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# Southern Response Earthquake Services Limited Statement of Performance Expectations

*For Financial Year 2022*

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## **INTRODUCTION**

This Statement of Performance Expectations (SPE) is submitted by the Board of Directors of Southern Response Earthquake Services Limited ('Southern Response' or the 'Company'), pursuant to the Crown Entities Act 2004. It sets out the performance expected of Southern Response for the period 1 July 2021 to 30 June 2022.

### **Statement of responsibility**

Southern Response is responsible for the statements contained in this document, including the appropriateness of the assumptions underlying them. Southern Response is responsible for internal control systems that provide reasonable assurance as to the integrity of its financial reporting.



**ALISTER JAMES**

**Chair**

11 June 2021



**ANNE URLWIN**

**Director**

### **Strategic Objectives**

Southern Response's purpose from 5 April 2012 has been to operate as a run-off insurer in relation to Covered Claims, with the intention to operate its business consistent with normal commercial and financially prudent principles in accordance with the Crown Entities Act. It has not and will not take on any new insurance underwriting business, except to the extent that it has been ancillary to its claims management business.

With the outsourcing of the management of its claims settlement activities to the Earthquake Commission (the EQC) at the end of December 2019, Southern Response utilises its residual resources to support EQC to succeed in delivering, on behalf of Southern Response, fair and enduring settlements for Cantabrians that are yet to resolve their earthquake claims.

In addition to this, in December 2020, the Government announced that the Company would be responsible for the implementation of a package for eligible policyholders who settled with the Company prior to October 2014 (the 'Package'). The Company is planning to deliver the Package, which is currently impacted by ongoing legal processes, in the 2022 financial year.

As a Crown-owned company, Southern Response will continue to ensure its ongoing governance, financial and legal obligations are met. Acknowledging EQC's role under the Agency Agreement, key decision-making regarding claims settlements will still remain with Southern Response.

The Company will maintain a focus on delivering a customer centric approach for the settlement of outstanding claims. This includes the utilisation of third parties, such as the Greater Christchurch Claims Resolution Service (GCCRS), to assist customers through to the settlement of their claims and to identify flexible solutions and work proactively with customers to reduce disputes.

The Company will continue to work towards its wind-down in an effective and efficient way that will fully discharge its obligations, including any obligations that may arise from its build programme and the resolution of any legal disputes and/or proceedings. The Company will continue to work proactively, openly and cooperatively with its key stakeholders.

### **Business Scope**

Southern Response (formerly AMI Insurance Limited) became a Crown-owned company on 5 April 2012. It was named in Schedule 4A of the Public Finance Act, following the sale of its non-earthquake related business to IAG (NZ) Holdings Limited.

Southern Response is responsible for Covered Claims, which are defined as:

- a) Any Retained Claim – any claim made by or on behalf of a policyholder under any customer insurance contract relating to

**OBJECTIVES, SCOPE & OUTPUT FOR FINANCIAL YEAR 2022 (continued)**

any Retained Claim Event, irrespective of whether the claim is made prior to, on or after 5 April 2012.

*Retained Claim Event means the Canterbury earthquake events recognised by EQC as occurring from 4 September 2010 through 9 October 2011; and any other event that occurred prior to, or was continuing in progress, as at 5 April 2012 which entitles Southern Response to make a reinsurance claim*

b) Any other claim for which Southern Response is or may be liable pursuant to Clause 13 of the IAG Sale Agreement (relating to customer insurance contract indemnities and retained claims not clear at 5 April 2012 – essentially claims for which AMI was entitled to make a reinsurance claim and which are being managed on its behalf by IAG).

c) Any claim arising in respect of any Covered Insurance Contract.

*Covered Insurance Contract means any contract works or similar insurance policy under which Southern Response is or may be liable from time to time; and any other insurance policy under which Southern Response may be liable from time to time and which has been approved by the Crown (either individually or as a class of insurance business).*

**REPORTABLE OUTPUTS & PERFORMANCE TARGETS**

**Reportable Outputs**

Southern Response produces outputs, impacts and outcomes from its activities. However, these are not defined as reportable outputs under the Crown Entities Act.

