

SOUTHERN RESPONSE ANNUAL REPORT 2020

TE PŪROKO A TAU
A URUPARE KI TE
TONGA 2020



Urupare ki te Tonga

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Chair and General Manager's Report

This is the ninth Annual Report of Southern Response Earthquake Services Limited ("Southern Response" or "the Company") as a Crown-owned company.

At the end of the 2019 calendar year, Southern Response appointed the Earthquake Commission ("EQC") as the Company's agent to assist with the settlement of outstanding claims from AMI policyholders. Southern Response continues to retain ultimate responsibility and liability for the settlement of its outstanding claims. The Company remains committed to settling outstanding claims in a fair, timely and enduring manner. To ensure that Southern Response is able to fulfil these obligations, the Company has retained a small team of personnel to deliver on its purpose and these outcomes.

As at 30 June 2020, Southern Response had settled over 99.92% of the Covered Claims¹ notified to the Company as at 30 November 2019. In numbers, this means Southern Response has settled 48,894 Covered Claims, including 8,057 overcap house claim settlements.

Year in review

Southern Response's claims settlement target for the 2019-20 financial year was to settle 99.73% of Covered Claims notified to the Company as at 30 November 2019. This target was met and exceeded. Southern Response, together with support from EQC acting as the Company's agent, settled 383 Covered Claims of AMI policyholders during the 2019-2020 financial year.

During the year Southern Response received a number of further Covered Claims and at the end of the financial year, the Company has 227 Covered Claims in progress.

With a reducing claims portfolio, a new way of operating was required to ensure the remaining customers received a professional and appropriate level of service. At the end of 2019, Southern Response outsourced the management of claims settlement activities to EQC, following a period of time of close working arrangements between the organisations.

The agency agreement with EQC operationally took effect on 1 January 2020, at which time there were 245 Covered Claims remaining, with the number reducing to 227 by 30 June 2020 as follows:

Covered claims at 1 January 2020	245
Claims settled 1 January 2020 to 30 June 2020	160
Additional claims 1 January 2020 to 30 June 2020	142
Covered claims at 30 June 2020	227

¹ See 'Glossary of Terms' used for the definition of Covered Claim

Southern Response retains ultimate responsibility and liability for all Covered Claims and maintains a strong focus on delivering a customer-centric approach to claims settlement, including providing specialist capability to support EQC. Southern Response continues to ensure that:

- the customer is at the centre of processes, communications and systems and actively works to facilitate alternative settlement pathways in a transparent and collaborative way, and
- the Company continues to provide technical and claim expertise to EQC, providing capability to support EQC to settle the remaining Covered Claims in accordance with the relevant AMI policies.

The Statement of Performance Expectations ("SPE") and Statement of Intent ("SOI") were updated during the year to reflect the new working arrangements with EQC.

On 21 March 2020, the Government in response to the Covid-19 pandemic, announced the alert level system. As a result, all Southern Response personnel were instructed to work remotely from 23 March 2020.

During Alert Levels 2 to 4, Southern Response continued to regularly meet (virtually and in person where protocols allowed) with EQC at all levels of the organisation. Information regarding customer issues was shared quickly when appropriate. At all stages, the Company maintained regular dialogue with EQC to ensure guidelines and practices were aligned between the organisations and that staff communications were shared between the organisations.

Following the announcement on 15 June 2020 of the move to Alert Level 1, normal operations resumed with best practice precautions in place to the end of the financial year.

Customer-centric approach

Customers and the customer experience remain at the forefront of the Company's activities. To ensure this occurs with the agency arrangement with EQC, Southern Response maintains a very close working relationship with EQC that is bolstered through the co-location arrangements.

The majority of Southern Response customers' claims have detailed settlement information and the Company has offered a variety of settlement

pathways to customers. It is readily acknowledged that each claim requires a bespoke approach and generally involves multiple meetings and extensive information exchange.

Southern Response has always ensured that it has personnel who are able to engage in complex negotiation, consultation and settlement discussions and this approach continues with EQC. Southern Response continues to provide technical, claims and legal expertise to support EQC to manage the Company's claims.

