further to that report, MJW and EQC Management – with input from Aon Benfield and Tonkin & Taylor – have reviewed the report in anticipation of its release to reinsurers. This had resulted in a downward revision to the liability, driven by new geotechnical information and better approach to the modelling of the uncertainties related to categories 8 and 9 land damage. The aggregate net outstanding claims liability had reduced by **9(2.1)** million at the 75<sup>th</sup> percentile and **9(2.1)** million at the central estimate (both figures discounted, including CHE).

Management is confident that the reviewed and updated MJW report dated 28 March 2012 is based on the most up-to-date information and provides a more robust estimate of EQC's liability arising from the Canterbury earthquake sequence, than earlier draft reports presented to the Board. Given the proximity to the reinsurance renewal round to the finalisation of Budget forecasts, EQC Management had recommended that the revised estimate be communicated to Ministers (Finance and Canterbury Earthquake Recovery) and reinsurers as soon as possible.

**The Board;**

**noted that a further draft Actuarial Liability Valuation as at 31 December 2011 (draft dated 28 March 2012) had been received; and**

**Released under the Official Information Act 1982**  
 ratified the decision of the Chairman to provide the revised estimated liability to the Treasury and Reinsurers

#### **9.4 Deed of Lease – Manpower House (Level 2, 3 & 5)**

At its March 2012 meeting, the Board approved the establishment of a call centre on Level 1, 8 Willis Street, Wellington. The approval included rental of that floor.

EQC also rents Floors 2, 3 and 5 of that building. They were acquired at different times under three separate agreements, but they all expire throughout April 2012. All three floors are needed for the next few years, and negotiations for the new leases have culminated in the signing of a letter of intent prepared by EQC's legal advisors, subject to legal sign-off and EQC Board approval.

The building owner, Argosy Property Limited, wishes to roll the three floors into one agreement/deed and to ensure the lease dates and all other terms and conditions are the same as for Level 1. The major elements of agreement are:

- Areas: Level 2 – 688.14sq m, Level 3 – 644.07sq m, Level 5 – 596.9sq m.
- Rate - \$275 per sq m = \$530,384.25 per annum. There is no change in rate from the existing agreements.

- 

**The Board;**

**approved the paper subject to confirming rights of renewal which will clarify the ability to renew separate floors over the lease period.**

#### **9.5 Letter to Minister – Relationship with Aon Benfield**

**The Board;**

**Noted the letter to Minister on EQC's relationship with Aon Benfield**

#### **9.6 Letter to Minister – Research Grants Programme**

**The Board;**

**Noted the letter to Minister on EQC's Research Grants Programme**

#### **10. Other Business**

*Directors and Officers liability insurance*

**The Board;**

**approved the purchase of** 

**9(2)(i)** 

There being no further business the meeting concluded at 2.24pm.

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  
on Wednesday, 16 May 2012, at 10.00am**

---

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

**In Attendance:** I Simpson (Chief Executive)  
 (Minutes)

**Apologies:** Deputy Chair was in attendance from 10.00am-10.40am

**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 14 March 2012**

The Board noted the Minutes of the Board Meeting 14 March 2012 as true and correct.

**3. Minutes of the Board Meeting 11 April 2012**

The Board noted the Minutes of the Board Meeting 11 April as true and correct.


**4. Chief Executive's Report**

The Deputy Chair left the meeting at 10.40am

Phillip Jacques (GM corporate services), Bruce Emson (GM Customer Services) and Bryan Dunne (GM Strategy, Policy & Legal) joined the meeting at 10.44am.

The Chief Executive informed the Board that the Fletcher PMO is making very good progress with 15,000 repairs completed and a current average of over 500 repairs a week being finished. These numbers in comparison to the New Zealand Insurance Industries' total completion rate of 316 repairs since 2010 shows the remarkable progress from the Fletcher PMO.

The Board was told there was a meeting taking place the following day with Fletchers' Executives to discuss the current relationship between EQC and themselves. 

 9(2)(g)(i)

Other topics to be discussed at the meeting aside from costs would be around who owns the Customer and data sharing.



### *Current Issues*

The revised actuarial valuation has increased the overall liability, the value of reinsurance recoveries and the estimated call on the Crown guarantee. The Crown guarantee is now estimated to be \$1.5 billion.

B(2)(g)(i)

Claims handling costs are currently 10.6% for the financial year to date (or 13.1% for all Canterbury events to date) which is higher than the 10% ceiling EQC has set. Key costs – claims administration, Fletcher PMO and contracted assessors – together make up some 60% of claims handling expenses (CHE) and reflect the impact of multiple events on what is a labour intensive assessment process, as well as the Government's preference for a managed repair process. Forecast CHE is tracking above the December 2011 actuarial forecast (although still below the 10% ceiling) and will require an on-going focus on process improvement, cost containment and value for money.

Temporary accommodation for labour in Canterbury is still predicted to be an issue and currently management is not aware of a whole of Government response.

#### *Output 1 – Claims Handling*

It was requested that more detailed information around numbers be presented – particularly change in open claims over time - and integrated into broader reporting.

#### *Output – People*

During April EQC recruited 53 people on fixed term agreements, mostly for Call Centre roles.

During April's Straight Up sessions EQC management received a great deal of feedback from

9(2) a)

EQC has reviewed the workforce requirements and are now planning to offer fixed term contracts (through to June 2013) to these staff. The benefits of this approach are moderate financial savings, a clearer and more manageable employment relationship, a sense of certainty around tenure and the development of a "one-team" culture within EQC. It was noted that the GM Customer Services and the GM Corporate Services are currently working on the change of contract for these workers.

#### *EQC Claims Analysis*

The two issues identified last month are still under action. Updates on progress are as follows:

**1. The implementation of an enhanced property identifier to improve address matching:**

The algorithm used to match properties has been improved, resulting in a lower level of properties in the 'Other' category in Table 4 of the report and overall. The software changes to improve the enhanced property identifier are scheduled to be implemented in May.

**2. Data capture of damage information from PDF images and assessments:**

There has not been much progress on this issue in the last month.

The objective continues to be to develop a fully reconciled report of the status of claims including the Canterbury Home Repair Programme.

#### *Canterbury Contents Exposures*

The GM Customer Services advised that a settlement process is currently being developed to close all outstanding contents exposures. He noted that and the process is expected to be finalised in a couple of months.

There are currently around 45,000 contents claims pending, (where the claimant has not provided the required contents schedule).

The organisation's overall focus is to have everything that is not a physical repair to be cash settled and closed as soon as possible/practicable.

The under \$10,000 building claims are largely complete with only 133 currently open.

The Chief Executive informed the board that the GM Research & Education is currently working with legal and others on a note to be sent to EQC's Reinsurers by the end of the week on a proposal for a modelled approach to apportionment for all under \$100,000 claims and asking for their feedback. This has already been verbally discussed with all the Reinsurers on the latest Reinsurance trip.

Currently there have been very few land settlement payments but it is EQC's intention for land claims to be cash settled. There is currently still work to be done on Categories 1-7 with a recent sample of 50 field costed repairs showing a large variance from desktop costings. Categories 8 and 9 still require decisions from the Board and Management will be presenting a paper at the June Meeting.

The Board asked for better headings on Table 4 of the claims analysis report.

#### *Monthly Board Report Slides*

The Chief Executive explained that the Reinsurers want to know when EQC is going to start calling on their funds. EQC has been very open with them at the latest Reinsurance Renewal trip and there are currently 3 or 4 decisions that, if agreed, will open the flow of settlements. The forecasts in the Board Pack have been given to the Reinsurers.

The GM Strategy, Policy & Legal explained that EQC has quantified their liability across the vast majority of Red Zone Claims with the exception of where there might be a dispute with Insurers about the quantum.

A discussion was had around EQC's salvage rights in determining its appropriate liability.

**Action:** The Board requested a brief position paper from management that outlined: EQC's legal position in terms of salvage rights, what government policy is; and management's recommendations.

#### *Financial Statements – March 2012*

The key impact on this year's financial performance is the 31 December actuarial update containing the adjustments of the 29<sup>th</sup> March Melville Jessup Weaver actuarial report.

The revised actuarial valuation has increased the value of outstanding claims (including the earthquake on 23 December 2011) and the value of reinsurance recoveries. Government Stock and global equities continue to be liquidated to fund claims settlements.

As indicated above the cash out flow in claims settlement and handling costs is funded by the sale of Investments.

The GM Corporate Services explained that the YTD Actual (\$m), Claims expense figure in the

Financial Report is the full accrued claims figure including the actuarial adjustment and recognizing any claims that have occurred in this current financial year.

**The Board;**  
noted the results contained within the financial statements and the associated variance commentary

***Commentary on Canterbury Earthquake Expenditure***

**The Board;**  
noted the contents of the Financial Report on Canterbury Event Loss Expenses as at 31 March 2012.

## **5. Customer Services Board Report**

A meeting has been held with the EQR management team to develop a Business Plan for the managed repair programme (CHRP) by 24 May 2012. In addition an EQC + EQR IT round table meeting held on 3 May 2012 attended by both CIO's – the beginning of regular working/planning sessions.

The GM Customer Services informed the Board that the centralization of staff from multiple Christchurch sites to Princess Street is now complete.

***Dwelling claims (Excl CHRP)***

Work continues with ICNZ on the development of a proxy apportionment tool for over cap claims and business requirements for a proxy apportionment tool for low value claims are also progressing. Productivity improvements through the implementation of a geographical approach to apportionment are being realized with 265 properties apportioned over the period 1 to 3 May.

The programme for cash settling <\$10k cumulative damage claims has begun.

BIU is providing analysis of data in regard to claims between \$10 and \$15k, without structural damage, and not already repaired/started by Fletcher, to allow EQC to plan for payment of this group of claims if authorized.

Monthly repair spend is expected to move from \$62million to \$70-\$75m as Hubs continue to ramp up to optimal operational state. Work continues on the Value for Money framework in consultation with MED.

***Health & Safety***

The Department of Labour is reviewing safety procedures and EQC continues to monitor the implementation of operational protocols within EQR.

### *Investigations*

The Claim Review Team is responsible for reviewing claims where there is a concern about the legitimacy of the claim. Since October 2011 the CRT has recovered or revised payments to customers to a total of \$1,635,204.00. Seven files have been referred to the police and are currently being investigated with a view to laying charges. There are two EQC claims that are currently before the court and are awaiting a Pre-trial Conference Hearing.

A comprehensive review of complaints handling and dispute resolution has been initiated that will result in all complaints being channeled through one single vehicle to allow capture, allocation and monitoring of closure/resolution.

### *Spencerville*

The Spencerville Pilot Land Repair programme is funded directly by Government, outside of the NDF. When approved in December 2010, the original programme was budgeted at a construction cost of \$1.1million. Since that original approval there had been more earthquakes, a significant delay while the land was zoned "Orange" and changes to the overall design and engineering seismic loadings.

As part of the original commitment made to land owners when this programme was initiated in December 2010, EQC undertook to return the property back to its original level. However with the benefit of subsequent detailed work on EQC's land exposure and consideration of the best way to respond, it is now considered preferable to cash settle this land repair.

### *Gallagher Bassett Services Update*

The GM Customer Services informed the Board that as of that morning he has an agreement in principle with Gallagher Bassett that they will be amicably parting company for services provided for the Canterbury repair and GBS will continue to provide services for Business as Usual claims up until 30 June 2013.

**The Board;**  
**noted the Customer services Board Report as read**

## **6. Land Settlement Paper**

The Board was advised that EQC is entering uncharted territory regarding the settlement of land claims arising from the Canterbury earthquakes. The complexities resulting from the multiple events, the extent and type of land damage as well as the sheer volume of claims has never been faced by a single insurer anywhere in the world, let alone an insurer with the additional societal responsibilities arising from being a compulsory, state sector insurer such as EQC.

In February 2012 an approach to settling EQC's land claims was approved by the EQC Board.

Released under the Official Information Act 1982

Following this the EQC Executive Leadership team (ELT) developed a list of activities/initiatives required to operationalise the approach and assigned GM ownership to each.

**Governance**

A strong governance framework for managing the land claims process and attendant risks has been established to ensure the Board approved guidelines, legal opinions and geotechnical advice are appropriately reflected in operational procedure.

The Land Settlement Project will report to the Apportionment and Settlement Steering committee. The steering committee meets weekly and comprises the ELT.

The need for a full time senior executive to perform the role of business owner has been agreed and the search for an appropriately skilled person is underway.

A Senior Project Manager has been engaged and has commenced with EQC.

There was a discussion around the drilling programme and the need for data to progress with claim settlement in TC3. The GM Customer Services believes there are a small number of exposures in TC3 that fall within EQC's PMO but the private insurers will be accountable for a much greater number of TC3 claims.

Approximately 10% of the 30,500 properties in TC3 fall with EQC. These are properties that fall within the \$100,000 cap and require a drilling programme to determine the foundation damage of these properties so that EQC can proceed with determining a settlement option for these claims.

Properties in TC3 that require complete foundation repair will be over the \$100,000 cap and therefore with private insurers.

GM Customer Services and the GM Strategy, Policy & Legal left the meeting at 2.05pm.

**Reinsurance Renewal**

7.

9(2)(a) (Aon Benfield) and 9(2)(a) (Aon Benfield) joined the meeting at 2.07pm.

The board noted the electronically circulated paper titled *Reinsurance Placement – Update* from the Chief Executive as received.

The initial approach to reinsurers this year has been to discuss the renewal of the existing reinsurance programme being a limit of NZD [redacted] vs NZD [redacted] at a targeted annualised premium of NZD 9(2)(j) (or better). Thereafter options to maximise additional cover were to be explored with a maximum additional premium cost of NZD 9(2)(j) giving a total annualised premium cost of NZD 9(2)(j). Views on pricing were sought from a range of leading reinsurers which, this year, included the "lead panel" plus additional reinsurers who requested that they also be permitted to put forward their views. The range of quotes was shown in *Paper 7 of the Board Pack*.

9(2)(j)





9(2)(j)

**Top-Layer Options**

Further discussion with reinsurers had explored the option to extend the top layer and reduce pricing

9(2)(j)

In parallel with discussions with the quoting panel and other leading reinsurers on the programme, Aon Benfield also approached 9(2)(j) to gauge their appetite and view of pricing.

9(2)(j)



9(2)(i)



**8. Research and Education**

***GeoNet Work Plan – 2012/2013***

The 2012/2013 GeoNet work plan for Stage 12 has been received from GNS Science and in accordance with the GeoNet agreement EQC has 25 working day to respond before the work plan is approved by the Board and signed off by both parties.

The board;

approved the specification for Stage 12 of GeoNet for the 2012/2013 financial year.

**9. Investment Report to March 2012**

The Board;

Noted the Investment report as received.

**10. Information Technology**

***Technology Roadmap – May 2012***

The Board;

requested the roadmap be sent to the next Audit and Risk Committee Meeting for review

***IBM Contract Renegotiations Update***

The board;

noted the IBM contract renegotiation update.

**11. General Business**

***Statement of Intent Draft – 2012-2015***

9(2)(a) (EQC) Strategy, Policy & Legal Analyst and the GM Strategy, Policy & Legal joined the meeting at 3.29pm.

The Chief Executive expressed his confidence in the measures within the proposed Statement of Intent and the Chairman noted the good work done on the document.

It was noted that any comments from the Board would be forwarded to the Author.

The board;

agreed to delegate authority to the Chairman to review and approve the final version of the Statement of Intent before it goes to the Minister.

**Deed of Lease – Rent Variation Level 20 Majestic Centre**

The board;

delegated the Chair and Deputy Chair to sign the Variation to Deed of Lease for Level 20 and car parks, and for the Assurity Deed of Sub-lease.

9(2)(a) (EQC) Strategy, Policy & Legal Analyst and the GM Strategy, Policy & Legal left the meeting at 3.52pm.

**Board Annual Calendar – Draft**

It was asked that the Audit and Risk Committee meetings be put into the Annual Board Calendar.

**12. Any other Business**

**Complaints:**

The Board;

agreed that copies of 9(2)(a) report on the complaint, and the Chairman's letter to 9(2)(a) would be made available electronically for the Board's information

noted that 9(2)(a) would be sent a copy of 9(2)(a) report.

There being no further business the meeting concluded at 4.00pm.

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  
on Wednesday, 13 June 2012, at 10am**

---

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

**In Attendance:** I Simpson (Chief Executive)  
J Ford (Principal Legal Advisor)  
9(2)(a) [REDACTED] (Minutes)

**Apologies:** T J Burt  
P S Hughes

1. The Board met in committee at 10am and were joined by the Chief Executive, Principal Legal Advisor and Minute Taker at 10.35am.

**2. Disclosures of interest**

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

**3. Minutes of Board Meeting of 16 May 2012**

In considering the minutes of the meeting of 16 May, [REDACTED]

9(2)(g)(i) [REDACTED]

Three typographical errors on page 7 were noted and will be amended.

Subject to the above changes, the minutes of the Board meeting of 16 May 2012 were confirmed.

**4. Matters Arising from the Minutes of the Board Meeting of 16 May 2012**  
***Salvage Rights***

It was noted that a paper outlining EQC's legal position in terms of salvage rights, etc, will be submitted to the next Board meeting.

***IT Road Map***

This was not included in the Audit & Risk Committee papers on 30 May but will be submitted to the next A & R Committee meeting.

## 5. Chief Executive's Report

The Board commended the comprehensive level of reporting on operational matters, but were of the view that the individual reports should be incorporated into the CE's report where practicable to avoid duplication.

The GM Corporate Services and GM Customer Services joined the meeting at 10.45am, and the Chief Executive's report was considered.

### *Reinsurance*

9(2)(j)



It was confirmed that reinsurance cover is currently in place.

### *Settlement programme*

The Chief Executive apologised that a paper formally recommending cash settling non-structural claims under \$15,000 had not been included in the Board papers as planned. It was agreed that this would be emailed to Board members for their consideration and approval.

### *Land*

Finalising the method for settling land claims is a priority and the subject of a separate agenda item. Litigation has already commenced, and final decisions will need to be made as soon as possible. Reinsurers will need to be informed of the method adopted, and their agreement sought.

9(2)(g)(i)



One possible complication was a potential further damage category - two "voids" had been identified. These are space, likely caused by liquefaction, under driveways. It is not known yet whether this is a widespread condition. In addition, there is still further work to be done to determine a possible additional land damage category in the Port Hills. The Board requested that Management provide further information about the potential additional land damage categories and if appropriate recommendations about how these should be dealt with.

### *Minerva*

It was noted that a Minerva workshop had been held recently to progress the development of a new liquefaction "module" using knowledge gained from the Canterbury earthquakes. The GM Research & Education is bringing this to the attention of local and regional authorities, and geotechnical engineers are also interested. It was suggested that information from Minerva should be shared with the general public as part of Public Education strategy.

9(2)(g)(i)



## 6. EQC Claims Analysis

**Released under the Official Information Act 1982**

Board members expressed their appreciation of the claims analysis report. It was noted that some figures in the various reports differ (due to classification or timing differences), and the more consolidation of reporting (as proposed under Item 5) the more likely the avoidance of these potentially confusing differences.

It was noted that 500 claims had been received following the 4.2 earthquake in Christchurch on 11 June.

In considering the Business Information Unit's monthly report, it was noted that the Health and Safety reporting levels continue to improve, and that DOL was generally satisfied following their OSH audit last month. Contractors have been warned that non-compliance with significant OSH requirements (eg, scaffolding) means termination. It was confirmed that while the contractor is undertaking repair work in a private home for EQR, the home in effect becomes a work site and EQC is responsible for health and safety issues (not the homeowner).

It was suggested that "Target" be changed to "Maximum Tolerance" in the Injury Frequency graph.

A process showing consolidated EQC and EQR complaints and complaints resolution is being developed.

## **7. Customer Services Report**

The GM Customer Services reported progress on the development of the Fletcher business plan. This is central to more structured and tighter governance of the Fletcher contract. It is envisaged the plan will be presented to the Project Control Group next month. Board members supported the process of tightening up targets, performance measurements and budgets to enable effective management of the contract and give assurance to stakeholders of its cost effectiveness.

Satisfactory progress is being made for GBS to transition out of the Christchurch Recovery activity by 31 December. A new claims administration call centre in Manpower House is operating well. It was noted that delegations to GBS will need to be relinquished.

Mr Emson advised that the Christchurch office relocation was now complete and has reinforced a good change in culture. He advised that more space will be needed as the size and scale of the organisation again grows with land settlement.

### ***Over \$15K Cash settlement***

Currently EQC cash settles claims up to \$10,000. Management now recommends that a move be made to cash settle claims up to \$15,000 if the repair is non-structural (ie, cosmetic). This will not be compulsory and at-risk and vulnerable customers can still opt-in or receive some level of support.

A paper seeking Board approval will be emailed to Board members.

### **The Board:**

**approved in principle cash settlement of claims up to \$15,000 if the damage is non-structural (ie, cosmetic) subject to a formal ratification by email.**

### ***Insurance Resolution Team***

EQC staff members are working with individual insurance companies to resolve outstanding disputed claims. [REDACTED]

9(2)(g)(i)

The meeting adjourned for lunch at 12.50pm.