**Performance Targets**

Performance targets for the Company's activities are measured as milestones and KPIs which have been set as follows:

**2022 Financial Year**

**Covered Claims Forecasts**

The table below (Table 1) sets out the number of open Covered Claims as at 31 March 2021 and the forecast of total of open claims at both 30 June 2021 and 30 June 2022.

Claim type	31 March 2021	30 June 2021	New claims	Settled claims	30 June 2022
Overcap	160	141	99	171	69
Construction	4	2	0	2	0
Litigated overcap	7	6	10	5	11
Other claims	15	10	43	50	3
<b>Total</b>	<b>186</b>	<b>159</b>	<b>152</b>	<b>228</b>	<b>83</b>

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**REPORTABLE OUTPUTS  
& PERFORMANCE  
TARGETS (continued)**

***Outcome one: Settling notified Covered Claims effectively***

Although EQC will be acting as Southern Response's agent, the Company will still provide specialist support to EQC and retain the decision-making obligations and ultimate responsibility for settling Covered Claims.

**What will achievement of this outcome look like?**

- The number of claims reduces in accordance with the Company's actuarial forecasts for the year (refer Table 1).
- The outcome of audits of EQC acting as the Company's agent at the end of the financial year record only minor or moderate findings.
- Customer satisfaction results meet or exceed the metric that is agreed with EQC through the Company's ongoing agency arrangements.

***Outcome two: Accurate and timely Package payments are made to eligible policyholders***

Southern Response expects to receive a number of applications for additional sums of money in relation to the Package following a broad, multi-channel communications plan. It is important that these applications are processed in an accurate and timely manner with a strong emphasis on a positive customer experience.

**What will the achievement of this outcome look like?**

- Upon receipt of a complete and valid application, offers to eligible policyholders will be made within 20 working days.
- Internal audit results report only minor or moderate findings in relation to the payment process.
- Customer complaints are dealt with in a timely manner and lessons learnt are incorporated back into business processes. We aim to respond to and resolve (where appropriate) 90% of complaints received within 60 days.

***Outcome three: Litigated claims and legal risks generally are appropriately managed***

Southern Response is involved in ongoing litigation that is of significance to the Company and the Crown more generally. It is important that litigation and legal issues faced by the Company are appropriately managed and the implications of any judicial decisions are understood.

**What will achievement of this outcome look like?**

- The number of litigated claims reduces in accordance with the Company's actuarial forecasts (refer Table 1).
- The Company has demonstrably offered alternative dispute resolution channels to customers when any form of litigation arises.
- The Company has a clear understanding of its portfolio of claims that remain and also those that have settled.

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**REPORTABLE OUTPUTS  
& PERFORMANCE  
TARGETS (continued)**

***Outcome four: Ensuring its ongoing governance, financial and legal obligations are met***

As a Crown-owned company, Southern Response will have ongoing financial, governance, legal and reporting obligations that will continue for a number of years.

**What will achievement of this outcome look like?**

- Compliance with obligations arising from the Public Finance Act 1989, the Crown Entities Act 2004 and any other relevant legislation.
- Manage liquidity in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.
- Southern Response achieves a positive audit report in relation to its management, financial and service performance, information systems and controls.

***Outcome five: Continued wind-down of the Company through its final phase is effective and efficient***

As the claims settlement process and delivery of the Package nears completion, the Company will continue to work towards the wind-down and closure of its operations to ensure it fully discharges its obligations.

**What will achievement of this outcome look like?**

- Organisational run down is in accordance with forecasts.
- The identification of the Company's physical and intangible assets, residual rights, obligations and liabilities, and data holdings is up to date.

**FORECAST FINANCIAL  
STATEMENTS**


The forecast financial statements below include a Forecast Statement of Comprehensive Income, Forecast Statement of Financial Position, Forecast Statement of Changes in Equity and Forecast Statement of Cash Flows for the 2022 financial year.