EQC moved the majority of its personnel that work with claims from customers that had an AMI policy into the same building as Southern Response. This has enabled issues to be escalated and resolved quickly, a more consistent approach to claims settlement to be developed and the impact of the organisational changes to Southern Response on the customer experience to be minimised.

During the year, Southern Response continued to provide managed builds for customers, including for those customers recognised as being vulnerable. The number of active construction sites as at 30 June 2020 was six.

Southern Response also continues to support customers who wish to manage their own building work, by providing them with the full set of technical information, including a building consent and plans that they can take to a builder of their choice.

Where appropriate, customers continue to receive interim settlement payments, either paid direct to a bank account they (or their bank) nominate, or held on trust until such time as the customer chooses to access the proceeds. Recognising that this payment is not necessarily the final settlement payment from Southern Response, customers can continue to engage with Southern Response and work toward final settlement of their claim.

Southern Response continues to encourage and support customers to seek and utilise external advice and alternative dispute resolutions options including mediation, facilitation and services provided by other entities such as the Greater Christchurch Claims Resolution Service ("GCCRS") and the Canterbury Earthquakes Insurance Tribunal ("CEIT").

Alternative dispute resolution options

As was the case in the previous financial year, GCCRS remains the most widely used service by Southern Response customers that have unresolved claims with the Company.

In addition to GCCRS, Southern Response remains committed to encouraging customers to engage in other alternative dispute resolution services that suit individual circumstances. As alternatives to litigation and a more formal court process, Southern Response and EQC acting as the Company's agent, participate in face-to-face negotiations, private mediations and judicial settlement conferences as forms of alternative dispute resolution to resolve claims.

The Company is supportive of any alternative dispute resolution service that helps to provide efficient and effective pathways towards claim settlement.

Health, safety & wellbeing

Southern Response is proud of its health, safety and wellbeing approach and track record. The Company continues to offer its remaining staff access to its 'Manawaroa' well-being programme on a voluntary basis.

Southern Response continues to monitor and manage the health and safety of all involved on the project in accordance with its legislative responsibilities including its wider obligations to be a good employer. Although Southern Response only has a very small number of active construction sites, the Company remains vigilant toward managing health and safety.

The health, safety and wellbeing of personnel, customers, members of the public and workers involved with the Southern Response project are of prime importance to Southern Response.

Governance

The Southern Response Board brings a collective sense of commitment, sensitivity, and technical knowledge to the governance table. Since its change of ownership to the Crown on 5 April 2012, the Board and management of Southern Response have operated a governance framework that ensures optimum integrity and accountability for the substantial financial commitment that the Crown and its reinsurers have made to the Company.

Appreciation

Southern Response would like to formally acknowledge and thank the staff that left the Company in December 2019 for their commitment, contribution and dedication. The Board of Southern Response would like to particularly thank the former CEO, Anthony Honeybone, who also departed in December 2019.

Southern Response appreciates the feedback that it has had from community support groups, local government, professional bodies, local MPs and their electorate staff, Iwi and most importantly its customers. This feedback has assisted the Company to develop and refine its position on a range of issues over time.

Southern Response is also grateful for the support received from its shareholding Ministers and the Treasury's Commercial Operations Group, as the shareholding Ministers' appointed monitoring agent.

Future outlook

The Company's key areas of focus in the 2020-2021 financial year are:

- ensuring a customer centric approach for the settlement of outstanding claims, utilising third parties, such as EQC and GCCRS,
- utilising its residual resources to support EQC to succeed in delivering fair, timely and enduring settlements for Cantabrians that are yet to resolve their earthquake claims, and
- ensuring that the Company's ongoing governance, financial and legal obligations are met.

Alister James
Chairman
24 August 2020



Casey Hurren
General Manager
24 August 2020



Financial summary

Key aspects of Southern Response's financial results are outlined below.