The meeting was resumed at 1.30pm and joined by [redacted] (EQC Legal Counsel), [redacted] (Tonkin and Taylor), [redacted] and [redacted] (Chapman Tripp).

## 8. Land Settlement

### *Land Claims*

Following months of technical and legal advice culminating in a report from Tonkin & Taylor on methodology for categorising liquefaction vulnerability and advice from Chapman Tripp on diminution of value, decisions were made by the Board on the settlement of land damage claims at its 14 February meeting. The meeting now considered a paper recapping decisions made, outlining work undertaken to date and next steps, as well as correspondence with ICNZ.

[redacted] It questioned the time spent on refining the liquefaction model. While the Board understands its importance to local authorities and for building codes, EQC's first priority is to settle claims as quickly as possible to enable customers to "get on with their lives". Board members asked if a more formulaic solution could be applied.

The legal and technical experts considered that a desk-top solution would result in disproportionately high costings to EQC, and some unrealistic and unfair settlements to customers in Categories 8 and 9.

Of the 60,000 land claims, there are two distinct categories:

- 1 to 7, of which there are around 45,000 and involve relatively minor works,
- 8 and 9, of which there are around 15,000 and are significantly more complicated.

Categories 1-7 could be settled first at an estimated individual cost within a range of a few hundred dollars to \$20-30,000 dependent on damage, but this would be counter to the current goal of assisting the worst affected first.

After a wide ranging discussion, the meeting agreed that certainty on EQC's land liabilities was a priority and that EQC should begin preparing for the likelihood that a declaratory judgement would be needed to achieve this certainty. (This may be in conjunction with ICNZ).

### *Peer reviews*

#### **The Board:**

- a) noted that EQC has instructed a group of international experts to undertake a technical peer review of the Tonkin & Taylor methodology for categorising liquefaction vulnerability;
- b) noted that the technical peer review is substantially complete, and that a final report is expected to be delivered to EQC by 3 July 2012;
- c) [redacted]
- d) required the EQC Chief Executive, in consultation with the Chairman, to accept as appropriate amendments to the thresholds for recognising damage in Category 8 in accordance with the principles approved by the Board and the recommendations of the technical peer review;
- e) required the EQC Chief Executive to develop and implement processes for settling claims for damage to residential land on a DOV basis [redacted]



(2)(h)

**Refinements**

**The Board:**

- a) noted that -
  - i) Management has undertaken consultation with reinsurers in relation to the proposed land settlement process, particularly as it relates to Categories 8 and 9 damage;
  - ii) Management has engaged with the Christchurch City Council (CCC) in relation to updated flood modelling;
  - iii) Management has appointed a panel of valuation experts (the *Land Valuation Panel*) to assist EQC with the development of a land valuation methodology for use in the land settlement process; 3
  - iv) the refinement and implementation of a process to settle claims for residential land damage in Categories 8 and 9 is ongoing;
- b) required Management to revert to the Board with a programme of work, recognising the importance of settlement in terms of facilitating the rebuild in Christchurch;
- c) agreed that the following refinements should be made to the principles applied to settle claims for residential land damage -
  - i) claims for land damage within Categories 8 and 9 should be assessed and settled on the basis of an incremental approach, that is, an approach that considers in relation to each earthquake event:
    - (1) whether that event has caused land damage (i.e. the materiality thresholds for recognising a physical change to the land as damage should be applied to the physical change caused by each earthquake event);
    - (2) the value of the loss caused by that event (i.e. the loss caused by the physical change to land should be considered on an event-by-event basis);
  - ii) claims for residential land damage in Category 9 should be assessed and settled on the basis that damage will only be recognised if the physical change to the insured land is the ultimate cause of the increased vulnerability to future flooding damage, without reference to external environmental effects caused by an earthquake which may have raised the floodplain (such as the raising of the Heathcote river mouth);
- d) noted that Management is developing and implementing a strategy to incorporate as far as possible the LSN classification into a unified approach for identifying vulnerability of land to future liquefaction risk for use by EQC and local and central government (which would also incorporate and/or subsume the current TC1, TC2 and TC3 classifications), including use by EQC to recognise residential land damage in Category 8;
- e) noted that the EQC Chief Executive is developing the processes for settling claims for damage in Categories 8 and 9 in accordance with the principles agreed in February and above, and will bring back to the Board a final proposal.

**Port Hills**

**The Board:**

- a) noted that GNS has raised the possibility that there is land damage affecting property

Released under the Official Information Act 1982  
 in the Port Hills that has not been recognised by EQC to date;

- b) noted that further advice on this issue will be provided by Tonkin & Taylor and Chapman Tripp following joint work between Tonkin & Taylor and GNS on engineering and geological interpretation of the identified areas of concern;
- c) noted that the potential for imminent risk claims in the Port Hills arising out of the earthquakes occurring on or before June 2011 has largely passed (as 12 months has nearly elapsed).

#### *Achieving Certainty*

The Board:

- a) noted the steps taken by Management for mitigating land settlement risks; and
- b) noted that a Court application by EQC for declarations confirming the lawfulness of EQC's approach remains in prospect and will be part of the work programme referred to in *Refinements (b)*.

#### *Communications*

The Board:

- a) noted the communications issues set out in Appendix 3;
- b) agreed that Management should report to the Government on EQC's approach for settlement of land claims;
- c) noted the intention to communicate with EQC's customers on land settlement matters before the end of June.

### **9. Liability for "so-called" Boarding Houses**

EQC's consistent historical position is that the EQC Act does not provide insurance for boarding houses as 'residential buildings'. However, the Canterbury events have given rise to a number of 'boarding house'-style claims, which fall into a 'grey' area. One claimant has issued proceedings against EQC, [REDACTED]

9(2)(h)

In discussion, it was agreed that it would be preferable for EQC's position to be tested in the context of a range of these claims, from the "self-evident" to the marginal, rather than on an individual case. (The Board also suggested that a further test of EQC's liability should be whether an EQC premium had been paid.)

The Board:

- a) agreed with the consistent approach taken by EQC to boarding houses in the past;
- b) agreed that declaratory judgement proceedings should be initiated, preferably in co-operation with the claimant who has already started proceedings.

### **10. Investments**

The Investment Report to 30 April 2012 was noted and accepted by Board. It was agreed that new interim ranges for EQC's investments should be included in the report.

The General Manager Corporate Services noted that all global equities have now been cashed up.

### **11. Accommodation for Out of Canterbury Workers**

The Board considered a paper summarising the implications of the shortage of worker accommodation on the EQC programme and forecasting the cost and benefits of EQC itself

facilitating accommodation.

On the one hand there is a concern that EQC has neither the responsibility, nor the financial capacity to secure accommodation. On the other hand, management is concerned that a shortage of accommodation will mean a shortage of workers which presents a high risk to EQC of not meeting its targets for the Canterbury residential rebuild.

Board members agreed that this was a whole-of-Government issue, and primarily the responsibility of CERA under the current responsibilities for the rebuild. However, they understood Management's concern about meeting EQC's obligations and timelines.

Subject to confirmation that EQC has the necessary statutory authority and that no decisions will be made without reverting back to the Government, the Board:

- a) **Agreed that further investigation be made into accommodation solutions for "Out of Canterbury" workers and temporarily displaced homeowners;**
- b) **Agreed that EQC prepare a detailed business case for the provision of accommodation for consideration by EQC subject to the provisos that the accommodation solutions require lease underwrites with minimal capital injection by EQC.**

## **12. Electronic Data Capture for Land Settlement**

The Board considered a paper seeking budget approval for electronic data capture to support Flat Land Settlement. The GM Customer Services apologised that no breakdown of expenses had been included with the paper and undertook to submit a breakdown to the Board.

After some discussion, the Board:

- a) **approved an additional IT capital spend of up to \$600,000 to develop and implement an electronic data capture for Land Settlement;**
- b) **noted that at the time that the IT Road Map, presented to the Board on 16 May 2012, was prepared, IT was aware only of a potential need for this development. The budget of \$2m over two years for the data integration programme did not include the requirements to electronically capture and store land assessments.**
- c) **noted that Management will provide more detail on the structure of the expenditure.**

## **13. Cumulative Overcap Settlement**

The Board considered a proposal that cash settlement be offered to Canterbury residential dwelling claims with cumulative repair costs exceeding \$100,000, where no single claim exceeds EQC's cap amount of \$100,000. This will reduce the workload of the Canterbury Home Repairs Programme and will give customers both mortgage relief, and some control in choosing what is the best solution for them.

It was agreed that customers must be invited to choose whether to take up the offer of cash settlement. Insurers will be advised.

The Board:

- a) **noted that EQC will not settle cumulative overcaps prior to apportionment due to the risk of overpayment, consequent reconciliation and recoveries, and the uncertainty this will generate for customers, insurers and other stakeholders;**
- b) **noted that EQC is consulting with the Reserve Bank to confirm the inflationary impact of cash settlement of these claims, and that preliminary assessment suggests the impact is negligible;**

## Released under the Official Information Act 1982

- c) noted that individual circumstances for each claim will continue to be considered when pursuing a settlement strategy (cash settlement, repair, reinstatement), but that cash settlement is the preferred option;
- d) noted EQC's existing settlement priorities and the impact of this proposal on them;
- e) agreed in principle, subject to the Minister being advised prior to implementation, to EQC offering to cash settle residential dwelling claims arising from the Canterbury earthquakes with cumulative repair costs exceeding \$100,000, where no single claim exceeds cap;
- f) noted that this is a departure from the current policy of managed repair;
- g) noted that customers in this category may opt to remain in the EQR managed repair programme;
- h) agreed that the Government will be informed of this decision.

#### 14. IBM Contract

The paper before the Board sought approval to enter into a new agreement with IBM.

The Board:

- a) noted that this contract formalises the current arrangement with improved performance specifications, 9(2)(h)
- b) agreed that a new agreement with IBM be entered into for application support and development;
- c) noted that the negotiation and entry into this contract is compliant with EQC procurement practice;
- d) authorised two Commissioners to sign the agreement, subject to sighting legal signoff.

#### 15. Statement of Intent

Russell and Denise left the meeting at 5.05pm. They were asked to email any comments regarding the Statement of Intent to 9(2)(a)

In considering the draft Statement of Intent the Board:

- a) agreed that minor editorial changes should be conveyed to management;
- b) agreed that the prospective financial statements should be prepared on a basis consistent with the reporting methodology EQC uses in the annual statements.

#### 16. Audit and Risk

The minutes of the Audit & Risk Committee meeting of 30 May, together with the accompanying Risk Report were noted.

#### 17. Financial Statements

The GM Corporate Services confirmed that there is a numerical error in the financial statements, as pointed out in the CE's report. This will be amended for the next report.

#### 18. General Business

##### *Public Education Approach for 2012/13*

The Board noted the proposed Public Education approach for 2012/13.

Subject to the upcoming review of EQC, the Board asked management to give thought to how to

Released under the Official Information Act 1982  
educate the public following the Canterbury events.

**Board Strategy Day**

9(2)(a) [REDACTED] will email Board members to arrange a date for the Board Strategy Day.

Gordon Smith advised that he would be overseas from 19 August to 22 September.

**Media Clippings**

The Chief Executive undertook to ascertain if the media service can filter media clippings that are sent to Board members.

**19. Next Meeting**

The next Board meeting will be held **Wednesday, 11 July 2012, 10am.**

Next Audit and Risk Committee Meeting – **Wednesday, 29 August 2012**

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 MEETING OF  
THE BOARD OF THE EARTHQUAKE COMMISSION  
Held in the Pukeko Room  
Level 1, 55 Princess Street, Christchurch  
Wednesday, 11 July 2012, at 10.00 am**

---

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

**In Attendance:** I Simpson (Chief Executive)  
J Ford (Principal Legal Advisor)  
N Willis (Manager, Strategy and Policy)  
9(2)(a) (Minutes)  
B Emson (GM Customer Services)  
P Jacques (GM Corporate Services)  
9(2)(a) (Chapman Tripp)  
9(2)(a) (KPMG)  
Z Berry (Business Owner - Land)

**Apologies:** P S Hughes

**1. Minutes of Board Meeting of 13 June 2012**

In considering the Minutes of the meeting of 13 June, it was agreed that the section covering the discussion on Land settlement under the Chief Executive's Report required more detail. In particular the Minutes should record the discussion on the potential for additional land damage categories, and the request that Management provide an update and, if appropriate, recommendations to the Board on those additional categories.

It was agreed that Management will review and update the Minutes accordingly in consultation with the Chairman.

The next meeting date for the Audit and Risk Committee will be amended to show that the next meeting is Thursday 16 August 2012 (with a pre-meeting teleconference on 15 August).

Subject to the above changes, the Minutes of the Board meeting of 13 June 2012 were confirmed.



## 2. Matters Arising from the Minutes of the Board Meeting of 13 June 2012

### ***IT Road Map***

This paper is a Work In Progress and will be presented to the next Audit and Risk Committee.

### ***Land Peer Review***

It was noted that EQC has now received the first part of the Peer Review from the US regarding land damage category 8, which Management has yet to review. Details of progress on the Peer Reviews will be presented to August Board meeting.

### ***Cash settlement of non-structural dwelling claims under \$15,000***

The Chief Executive apologised that this paper had not been delivered to the Board but confirmed that it was now drafted and would be circulated by the end of the week for Board consideration and approval.

### ***Liability for Boarding Houses***

It was noted that management has identified three claims that relate to Boarding Houses where the customer is represented by Legal Counsel. Chapman Tripp has approached the relevant Legal Counsel, proposing that they agree to a joint submission for a Declaratory Judgement.

The matter of payment of EQC levies by customers for properties for which cover was doubtful was raised. Assurance was requested from Management that the lessons learned from the Canterbury earthquakes (with Boarding Houses being an example) are being recorded effectively and will be available when the Act is reviewed. Management confirmed that this is being done as part of the Treasury Review of the EQC scheme. By way of update, it was noted that Treasury have indicated that although the formal Treasury review has been delayed by Ministers, they have proposed that EQC and Treasury work on a "Lessons Learned" project in the Interim, on the basis that this will form part of the review when it does get underway.

### ***Accommodation for Out of Canterbury Workers***

It was noted that the original forecast from CERA showed that the number of workers engaged in the rebuild and requiring accommodation was in the region of 24,000. However, following consultation with PMO's, this estimate had reduced to 12,000. It was agreed that Management will undertake further work with EQC on this before any further decisions would be sought from the Board.

### ***Electronic Data Capture for Land Settlement***

The Chief Executive noted that the original approval of \$600,000 may need to be revised up to around \$750,000 following further scoping work by IBM. Zac Berry, newly appointed Business Owner for the Land Settlement Project, is currently reviewing the data requirements as it may be possible to reduce the cost.

### ***Public Education Approach***

The Chief Executive advised that Hugh Cowan, General Manager Research and Education would present to the Board in August regarding his public education strategy.

### ***Board Strategy Day***

The Board confirmed that it would hold the Board Strategy Planning Day on Friday 17 August 2012 in Wellington.

The GM Corporate Services and GM Customer Services joined the meeting at 10.45am.

### 3. Chief Executive's Report

The Chief Executive spoke to his report. He outlined the continuing work on land since the last Board meeting. He advised that Zac Berry has joined EQC as the Business Owner of the Land Settlement Project.

A summary of EQC's land settlement approach had been discussed with Insurers and they will shortly be sent various case studies to demonstrate how EQC land cover will respond to differing scenarios.

The principle of diminution of value has been discussed with the Minister, who had no substantive issues.

The Chief Executive noted that the recent visit by [9(2)(j)] was very positive. [9(2)(j)] reviewed claim files in this visit, and have indicated that when they return, they will be carrying out more detailed audits.

Regarding apportionment, initial feedback from EQC's reinsurers regarding the proposal to move from manual to statistical apportionment has been generally positive, with some being happy for things to move forward, through to others who would like further in-depth analysis on the data and method. Progress with local Insurers on a modelled apportionment approach is not going as well as expected. It is now likely that EQC will complete the bulk of the manual apportionments before the model is completed.

The Board asked for clarification on the current number of overcap dwellings and those that require apportionment. Management advised that there are approximately 28,000 overcap dwellings, which will ultimately be referred to private Insurers. Currently the Settlement Team has apportioned approximately 4,362 (25%) of those.

Upon receipt of referral from EQC, private Insurers may disagree on either the apportionment or damage assessment. Management advised that they will be proposing a possible solution to Insurers whereby repairs will progress and the datasets will be reviewed at a later date to determine any discrepancies in costings and/or apportionments.

The Board queried how on the actual cost of repairs tracking is compared with the initial assessment. Initially Management advised that there was a 17% increase from original estimate to variation (on the basis of a full scope of works), delivered cost, and that had now reduced to 14%. The difference between the varied cost and actual cost is running between 1-2% and Management expects to reduce this further.

The Board asked whether there is confidence within Management around apportionment and that claims are moving steadily from EQC to the Insurers without delay. This was confirmed by Management.

### 4. EQC Claims Analysis

The Board discussed the figures as outlined in the paper. Management outlined that, currently data from Fletchers are unable to be transferred directly into Claim Centre and, accordingly, the Fletcher's numbers are reported separately. It was advised that work is currently progressing on linking the two systems together to allow data transfer.

Management advised that currently there are approximately 85,000 claims in the Hubs. To control the workflow to Hubs more effectively, these claims will be pulled back to a central office and redistributed with engineering design completed, and consents provided, so that they are ready for work to commence.

The Board requested that Table 3 in the paper showing Status of Damaged Properties, be simplified and formatting be looked at to enable the tables to be viewed easier electronically.

**The Board noted the EQC Claims Analysis Report.**

## **5. Business Information Unit Report**

The Board discussed the various graphs as shown in the paper. It was noted that the Fletcher EQR Health & Safety reporting had improved significantly.

The process of complaint reporting was discussed. Management confirmed that complaints being reported to Fletcher will be fed directly into EQC's process and will be reported back to the Board.

**The Board noted the Business Information Unit Report.**

## **6. Customer Services Report**

The GM Customer Services spoke to the report.

It was reported that activity around EQR and the Business Plan and business relationship has progressed well. Management tabled a paper outlining EQR Strategic Initiatives and Deliverables to EQC and advised that Fletcher Board had recently and explicitly confirmed outstanding customer satisfaction as a priority, which was a positive development for EQC/customer partnerships.

Management reported that the wind-down of operations at Gallagher Bassett is progressing well along with the set-up of the Hamilton Claims Office. It is anticipated that the Hamilton Office will open on 20 August 2012.

**The Board noted the Customer Services Report.**

## **7. Transition of Gallagher Bassett Services and Establishment of a Claims Handling Centre in Hamilton**

It was noted that there were some risks in relation to staff turnover at Gallagher Bassett Services (GBS) but that EQC Management had recently held meetings with GBS to reduce those risks. It was further noted that the transfer of claims handling from GBS to EQC would result in significant cost savings, consistency of processes, and better control.

**The Board noted the progress EQC has made in-sourcing the services currently provided by GBS for the Canterbury Event.**

## 8. Deed of Lease and Fit-Out for Hamilton Office

Following the discussion in Item 6 & 7 above, and on the basis of Management's paper:

**The Board:**

- Agreed to delegate authority to sign the Deed of Lease for 150 London Street, Hamilton to any two Board members; and
- Approved expenditure for fit-out and installation work covering Levels 1 and 2 at an estimated cost of \$1.7 million as outlined in the paper.

The meeting adjourned at 11.50 am to allow Commissioners to tour the various teams located in Princess Street.

The meeting reconvened at 1.00 pm.

9(2)(a)

9(2)(a)

(Chapman Tripp) and (KPMG) joined the meeting.

## 9. GST on Cash Settlements

Management introduced the paper outlining that, traditionally, GST has been included in contents, dwelling and land settlements to customers. In turn, EQC has been claiming back its GST entitlement from the Inland Revenue.

9(2)(h)

Management recommended that the Board and that all types of settlements (including contents, dwellings and land) continue to be made, grossed up for GST.

The Board questioned that if paying land settlements on the basis of diminution of value, whether GST would be included. Management advised that for land damage settlements made on the basis of diminution of value GST would not be added (including where the full value of land was paid). Category 1-7 damage will usually be settled on a repair basis and GST will be added to these figures in the usual way. In relation to situations where EQC was certain that the property would not be repaired (for example, in the Red Zone), the GST situation was unclear accordingly, Management will report back to the Board on this issue in September.

The Board further questioned if there was any indication given by Parliament regarding their thinking when the GST provisions were included in the Act. [REDACTED]

9(2)(h) [REDACTED]

**The Board:**

- confirmed that Approach 1 as outlined in the paper is adopted, [REDACTED]

9(2)(h) [REDACTED] noting that EQC:

- grosses-up cash settlements on buildings, contents and land (where the payment is based on repair costs); and
  - reduces its claims to reinsurers by the amount of its automatic GST deduction (ie, EQC only claims the net amount it pays out).
- Agreed that Management report back to the Board in September addressing issues in red zones, including grossing-up GST on the land settlements.
  - Agreed that Treasury should be informed of the decision.

## 10. Land Settlement Update

Mr Emson tabled a presentation and spoke to the Board report on Land Settlement.