Southern Response is funded to deliver its objectives. Under the terms set out in the Crown Support Deed and its subsequent amendments, funding is recognised as share capital. Other funding received by Southern Response is by way of interest on surplus cash balances, which will be recorded as revenue in the Statement of Comprehensive Income.

Southern Response incurs expenditure as part of its activities. Operating expenditure (i.e. the day to day running of Southern Response) is recorded in the Forecast Statement of Comprehensive Income. This expenditure is funded by the Shareholders through drawdowns on the uncalled capital facility.

**FORECAST STATEMENTS  
OF COMPREHENSIVE  
INCOME**

**FORECAST STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ending 30 June 21 FORECAST	Year Ending 30 June 22 FORECAST
	\$000	\$000
		
<b>Income</b>		
Investment Income	259	305
EQC Finalisation	126,737	-
<b>Total Income</b>	<b>126,996</b>	<b>305</b>
<b>Expenses</b>		
Net Claims Handling Expense	(3,254)	-
Change in Claims Provision Estimate	(239)	(114)
Change in Claims Handling Provision Estimate	(1,179)	-
Change in Risk Margin Estimate	-	-
Amortisation of Discount on Reinsurance	-	-
Payment Package	(242,546)	-
<b>Total Cost of Claims</b>	<b>(247,219)</b>	<b>(114)</b>
<b>Corporate Expenses</b>		
Depreciation & Fixed Asset Disposal Gains / (Losses)	(445)	(171)
Company Administration	(5,897)	(5,818)
<b>Total Corporate Expenses</b>	<b>(6,342)</b>	<b>(5,989)</b>
<b>Total Expenses</b>	<b>(253,560)</b>	<b>(6,103)</b>
<b>Surplus/(Deficit) Before Tax</b>	<b>(126,565)</b>	<b>(5,798)</b>
Taxation	-	-
<b>Surplus/(Deficit) After Tax</b>	<b>(126,565)</b>	<b>(5,798)</b>

**FORECAST STATEMENTS  
OF CHANGES IN EQUITY**

**FORECAST STATEMENTS OF CHANGES IN EQUITY**

	Year Ending 30 June 21 FORECAST	Year Ending 30 June 22 FORECAST
	\$000	\$000
		
Opening Equity	(141,608)	(228,173)
Surplus / (Deficit) After Tax	(126,565)	(5,798)
Call on Uncalled Share Capital	40,000	115,000
<b>Closing Equity</b>	<b>(228,173)</b>	<b>(118,971)</b>

Balance of Uncalled Share Capital	139,000	24,000
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**FORECAST STATEMENTS  
OF FINANCIAL POSITION**

**FORECAST STATEMENTS OF FINANCIAL POSITION**



	As at 30 June 21 FORECAST \$000	As at 30 June 22 FORECAST \$000
<b>EQUITY</b>		
Share Capital	1,318,939	1,433,939
Retained Earnings / (Losses)	(1,547,112)	(1,552,910)
<b>TOTAL EQUITY</b>	<b>(228,173)</b>	<b>(118,971)</b>
<b>Represented By:</b>		
<b>ASSETS</b>		
Cash & Cash Equivalents	126,105	7,025
EQC Debtor	-	-
Sundry Debtors	-	-
Fixed Assets	170	-
<b>TOTAL ASSETS</b>	<b>126,275</b>	<b>7,025</b>
<b>LIABILITIES</b>		
Sundry Creditors	1,578	1,245
Lease Liability	164	-
Payment Package	242,081	68,582
Total Outstanding Claims	110,624	56,168
<b>TOTAL LIABILITIES</b>	<b>354,447</b>	<b>125,995</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>(228,173)</b>	<b>(118,971)</b>

Balance of Uncalled Share Capital

139,000

24,000

**FORECAST STATEMENTS  
OF CASH FLOW**

**FORECAST STATEMENTS OF CASH FLOW**



	Year Ending 30 June 21 FORECAST \$000	Year Ending 30 June 22 FORECAST \$000
<b>Cash Flows From Operations</b>		
Investment Income Received	267	305
EQC Finalisation	126,737	-
Claims Paid	(57,405)	(51,438)
Other Operating Expenses Paid	(11,321)	(182,782)
<b>Net Cash Flow From Operations</b>	<b>58,279</b>	<b>(233,915)</b>
<b>Cash Flows From Investing</b>		
Sale of fixed assets	-	-
Lease liability	(331)	(165)
<b>Net Cash Flow From Investing</b>	<b>(331)</b>	<b>(165)</b>
<b>Cash Flows From Financing</b>		
Proceeds from Uncalled Capital Facility	40,000	115,000
<b>Net Cash Flow From Financing</b>	<b>40,000</b>	<b>115,000</b>
<b>NET CASH MOVEMENT</b>	<b>97,948</b>	<b>(119,080)</b>
Opening Cash Balance	28,157	126,105
<b>CLOSING CASH BALANCE</b>	<b>126,105</b>	<b>7,025</b>

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## NOTES TO THE FORECAST FINANCIAL STATEMENTS

### Reporting Entity

Southern Response is a limited liability company incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is a Crown-owned company listed in schedule 4A of the Public Finance Act 1989.

The Company's principal business is to settle claims under AMI policies arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

### Basis of Preparation

These prospective financial statements have been prepared for the purpose of providing information on Southern Response's future operating intentions and financial position against which it must report and be formally audited at the end of the financial year.

These prospective financial statements have been prepared:

- in accordance with the relevant requirements of the Public Finance Act 1989 and the Crown Entities Act 2004, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP)
- in accordance with FRS42 and NZ GAAP as it relates to prospective financial statements
- in accordance with NZ GAAP as appropriate for profit oriented companies
- on a GST-exclusive basis, except for receivables and payables which are presented on a GST-inclusive basis
- on a historical cost basis, except for certain assets which have been measured at fair value and all outstanding claims liabilities and reinsurance receivables have been measured in accordance with NZ IFRS 4 Insurance Contracts
- in New Zealand dollars rounded to the nearest thousand, unless separately identified.

The forecast financial statements have been presented on a going concern basis, deemed appropriate given the funding arrangement provided under the Crown Support Deed.

### Statement of Significant Underlying Assumptions

#### *Timelines and Scope of Activities*

The forecast is based on:

- An ultimate number of 9,058 properties with overcap claims will be managed by the Company. As at 31 March 2021, approximately 8,840 have been reported to the Company.
- The Company continuing to outsource its claims handling processing to EQC as agent. A small number of staff and contractors continue to be engaged directly by the Company to provide administrative and support services, the majority of whom are on fixed term contracts through to 31 December 2022, at which point demand for services will again be re-assessed based on the remaining level of outstanding claims.



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**NOTES TO THE FORECAST  
FINANCIAL STATEMENTS  
(continued)**

- The provision for the payment package has been recognised as an expense in the 2021 financial year, with payments spread over an 18 month period in the 2022 and 2023 financial years. It also assumes the full 15% risk margin is utilised.

The forecast includes actual, unaudited results to 31 March 2021.

**Income Statement**

- Investment income is based on 0.5% yield on all funds.
- Claims handling expense reflects the cost of claim management services outsourced to EQC, along with any directly relevant costs of claims-related staff and contractors engaged directly by the Company.
- Other staff costs (e.g. management, reporting, and administration) along with legal & professional fees that are not directly claims related, are shown as Corporate administration costs.

**Statement of Financial Position**

- The Crown has provided Southern Response with funding under the Crown Support Deed and its subsequent amendments, with the undrawn balance classified as uncalled capital and available for drawdown as required.

**Claims Liability**

- The Actuarial valuation at 31 March 2021 assessed the risk margin, with at least 75% probability of sufficiency, at \$35.7 million, which at that point represents 37% of the outstanding Central Estimate. The forecast financial statements assumes the risk margin will be required to settle customer claims and accordingly the provision is not amortised (credited) to the profit and loss account as claims are paid.
- The Claims Liability includes a provision for Claims Handling Expenses, but not for corporate administration expenses.
- On 26 September 2018, the Crown, through the Minister of Finance, agreed to indemnify the Company in relation to certain litigation. The indemnity enables Southern Response to continue to focus on settling the remaining outstanding claims of its customers. On 28 June 2019, the scope of the indemnity was amended to include any present or future legal proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown.
- It is assumed that the Company will continue to receive new claims (albeit at a reduced rate) until December 2023.
- The total number of outstanding overcap claims as at 30 June 2022 is forecast to be 69 (from a total of 83 Covered Claims).