Mr Emson outlined the steps that are currently being worked through to get to a point of being able to achieve settlement. In the Port Hills, there are approximately 7,200 claims. It is envisaged that the assessment work will be completed by August, and the valuation and settlement process will be in place by February 2013. He further noted that action is in train now to build the process, and train and house the approximate 100 staff that will be required. On the Flatlands, settlement of land damage categories 1 to 7 would be completed by late 2013. Categories 8 and 9 damage would take longer, as there required further decisions from the Board, and for category 9, completion of the drilling programme will be required.

The Board asked about progress of the drilling programme and were advised that good progress has been made with four insurers now committing to buy the data collected and an anticipated completion date of December 2013.

The Board asked about progress of the Peer Reviews and communication with stakeholders, particularly regarding the Liquefaction Severity Number (LSN) to other territorial authorities around the country. The Chief Executive confirmed that discussions had started and he will have the ability to move this forward once the Peer Reviews were complete. He indicated that Management would provide an update Board at the next meeting.

9(2)(a)

The Board queried whether there is any progress on the peer review of the opinion in relation to Diminution of Value. [REDACTED] advised that there is a final draft which is just awaiting the release of the LSN Peer Review.

The Board asked what Management now require (from the Board) in order to progress the overall land settlement programme. Management confirmed that the discussions on the GST, Mortgage payments and Salvage papers at this Board meeting will allow settlement to move forward on Port Hills but that there would be a number of decisions required from the Board in September, including relating to Land Salvage, Red Zone issues and policy around Section 28 notices and other rights to decline claims.

This raised the issue of several Board members and the Chief Executive who were going to be absent (or potentially no longer acting as Board members) during September. It was agreed that Management would look at options for the date of the meeting to maximise availability of board members, including the possibility of bringing the September Board meeting forward.

Mr Burt left the meeting at 2.00 pm.

Mr Zac Berry joined the meeting at 2.00 pm and was introduced to the Board.

## **11. Land Payments (Appendix 2 of the Land Settlements Update Paper)**

Management indicated that whether cash settlements on land should be paid to the customer or their mortgagees is not as clear as it was with building payments, and may depend on the specific mortgage documentation between the customer and Bank. However, Management would like to apply a consistent practice. Management advised that, in discussions with Banks, a number of Banks had indicated that their mortgage agreements did assign insurance payments to mortgagees but that, in all cases, their practice would be to credit any payments into the customers' standard bank accounts.

Discussion then moved to the Implication of Section 28 notices (once cash settlement had been made) and when these might be applicable. It was confirmed that EQC has the discretion under the EQC Act to cancel any EQC Insurance on a property, provided the full value of the land had been paid, and notification is sent to the Land Registry for this to be noted on the property Title. It was further confirmed that EQC could decline a claim where cash settlement had been paid, but the land damage had not been remediated and this had caused further damage at a later date.

In summary, it was determined that a decision will be required from the Board on how Section 28 and associated sections should be applied in the future. It was agreed that Management would submit Policy recommendations for the Board to consider in September.

### **The Board:**

- **Noted that under the EQC Act 1993, EQC is required to consider the interests of the mortgagee when cash settling a claim;**
- **Noted that the legal position on the extent of the mortgagee's interests is unclear under legislation and dependent on individual mortgage contracts;**



- Agreed that when cash settling land claims, EQC will pay the mortgagee (if there is one and provided that the amount of settlement is over the waiver indicated by Individual Banks) and at the time of settlement, the customer will be informed of the payment to the mortgagee; and
- Agreed that where there is no mortgagee or the amount of settlement is below the mortgagee waiver amount, EQC will pay the customer.

## **12. Declaratory Judgement (Appendix 3 of the Land Settlement Update Paper)**

The Board noted the report.

## **13. Communication Plan (Appendix 4 of the Land Settlement Update Paper)**

The Board noted the Communications Plan.

## **14. Government Stakeholder Engagement (Appendix 5 of the Land Settlement Update Paper)**

Management outlined the relationship status with Stakeholders. In general all relationships were progressing reasonably well, given the circumstances.

The Board noted the report.

## **15. Salvage Rights**

Management gave an overview of the paper. In summary, Management's recommendation was to not pursue salvage for contents claims, prepare a feasibility study for salvage on dwelling claims managed by the Project Management Office, and report back regarding the significant issues raised by land salvage rights.

Regarding salvage of contents, the Board indicated a desire to ensure that contents that have been cash settled be recycled and distributed back to the community particularly where there are a number of people who are under financial strain. Management advised that CERA have a program around this underway and will investigate working in with this wherever possible.

The Board agreed:

- EQC will not salvage personal property as part of the contents claims settlements for Canterbury lodged prior to 25 May 2012 (the most recent insured event) because:
  - More than 70% of claims lodged between September 2010 and December 2011

- have been settled without EQC invoking salvage rights;
- The average settlement claim is \$3,132 which may not make salvage an economical option;
- Salvage merchants indicated salvage outside the red zone is uneconomical; and
- Currently EQC does not have the resource or expertise to undertake salvage in-house;

**The Board noted:**

- That in relation to personal property, ways will be explored to connect with other agencies for recycling schemes to make social use of any surplus items following settlement of contents claims.

**The Board agreed that:**

- EQC does not attempt to exercise its salvage rights (if any) in relation to overcap building claims, because of the complexity of doing so;
- EQC will carry out a feasibility study to assess the costs and benefits of salvaging elements as part of the PMO repair program (building elements may include, and are not limited to kitchen units, sinks and bathroom suites);
- Management will do further analysis to assess the implication of EQC exercising its salvage rights to land and in the Red Zone; and
- Management will report back to the Board in September with:
  - The results of the feasibility study of salvaging building elements as part of the PMO program; and
  - Recommendations regarding EQC's position on land salvage and in the Red Zone.

Mr Berry left the meeting at 2.45 pm.

## **16. Mediation Delegations**

Mr Emson spoke to the paper. It was advised that a contract has been signed with AMINZ to provide mediation services. It was confirmed that customers will not be able to enter mediation unless EQC invites customers to attend, following completion of the internal complaint process. Expressions of Interest were sought from internal staff to be trained in mediation and to represent EQC. Once a customer reaches this phase and if a settlement can be reached, it is important that EQC representatives have appropriate delegations to finalise an agreement on the day.

A paper outlining a list of potential staff who would represent EQC at the mediations was tabled.

The Board commented that it was important to ensure that the people representing EQC in mediation have the suitable skills and personal attributes. It was suggested that a supervisor experienced in mediation attend the initial mediations as a coach.

Confidentiality of these sessions was discussed. In particular, the Board were concerned to ensure that there could be no suggestion that EQC was trying to prevent customers from talking about their claims or the results of mediation. Management advised that customers will not be required to sign a confidentiality agreement if they do not wish to.

**The Board agreed to:**

- **Approve the delegated authority as set out in the delegation annexed as Schedule 1 in the paper, subject to the additional wording in 3a "subject to the levels in Schedule 2 of the paper", to staff selected by management as EQC representatives at mediation.**

## **17. Ratification of Payments – Financial Delegations**

The Board **ratified** the payments approved in technical breach of delegations detailed in the paper subject to the Chief Executive confirming to the Chairman that they were all appropriate payments.

9(2)(a) [REDACTED] left the meeting at 3.15pm.

## **18. Amendments to EQC Delegated Authorities**

The Chief Executive spoke to the paper. He noted that the most significant proposed change to the delegations involved increased capacity for management to approve contracts for services. He noted that the change was required to reflect the environment EQC is operating under, and to avoid the need to obtain urgent Board approval of contract signings in between Board meetings.

In discussion, it was noted that in approving contracts for services, management would be required to operate within approved budgets. It was noted that at the Audit and Risk Committee, comments have been made about issues with adherence to Procurement Policies. It was suggested that until it was clear that these policies are being followed, the delegation could be raised to a lesser extent than requested, up to \$2m for Group 1, increasing to \$5m with approval from the Chair.

The Board requested that any future delegation papers to be presented should be shown as marked up papers.

**The Board approved the following changes to the delegations matrix, as identified in the paper:**

- **Updated delegated authorities consequent to the scale down and transfer of services from Gallagher Bassett Services to in-house EQC operations;**
- **Minor updates to bring the delegations into line with changes in the organisational**

structure;

- **To add an instruction as to how delegated authority for the purchase of goods and services may be assigned;**
- **Insert a new section setting out the transfer of delegations during a Wellington Event;**
- **Insert a new section to incorporate the Human Resources delegations;**
- **Amend the limits for contracts and capital expenditure as follows:**
  - **Contracts for Services where the whole life cost of the contract is up to \$2,000,000, must be approved by any member of Group one and endorsed by the member of Group one or two. Legal sign off is required;**
  - **Contracts for Services where the whole life cost of the contract is up to \$5,000,000, must be approved by any member of Group one and approved by the Board Chair. Legal sign off is required;**
  - **Contracts for Services where the whole life cost of the contract is over \$5,000,000, must be approved by the Board;**
  - **Capital expenditure where the whole life cost of the purchase is up to \$1,000,000 must be approved by any member of Group 1 and endorsed by any member of Group one or two;**
  - **Capital expenditure where the whole life cost of the purchase is over \$1,000,000 must be approved by the Board.**

## **19. Remuneration Review**

The Chief Executive spoke to the paper. He outlined the approach taken was working through the standard Government approach of a matrix based on position in remuneration range and performance, with an overall assumed target from Government of [3%]. There has been identified a group of employees whose roles have changed significantly and there is a need to redefine their position descriptions and remunerate accordingly, and there is a further group with specific skills that are being attracted out of the organisation by offers of higher remuneration. With this group of employees, it is sought to go outside the normal matrix to retain these skills.

The Chairperson confirmed that he would support the Chief Executive on discussions around the option of offering incentives to retain appropriate skills.

The Board noted that it appreciated the environment being operated in and providing there is sufficient grounds, the Chairperson would be satisfied to speak to the Minister around extenuating circumstances if overall increases above 3% were required (although it was noted that this may not become an issue until the next financial year).

The Board also discussed the possible instigation of a Reward and Recognition programme.

The Board

- **Noted** the Government constraints;
- **Noted** the unique environment of EQC and pressures being operated in; and
- **Endorsed** the approach to remuneration review as set out in the paper.

## 20. Financial Statements

Mr Jacques spoke to the paper outlining that the main driver of the outcome will be the Actuarial report. He further noted there were positive movements in respect of investments.

The Board **noted** the results contained within the financial statement attached to the paper and the associated variance commentary.

## 21. Investment Report

Mr Jacques spoke to the report. He advised that there has been a complete elimination of global equities, and noted that the return on cash is [.2%] in the month.

The Board requested that the graphs be formatted into separate pages in order for it to be viewed easier, particularly electronically.

## 22. Other Business

The Chief Executive outlined the current situation in relation to reinsurance. It was advised that there was potential to add (2) additional capacity on the top layer.

The Board confirmed that they have previously agreed the structure and pricing of reinsurance, and authorised the Chief Executive to fill the top reinsurance layer on the same terms and conditions as the existing placements, up to (2)

## 23. Next Meeting

The next Board meeting will be held 20 August 2012.

The next Audit and Risk Committee will be held on 16 August 2012.

There being no further business, the meeting concluded at 4.10 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 Majestic Centre Boardroom  
Level 20, 100 Willis Street, Wellington  
Monday 20 August 2012 at 11.00 am**

---

**PRESENT:** M C Wintringham (Chair)  
P S Hughes  
D K Bovaird  
R J Black  
G A McLachlan  
T J Burt

**In Attendance:** I Simpson (Chief Executive)  
P Jacques (GM Corporate Services)  
B Dunne (GM Strategy, Policy and Legal)  
H Cowan (GM Research and Education)  
Prof Tom O'Rourke (Cornell University, USA)  
9(2)(a) [REDACTED] (Minutes)

**Apologies:** K B Taylor (Deputy Chair)  
G M Smith

**1. Minutes of Board Meeting of 11 July 2012**

In considering the Minutes of the meeting of 11 July, it was agreed that in the section covering the Chief Executive's report, the commentary about dwelling repair costs (paragraph 4 on page 3) requires changes to make the steps between original estimate, variation and actual cost clearer.

Subject to the above changes, the Minutes of the Board meeting of 11 July 2012 were confirmed.

## 2. Matters Arising from the Minutes of the Board Meeting of 11 July 2012

### **IT Road Map**

It was noted that this paper is to be included in the next Audit and Risk Committee meeting on the 29 August

### **Land peer review**

It was noted that Tom O'Rourke, one of the peer reviewers for the LSN work prepared by Tonkin & Taylor for EQC in relation to land damage category 8, would be addressing the Board later in the day.

### **Accommodation for out of Canterbury workers**

It was noted that the Canterbury Earthquake Recovery Authority was going to do another forecast of accommodation for out of Canterbury workers.

### **Liability for Boarding houses**

The Board discussed EQC's liability for boarding houses. Boarding houses are typically temporary residences of several people but are not self-contained as is required by the Act. Management noted that, accordingly, the legal position is grey, because such premises are not clearly residential and not clearly commercial. Management noted that Chapman Tripp had approached the legal representatives of three customers operating Boarding houses regarding the possibility of obtaining a declaratory judgment, with no response received. Two customers have now issued separate proceedings against EQC.

Management noted that EQC's insurance and complaints team have now been given a list of key criteria to help them define whether a property is a Boarding house or not.

The Board noted that the issue should be raised as part of the Treasury Review of the EQC Act.

### **Electronic Data capture for the Land Settlement Project**

The Chief Executive noted that currently, there is no final resolution on the technology needs for the project and that the recently appointed business owner for land, Zac Berry, was currently undertaking a review of business needs.

### **Public Education approach**

The Board noted that EQC's public education approach had been discussed as part of the Board Strategy Planning day. It reaffirmed that the focus of EQC's education activities should be on professional & technical audiences, especially those involved in land use planning, and engineering.

### **Claims Analysis report**

The Board requested that the claims analysis report, previously included in the Board pack, be re-included from next month.

### **Board Quorum and timing for September and October Board meetings**

The Board discussed various options for timing of the next two Board meetings and agreed that the September meeting, originally scheduled for the 12 September should proceed, albeit with a quorum of four Commissioners, and that this would be a shorter meeting, dealing mainly with financial matters. The land decision papers would be moved to the original October Board meeting date, and that this meeting would be set down for two days, to allow time for full consideration of these.

It was agreed that management would confirm the final timing of this meeting but that it was expected to be on the 10 and 11 October 2012.

#### **Salvage rights**

The Board noted that Management would be submitting a paper to the Board about land salvage in October but queried when EQC would be entitled to salvage, given the impact of diminution of value and general principles of insurance law about rights to salvage. Management noted that the EQC Act gave EQC very broad salvage rights and that full analysis was required to meet EQC's obligations to reinsurers and the Natural Disaster Fund.

### **3. Chief Executive's Report**

The Chief Executive spoke to his report. He noted that there has been heightened activity around TC3. This has included a protest by around 30 people outside EQC's offices. Both the General Manager Customer Services and Chief Executive engaged with the leaders of the protesters afterwards and this had been constructive.

The Chief Executive noted much of the public comment centred on progress with rebuilds and repairs. To this end, the Canterbury Earthquake Recovery Authority (CERA) and Treasury were pulling together a set of metrics showing claim settlement progress by EQC and also the insurers. EQC has limited information on insurer progress and, in particular, the rate of cash settlement versus repair by insurers may have an impact on labour availability and insurer appetite for the drilling programme.

For the Business performance section of the Chief Executive's report, the Board requested the following changes to the report:

- A fact sheet at the front of the pack showing a dash board including:
  - The number of homes repaired;
  - The number of customers cash settled;
- Regarding complaints, details of the age of complaints, separate from the figures for Official Information Act requests.

**The Board noted the Chief Executive's Report.**

### **4. Customer Services Board Report**

The Chief Executive and General Manager, Strategy, Policy and Legal spoke to the report. They noted the 16 upcoming public meetings in Christchurch, scheduled for August and September.

Management noted that the main issue making matters difficult was the insurers indicating to customers that EQC's land settlement process and the drilling programme were holding up repairs. Regarding drilling, management noted that insurers had not taken up EQC's offer to participate in the programme or to buy data from drilling already completed. Following discussion on the respective roles of EQC, CERA and insurance companies in the funding and management of the drilling programme, and EQC's requirements to assess land liability, the Board requested that management prepare a paper providing more information about the drilling programme and, in particular, consideration of the risks and benefits of EQC no longer leading the drilling programme and/or collaborating with insurers.

The Board indicated that in the future, it does not want EQC placed in a position where EQC

could be blamed for holding up the drilling programme and therefore "overcap" repairs, when this was not correct.

Regarding the apportionment section in the report, the General Manager Strategy, Policy and Legal outlined the principles being developed as part of EQC's land apportionment process. He noted that where dwelling insurance had been allowed to lapse or where a dwelling had been so badly damaged that it was no longer a dwelling, then legally neither dwelling nor land cover could continue for future events. This issue needed to be considered as part of apportionment and introduced complexity into the process.

Management advised that EQC was seeking to prioritise repairs for vulnerable customers. 9(2)(a) [REDACTED] a secondee from the Ministry of Social Development, was working with other government agencies to develop reliable criteria for identifying such customers

Management noted that 20,700 repairs had now been completed through the Canterbury Home Repair Programme. Management advised that EQC had worked with the Ministry of Business, Innovation and Employment to issue a tender for the procurement of paint.

It was noted that there have been a number of threats to both EQC and Fletchers staff. Bruce Emson and Fletchers are looking at the physical configuration of EQC offices and Hubs to improve safety. The Board noted that it would like to be informed of any threats to staff.

#### The Board:

- Noted the Customer Services Report
- Requested that management provide a paper on the future management of drilling programme
- Requested to be informed of any threats to Staff

## 5. Land Settlement Update

The Chief Executive [REDACTED]

9(2)(h) [REDACTED] He commented that settlement is likely to begin with the Port Hills because cost assessment was almost complete there. Regarding the possibility of a further land damage category relating to vulnerability of cliff faces, that work was continuing. The Board requested that any changes in land damage categories would be notified to the Board Chair.

The Chief Executive noted that an issue had arisen with what should be included as appurtenant structure for the purposes of the Act and that management would report back on this at a later date. The Chief Executive noted that the various Board papers relating to land were on track.

The Board noted the Land Settlement Update Paper.

## 6. Professor Tom O'Rourke – Chair of peer review panel (land damage assessment, feedback on Tonkin & Taylor LSN methodology )

Management indicated that Professor Tom O'Rourke, from Cornell University, was one of the peer reviewers of the work done by Tonkin & Taylor for EQC regarding the development of a liquefaction severity number and associated methodology to assist EQC assess its liability under land damage category 8.

*Prof T O'Rourke joined meeting at 11.53am*

The Chair provided the Professor with a description of the complexities EQC faced generally and in particular, in the settlement of land damage. Professor O'Rourke then provided a summary of his professional career and experience in natural disasters. He outlined details of the other peer reviewers and the work done by them with Tonkin & Taylor to peer review the development of the Liquefaction Severity Number (LSN) methodology. He noted the responsiveness of Tonkin and Taylor to requests and commented that the process is state of the art and well proven.

In response to questions from the Board about whether the LSN methodology was a sensible and defensible model to assess land damage, Professor O'Rourke commented that the study completed by Tonkin & Taylor was exhaustive, and described the LSN work as an innovative approach, noting that while it was modelled on a Japanese model that is in use, it extended and updated that. He stated that the model compares well to other models worldwide, that it was state of the art, ground proven and that the results reflected or had a good correlation with technical observations.

The Board asked, in the context of potential litigation, what the weaknesses of the model are. Professor O'Rourke mentioned that EQC's model involves averaging and so does not map exactly. There will always be some geological variability. He commented that the range is as small as it can be but will have to account for outliers. Accordingly, EQC will have to operate an exceptions process and be prepared to have flexibility in the process. LSN is the platform dealing with most cases but flexibility is critical to this process.

The Board asked what tools other agencies have used to help people understand the data, and what has worked well. Prof O'Rourke suggested:

- Community education with a backdrop to increase public awareness of the issues
- Education of the workforce, a professional layer of people that homeowners can approach in order to discuss further, including Geotechnical engineers or Geologists

*Prof T O'Rourke left meeting and Board broke for lunch at 12.30pm*

It was noted by the Board that in future, a brief summary should be given to the Board members before any Peer review or visitor to give some background and context.

**The Board noted the comments of Professor O'Rourke and recommended to management that EQC focus on the "Education of Workforce" to assist homeowners understand the core and the limitations of the LSN model.**

## **7. 2012 Financial Statements and Actuarial Valuation**

The Financial Statements (including the Statement of Responsibility) as at 30 June 2012 were presented to the Board by the General Manager Corporate Services. The draft financial statements had been considered and approved in principle by the Audit & Risk Committee on 16 August 2012, but a number of amendments were requested, including the correction of an error in the notes to the accounts (note 26), identified by the Deputy Chair, which management is correcting.

The financial statements were presented as final, subject to minor audit adjustments, with a recommendation that the Board approve the financial statements subject to changes

requested by the Audit and Risk Committee and other minor adjustments.