**Outsourced Claims Management**

- At 1 July 2021, approximately 159 open Covered Claims are forecast to be in the Company.
- The Company has outsourced its claims handling to EQC who will act as the Company's agent.
- EQC will invoice the Company on a quarterly basis for staff costs relating to management of claims, and once a claim is settled for direct claim costs.
- Funding for payment of expenses will be met by drawing uncalled capital.

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**NOTES TO THE FORECAST  
FINANCIAL STATEMENTS  
(continued)**

**Cash Flow**

- The uncalled capital is drawn quarterly as required to meet claims payments and operating expenses.
- The Uncalled Capital facility forecasts drawdowns totaling \$115 million in the year ending 30 June 2022 to fund the combined requirements of the claims payments and package payments. This leaves \$24 million of the facility available at 30 June 2022 for further drawdowns. The drawdowns are based on the risk margin portion of the claims and package needing to be paid.

**Taxation**

- Southern Response is a tax paying entity.
- The Company has incurred tax losses totaling \$1,167 million to 30 June 2020. The tax losses are available to offset assessable income arising in future years, however the tax benefit of the losses has not been recognised.

**Going Concern**

- The financial forecasts have been prepared using the going concern assumption.
- At 30 June 2020 Southern Response had a net asset deficit of \$142 million. As the Company requires additional capital to meet its claims payment obligations it can access this capital from the Crown, with the ability to access a Crown indemnity should there be a shortfall.
- On the basis of the above the Directors concluded that it is appropriate to prepare the forecasts on a going concern basis.

**Key Risks to the Financial Forecasts**

- The Actuarial valuation of the claims liability may increase in subsequent valuations. Key components of this are:
  - The ultimate number of claims
  - Escalation in settling the remaining body of outstanding claims, including additional costs for settling disputed and litigated claims.
- There is considerable uncertainty around the eventual outcomes of the payment package and its interaction with the representative action and other related matters, including the estimated exposure and the take-up rate of the package.
- The risk margin on both the claims liability and payment package is subject to ongoing review by the Company's appointed Actuary and may be amended in response to changes in the risk profile of outstanding claims and payment package status.

**SIGNIFICANT ACCOUNTING  
POLICIES**

The following accounting policies significantly affect the measurement of financial performance and position.

**Accounting Policies Related to Insurance Contracts**

All of the general insurance products utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder).

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**SIGNIFICANT ACCOUNTING POLICIES (continued)****Outstanding Claims Liability (including the Payment Package)**

The outstanding claims liability is measured as the central estimate of the present value of expected future claims payments plus a risk margin.

The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs.

To allow for the inherent uncertainty of the central estimate, a risk margin is applied to the outstanding claims liability net of reinsurance and other recoveries. The risk margin increases the probability that the net liability is adequately provided for.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the inherent uncertainty involved in determining the liability, it is likely that the final outcome will prove to be different from the liability established.

**ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES****Investment Income – Interest**

Interest is recognised using the effective interest method.

**CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In preparing these prospective financial statements, Southern Response has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results and the variations may be material.

Estimates and assumptions are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions have significant risk of causing material adjustment to the carrying amount of the assets and liabilities within the forecast financial statements.

**Ultimate Liability Arising from Claims Made Under Insurance Contracts**

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the reporting date, including the cost of IBNR.

The estimated ultimate cost of claims includes direct expenses to be incurred in settling claims, gross of the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already

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notified to the Company, where more information about the claim event is generally available.

In calculating the estimated ultimate cost of unpaid claims the Company uses an actuarial valuation carried out by an independent actuary.