It was noted that the Actuarial Insurance Liability Valuation as at 30 June 2012 had also been presented to the Audit & Risk Committee meeting on 16<sup>th</sup> August with Actuaries, Melville Jessup Weaver (MJW) reporting to the Committee. Since the last valuation for the period ending 31 December, the actuarial valuation had increased by \$41m. Management advised that Deloitte had originally commented that EQC's Claims handling costs should be estimated as significantly higher than in the valuation, but that following a meeting with MJW, Deloitte revised its position and agreed with the MJW estimate.

**The Board:**

- **Approved the draft 2012 financial statements (including the Statement of Responsibility), subject to correction requested by the Deputy Chair, any requested by the Audit and Risk Committee at its meeting of 29 August and minor audit adjustments and/or corrections**
- **Noted that a recommendation for formal approval of the finalised 2012 Financial Statements would be made at the September 2012 Board meeting**
- **Delegated authority, to the Board Chair and Audit and Risk Committee Chair, to sign the letter of representation to Deloitte in relation to Deloitte's completion of the FSG-3 Audit Clearance Return**

**8. Investment Report**

The Board requested that in future, it receive two styles of reports, a printed version and iPad compatible version.

The Board noted the Investment Report.

**9. General Business - Customer Communications**

The Board noted the EQC statement in the Press and requested a more formal approach to the Board on communications progress, including details on:

- **Current "hot" topics of interest**
- **Activities currently being undertaken**
- **Activities planned**
- **Risks and opportunities**
- **A plan to 2015**
- **How EQC is tracking to the plan**
- **Information about EQC's brand**

**10. General Business - Cash Settlement of dwelling claims under \$15,000**

The Board noted its prior agreement by email, of the following recommendations.

**The Board agreed that:**



- EQC can raise the minimum threshold above which dwelling repairs will be managed by Fletchers under the Canterbury Home Repair Programme (CHRP) from \$10,000 to \$15,000 , provided the required repairs do not relate to structural damage
- In the absence of other reasons why managed repair is appropriate, EQC will cash settle dwelling claims below the new minimum threshold

## 11. General Business - Majestic Centre

The Board asked about the Building Earthquake Code for the Majestic Centre in Wellington. **9(2)(g)(i)** but that the building is at 35-45% of code requirements. It was noted that as a result of work currently underway to strengthen the building, it should be up to 65% of code requirements within 18 months.

**The Board requested that management provide the Board with a memorandum providing further details regarding the safety of the Majestic Centre.**

## 12. Next Meeting

**The next Board meeting will be on 12 September.**

There being no further business, the meeting concluded at 3.51 pm.

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 Majestic Centre Boardroom  
Level 20, 100 Willis Street, Wellington  
Wednesday 12 September 2012 at 10.00 am**

---

**Present:** K B Taylor (Acting Chair)  
D K Bovaird  
P S Hughes  
T J Burt  
G A McLachlan (via telephone)

**In Attendance:** B Dunne (GM Strategy, Policy & Legal)  
B Emson (GM Customer Services) – *partial attendance*  
P Jacques (GM Corporate Services) – *partial attendance*  
9(2)(a) [REDACTED] (Minutes)

**Apologies:** M C Wintringham (Chair)  
R J Black  
G M Smith  
Ian Simpson

**2. Minutes of Board Meeting of 20 August 2012 and Matters Arising**

In considering the Minutes of the meeting of 20 August 2012, it was raised that the IT Road Map had not been included in the last Audit and Risk Committee meeting. The Board agreed this document should be included for consideration at a future Board meeting

**Subject to the above action, the Minutes of the Board meeting for 20 August were confirmed.**

**2.1 Minutes of Board Meeting 11 July 2012 (amended, final)**

The Board commented that the minutes from the July Board meeting had been included to reflect an amendment required regarding discussion of the Chief Executive's Report.

**This change having been made, the Board approved the final version of minutes.**

### 3. Chief Executive's Report

#### TC3 Engagement, and Drilling and TC3 Collaboration Planning Paper (Item 6.1)

GM Strategy, Policy and Legal (GM SPOL) introduced the report explaining that the focus in the forthcoming month remained on engagement with the community through CERA's TC3 meetings. This would take the form of 16 public meetings with attendance by representatives from CERA, EQC, DBH, the Engineering Advisory Group, the local consenting authority and private insurers. The majority of questions tended to relate to drilling, apportionment and settlement with an increasing amount of questions on land information and land damage.

The Board praised the regularity of the public meetings and the dedication of the GM Customer Services and his team to explaining practicalities to customers and taking time to listen to individual concerns after these meetings. P S Hughes suggested a schedule of public meeting dates be made available to the Board and recommended that Commissioners attend. Regarding drilling, under the Department of Building and Housing (now the Ministry of Business, Innovation and Employment) guidelines, any property in TC3 with foundation damage of more than 25% (as a rule of thumb) required a site specific geotechnical investigation to inform foundation design. This was a standard local authority requirement in many regions when building a house in New Zealand outside of Canterbury, but this was not well understood by customers.

DBH guidelines had stated that the inspection had to be site specific but if the ground conditions between two sites at 100m intervals or less were consistent then not every site would have to be drilled. This was the "area-wide" drilling approach for which agreement had been sought.

Early in 2012 when EQC began discussions with insurers, the aim was that collaboration between all parties would mean that fewer holes would need to be drilled. The process would be faster and also, potentially, cheaper. Under the collaborative programme, carrying out the drilling was estimated to take until March 2014.

Although agreement in principle to collaborate had been in place for the last six months, there had been no progress beyond that. Insurers were publicly saying that they had their own "infill" drilling programmes for priority customers. EQC was therefore in a position where, in the public's mind, it was responsible for holding up the process. There was also confusion and therefore frustration about the nature of the process, what the timescales were and who had overall responsibility.

The Board noted the public's confusion between the completion dates of March 2013 and March 2014 and clarified that if EQC dealt with its own customers alone, the programme should be completed by March 2013.

The Board decided to move directly to item 6.1 the TC3 Collaboration Planning Paper.

*Bruce Emson, GM Customer Services joined the meeting at 10.13.*

The Board discussed whether EQC should conduct its own drilling programme or continue to pursue collaboration. (b) (2)(g)(i) the Board considered that EQC should inform them because a specific agreement was still not in place despite a deadline, EQC would go ahead with its own drilling programme. It was noted that minutes of the last insurer GM meeting stated insurers would have their own programme

regardless of EQC's position. The Acting Chair suggested publicising EQC's decision, including an estimated completion date of March 2013, to show that EQC was taking action.

GM Customer Services added that EQC had initially received a proposal on the tax status for a joint venture – rather than a proposal for a joint venture itself – and that this tax agreement would create another six month delay. Following further discussion of the positives and negatives of collaboration, the Board agreed that dealing with potential negative consequences was preferable to continued endless and possibly fruitless negotiations.

The GM Strategy, Policy & Legal confirmed the Minister was aware of the issue.

**The Board agreed:**

- **That EQC proceeded with its own drilling programme with a targeted completion date of March 2013,**
- **That the private insurers be advised that if they adopt a collaborative approach amongst themselves, then EQC would be happy to co-operate and share data on a sensible basis,**
- **That appropriate communications about EQC's drilling programme be released, and;**
- **That the Minister be advised of the decision prior to release.**

#### TC3 engagement: Land damage affecting repair/building

GM Strategy, Policy and Legal continued speaking to the Chief Executive's report. Regarding claims by private insurers that EQC's land settlement was holding up dwelling repair, EQC had repeated its offer to be contacted where insurers believed that land damage was preventing the rebuild. EQC was aware of only two instances where this had taken place for flat land properties. It was noted that EQC had received a further letter from Insurance Council's legal counsel regarding EQC's land obligations. The insurers wanted EQC to restore a building platform so that it was 'consentable', therefore avoiding the cost of TC3 foundations, or if that was not possible then for EQC to make the land payment to the insurer rather than the customer. Thirdly, if the insurers inadvertently repaired land damage, they would require a reimbursement from EQC.

The Board confirmed that EQC should extract itself from any conversation between an insurer and a customer about payments coming from EQC. EQC would pay monies owed directly to the customer as that was specifically stated in the legislation, but all foundation costs would fall to the insurer. EQC was responding with generic answers to their questions and more specific questions about their position.

#### Settlement Progress for Canterbury

GM SPOL commented that cash settlements, including of 'overcap' claims, did not appear to be flowing as expected, and suggested it may be due to questions about apportionment. Apportionment and settlement teams were going through the laborious process of working through claims. However, to date, approximately 9,700 claims had been referred to insurers but with no information coming back and no indication of what was causing the delays, other than in one case, a request for further information.

The Board acknowledged that EQC had carried out a lot of work on apportionment and so would like insurance companies to play their part too.

#### Project Portfolio Management

GM Strategy, Policy and Legal advised that ELT had been expanded to include the project portfolio management role. The intent was to enable better coordination and visibility of project and - by default - change management as well as a more disciplined approach to project commissioning.

**The Board requested a progress report from GM Project Portfolio Manager, Jane Whitfield in due course.**

### 3.1 Board Strategy Planning Day Notes

GM Strategy, Policy and Legal confirmed the intention to streamline reporting on critical issues in the Statement of Intent so that the same information would be disseminated to the Board, the Minister, etc. The Minister would receive reports on details of the claims flow which was essentially what the Board was also interested in. If resource constraints issues were created by the flow of claims then this would also be reported to the Board and the Minister.

**The Board agreed with this process and noted the Strategy Planning Day Notes.**

### 3.2 Business Performance Report

The Board had a number of queries and suggested amendments as follows:

- 1.1 Claim Cost and Reinsurance Coverage: the excess should read \$1.5b and not \$1b.
- 2.2 Settlement Progress by Exposure: the Deputy Chair questioned the rise in 'Buildings Closed' from 112,000 to 119,000 in three months, believing 7,000 to be quite a low figure.
- 2.4 EQR Weekly Substantive Repair Completions: the Deputy Chair questioned the inconsistency between this graph and the data on the EQR Substantive Repairs Progress (chart 2.3) both in the figures for August 2012 and in the overall difference in progress. GM Customer Services explained that in relation to 2.4 there would be a fall-off in numbers as EQC spent more but repaired less, because focus would be moving to the over \$50k claims. GM Customer Services was comfortable that the number of repair completions would continue to rise.
- 2.5 Building Claims Apportioned: the GM Strategy, Policy and Legal confirmed that the figure of 121,000 properties that required apportionment was the total number and confirmed that the priority was to apportion the claims between \$80 - \$100k in order to provide work flow to insurers and certainty for customers. EQC aimed to create a statistical model for the undercap claims that were being repaired by EQR which would satisfy the reinsurers. EQC would also create a statistical model for the overcap claims as it would satisfy requirements of insurers and reinsurers as well as providing workable data. The focus currently was on creating a sample required to create this.

3.2 EQC Complaint Trends: GM Strategy, Policy & Legal confirmed that the current number of Official Information Act (OIA) requests was in the 1,000s and were mostly requests from individuals. GM Customer Services confirmed that working on resourcing to process these claims was an area of focus. The Ombudsman was aware of the situation and was awaiting the implementation of processes by EQC to deal with OIAs in a more timely fashion.

3.3 EQC Workforce: the Acting Chair queried the discrepancy between the actual and desired number of staff for the Hamilton office.

9(2)(g)(i)

GA McLachlan highlighted the value of a forecast of staff numbers required so that EQC could anticipate future needs or changes.

A3 Statement of Cash Flow: clarification required on disparity in figure for Net (decrease)/increase in cash held which was \$669,532 in this table and \$369,532 in the Annual Accounts.

The Board noted the Business Performance Report and requested:

- Clarification on numbers in chart 2.2 Settlement Progress by Exposure and their accuracy,
- A progress report on systems in place for dealing with OIAs,
- An estimated forecast of staff required, and;
- Clarification of numbers on p. 19 (A3 Statement of cash flow).

#### 3.4 Customer Services Board Report

Regarding Mediation Services, GM Customer Services informed the Board that he had halted the process temporarily due to concerns about the process, but that EQC was nearly ready to proceed. There were currently 13 offers out with customers to participate in mediation.

The Board noted the Customer Services Report.

## 4 Strategy, Policy & Legal

### 4.1 PMO Salvage

GM Strategy, Policy and Legal presented the paper, summarising that salvage was not believed to be economically viable. The costs outweighed the benefits, could slow down the rebuilding process and there were, potentially, health and safety issues arising from contaminants. The Board considered the impact of negative public relations around disposal and the wastage of materials. GM Customer Services confirmed that provisions regarding appropriate disposal were included in EQC's contract with Fletchers EQR and that there was also currently no extensive market for salvage in Christchurch.



The Board noted the paper, and:

- Agreed that EQC should not salvage building elements and chattels from properties repaired under the Canterbury Home Repair Programme, and;
- Requested that Management document the cost benefit business case in order to support this decision, and submit to a future Board meeting.

#### 4.2 Small Dwellings paper

The Acting Chair highlighted that the paper was written on the basis that the policy did not specify what the amount of EQC cover was and queried whether the renewal notices would show this.

GM Strategy, Policy and Legal confirmed that this was an issue that the insurance team was encountering as a result of insurance companies not being clear about the EQC cover amount in their policies, and that this was delaying a large number of claims. [REDACTED]

9(2)(h)

[REDACTED] GM SPOL noted that it was not possible to quantify how many people may be affected by the issue or to determine how widespread the issue was, as EQC did not have access to renewal notices.

The Board agreed to deal with any issues as they arose and to push back firmly on what was ultimately an insurance company's neglect for not including the EQC cover amount on the policy.

EQC was recommending that the insurer guide was amended in light of this problem. Chapman Tripp would be checking any communications that were going to insurers from EQC so from now on, as insurance companies renewed their policies they should be doing so in consultation with the updated insurer guide. EQC would avoid any public declaration on this matter, preferring to deal with issues on a case by case basis at this point.

Regardless, the Board was supportive of the paper's message to continue as if the amount covered by EQC had originally been disclosed by insurance companies. The Board suggested that Management consider and prepare for potential customer and media comment on the issue.

The Board noted:

- When EQC cover of less than \$100,000 had been written on policies, this may not always have been appropriately disclosed on policy documents or renewal notices,
- EQC's insurer guide needed to be clarified on this point, and;
- Management decisions:
  - to proceed with calculating the extent of EQC cover on existing claims by applying the extent of cover calculated and verified by insurers, noting that this purposive interpretation of section 18 was likely to be challenged
  - not to recover underpaid levies from insurers where this mistake has occurred

- in good faith; and
- to direct Risk and Assurance to be responsible for implementing a programme that would ensure Insurers apply the EQC Act correctly going forward.

The Board requested the removal of the recommendation stating "this may mean the levy has been under-collected by EQC" as this might not have been the case. In fact the error had been the lack of disclosure of the amount of EQC cover obtained.

The Board agreed that GM Strategy, Policy and Legal would create a new set of Recommendations and circulate them after having been approved by the Deputy Chair.

#### 4.3 Statutory Delegation

The Acting Chair found the delegation for authorisation straightforward although did not believe Commissioners needed to hold the powers. Their role was to ensure that the powers were used correctly by Senior Management.

GM Strategy, Policy and Legal confirmed that the power should be exercised rarely and by those with the appropriate authority. EQC would report to the Board any occasion when it was used and also proposed that the delegations be reviewed on an annual basis.

GM Customer Services listed the senior managers on his team who would exercise the power and was satisfied that the four remaining names with respective job titles on the delegation authority would be sufficient for the purposes required.

#### The Board:

- Agreed to and affirmed the delegations and authorisation set out in Schedule 1, with the Commissioners' names removed, and noted that the named individuals would hold the authority delegation, but would only exercise the power following authorisation from the Chief Executive, after consultation with the Board Chair (or those deputising), and;
- Noted the Minister of Finance's letter of consent dated 28 March 2008 in Schedule 2.

An amended copy of the Schedule would be prepared for signature by Commissioners at a future date.

## 5 Research and Education

### 5.1 GeoNet review

The Board noted the GeoNet Review paper.

*Philip Jacques, GM Corporate Services joined the meeting at 11.50.*

## 6 Corporate Services

## 6.1 Recommendations for Annual, Actuarial and SSP Reports – June 2012

### 6.1(i) Actuarial Report

The Board confirmed they would just be 'noting' the Actuarial Report not 'approving' as per the Recommendation. The Acting Chair recorded the following matters that were currently being discussed further with the Finance team and the report's authors:

- Some numbers in section 2.12 'EQC financials' (p. 17-18) that differed from the Annual Accounts
- On p. 58, the figure for 'Estimated Reinsurance Recoveries' under column '30 June 2012' indicated \$3,853m which was \$310m less than what was shown on the Annual Accounts (p.18, note 10: \$4,163m).

**Subject to satisfactory resolution of the above matters the Board:**

- **Noted the Finance Manager's Memo,**
- **Noted that on 29 August 2012, the Audit & Risk Committee accepted Melville Jessup Weaver (MJW) Report on the valuation of EQC's claims liabilities at 30 June 2012 and the 2012 Financial Statements and recommended that both reports were presented to the Board for approval, and;**
- **Noted the Actuarial Report.**

### 6.1(ii) Financial Statements

The Board noted the following matters being checked and confirmed by the Finance team:

- *Figures for Sensitivity of Assumptions* (p.13)
- *Figures for Weighted average term to settlement and Claims handling expenses rate*
- *Claims Expense Summary* (p. 15, Note 5) – of the gross claims expense in 2012 (\$1,192,665), only \$280k was claims EQC was paying people, \$290k was claims handling expenses and the balance was mainly due to the reduced discount rate. The claims handling amount appeared to be high.
- *Outstanding Claims Liability* (p.25) - suggested removal of line "Risk margin applied, 14.3%" as it was not clear what that was a percentage of. The figure of 75% underneath was the more important. The Finance Manager had been asked to check with the auditors whether that line could be deleted.
- *Related Party Transactions* (p.30): The Acting Chair updated the Board that in relation to his own associated entity [REDACTED]  
[REDACTED] 9(2)(a) [REDACTED] The Acting Chair acknowledged that he and other Commissioners with associated entities would have to disclose the amount spent on repairs and check the figure was accurate.
- In addition, as a Director of Southern Cross, the Acting Chair would have to disclose that EQC had spent an amount of money on health insurance because of new

disclosure legislation.

The Board requested a copy of the reconciliation Management had prepared between what appeared in the Accounts and what appeared in the Actuarial Report.

The Deputy Chair suggested that the Actuaries were asked to explain why their Claims Handling expenses (p. 16) had gone up so significantly.

The Acting Chair suggested adding a note explaining that the *Claims Handling Expenses* also incorporated expenses raised in previous years, hence the increase.

Subject to the amendments and satisfactory resolution of the matters raised, the Board:

- Noted Management's Statement of Representation,
- Approved the 2012 Financial Statements, and;
- Delegated authority to sign the Letter of Representation in connection with the audit of the statutory financial statements to two Board Members, subject to confirmation that there were no material changes from last year's letter.

#### 6.1(iii) Statement of Service Performance 2011-2012

The Board noted the following matters regarding the SSP:

- [REDACTED]  
9(2)(g)(i) There was a risk that once the report was tabled, the media would count the targets 'not achieved, no longer relevant' as simply 'not achieved'.

- The target customer service percentage was quite high and had not been achieved. Most large organisations would do their own surveys and set a standard against that.

- 9(2)(g)(i)  
[REDACTED]

The Board recommended that Management should have a Communications plan in place in case a response was required for addressing these issues in future.

Subject to the minor amendments discussed, the Board:

- Noted that on 29 August 2012, the Audit & Risk Committee accepted the Draft Statement of Service Performance (SSP) and recommended that subject to any changes arising from the final Audit outcomes, the Board approve the SSP, and;
- Approved the 2012 SSP subject to final audit clearance.

#### 6.2 Minutes of 16 and 29 August Audit & Risk Committee meetings

D K Bovaird related to the Board how the 16 August meeting had progressed.

The review of Internal Audit Reports reflected EQC's early response plan that focused more on deployment than on back office systems. She noted that many of the systems and processes have since been improved. The one area of concern was in procurement where, of the sample, only one of the files complied.

(g)(i) Retrospective work was now going on to make sure that the correct documentation was there to show what took place as well as communicating that there was a procurement process in place that needed to be followed because of the values involved.

GM Customer Services confirmed that there were groups of EQC staff who should be more aware of government procurement processes and this needed to be addressed.

(2)(g)(i) Management was collectively responsible for following procurement practises and guidelines.

Board Members agreed that there was no recklessness involved, just a lack of process and accompanying documentation.

The Board noted that the Auditor General would be coming in next year and that the processes in place to assist EQC in carrying out its work had to be in place to ensure it was conducted correctly.

The ARC had requested that now there was a Contract Manager in place, that they provide a detailed report focussing on EQC's largest contracts for the November meetings demonstrating that processes were improving

### 6.3 Risk Report for Quarter Ended 31 August 2012

D K Bovaird informed that the Risk and Assurance Manager had given an update of the Quarterly Risk Report at the ARC meeting on 29 August reflecting that although there was now a lot more awareness about the importance of looking at risk and a risk register was now in place, EQC's strategic level risks had not been progressed as much as hoped in terms of making sure the right risk treatments were in place. A further report detailing progress would be submitted to the November Audit and Risk Committee meeting.

D K Bovaird queried the note indicating that the treatment status for the 'Lack of Strategic Plan' (p. 3) had changed from Unknown to Green because it had been discussed at the Board Strategy Day.

(2)(g)(i)

The Acting Chair indicated that the right amount of risks were mentioned but referred to *Inability to respond to future Major Events* (p. 5, point 5) and asked whether the biggest risk was not whether another event were to take place before EQC received more funds from its external sources. The suggestion of being more explicit about the financial structures that needed to be put in place as part of the preparation for another event (mentioning discussions last year with the Crown assuring it would provide funds) should be fed back to Management. This might encourage public confidence in EQC's financial situation.

The Board noted the:

- Quarterly Risk Report, and;
- Matters arising from this report at the Audit & Risk Committee outlined in the Report.

## 7 General Business

### *Communications*

The Board highlighted the amount of recent media interest following the resident satisfaction survey that had been carried out recently and queried how that was being managed.

GM Customer Services outlined the steps EQC was taking to improve EQC's messaging and communications channels to ensure EQC's achievements and progress were known. This included: public meetings, involving leaders of protest groups in communications strategies, prioritising vulnerable customers, improving visibility of claims flow, call centre training and providing land damage information packs.

### *EQC Review*

The GM SPOL advised that the Terms of Reference for the Treasury-led EQC review were approved by Cabinet on Monday 10 September and had a narrow focus on legislative change. There was a second piece of work being carried out by Treasury which was looking at risk and risk management more broadly.

The Board agreed that a sub-committee of three Board Members be created to feed into this process, consisting of the Acting Chair, P S Hughes and one other Commissioner, liaising with the other Commissioners on any Issue of significant Importance.

GM SPOL updated the Board that EQC had met with the Treasury Review team on a weekly basis for the last 2-3 weeks. Two more Senior Advisers would be working on the review from EQC and co-located at the Treasury where possible. The Treasury had produced a list of EQC-related issues that were of interest to the Government and that should be covered.

EQC had provided comment on the Treasury output so far. EQC's comments had focussed on:

- encouraging Treasury to look more broadly around natural disaster risk and not solely earthquakes
- Treasury's initial proposal for expanding EQC's land cover to include the inability of using land in the future

The Board agreed that broadening the land cover could create significant problems with the reinsurers.



*Conflict of Interest Matters*

In relation to conflicts of interests generally, D K Bovaird mentioned that one of her clients, (b) They had included in their tender that D K Bovaird worked for them but had no involvement in the tender process.

*November Board*

D K Bovaird suggested that the November Board meeting should be held in Christchurch in order to support the team there.

*Investigations*

The GM Customer Services indicated that EQC was currently dealing with allegations about the behaviour of two EQR contractors and provided details about steps being taken by management to investigate the allegations. (b)

9(2)(a)

The Board endorsed the action Management was taking on these matters.

*At 12.50 the Meeting was declared closed.*

**8 Next Meeting**

The next Board meeting will be on 10-11 October.

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

\_\_\_\_\_  
K B Taylor

\_\_\_\_\_  
Date



This document contains material that is legally privileged

**MINUTES OF A MEETING OF  
THE BOARD OF THE EARTHQUAKE COMMISSION  
Held in the Majestic Centre Boardroom  
Level 20, 100 Willis Street, Wellington  
Wednesday 10 October 2012 at 10.00 am**

---

**Present:** K B Taylor (Acting Chair)  
D K Bovalrd  
P S Hughes  
T J Burt  
G A McLachlan  
R J Black  
G M Smith  
I Simpson (Chief Executive)

**In Attendance:** B Dunne (GM Strategy, Policy & Legal)  
9(2)(a) [redacted] (Legal Counsel seconded to EQC) – *partial attendance*  
B Emson (GM Customer Services) – *partial attendance*  
Z Berry (Business Owner - Land) – *partial attendance*  
D Barber (GM Communications) – *partial attendance*  
9(2)(a) [redacted] (Minutes)

**Apologies:** M C Wintringham (Chair)

**1. Remuneration for the Chair**

9(2)(a) [redacted]

**2. Minutes of Board Meeting of 12 September 2012 and Matters Arising**

9(2)(a) [redacted]

The Board requested more specific timeframes for action points in the Matters Arising and the inclusion of actions from earlier Board Meetings until they were completed. If an action was rolling, it could be removed from the list.

**The Board confirmed the Minutes for the meeting of 12 September 2012.**

### 3. Customer Services

#### Land Settlement

The Board noted that the Tonkin & Taylor papers were still in draft format due to timing, the need to redo the Flood Paper in light of the 1 in 100 year decision, and a number of minor errors that the Acting Chair had highlighted that required correction. Other than that, there were no major issues with the Tonkin & Taylor papers which, when finalised, would be sent to the Board.

9(2)(a)

Legal Counsel seconded to EQC, joined the meeting at 10.15

#### CE overview of land settlement papers

Management provided an introduction to the Board regarding the Land Settlement Papers which were a culmination of approximately 18 months' work with input from a variety of advisers.

The Board requested clarification for the Board at the next meeting on what the 'land plan' was in terms of timescales (in a similar format that already existed for the repair of buildings). Management commented that there was an aspiration for all land claims to be completed by the end of 2013 but that could not be committed to at this stage.

#### 3.1 Category 8 & Category 9

The Board considered its agreement in principle at the June 2012 Board Meeting about providing cover for the increased vulnerability of damaged land.

Following a discussion about the cover and how it related to the concept of imminent risk, the Board confirmed its agreement in principle that increased vulnerability to liquefaction or flooding qualified as land damage under the Act.

#### Thresholds for Category 8 damage

##### Gate 1:

Regarding Gate 1, the Board queried why this initial threshold was a cumulative one that appeared, on the face of it, to eliminate customers who may have sustained serious land damage in one major event. The Board was concerned, that, as proposed in the paper, Gate 1 may inadvertently exclude otherwise valid claims at the first stage, and indicated that its preference was to give the "benefit of the doubt" to uncertain cases to ensure they received proper consideration. Accordingly, the Board requested that management consider either removing Gate 1 or changing the threshold to 100mm.

The Board requested further information about the number of cases that were anticipated to fall outside each threshold, and queried what the process would be for dealing with the concerns of those who were excluded at each stage.

Management advised that there were some places where land suffered a fall with the first event but then corrected itself after a tectonic lift after a subsequent event.

The extent to which damage was “self-remedied” in this way needed to be taken into account in final settlements. How this would be done would be reported to the next Board meeting. Management indicated that at this stage, it was uncertain of the ramifications of removing or altering the first gate.

The Board requested that Management reassess the first gate with Tonkin & Taylor and confirm that it would not exclude properties that would otherwise meet all the subsequent thresholds. The Board confirmed that the incremental approach to the threshold was appropriate.

Gate 2: The Board confirmed that the argument for the second gate was clearly set out in the EQC and Tonkin & Taylor papers. Accordingly, the Board confirmed the second gate.

Gate 3: Management confirmed to the Board that there were not many properties in Christchurch that would have had greater than 3 metres depth to median groundwater. The Board confirmed the third gate.

Gate 4: The Board noted that it had been previously informed about the Liquefaction Severity Number (LSN) approach developed by Tonkin & Taylor.

Following a discussion about the effect of the Gate 4 threshold, the number of properties in various zones included or excluded by the threshold, and how that lined up with the Government’s zoning decisions, the Board agreed that 25 was an appropriate threshold and that ultimately, it has to accept professional judgement call. The Board was satisfied that although the Gate 4 threshold excluded properties with fewer than 25 points of LSN, the next question in the process for those properties being “Has the event caused moderate to severe liquefaction related damage” would capture any properties that were still deserving of payment. The Board confirmed the threshold of 25 points on the LSN scale for Gate 4, noting that those excluded at that Gate would be reviewed based on the severity of any liquefaction damage that occurred.

Gate 5: Management indicated that this Gate was based on what had been ‘observed’ and on ‘measurability’. On average there was ground surface subsidence of around 100mm which equated with the LSN increase of 3.5, which seemed an appropriate measure to set.

The Board confirmed Gate 5.

Gate 6: Management confirmed that this gate related to manual tests (i.e. checks indicated land damage but there appeared to be no visible signs of liquefaction). There are two manual checks. First, a check to pick up those properties which had been excluded by earlier gates despite having land damage, and second, a check to exclude those that had been included inadvertently which had no damage. These two checks would ensure that all genuine cases were included.

The Board raised concerns about the understandable lack of public understanding of land claims processes and discussed whether there was an alternative, simpler way of dealing with such claims, which were not so reliant on professional judgments informed by scientific measures. An example could be Government regulation. However, following consideration of a range of factors, including the view of the reinsurers (who would prefer a science based approach), the likelihood and effect of

Government regulation, the impact on the customer, and how EQC intended to settle claims at the practical level, the Board confirmed management's recommended approach as set out in the paper.

The Board queried if there was a way to communicate timeframes to customers for the completion of the process, in an attempt to manage expectations. Management confirmed that this was being worked on so that the message could go out that "by the end of 2013, cash settlements will have been made for loss you have suffered", although that cannot be a commitment at this stage.

The Acting Chair suggested that two areas that Management needed to work on, which the Board would also need to sign off on were:

- Timetable of when claims can be settled by
- How communication is managed with people whose land claims will be turned down.

Regarding settlement generally, and in particular, the re-running of the analyses in the draft Tonkin and Taylor Category 8 Report, the Board was concerned that the deadlines were too long. Management confirmed that the drilling programme was due to be completed by March 2013. The Board indicated that it was willing to allow the engineers another few weeks to carry out additional drilling to verify that enough information was available to include more claims but, other than that, the threshold should be agreed on so that the process could be initiated as soon as possible.

**In relation to Category 8 damage, the Board:**

- **approved the thresholds for Category 8 damage set out in Figure 1 at page 4 of the paper, subject to the first gate being reviewed by Management,**
- **approved the development of a manual review process for properties which were marginal and required a close examination before including or excluding them for Category 8 land damage, but would require an update at a future Board meeting with more detail about what that review process would consist of,**
- **approved the re-running of the analyses in the draft Tonkin & Taylor Category 8 report with all the additional Cone Penetration Test (CPT) data, to confirm the threshold values were still applicable, or whether they required refinement, subject to this not holding up the land settlement process and being completed prior to any Category 8 land damage settlements taking place, and;**
- **directed Management report back to the Board with an idea of what percentage of work can be carried out in the next month.**

*Break*

Management presented to Part Two of the report relating to Category 9 damage. It used a much simpler measure around the 1 in 100 year flood risk that was both easy to explain and aligned with legal precedent in terms of assessing what was a reasonable probability for this type of event.

9(2)(h)

The Board approved the simplified model of only using a single measure of 1 in 100 year flood risk threshold.

Regarding the use of 100mm land height change threshold, the Board confirmed this was consistent with what was being done for Category 8 and strengthened the message that land had to actually be damaged leading to increased vulnerability rather than just having increased vulnerability in itself.

**In relation to Category 9 land damage, the Board approved:**

- the adoption of the single 1 in 100 year flood risk threshold;
- the use of a 100mm land height change materiality threshold, and;
- the appropriateness of calculating repair costs as the cost to return land to a maximum 1 in 100 year level (if the land was previously above this risk level) and not in every case to the land's pre-earthquake height and/or flood risk level

**The Board directed Management to provide a briefing by email once Tonkin & Taylor received the 1 in 100 year old flood data for Category 9.**

**The Board noted:**

- receipt of drafts of both Tonkin & Taylor papers;
- that the flood paper would be redone in light of the decision to use the 1 in 100 threshold, and;
- that final Tonkin & Taylor papers would be resubmitted to the Board.

The Board queried whether there was any indication that there would be any challenges forthcoming from the scientific community about the use and calculation of LSN numbers. Management confirmed that work had begun on introducing the concept to local authorities and the Building and Housing Group of the Ministry of Business, Innovation and Employment (MBIE), but it was too early to ascertain whether they were going to adopt it. The CE confirmed it was important to establish whether at least national usage was going to be feasible but wider public discussion was going to be limited to just confirming that work was currently taking place, until a communications strategy was in place.

The CE confirmed that there was international acknowledgment for LSN methodology as the concept was launched at a recent geotechnical conference in Lisbon. It would be more beneficial to EQC if this was a broadly accepted approach to measuring liquefaction risk.



9(2)(a)

Management confirmed that some properties that would have passed a cumulative test would fail an incremental test. An incremental test meant that the distribution across events would move more of the damage to February than previously estimated. Management agreed to provide estimates at the next Board Meeting of how this movement will appear.

### 3.2 Diminution of Value (DoV)

The CE indicated that EQC had not yet received definite confirmation from the valuation panel but there was an indication that EQC was on the right track. The Board raised concerns about this being a key risk area for EQC. Management confirmed that only DoV would be affected as Category 8 & 9 could still be applied without a DoV gate.

Management advised that the timetable indicated that work would be continuing until December at which point the Board could decide whether more work was required. Other work streams were taking place at the same time so the assessment of Category 8 & 9 damage would not begin until that was completed. The cost of repair had to be assessed in parallel so the comparison can be made and that would not be ready until December. The Board queried the length of time this work was scheduled to take place. Following a discussion about timing, and the effects on both the customer and EQC, the Board requested that Management provide more detail on this aspect at the next Board meeting.

The Board emphasised that there would be no tolerance for slippage on the December deadline and a report should be submitted to the Board in the December meeting for final approval. Any subsequent work carried out must not affect the timeliness of settlements.

#### **The Board noted:**

- that at the June 2012 Board meeting, the Board: *“Required the EQC Chief Executive to develop and implement processes for settling claims for damage to residential land on a DoV basis in accordance with the advice given by Chapman Tripp and the legal peer review for Board approval”*,
- that EQC’s valuers and the Land Valuation Panel appointed by EQC considered that it should be possible to assess the DoV for Category 8 land damage (exacerbated vulnerability – liquefaction) and/or Category 9 land damage (exacerbated vulnerability – flooding), and;
- the assumptions currently being considered as the basis for the methodology for establishing DoV.

Having read the Tonkin & Taylor reports as well as (b) the Board approved the use of diminution of value as an additional gate to determine whether a property has suffered Category 8 or Category 9 damage.

### 3.3 EQC Act: Insurance cancellation and limitation of liability (Section 28)

Management clarified some further policy work that had progressed since the Board paper had been produced regarding land liability.

Given this further work, the Board agreed that the paper be withdrawn as the recommendations were no longer relevant and that Management should consider submitting a new paper in respect of Section 28 for dwellings and/or the red zone.

### 3.4 Land Salvage

Management presented to the paper commenting that focus had previously been on contents and dwellings. As with the other salvage rights, land salvage could take place where EQC had paid in full as per its obligation under the Act. The Board should consider whether EQC should carry out land salvage and if so under what circumstances. There was a difficult situation in the green zone, where although legal, land salvage might not be practicable. There may be the opportunity to exercise land salvage in the red zone.

The Board referred to p. 5, the third note from the bottom regarding properties that were potentially contaminated indicating there was no reference to this point in the body of the paper. The CE confirmed this was new information and work was currently underway to confirm which are zones of potential ground contamination from previous industrial or agricultural use. The scale of this issue was as yet unknown and could be inherited by EQC.

#### The Board noted:

- that the Earthquake Commission Act 1993 (the EQC Act) sets out the rights of the Commission as to salvage (i.e. take ownership),
- that salvage rights may only be exercised if EQC pays out the full value of the insured land. Settlements based on diminution of value would not result in salvage rights to the land, unless the value of the land was diminished to zero, in which case there would be no benefit in salvage,
- that land salvage only practically affects properties with categories 8-9 damage provided, as current information suggests, all other land can be repaired for less than its value, and;
- that there are fewer than 1,000 properties, with categories 8-9 damage where reinstatement on an individual basis is not likely to be practical or economic, and which have a land area that is 100 per cent covered by EQC. Most of these properties are in the residential Red Zone or Technical Category 3 (TC3) areas, that other similarly damaged properties with a land area that has less than 100 per cent EQC cover could possibly be considered for salvage where:
  - (a) It is practically and legally possible to sever/transfer the relevant part of the land holding to EQC or
  - (b) The insured land owner is willing to transfer the entire land holding to

EQC in return for a further payment by EQC (i.e. EQC purchases the residual uninsured land), and;


The Board agreed:

- that the primary criterion for management to apply, in considering the exercise of EQC's salvage rights over land, is the likelihood of recovering at least some of the costs of settling the claim after all salvage-related costs are taken into account, and;
- that, in considering the exercise of EQC's salvage rights over land, salvage-related costs to be taken account of by management should, without limitation, include likely operational costs, land holding costs (e.g. property management, maintenance, and rates) and/or disposal costs associated with the future sale of the land.

### 3.5 Group Repairs

Management presented to the paper, confirming that when EQC was providing CERA with estimates for its land liability last year, so that CERA could inform the Crown of likely costs of red zoning, EQC was careful to make it clear to CERA that its obligation was on a section by section basis. Where there was a single owner of multiple sections, then the repair costs might be reduced through economies of scale. The opportunity for this was in the red zone but was impacted by the settlement process in place so the issue was at what point in time would the Crown be the single owner and would EQC have settled land before then. The advice from Tonkin & Taylor was that there may be a more limited set of circumstances in the red zone but the Board would need to consider this with respect to EQC's obligation to reinsurers. EQC's role should be limited to facilitating the homeowners' selection of a contractor before leaving them to manage that process.

The Board noted:

- that EQC had little ability to compel home-owners to accept a group repair, even where this was a more appropriate or cost effective solution,
- that there were limited opportunities to carry out group repairs to residential land damaged by the Canterbury earthquakes,
- 9(2)(i) 
- that for the limited number of properties where group repairs were feasible, Management would offer a facilitation service to assist the establishment of a group repair rather than offer to project manage such repairs, and;
- that in a limited number of situations in the Port Hills there may be a material safety risk or imminent loss threat and that Management may consider, with customers' agreement, to project manage group repairs to mitigate these risks.

*12.40 Break for lunch, Legal Counsel departs.*

*13.20 Meeting Resumes*

*Bruce Emson, GM Customer Services, Zac Berry, Business Owner – Land and Debbie Barber, GM Communications joined the meeting.*

## **4. Customer Services**

### **4.1 Business Performance Report**

Management presented to the paper and confirmed that EQC was currently drilling to establish which properties could be repaired and which could be capped. Good progress was also being made with properties with damage estimated to be under 15k and there were more properties in that category than previously thought. The 24% of repairs completed indicated on p. 3 of the report was based on CMS data which did not include a quantity of properties where work had been completed but which had not been recorded as such on CMS as the 90 day warranty period, when EQC deemed a claim to be closed, had not yet been reached.

Management had appointed a CHRP Manager who had made some changes to file management and the hub model to allow more control over delivery.

Regarding apportionment, Management advised that, to date, 43% of the overcap properties had been apportioned. It was intended that the apportionment of the remaining 100,000 would be modelled, with the agreement of EQC's reinsurers, instead of requiring manual apportionment.

The Board queried what kind of feedback had been received from the reinsurers. Management confirmed that discussion on this matter was taking place with the reinsurers this week.

Management confirmed that the number of properties repaired or rebuilt by insurers was at 150. To have done this, insurers would have had to agree with EQC what proportion of costs belonged to whom but management believed they should be subjected to the wash-up process in terms of left-over costs. This was a work in progress but the public was being told how many were currently with insurers.

The Board reiterated a request from the previous Board meeting for greater visibility with regards to OIA requests in the Business Performance Report. Management confirmed that there had been some media coverage regarding OIAs and that it was meeting the Chief Ombudsman shortly to discuss steps for improvement. Management confirmed that the Ombudsman had been complimentary so far on the mediation process and the complaints handling process. She was not so happy with the quantity of complaints however. In addition, over half the OIA team has left, mostly due to work visas running out.

**The Board requested an update report regarding OIAs next month after the CE's meeting with the Ombudsman.**

Regarding Customer Satisfaction, the Board highlighted the appearance of coverage

in the press on the same subject but with very different figures to what was in the chart. Management confirmed that the press ran its own survey on data provided by disaffected TC3 customers. The report was based on a self-selected source group.

Regarding chart 3.5 on p. 16 dealing with workforce, in relation to the 20% turnover of staff, the Board queried the situation regarding staff retention following the Board sign-off on remuneration strategies at a previous Board meeting.

Management confirmed that there had been improvements around moving staff from short to longer-term contracts but there were some specifics to the market in Canterbury and Wellington that were not yet being addressed. Some staff were being poached by other insurers as they began to increase their activity. The Board queried what scope it had to assist EQC in devising a remuneration structure.

**Management would report back to the Board with a proposal for structures for retention of critical staff for this forthcoming period.**

The Board requested further information about unexpired risk premiums.

**The Board requested that management confirm with the Actuaries whether the Unexpired Risk premiums will go down to zero over time.**

Regarding the Settlement Progress Analysis at A4, the Board queried whether the Pending Contents Claims could be removed. Management indicated that it could be done by Christmas.

#### 4.2 Customer Services Report

##### Public Meetings

The GM Customer Services, the CE, the GM SPOL and the CHRP Manager had headed a large number of these meetings which had a lot of support. The Board agreed that the meetings positively affect a large number of people.

##### Insurers

There had been communication with the Serious Fraud Office (SFO) regarding fraud as it has become more of an issue around recovery generally and there had been comment in the press recently.

9(2)(g)(i)

##### Call Centre Performance

Performance was good with 98% of calls being answered within the 9 second target.

##### Over \$80k claims

Focus was on claims over \$80k in the TC3 areas where there was foundation damage to get them costed using EQC engineers and where necessary, the drilling programme. Management anticipated this being completed largely by March 2013.

##### CHRP

Work was being carried out regarding value for money and MBIE was running a procurement model for EQC which was making a difference in terms of pulling down the cost of recovery in materials.

#### Safety

Management had been involved in the last week in a number of Government-led Initiatives around safety EQC had aligned with the former Department of Labour inviting one member of staff to EQC on full secondment for a mutual learning opportunity. That individual would also be dropped into the EQR business.

#### Land

The Board reiterated earlier discussions around the Board gaining more visibility around the land plan and communications strategies, what EQC's Interdependencies were and what the timeframes were estimated to be. Reporting against that plan would also be required to keep the Board up-to-date.

Management confirmed that for the rest of 2012 EQC would be readying itself for a sudden increase in processing of land claims expected in the New Year. He anticipated a June 2014 completion date.

The Board indicated that it wanted to acquire as much information surrounding the process over the next few Board meetings as possible, to ensure EQC was on track to deliver this and was happy to consider papers outside of meetings if that assisted.

Management clarified that from a progress point of view Tonkin & Taylor's work on Category 8 & 9 would not affect the vast majority of those claims and confirmed that completion for Categories 1-7 and for Categories 8 & 9 was currently staged to be completed at the same time. If Categories 8 & 9 were not ready then work would continue on Categories 1-7. EQC might get to a stage of partially settling and so communications would be important in terms of clarifying to claimants that there might be further payments due.

**The Board noted the Customer Services Report and requested that an indicative plan be presented at the next Board meeting, regarding communications to customers. The Board confirmed it needed the visibility in order to support the work.**

*Business Owner – Land departs meeting*

#### 4.3 Presentation on Reputational Issues

Management gave a presentation to the Board on EQC's current situation regarding Reputational Issues and what areas could be improved on.

The Board were referred to EQC's communications strategy, identifying that the key concerns likely to arise with customers were surrounding certainty and timeframes. The resulting recommendation had been to develop a 'customer promise' strategy to provide that certainty and to ensure continued communication, because unpalatable deadlines were preferable to customers than being in limbo.

Management took the Board through the proactive steps EQC was taking to put this into practice, including:

- the new EQC website;
- a new brand and advertising approach;



- quarterly surveys and focus groups;
- “Sorted by Summer” campaign
- Customer promise campaign
- Land information packs;

Indications were that the above steps led to a drop in negative coverage and where it had been caught out by an issue, the level of negative coverage had risen. However, there were still issues with negative reporting, particularly in Canterbury. Other challenges were a lack of data.

More recently, EQC’s strategy was to continue working on individual communications in the more challenging Canterbury environment while simultaneously looking at the national picture. The Board confirmed this approach. In relation to Canterbury, it was confirmed that communicating timeframes around land planning was key, as well as using the filters to reduce the number of people EQC needed to deal with.

The Board queried whether EQC had enough resources to dedicate to improved communications. Management confirmed that resourcing was sufficient and that a new Canterbury Communications Manager had recently been appointed as well as a new ad agency which would be able to help EQC with its national reputation.

The Board queried whether enough resources were being put into the call centres to ensure the interface with customers was as good as it could be. The GM Customer Services confirmed that there was much effort going into improving them but the challenge was recording outcomes of the public meetings and feeding that back to the call centres quick enough for staff to be able to deal with the inevitable calls on those outcomes the following morning thus ensuring the message was consistent.

*The GM Customer Services and the GM Communications depart*

#### 4.4 Chief Executive’s Report

Management presented aspects of the report that had not already been covered including the Monte Carlo Reinsurance Conference that was a very positive experience.

The GM Reinsurance, Research and Education attended the annual World Forum of Catastrophe Programmes in Switzerland mostly to provide real life experience of a large event but also an opportunity to take Treasury staff along to an international event ahead of the Review. The GM SPOL provided a brief overview of his trip to Mexico for the G20 Disaster Risk Management Steering Group.

## 5. Corporate Services

### 5.1 Governance Arrangements

The Acting Chair referred to the discussion point around a quorum and suggested a decision be made in advance, gaining Ministerial direction, enabling a system to be implemented automatically when an event took place so that the Board would not have to do anything under pressure.

The Board suggested linking it to invoking the Catastrophe Response Plan as that was the organisational trigger and making basic information available on the website that those who were out of town could access.

It was noted that the Board should not be given an operational status in such an event as the focus should remain on Management. There also ought to be relevant knowledge with the Senior Executive Manager at the outlying offices. In terms of a Acting Chairperson, it was believed that the Chair should decide who would be appropriate, probably individuals based outside Wellington.

**The Board noted:**

- **the matters arising in a Wellington Region Event that could impact the Board's governance of EQC, being:**
  - **Succession**
  - **Availability Confirmation Procedure**
  - **Board Meetings without a Quorum**
  - **Executive Support, and;**
  
- **the planned procedures noted in the paper for the Confirmation of the Interim Management Structure**

#### 5.2 ACC Privacy Review

The CE confirmed that this paper was a response to the specific recommendation in the ACC Privacy Review regarding governance accountability for privacy.

The Board queried what was happening with the one breach that had taken place in addition to it being disclosed to the Privacy Commissioner and was advised that the decision rested with the Privacy Commissioner regarding whether that breach warranted further disclosure.

In addition, it believed EQC should be ready to react should the issue come out in the media.

Regarding the Governance Recommendations 1.1, the Board queried the relevance of the comment "not required for EQC". It was suggested that "will be achieved by following recommendations below" or similar as being more appropriate. At 1.3, the Board requested that it would prefer the 6-9 month period to be made shorter.

**Subject to these amendments being made, the Board:**

- **noted the planned activities to improve EQC's privacy practices and personal information security discussed in this paper,**
  
- **considered and discussed the Board governance recommendations in the ACC report,**
  
- **agreed that a privacy vision for EQC be developed that aligns with EQC's strategic goals,**
  
- **noted and agreed to the recommendations in response to the ACC report**

**governance recommendations,**

- **noted that the Auditor-General's inquiry into aspects of ACC's Board-level governance recommended ACC adopt a policy prescribing the practices that should apply when a claimant contacts a Board member directly,**
- **agreed to adopt a policy for Board members prescribing the practices that should apply when a claimant contacts a Board member directly to discuss EQC matters,**
- **directed Management to develop a policy for the Board's approval, and;**
- **directed Management to prepare a paper for review by the Board regarding how it should to "actively participate in the development of a vision for privacy".**

### **5.3 Procurement & Contract Management Strategy**

Management informed the Board that as the Audit Report deemed EQC's procurement activities to be inadequate, this paper was an update on work being done to improve centralisation oversight of procurement contracts in place.

The Board referred to item 3 in the Progress Update Report regarding EQC Contracts Register and breaking down contracts into Group A and B. In terms of disclosure of interests by Board members, one issue that had arisen from the Annual Accounts this year was that some Commissioners would all now have to declare an interest as the rules have changed.

The Board suggested that a month before the Annual Accounts were due EQC should circulate a list of suppliers so that Board members could establish who they had an interest with so that a decision could be made regarding the need for disclosure.

In addition, the Board requested that a PDF version of the signed contract be made available on the e-register as well as in the contracts library as it was a useful risk management tool if accessible online. They should still have security permissions written in however due to their commercially sensitive nature. This would also set a good precedent ahead of the Auditor General's work next year.

**The Board noted the content of the report.**

### **5.4 Lease for Level 4 Manpower House**

The Board noted that the paper did not cover what the seismic rating of Manpower House was. Management believed it was reported when another floor was leased previously but would check the rating again. He confirmed that it would have been a consideration when first leasing the space so it would not be dangerously low.

**Subject to the seismic rating being adequate, the Board approved the proposal to lease Level 4 of Manpower House.**

## 6. Strategy, Policy and Legal

### 6.1 EQC Act: Review and Lessons Learned from Canterbury

Management presented to the paper and highlighted that at the Board Strategy Day in August 2012 it was decided to document lessons learned from Canterbury to inform the Treasury Review. This paper was a cover note for the information provided to and noted by Treasury (also included in the paper) dealing with advice EQC had been giving over the last 16 years regarding the Act. The rest of the paper was a summary of the legal issues that had arisen as well as the more generic operational issues and systems that needed to be put in place as a result.

Management highlighted thinking from Treasury around what EQC should cover in terms of property and in particular to land, notably the loss of the use of the land. This would mean that in future EQC could be responsible for paying out for red zone decisions.

The Board queried whether the requirement was to change the default position to making a cash-settlement for the customer to use in the market rather than EQC having responsibility for repairing the property. The Government would get involved with situations on a larger scale but that would not be the default position. The market was not currently able to carry out its role because EQC was taking over.

The Board referred to p. 15, item 9 regarding EQC's view that if the Commission had a deficit then the Government should cover it immediately. Although it agreed that the timeframe of payment should be clarified but it was perhaps not EQC's decision as to when the payment should be made.

The wording should be amended to read: "The timing and nature of payment should be clarified...".

**The Board noted the information in the paper and in the appended terms of reference for the Treasury-led review of the EQC Act.**

### 6.2 Dwelling Apportionment Overview

Management gave a presentation to the Board on Dwelling Apportionment, including the background, definitions, purpose of apportionment, detail on the manual versus modelled apportionment, complexities and key risks.

One key risk was customer disagreement with the outcome. There needed to be a method of giving appropriate weighting to the views of the customer. Regarding the reinsurers, EQC was remaining transparent with them and they would benefit if a model could be produced as it would lead to faster settlement of claims and ultimately faster resolution with regards to their liability. The risk of legal challenge remained. Another key risk was insurer agreement with EQC's process.

The Board suggested sending a letter to those concerned, copying in the Minister and asking how they intended to proceed because the lack of response could hold up the apportionment policy.

It was noted that EQC carried out the apportionment and if it believed a claim was over \$100k then EQC would make the payment before moving the claim to the insurer, with a note requesting a response within ten days if there was any disagreement.

**The Board noted the Dwelling Apportionment Overview**

## **7. General Business**

### **7.1 Majestic Building Safety**

The Acting Chair noted that he, T J Burt and P S Hughes had financial interests in the building owner. However, the Board determined that, because discussions related to Health and Safety rather than financial matters, it did not consider this to be a conflict of interest, and accordingly, the Commissioners were able to participate in the discussions. Should the subject change the Chairmanship would hand over the Chairmanship to R J Black and the three would abstain from any decisions relating specifically to the lease.

Management confirmed that this paper was a response to a request at the August Board meeting to provide background information on seismic safety at the Majestic Centre.

Management confirmed that it was comfortable with EQC staying in the Majestic Centre:

(2)(g)(i)

At a basic level of staff safety there were improvements to be made but the building owner was currently taking those steps. In terms of the engineer's report, the current New Building Standard rating for the Majestic Centre was 35%-45% of code. The papers dated from the end of 2011 and indicated that if all the planned works were undertaken then the building would reach 67% of code which was a high performance standard. Management advised that overall work had been delayed by several months with a target completion date of the end of 2014 and updated the Board on the current status of works carried out so far.

The latest project meeting decided to propose to the KIPT Board that the target safety rating be raised to 100% from the current 60-70%. If that was agreed it would have an impact on the nature of the work required and EQC would have to think about the impact on operations as the work could be quite disruptive.

Public Sector guidance from the Property Management Centre for Expertise (PMCO) indicated that EQC should decide on its own level of tolerable risk.

**The Board:**

- **noted the contents of the Majestic Building Safety Paper;**
- **requested that Management consider employing an independent engineer to conduct a peer review of what had been determined, what the risks were and whether the timeframe was suitable, and;**

- requested that feedback be given to the Landlord of the Majestic Centre indicating that the slippage in timeframe was a major concern and that an explanation regarding this should be forthcoming.

#### 7.2 Amended Statutory Delegations Authorisation

The Board approved and signed the Amended Statutory Delegations Authorisation.

### **8. Next Meeting**

The next Board meeting will be on 14 November 2012 in Christchurch.  
TJ Burt provided his apologies for the November meeting.

16.15 meeting closed

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

---

K B Taylor      Date





## MINUTES OF THE EARTHQUAKE COMMISSION BOARD OF COMMISSIONERS

**Date:** Wednesday 14 November 2012  
**Time:** 9:50 am  
**Venue:** Pukeko Room, Level 1, 53 Princess Street, Addington, Christchurch

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

**In Attendance:** I Simpson (Chief Executive)  
B Dunne (GM Strategy, Policy & Legal)  
B Emson (GM Customer Services)  
Z Berry (Land Manager)  
9(2)(a) ██████████ (Tonkin & Taylor)  
P Jacques (GM Corporate Services)  
J Whitfield (GM Portfolio Management)  
██████████ (Manager Investigations)  
9(2)(a) ██████████ (Senior Policy Analyst)  
██████████ (Senior Policy Analyst)  
██████████ (Minutes)

### 1. MINUTES OF THE PREVIOUS MEETING

The Board agreed that the Minutes of the previous meeting dated 10 October 2012 required further refinement. It was agreed that the Chairman and Deputy Chairman would review and edit the Minutes in accordance with the Board's comments.

It was noted that a clear reference needs to be in place for the Minutes around legally privileged items. It was further agreed that Chapman Tripp should review the Minutes. Subject to the above, the Minutes of the previous meeting were confirmed as a true and correct record.

## 2. MATTERS ARISING

The Board noted action item 5.4 which confirms the seismic rating of Manpower House as being 78% of code.

Management advised that in regards to the staff turnover that was verbally reported to the last Board meeting, the turnover figure for the organisation is approximately 3% per month.

The Board noted that Action Item 4.2, Small Dwellings Paper status was listed as currently under review. The Board requested that Management put a timeline against this action.

Messrs Emson, Dunne, Berry and 9(2)(a) joined the meeting at 10.25 am

## 3. LAND SETTLEMENT IMPLEMENTATION PLAN

Management spoke to the paper. The end-to-end process of a claim was briefly outlined which set out the five steps that are worked through before a claim is completed and closed. It was noted that there may be confusion with use of the wording for the midway step labelled "Settle Claim". It was suggested that this be replaced with "Settlement Recommendation".

Management reported that Land Information packs are being prepared for the assessment phase of land. These packs contain all information regarding the individual property being assessed including aerial photos. The task ahead is to quantify the land damage and then put the data collected through an apportionment model.

Management confirmed that multi-channel communications to customers will be put in place, and assessors will be fully informed and have Land Guidelines that can be provided to the customer which clearly outlines criteria for land entitlements. Management stressed the importance of ensuring all staff, particularly front line, are fully aware of all the information around the land settlement process.

It is intended that the customer will be provided with a complete process outline at the resolution stage of the claim. In the pack to the customer, there will be a summary sheet itemising the repairs and costs of these, ideally in a "bank statement" format. It will also show the calculation of any deductions such as excess and any recoveries required from dwelling claims. It is anticipated that the timeframe from settlement recommendation through to resolution would be approximately two months.

Management confirmed that they were comfortable and confident that the treatments that are engaged for the risks as outlined in the paper are effective. Management further confirmed that those with a timeline of January 2013, particularly with the transition of GBS operations moving to NZ are being managed tightly.

The Board confirmed that they were comfortable that the processes in place are robust.

The Board further requested that a Land Progress Report be presented to the Board on a monthly basis outlining timelines, costs and quality.

#### **4. LAND SETTLEMENT UPDATE – CATEGORY 8 AND CATEGORY 9 DAMAGE**

The question around the possible reduction of Gate 1 was discussed. Management advised that reducing the threshold may double the required extent of the drilling programme in the TC1 and TC2 areas. The majority of the extra drilling would show to the property owner that they do not have category 8 damage.

The Board advised that they would prefer that Gate 1 specify whether there is any evidence that the property has an increase in susceptibility to future liquefaction.

The Board agreed they are in agreement with the intent and overall approach of Gate 1, however, asked Management to revisit the risks associated with the description.

#### **The Board:**

- Requested Management to revisit the definition or wording of Gate 1 to ensure that as far as possible, properties that would meet the other category 8 thresholds were captured by Gate 1;
- Approved the proposal under section 1(b) of the paper for additional CPT testing to gather data to calculate LSN so that Gate 4 can be applied;
- Noted the different numbers of properties affected by Category 8 land damage if the Category 8 assessment is done cumulatively as opposed to incrementally;
- Noted the proposals for the development of the desktop review process; and
- Noted the claims settlement proposal for taking account of tectonic effects from subsequent earthquakes which raise land.

The Board noted that the third sentence of the last paragraph of Annex 1 in the paper should read "If the value is increased, the number of additional TC2 properties not qualifying is small ...".

#### **5. DEVELOPING A METHODOLOGY FOR ASSESSING DIMINUTION OF VALUE (DoV) UPDATE**

Management outlined that the Land Valuation Panel appointed by EQC is reasonably confident that DoV is viable, provided adequate data is available. However, to apply DoV,

they do require sales to occur in Christchurch. The more sales data, the more certainty can be obtained about the level of diminution that will or will not occur.

The Board requested Management seek a statement from the Land Valuation Panel that the Valuation community will accept and can give assurance that the methodology is robust. Management further confirmed they were confident the methodology will be useful, would produce equitable settlements and could result in reductions to the estimated liability.

**The Board:**

- **Confirmed their confidence in the legal basis of DoV;**
- **Noted the technical difficulties encountered;**
- **Reinforced the importance for public confidence in the programme of pursuing DoV as a matter of urgency;**
- **Supported Management taking action as necessary to progress; and**
- **Supported Management developing a communications plan outlining the risks involved.**

Messrs Berry and 9(2)(a) left the meeting at 12.20 pm

**6. DEALING WITH OIAs**

Management spoke to the paper outlining the process put in place to incorporate Official Information Act (OIA) requests and Office of the Ombudsman (OO) issues with the Complaints model. Management confirmed that resources are increasing with training put in place in order to handle these requests and address the backlog.

The Board stressed the need for strict quality controls around the distribution of information to customers and the importance of timely responses to OIA requests, as is required by statute.

**The Board:**

- **Noted the paper;**
- **Endorsed the steps underway by Management in the establishment of an OIA team;**

- Confirmed that responding properly to OIA requests is a statutory requirement and failure to do so carries a reputational risk as well as being a statutory compliance breach.

Mr Burt left the meeting and the Board adjourned at 12.30 pm.

The Board reconvened at 1.00 pm.

Mr Jacques and [REDACTED] joined the meeting at 1.00 pm

9(2)(a)

## 7. CHIEF EXECUTIVE'S REPORT

The Chief Executive (CE) spoke to the paper. He outlined that the main focus is on the implementation of the Land programme in January 2013.

The Board raised the question around Privacy and protecting customer information. Management advised that a review of access to EQC claim Management system (CMS) by insurers is underway to ensure privacy obligations are being met.

The Board endorsed the importance of this review and gave its support to Management to deploy resources as necessary to implement the review and any actions arising from the review.

The CE reported that CERA have offered assistance in discussions with Insurers over land liability.

Management committed to present an outline of a declaratory judgement proposal around the entire land process.

Management discussed the number of claims that have been transferred to the Private Insurer and gave an update on the wash-up process. The manual apportionment continues and is expected to be completed by March 2013.

## 8. FRAUD UPDATE

9(2)(a) [REDACTED] gave a brief update on issues surrounding fraud and leakage. Treasury, Office of Auditor General (OAG) and Serious Fraud Office (SFO) have spent time reviewing current processes. SFO have expressed a keenness for agencies to share information across Government sectors. It was outlined that the Claim Review Team who have done a large amount of work around contents fraud and have identified approximately \$4 million of possible fraud in this area. Focus will now move towards potential contractor and Internal fraud.

Management confirmed instructions have been issued to Fletcher to reduce the number of Hubs in operation. This will enable current and future work to be centralised and then

distributed to the remaining Hubs as appropriate, which will give better control and oversight. Management further confirmed that an independent review of processes is underway; this will then be presented to the Audit & Risk Committee.

The Board advised that Fletcher should hold some accountability and have tight and tidy systems in place. The Board then encouraged Management to pursue the consolidation of the Hubs.

It was confirmed that the Chief Executive is to keep the Chairman informed on any developments with respect to fraud and leakage.

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

Ms Whitfield joined the meeting at 1.45 pm.

## 9. PROJECT PORTFOLIO MANAGEMENT

Ms Whitfield spoke to the paper and outlined the purpose of project portfolio which was to bring all the projects into line and manage risks, prioritising strategic objectives and standardising methodologies.

Portfolio Management will be reviewed quarterly which will align with the finance forecasting process.

The Board congratulated Management on the work done to date and were pleased with the visibility of timelines and costings.

## 10. IT ROAD MAP – SIX MONTHLY UPDATE

The Board noted the paper.

Ms Whitfield left the meeting at 2.10 pm.

## 11. BUSINESS PERFORMANCE REPORT

Management noted that the total number of dwellings awaiting repair will reduce as more claims are passed over to the Private Insurers.

Management tabled a paper on the estimated financial impact of recent Board decisions and other matters affecting EQC's land liability. The CE spoke to the paper noting that the estimates provided by Tonkin & Taylor were that the land liability will reduce by \$710 million overall – partly driven by a shift of liability from the June event to the February event.

Discussion moved to the fluctuating numbers of repair completions by EQR. Management outlined that the standardisation of the hubs would help in getting better control around



the workflow. EQR also have an issue around contractor retention and there is work currently underway on options for contractor retention.

Management explained the single model that is being implemented which will align complaints into EQC and EQR to one source which will give EQC full visibility across all complaints.

The Board stressed the need to have a strong focus on Health & Safety and for Management to keep the Board fully informed that effective processes are in place and being strictly followed, and this endorsement should be passed through the organisation.

The Board requested a substantive paper on Health & Safety to the December Board meeting which outlines the processes of what has been done and gives the Board confidence.

It was further noted that Health & Safety should be included in the Chief Executive's monthly report.

The Board requested Management produce a paper requesting a three month extension on the cash limit, subject to cash being available to make claim payments.

## **12. RED ZONE ISSUES AND CANCELLATION OF EQCOVER**

Management outlined the contents of the paper and discussion was around the consistency in approach of settling Red Zone properties.

Discussion moved to demolition costs of residential buildings where Management confirmed that, in almost all cases, EQC did not have the ability to pay for demolition (as the property was not written off) and that as the new owner, CERA was responsible for demolitions and had funding for that.

### **The Board:**

- **Requested further information and recommendations around GST for residential buildings in the Red Zone;**
- **Noted that further information was required from Management in regards to salvage;**
- **Agreed, in principle, EQC should cancel EQCover in the Red Zone only in relation to residential buildings (for both CERA and privately owned properties), subject to further reporting;**

- Agreed that cancelling EQC's future liabilities under Schedule 3, Clause 4 is preferable to salvage (as the most effective way to limit future EQC insurance liabilities);
- Agreed settlements to private property owners in the Red Zone will follow EQC's settlement process for private property owners in the Green Zone for both residential buildings and residential land; and
- Confirmed that EQC is not liable for demolition costs, as outlined in the paper.

### 13. DWELLING APPORTIONMENT: UNCLAIMED EVENTS

#### The Board:

- Noted that EQC's apportionment determinations may allocate damage to unclaimed earthquake events;
- Noted that reducing settlements will create equity issues between customers and may result in repairs not being completed, impacting on Government objectives for the Canterbury rebuild and reinsurer interests in timely and cost-effective settlement of claims;
- Noted that to both meet its statutory obligations and protect the integrity of its apportionment processes, EQC cannot reallocate damage to claimed events without sufficient probative evidence;
- Noted that EQC is working with Treasury officials to determine the appropriate funding mechanism to fund for unclaimed damage;
- Noted that a Ministerial Direction will be necessary to allow EQC to make payments for unclaimed damage; and
- Agreed that Management should prepare and submit (with Treasury) a paper to joint Minister (Finance and Responsible Minister) to seek Government funding for these claims if required.

9(2)(a)

joined the meeting at 3.30 pm.

### 14. UPDATE ON EQC ACT REVIEW

Management outlined the process for a Board sub-committee to review the Treasury Report. It was confirmed that Mr Dunne will be the EQC representative on the Review Panel and the sub-committee would be made up of Ms McLachlan, Messrs Hughes and Taylor.

The Board sought clarification that should there be a further event, that coverage is appropriate and there is no differentiation in cost. Further, the ability to get any payment from the fund to a customer who has a statutory entitlement would not be complicated by any other arrangements. Management confirmed that this concern has been raised at the Steering Committee and gave assurances to the Board that discussions continue around these aspects.

The Board discussed the questions raised in the paper and gave feedback on these to Management. The Board further stressed that around Question 3 of the paper, they were comfortable with this, subject to there being clear definition around the cover of dwellings. It is critical that the public have an understanding of the definition.

Discussion moved to Question 4 of the paper, the Board sought clarity on the purpose to make good and financial security and how it is related to premiums and collection of those from insurers. The Board noted that there needs to be a requirement for Insurers to provide information on who EQC are covering to give visibility on who are EQC customers. The Board noted that EQC is not an emergency management organisation and continues working within sensible policy perimeters and review mechanisms around those.

The Board provided to the EQC representative on the Review Governance Group verbal comments that it wished to make on the matters addressed in the paper, including by way of responses to questions inserted throughout the paper, to enable the Board's comments to be passed on for consideration by the EQC Act Review Team.

**The Board:**

- **Noted that the principles relevant to the design of the EQC scheme will be reviewed and confirmed at the next Review Governance Group meeting on 19 November 2012.**

**15. UNEXPIRED RISK PREMIUMS**

The Board noted the contents of the paper.

**16. REMUNERATION FRAMEWORK**

It was noted that any remuneration review needs to take place in consultation with the State Services Commissioner, who confirmed orally that EQC can continue with the retention strategy for key personnel.

**The Board:**

- **Noted the business case for the retention of key personnel;**

- **Noted the recommended approach and costs of these strategies; and**
- **Agreed to the implementation plan and communication strategy to be developed and implemented early 2013, subject to the State Services Commissioner being fully informed through the process.**

#### **17. BANK MANDATE CHANGES**

**The Board:**

- **Approved the changes to the banking delegations as set out in the paper; and**
- **Signed the Amendments to Authorised Signatories form attached to the paper.**

#### **18. QUARTERLY REPORTING AGAINST STATEMENT OF INTENT**

**The Board:**

- **Noted the paper;**
- **Agreed that Management take steps to consult the Minister Responsible for the Earthquake Commission and Treasury about potential changes to the SOI;**
- **Agreed that Management would resubmit the paper at a subsequent Board meeting, amended to include the results of consultation with the Minister and Treasury on the proposed changes to the Statement of Intent.**

#### **19. RATIFICATION OF LEASE FOR 334 LINCOLN ROAD**

The Board questioned whether the six year term lease is longer than required. Management confirmed that due to real estate being scarce, these terms were common. Management further confirmed that there is a sub-lease clause in the contracts and that discussion had been held with the Government Property Management Centre of Expertise (PMCoE) on future use.

**The Board:**

- **Ratified the execution of the Deed of Lease for the ground floor and Level 2 of 334 Lincoln Road, Christchurch.**

## **20. SEISMIC SAFETY – MAJESTIC CENTRE**

The Chair noted that K Taylor, T J Burt and P S Hughes had declared financial interests in the building owner. However, the Board determined that because discussions related to Health and Safety rather than financial matters, they did not consider this to be a conflict of interest, and accordingly, the Commissioners were able to participate in the discussions.

The Board queried the overall safety of the Majestic Centre building and, in particular, what the percentage rating meant in terms of building safety.

Management tabled a letter from Kiwi Income Property Trust outlining the work being undertaken for the strengthening of Majestic Centre.

The Board stressed that the safety of people should be priority and requested that Management give assurances to the Board from an engineering and legal standpoint and provide Management's view on life safety risk.

The Board agreed to:

- **Note the additional information provided at the meeting;**
- **Note Management's intention to continue occupying Majestic Centre Levels 20 and 23; and**
- **Accept the offer from Kiwi Property Engineers provide a fully detailed presentation to the Audit & Risk Committee, which would then report back to the Board.**

## **21. NEXT MEETING**

The next Board meeting is scheduled for Wednesday 12 December 2012 in Wellington.

The meeting closed at 4.25 pm.

The Minutes were approved by the Board as a true and correct record.

---

M C Wintringham (Chairman)

---

Date

NOTE: SOME CONTENTS OF THESE MINUTES  
ARE SUBJECT TO LEGAL PRIVILEGE.



**MINUTES OF THE MEETING OF  
THE BOARD OF THE EARTHQUAKE COMMISSION**  
Held in the Majestic Centre Board Room  
Level 20, 100 Willis Street, Wellington  
Wednesday 12 December 2012 at 8.45am

**Present:**

M C Wintringham (Chair)  
D K Bovaird  
P S Hughes  
T J Burt  
G A McLachlan  
R J Black  
G M Smith

**Apologies:**

K B Taylor  
T Burt (from 3.00pm)  
P Hughes (1.30pm – 2.30pm and from 4.00pm)  
B Dunne (GM Strategy, Policy & Legal)

**In attendance:**

H Cowan (GM Reinsurance, Research & Education)  
J Ford (Principal Legal Advisor) – part meeting  
9(2)(a) (Tonkin & Taylor) – part meeting  
B Emson (GM Customer Services) – part meeting  
P Jacques (GM Corporate Services) – part meeting  
J Whitfield (Programme Manager) – part meeting  
N Willis (Manager Strategy and Policy) – part meeting  
9(2)(a) (Minutes)

The meeting was declared open at 0915.	
	AGENDA ITEM
1.	<p><b>Present and Apologies</b></p> <p>The Chair recorded apologies from K B Taylor.</p> <p>The Board confirmed that there were no interests not otherwise declared on any agenda items.</p>
2.	<p><b>Minutes of Board Meeting of 10 October and 14 November 2012.</b></p> <p>The Chair confirmed that the revised draft Minutes of 10 October were included for the Board's Information only as they had been approved subject to changes made after an extensive review by the Chair and K B Taylor.</p> <p>The Chair detailed some additional wording changes that were required to the draft Minutes of 14 November:</p> <ul style="list-style-type: none"> <li>P. 3, point 4, second paragraph should read: "...that the property has an increase in susceptibility for future liquefaction".</li> </ul>
	<p><b>The Board</b></p> <p>a) <b>Noted the Minutes.</b></p> <p>Subject to those changes being made,</p> <p><b>The Board:</b></p> <p>a) <b>Approved and confirmed the minutes as a true record of the meeting.</b></p>



	<ul style="list-style-type: none"> <li>• P. 5, point 6, third recommendation should read: "Confirmed that responding properly to OIA requests is a statutory requirement and failure to do so carries a reputational risk as well as being a statutory compliance breach.</li> <li>• P.5, point 8, third line should read: "SFO have expressed a keenness for agencies to share information.</li> <li>• P.8, point 13, fourth recommendation should read: "... to determine the appropriate funding mechanism for unclaimed damage".</li> <li>• P.9, point 16, should read: "it was noted that any remuneration review needs to take place in consultation with the State Services Commissioner, who confirmed orally that EQC can continue...".</li> <li>• P.11, point 20, second paragraph should read: "...the overall safety of the Majestic Centre building and, in particular, what the percentage rating...".</li> </ul>	
	<p><i>H Cowan, J Ford and B Emson entered the meeting at 09.25</i></p>	
<p>3.</p>	<p><b>Matters arising</b></p> <p>At the November meeting Management had noted that the percentage of code for Manpower House was probably based on an Initial Evaluation Process (IEP), which had subsequently proved to have technical limitations. Management should provide assurances on the safety of Manpower House consistent with the action taken in relation to the Majestic Centre.</p>	<p><b>ACTION</b></p> <ul style="list-style-type: none"> <li>• Management to report back to the Board providing assurances on the safety of Manpower House.</li> </ul>
<p>4.</p>	<p><b>Chief Executive Report</b></p> <p>The Chief Executive (CE) presented the CE Report and highlighted the amount of work that had been carried out with the Executive Leadership Team (ELT) and wider Leadership Team (known as the as Directlink team) towards preparing for 2013.</p> <p>EQC could now move from a reactive position to being able to execute business plans for the future. Work had focussed on strategy and cultural behaviour with additional work around compliance, privacy and procurement.</p> <p>The Chair praised the CE and his team for the amount of work carried out so far and for continuing to build on that work.</p>	
<p>4.1.</p>	<p><b>Health and Safety Report</b></p> <p>The CE spoke to the paper which indicated the breadth of initiatives that were in place across the organisation, including upgrading EQC's reporting capability, focussing on threat response with appropriate training for staff and looking at staff wellbeing. Management was focussing on Health and Safety (H&amp;S) procedures for the construction staff that EQC was also accountable for and was launching an initiative under the fatal risk strategy.</p>	<p><b>The Board</b></p> <p>a) Requested that more frequency rates be included in the Health and Safety incidents reporting.</p> <p><b>ACTION</b></p> <ul style="list-style-type: none"> <li>• Management agreed that separate statistics could be reported for offices, hubs and EQR.</li> </ul>

	<p>Management was using its involvement in a Business Leaders Health and Safety Forum looking at (H&amp;S) leadership and the accountability and liability of CEOs and Boards, to launch a safe Canterbury rebuilt initiative.</p> <p>Work was been carried out regarding dealing with asbestos removal. An employee from Department of Labour had been invited to work on secondment to EQC to enable crossover of learning and to align agency procedure.</p> <p><u>Privacy</u></p> <p>The CE highlighted that work had been carried out with insurers regarding the information accessed on EQC databases and the holding back of this information until the security around database access has been reviewed.</p> <p>The Board confirmed the importance of privacy issues and endorsed the actions being taken by EQC to ensure compliance with privacy obligations.</p> <p><u>Finance and Expenditure Committee Questions and Hearing</u></p> <p>The Chair summarised the Committee Hearing indicating that the questions were manageable.</p> <p>The CE confirmed progress on the following matters:</p> <ul style="list-style-type: none"> <li>• Dwelling repairs (33% progress);</li> <li>• Wash up –protocol still being worked on;</li> <li>• Apportionment – EQC has assisted in reviewing a Cabinet paper regarding Crown funding of the amount of residential building damage apportioned to an event for which there is no claim. This paper had been submitted to the Ministers and was expected to be supported.</li> </ul>	<p>The Board</p> <p>a) Requested to be kept informed if any further privacy issues arose.</p>
<p>4.2.</p>	<p><b>Business Performance Report</b></p> <p>Management explained that the claims closed figure had reached 26% through a process of cleansing and closing claims. Management confirmed it was satisfied with the figures in terms of the Statement of Intent Measures as well as with the flow of cash from reinsurers. There was a continued focus on the cost base with particular scrutiny of large capital expenditure plans.</p> <p>The Chair praised the reduction of open complaints and the current status of customer satisfaction as indicated in Charts 3.1 and 3.2. The CE highlighted the decrease in negative media coverage as well as the repairs at addresses of vulnerable people being above target. The data feed from MSD was working which confirmed the definitions.</p> <p>Regarding Land reporting, Management confirmed it would produce the same level of reporting as it did for CHRP once the process was underway.</p>	<p><b>ACTION</b></p> <ul style="list-style-type: none"> <li>• Management confirmed that the Board would need to make a decision at a future point as to whether settling Category 8 and 9 land claims should continue, if EQC's method for settling Category 8 and 9 was to be challenged in court.</li> </ul>

	<p>The Chair queried the apparent disconnect between the speed of manual apportionment and the large amount of money that was still due to be paid out. The CE confirmed it was an area that required further attention.</p> <p><u>Financials</u></p> <p>Management highlighted that with regards to the monthly performance of the investment return, the inflation bond underperformed the benchmark. This was due to the increase in inflation bonds issued by the Bank. As a result, where EQC's performance had matched that index in the past, it would now move away from that index. The Chair noted that, given the cash balance held by EQC, he would be looking to management to maximise the return on investment.</p> <p>Management confirmed that the appearance of extra funding being provided to the GeoNet Programme was due to timing. There had been no change in the original fixed investment in their services.</p> <p>The Chair thanked Management and its staff for their efforts over 2012. The Board offered its assistance in communicating this message to wider EQC staff.</p> <p>Management confirmed that Minister Brownlee was due to meet staff personally to offer his thanks for their work.</p>	
<p>9(2)(a)</p>	<p>AON Benfield Staff [REDACTED] entered the meeting at 10.30</p>	<p>9(2)(a)</p>
<p>5.</p>	<p><b>AON Benfield Presentation</b></p> <p>AON Benfield gave a presentation to update the Board on the current status of EQC's reinsurance programme and to assist with looking ahead at future pressures and how that might impact on formal decisions to be taken by the Board regarding reinsurance renewal in February 2013. Key topics covered included a review of the current programme and the last renewal, the current market environment, 2013/14 renewal considerations on options, pricing and strategy and a brief summary of the status of [REDACTED]</p> <p>AON Benfield confirmed that EQC had benefited from a very good relationship with its reinsurers and had no concerns over the willingness or ability of EQC's reinsurance panel to continue to pay claims. They may however seek further understanding of the data in future particularly around apportionment between different events so further audits throughout 2013/14 would be inevitable. AON Benfield reassured the Board that as long as EQC maintained its current level of clarity, transparency and good communication with insurers around its apportionment processes then that would minimise the chance of any issues arising with the market future.</p>	

	<p>Management confirmed that [redacted] BBB+ status was not in breach of EQC's security policy. AON Benfield reassured the Board that [redacted] was on its list of acceptable markets that would be proposed to EQC.</p>	
	<p>AON Benfield staff and P Jacques left the meeting at 11.30 [redacted] 9(2)(a) N Willis and [redacted] joined the meeting at 11.35</p>	
<p>6.</p>	<p><b>Update on Land Damage – Overview Paper</b></p> <p>Management spoke to the paper, confirming that it had reviewed a number of Tonkin &amp; Taylor (T&amp;T) reports regarding land damage repair methods and the thresholds for determining land damage for categories 8 and 9. Management was confident that the contents of these reports could be operationally implemented and were deliverable within the proposed land timetable.</p> <p>Management and Chapman Tripp had also provided feedback to T&amp;T about the reports. The Chair confirmed that the Board only required sufficient commentary and background to the recommendations from Management in order to be assured that the issues had been adequately addressed and analysed.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Noted that Management had reviewed the T&amp;T Canterbury Earthquake Series Category 1 to 7 Land Damage and Repair Methods Report tabled at the Board meeting (the T&amp;T Category 1 to 7 Report).</li> <li>b) Noted Management confirmed that it was satisfied that the land damage thresholds and the consolidated list of repair strategies set out in the T&amp;T Category 1 to 7 Report were appropriate and able to be operationalised in accordance with the timetable for settling land claims.</li> </ul>
	<p><b><u>Part A – Canterbury Earthquake Series Category 1 to 7 Land Damage and Repair Methods Report</u></b></p> <p>Management and T&amp;T commented further on aspects of the paper. The Chair queried what, if any, were the risks associated with Management's proposals for settling land claims for land damage categories 1 to 7.</p> <p>The CE confirmed there may be further discussion around these processes and in particular, there were issues regarding how to proceed where land damage had been fixed by natural causes or repairs to the dwelling or by the claimant. However, Management was comfortable with its approach to this as set out in the paper.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Authorised Management to continue land settlement on the basis of the T&amp;T Category 1 to 7 Report.</li> <li>b) Confirmed its February 2012 decision that where an Insurer needed to reinstate at least part of the land in order to reinstate the dwelling, EQC should reimburse for the marginal cost only.</li> <li>c) Agreed that EQC should assess damage "as of today", such that the insured who has demolished or repaired their house or for whom demolition was inevitable, would be treated as having their land "self-repaired" where that work had remedied part or all of the physical effects of the earthquakes.</li> <li>d) Agreed that where the claimant had carried out repairs to the insured land, EQC would reimburse the claimant for those costs in accordance with the Insurance under the Earthquake Commission Act 1993, provided the claimant provides proof of damage and supporting documentation of expenses incurred.</li> </ul>

<p><b><u>Part B – Canterbury Earthquake Series Category 8 Land Damage – Exacerbated Vulnerability to Liquefaction Report</u></b></p> <p>Management and T&amp;T spoke to the paper, including the flowchart that set out the Category 8 assessment framework.</p> <p>The Board suggested the creation of a plain language version of the flowchart with the engineering calculations provided as an appendix to ‘show the working’ that had taken place in the creation of the flow chart. The Board would then approve that version.</p> <p>Management indicated that this was partly provided on p. 12 of the T&amp;T report (Fig. 6.1-1) and that advance work was also being carried out by the Communications team to clearly set out the principles of the flow chart.</p> <p>Management referred to a further report by T&amp;T concerning Category 9 Land Damage – Exacerbated Flood Vulnerability. Management had reviewed the paper and explained to the Board that some additional work had been carried out since the last report, including further data now available for the 1 in 100 year flood model which had been analysed by T&amp;T.</p>	<p><b>The Board</b></p> <ul style="list-style-type: none"> <li>a) Agreed and was satisfied that Gate 1 was a preliminary assessment for where EQC attention should be directed in terms of carrying out drilling rather than a means of inadvertently excluding claimants.</li> <li>b) Noted that Management had reviewed the T&amp;T Canterbury Earthquake Series Category 8 Land Damage – Exacerbated Vulnerability to Liquefaction Report tabled at the Board meeting (the T&amp;T Category 8 Thresholds Report).</li> <li>c) Noted that Management confirmed that it was satisfied that the Category 8 assessment thresholds set out in the T&amp;T Category 8 Thresholds Report were appropriate and able to be operationalised in accordance with the timetable for settling land claims.</li> <li>d) Noted the revised estimates of numbers of properties that were likely to be affected by Category 9 land damage based on the 1 in 100 year flood threshold, and the further work that was yet to be undertaken to improve the reliability of the flood models used to assess Category 9 land damage.</li> <li>e) Noted Management had reviewed the T&amp;T Canterbury Earthquake Series Category 9 Land Damage – Exacerbated Flood Vulnerability Report tabled at the Board meeting (the T&amp;T Category 9 Thresholds Report).</li> <li>f) Noted Management confirmed that it was satisfied that the thresholds set out in the T&amp;T Category 9 Thresholds Report were appropriate and able to be operationalised in accordance with the timetable for settling land claims.</li> <li>g) Authorised Management to continue land settlement on the basis of the T&amp;T Category 8 Thresholds Report and the T&amp;T Category 9 Thresholds Report.</li> </ul>
<p><i>The meeting broke for lunch at 12.50 and resumed at 13.15.</i></p> <p><i>P S Hughes and N Willis departed the meeting.</i></p>	
<p><b><u>Part C – Repair Options for Land with an Increased Vulnerability to Liquefaction and Flooding (Land Damage Categories 8 and 9)</u></b></p> <p>The CE spoke to the paper and responded to questions from the Board. These included information that the repair strategies could be operationalised and that the timing of repairs would be in accordance with the previously agreed timetable.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Noted that Management had reviewed the T&amp;T Repair Options for Land with an Increased Vulnerability to Liquefaction and Flooding (Land Damage Categories 8 and 9) Report tabled at the Board meeting (the T&amp;T Category 8 and 9 Repair Options Report).</li> </ul>

NOTE: SOME CONTENTS OF THESE MINUTES  
ARE SUBJECT TO LEGAL PRIVILEGE.

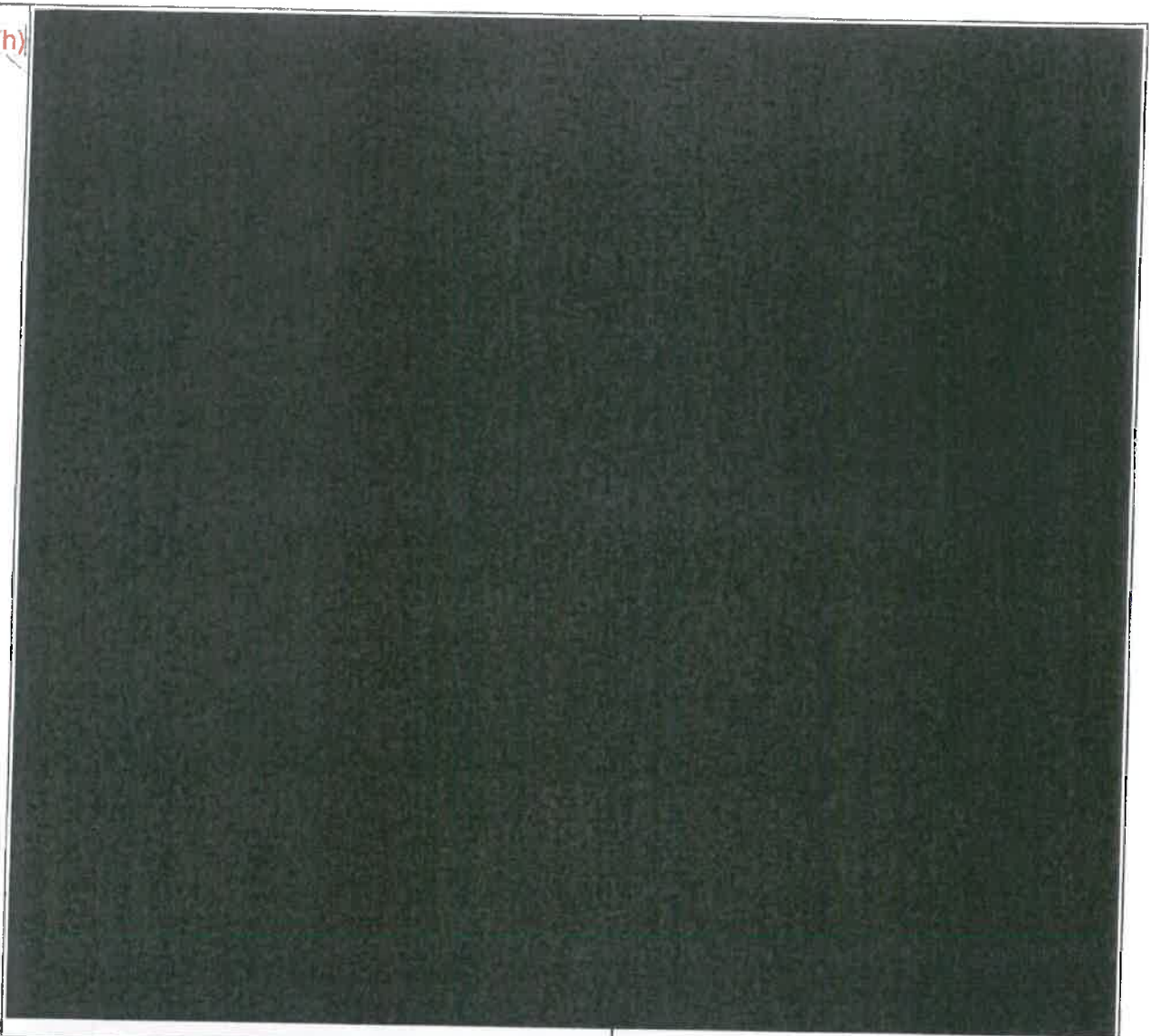
		<p>b) Noted Management confirmed that it was satisfied that the repair strategies set out in the T&amp;T Category 8 and 9 Repair Options Report were appropriate and able to be operationalised in accordance with the timetable for settling land claims.</p> <p>c) Authorised Management to continue land settlement on the basis of the T&amp;T Category 8 and 9 Repair Options Report.</p>
	<p><b><u>Part D – Statement from Land Valuation Panel on Developing a Methodology for Assessing Reduction in Value</u></b></p> <p>The Board discussed with Management the statement provided by the Valuation Panel.</p> <p>Management advised that cash settlements for land would begin over December, January and February which was in keeping with what EQC had promised. However, it would be April/May before payments would be made for the flat land properties where the potential for settlements based on a reduction in value will arise.</p> <p>The Board raised a number of questions relating to settlement of land claims on the basis of reduction in value, referring particularly to its application in practice.</p> <p>Management suggested that if the Board allowed it to move forward with this work, it would return to the Board in March 2013 with evidence of how settlements had been progressing. The CE suggested providing a quarterly update thereafter.</p>	<p><b>The Board:</b></p> <p>a) Noted the statement provided by EQC's valuers and the Land Valuation Panel (the Panel) that, on the basis that further engineering advice was provided, it could develop an appropriate methodology which would provide a robust framework to assess the reduction in value resulting from Category 8 and 9 land damage.</p> <p>b) Agreed that Option 2 is the preferred option with respect to the application of any settlements to be based on a reduction in value, being that the methodology continues to be developed and will be finalised and used (based on the best available information at that time) as soon as EQC is in a position to start settlements of land damage on the flat land.</p> <p>c) Requested EQC's valuers and the Panel continue to progress as a matter of urgency, the development of the methodology to assess Category 8 and 9 damage.</p> <p>d) Requested that Management present to the March 2013 Board meeting the implications of the application of this method in the land settlements planned for 2013.</p>
	<p><b><u>Part E – Future Decisions on Land Damage</u></b></p>	<p><b>The Board:</b></p> <p>a) Approved Management proceeding on this basis of land damage thresholds and repair solutions (as outlined in the T&amp;T Category 1 to 7 Report, the T&amp;T Category 8 Thresholds Report, the T&amp;T Category 9 Thresholds Report, and the T&amp;T Category 8 and 9 Repair Options Report).</p> <p>b) Agreed that if any amendment needed to be made to those land damage thresholds or repair solutions, Management may make the amendment, subject to ensuring that the amendment would not have a material effect on EQC's overall liability. If the amendment would have a material effect, then Management will refer the matter back to the Board. Management should also inform the</p>



	<p>9(2)(a)</p>	<p>Board about what amendments had been made.</p>
	<p>departed the meeting at 14.25</p> <p>P S Hughes returned</p>	
<p>7.</p>	<p><b>Red Zone: Goods and Services Tax Issues</b></p> <p>The CE confirmed to the Board that there would be no requirement for EQC to pay demolition costs other than in the unlikely event of there being a total loss with a CHRP-managed repair.</p> <p>Following consideration of legal advice and discussions on the impact on customers and CERA of this decision, the Board agreed with Management's recommendations as set out in the paper.</p> <p>9(2)(h)</p> <p>9(2)(h)</p> <p>9(2)(h)</p>	<p><b>The Board:</b></p> <p>a) Agreed that Goods and Services Tax (GST) would not be added to the cash settlement payable to CERA for the Crown option one residential dwelling settlements in the Red Zone.</p> <p>b) Noted Management would write to CERA setting out EQC's reasons for excluding GST from Crown option one residential building settlements in the Red Zone.</p> <p>c) [REDACTED]</p> <p>d) Noted under the Crown option one offer, EQC's original customer (the private home owner) was no worse off if EQC did not gross up the residential dwelling settlement for GST.</p> <p>e) Agreed that GST would be added to the cash settlement payable to the insured under the Crown option two residential dwelling settlements in the Red Zone.</p> <p>f) Agreed that GST would be added to the cash settlement amount for residential dwellings in the Red Zone, where no Crown offer was accepted.</p> <p>g) [REDACTED]</p> <p>h) Agreed that all cash settlement for Red Zone residential land would include GST.</p> <p>i) [REDACTED]</p>
<p>8.</p>	<p>9(2)(h)</p>	<p>[REDACTED]</p>

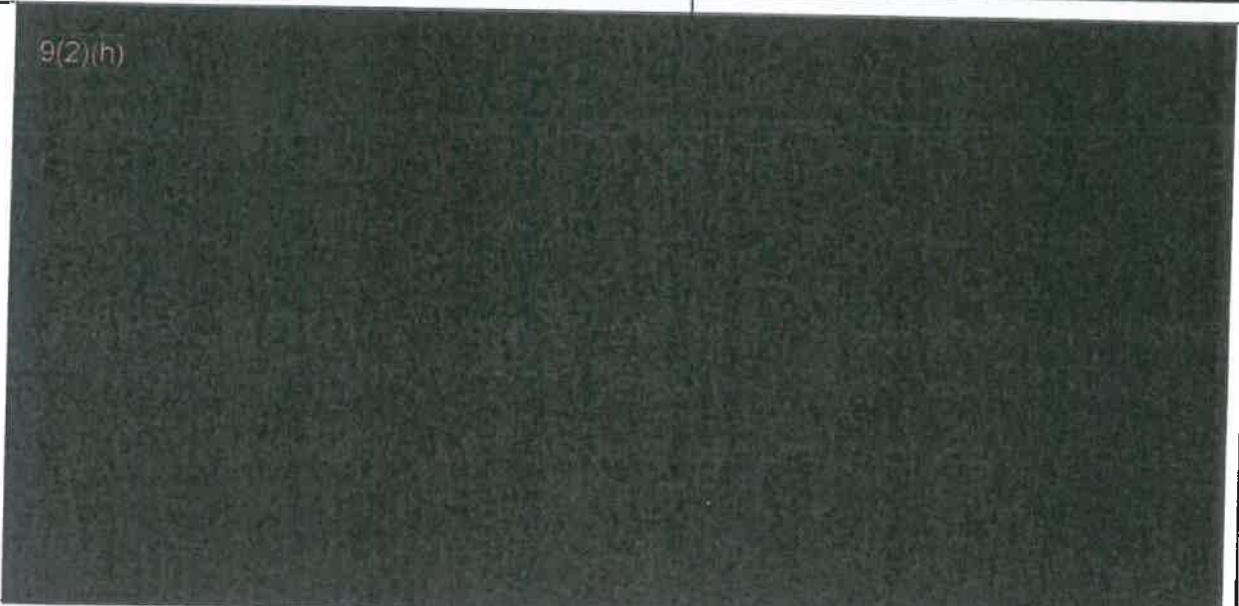
9  
Released under the Official Information Act 1982  
NOTE: SOME CONTENTS OF THESE MINUTES  
ARE SUBJECT TO LEGAL PRIVILEGE.

9(2)(h)






9.

9(2)(h)



Released under the Official Information Act 1982  
 NOTE: SOME CONTENTS OF THESE MINUTES ARE SUBJECT TO LEGAL PRIVILEGE.

	<p style="text-align: right;">9(2)(h)</p>	<p>e)</p> <p>f)</p> 
<p>10.</p>	<p><b>Majestic Centre - Seismic Strengthening</b></p> <p>The Chair of the Audit and Risk Committee (ARC) summarised the key issues that had been discussed at ARC regarding the target percentage of code that is required for the building. The presentation provided by the property owners and their consultants provided assurance around the long-term safety of the building.</p> <p style="text-align: right;">9(2)(h)</p> <p style="text-align: right;">9(2)(h)</p>	<p>The Board:</p> <ul style="list-style-type: none"> <li>a) Noted this paper.</li> <li>b) Noted the KIPT/Holmes Group presentation to the Audit and Risk Committee.</li> <li>c) </li> <li>d) Accepted Management's assurance that EQC's continued occupation of the Majestic Centre is reasonable based on a balancing of a number of relevant factors.</li> <li>e) </li> </ul>
	<p><i>TJ Burt and H Cowan depart meeting at 15.00</i></p>	

11.	<p><b>Building Material Salvage Feasibility Study</b></p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Noted the contents of this paper.</li> <li>b) Confirmed its decision that EQC will not attempt to salvage building materials, fixtures and fittings for resale as part of the Canterbury Home Repair programme.</li> <li>c) Agreed that where feasible, scrap recycling should be undertaken within the Canterbury Home Repair Programme.</li> </ul>
12.	<p><b>Management of Official Information Act (OIA) requests</b></p> <p>Management spoke to the paper and confirmed that as a matter of priority, an exhaustive process had been underway to clear the backlog of OIAs by February 2013. This would be presented to the Board at the February Board Meeting.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Noted the high priority assigned to increase resourcing of the Technical and Statutory Complaints Team and the work in progress.</li> <li>b) Instructed Management to provide an update to the Board in February 2013, on the resourcing, rate and effective resolution of OIA requests.</li> </ul>
	<p><i>P Jacques joined meeting at 15.10</i></p>	
13.	<p><b>Delegations Update</b></p> <p>The Board queried Part 1, point 7 indicating that currently the CE could not approve changes relating to Write-offs and Bad Debts. Management confirmed that a draft write off and bad debt policy had been submitted to ELT so would report back to the Board on this matter in February 2013.</p> <p>The CE assured the Board that he signed off on occasion on behalf of the GM Programme Manager where she could not due to being a contractor.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) Approved the changes to the delegation groups set out in Part 2 below.</li> <li>b) Resolved that from the date of this meeting, changes to the membership of delegation groups specified in Part 1 below may be approved in writing by the Chief Executive without Board approval.</li> <li>c) Directed Management to report any changes to the Board on a quarterly basis.</li> </ul>
	<p><i>I Simpson departs meeting at 15.15</i></p>	
14.	<p><b>Temporary Change to NZ Cash Range</b></p> <p>Management spoke to the paper and reiterated the previous approval given by the Board for an extension period of 3-6 months. This had now expired and EQC had been operating under that \$1b threshold since then. The only alternative options under the Government's direction are global equities, NZ Government bonds and cash. Bank bills would give a return at the upper end of 2-3.5% and current yields on Government stock are at approximately 2.5%.</p>	<p><b>The Board:</b></p> <ul style="list-style-type: none"> <li>a) approved a change in the NZ cash range from "an absolute amount of \$1,000m" to "an absolute amount of \$1,250m" for a period of 6 months from the date of approval.</li> </ul>

15.	<p><b>Progress Report – Procurement and Contracts Management Implementation Strategy (PCMIS)</b></p> <p>Management spoke to the paper indicating that it was a progress report.</p> <p><i>I Simpson returned to meeting at 15.17</i></p> <p>Regarding the Commercial Progress Update Report on p. 3, Management clarified the drop in the number of contracts over \$100,000 was due to old open-ended contracts that were no longer required and so had been terminated. This had had a beneficial effect in terms of reducing unnecessary cost.</p> <p>Management added that it could not provide an end date for the Premier contracts as a number of them were with large and important suppliers such as Tonkin &amp; Taylor and IBM, where maintaining good relationships is key. Contract management had been a slower process as a result. Two new members of staff had recently been taken on to manage procurement, as well as a solicitor with expertise in contract law.</p>	<p>The Board:</p> <p>a) Noted the contents of this progress report.</p>
	<p><i>B Emson departed the meeting at 15.30</i></p>	
16.	<p><b>ARC Minutes 28 November 2012</b></p> <p>The Chair of the Audit &amp; Risk Committee (ARC) summarised key points from the last ARC meeting.</p> <p>The Risk Management and Policy framework required an annual review of those criteria and the ARC was keen to note that GM Risk and Assurance had made a lot of progress on this work. She had also informed the ARC that not as much work had been carried out on the Catastrophe Response Plan as planned because of resourcing issues but it was still making good progress.</p>	<p>The Board:</p> <p>a) Noted the contents of this report.</p>
17.	<p><b>ARC Risk Report for Quarter Ended 30 November 2012</b></p> <p>The Chair of the Audit &amp; Risk Committee (ARC) confirmed that the focus was moving from what should be done to assessing how risks are being managed. The Board agreed that risk should be looked at again next year after the Land Papers have been finalised, to establish whether its concerns tallied up with Management concerns.</p>	<p>The Board:</p> <p>a) Noted the contents of this report.</p>
18.	<p><b>Annual Review of Risk Management Policy and Supporting Documents</b></p> <p>The Chair of the Audit &amp; Risk Committee (ARC) indicated that the Risk Assessment criteria be removed from the policy on p. 12-13 to sit as a stand alone document so that only one page needed to be updated.</p>	<p>The Board:</p> <p>a) Noted the contents of this paper and the conclusions of the review.</p> <p>b) Approved the recommendation of no changes to the Risk Management Policy.</p> <p>c) Approved the proposed changes to the Risk Management Framework.</p>



	<p>It was suggested further discussion at a future date around the risk evaluation and management matrix in relation to the criteria of extreme consequences and tracking the risk appetite of the Board.</p>	<p>d) Approved the proposed Risk Evaluation and Management Matrix enhancements.</p> <p>e) Agreed that the risk matrix and, in particular, the organisation's risk appetite be reviewed in the first part of 2013.</p>
19.	<p><b>Compliance Framework</b></p> <p>The CE confirmed that as this framework was new to the organisation, there has been no consistent dissemination or reinforcement at this point. This would be crystallised through the two lead projects on Privacy and Procurement and could also be pushed forward through performance management. The key was creating a culture where staff could ask questions on matters they were unsure of or if they required further information.</p>	<p>The Board:</p> <p>a) Noted the Board Audit and Risk Committee at its meeting of 28 November 2012 recommended the proposed EQC Compliance Framework be approved by the Board.</p> <p>b) Approved the attached EQC Compliance Framework.</p>
20.	<p><b>Capital Expenditure for 2012/13 – Forecast and Approval update</b></p> <p>The CE spoke to the paper. He suggested that the Capital Expenditure Delegations Decision Tree was overly complex and that Management review it again.</p> <p>Management explained that the unbudgeted expenditure of \$355k mentioned in the recommendations was due to three projects that began in this financial year but which had been approved and budgeted for in the previous year without funding being brought forward.</p>	<p>The Board:</p> <p>a) Noted the forecasted Capital Expenditure for 2012/13 remains within total approved budget.</p> <p>b) Approved, unbudgeted expenditure of \$355K substituted for the same value of budgeted expenditure in the 2012/13 Capital Expenditure plan.</p> <p>c) Agreed that Management come back to the next ARC meeting with proposals for simplifying and streamlining the Financial Delegation Framework.</p>
21.	<p><b>Summary of EQC Act Review Board Subcommittee Meeting</b></p> <p>P S Hughes and G A McLachlan had attended the subcommittee meeting and summarised the main issues discussed, including the likelihood that EQC would have a delivery role and how that would be implemented. They were confident that the meeting had proved to be useful and had left EQC in a positive position, adding that GM SPOL had been doing a good job of managing the process.</p>	<p>The Board:</p> <p>a) Received and noted the paper.</p>
22.	<p><b>General Business</b></p> <p>The Board were required to complete questionnaires for EQC to renew its Directors and Officers Liability insurance. Forms would be forwarded to the Board in due course for completion before Christmas.</p> <p>The Chair thanked G A McLachlan at her last meeting for her contribution to the EQC Board and support to the Chair. G A McLachlan thanked the Chair and Board.</p>	<p><b>ACTION</b></p> <ul style="list-style-type: none"> <li>• Board Executive to distribute forms for completion.</li> </ul>



<p>The next Board meeting will be on Friday 15 February 2013 in Wellington.</p> <p>The Meeting closed at 16.15</p> <p>These minutes were approved by the Board as a true and correct record.</p> <p>_____</p> <p>M C Wintringham                      Date</p>	
--	--