	2020 (\$000)	2019 (\$000)
Net earthquake claims incurred	(42,866)	18,181
Other income	13	2
Investment income	535	1,258
Total comprehensive gain/(loss) for the year	(42,318)	19,441
Claims liability		
Discounted central estimate (including claims handling expenses)	132,000	172,990
Risk margin	35,684	43,258
Gross outstanding claims liabilities	167,684	216,248
Reinsurance receivables		(7,519)
Net outstanding claims liability	167,684	208,729

The Company continues to ensure that it has sufficient capital support to meet its financial obligations. The current uncalled ordinary share facility is sufficient to meet the current forecast future cash requirements of the Company to settle Covered Claims recorded in the Claims Liability at 30 June 2020. Under the new operating model, with EQC acting as Southern Response's agent, the financial obligations for Covered Claims whose settlement is being managed by EQC under the Agency Agreement remain with the Company. The Southern Response Board continues to actively monitor the Company's capital position to ensure the Company can continue to operate and meet its obligations.

By 7 January 2020, all reinsurance contracts had been commuted and all expected payments received from reinsurers.

Our Values

Respect

We treat all our stakeholders with care, consideration, fairness and equity.

Excellence

We are committed to excellence in everything we do. We are innovative, responsive, adaptive and continually raising the bar. We strive to set the standard against which others will be measured.

Ownership

We hold ourselves accountable for our actions, take ownership, and deliver on our promises.

Honour our promises

We stand by and deliver on all entitlements, rights and commitments AML has made to policyholders.

Integrity

We demonstrate honesty, transparency, fairness, and objectivity in all our interactions.

Passion

We strive, stand up for our customers' rights, and go the extra distance. We want to make a positive difference to people's lives as part of our contribution to the rebuild of Canterbury.

Recognition

We recognise and celebrate the contributions our people make as individuals and as teams to deliver on our goals.

Development

We professionally develop our people to provide challenging and rewarding employment and prospects.

Board of Directors

Alistair James Chair

Alistair is an experienced lawyer, currently practising as a Barrister. Alistair has had previous experience in local government and health, as a former Christchurch City Councillor serving for twenty years, including as Chair of the Strategy and Finance Committee, and a former Member and Chair of the Canterbury District Health Board. Alistair is a former director and Chair of Christchurch City Holdings Limited (Council holding company for Orion, Lyttelton Port, Christchurch International Airport, and other commercial interests), and is the independent Chair of the Greater Christchurch Public Transport Joint Committee.

Alistair has had wide experience in the community and voluntary sector, and became a Companion of the Queen's Service Order (QSO) in the 2004 New Year Honours List for community services. He has also served as a British Honorary Consul.

Following the February 2011 earthquakes, Alistair's own home in Central Christchurch was severely damaged and demolished two months later. He understands from personal experience the difficulties faced by other residents following the earthquakes.

Anne Urlwin Deputy Chair

Originally from Christchurch, Wanaka-based Anne Urlwin has more than 20 years' experience as a professional director, chartered accountant and business consultant in an extensive range of sectors.

Anne is currently a director of Precinct Properties New Zealand Ltd, Steel & Tube Holdings Ltd, Summerset Group Holdings Ltd, Tilt Renewables Ltd and Cigna Life Insurance New Zealand. She is also a director of Crown and Auckland Council owned City Rail Link Ltd. She is a former director of Chorus Ltd and a former chairman of national commercial construction group Naylor Love, and has served on a number of central and local government entity boards.

Bevan Killick Director

Christchurch born and educated, Bevan Killick is a chartered accountant, a chartered insurance practitioner (UK) and a chartered member of the Institute of Directors.

During his professional career, Bevan held senior positions in the Lloyd's Insurance Market for 12 years. Now based back in Christchurch, Bevan is a professional director and is often engaged as an expert witness regarding directors' duties. Bevan chairs the Defence Employer Support Council and sits on the Defence Industry Advisory Council. He is an Honorary Captain in the Royal New Zealand Navy.

In the post-earthquake era Bevan also worked with Recover Canterbury, the organisation responsible for helping businesses recover from the Canterbury earthquakes.

Governance and Remuneration

Te taha whakahaere

Southern Response is incorporated as a limited liability company under the Companies Act 1993, and is listed in Schedule 4A of the Public Finance Act 1989, which automatically makes it subject to many of the provisions of the Crown Entities Act 2004.

The Company became a Crown owned company on 5 April 2012 when its shareholders became the Minister of Finance and the Minister supporting Greater Christchurch Regeneration. On 5 April 2012 the Company's name changed from AMI Insurance Ltd to Southern Response Earthquake Services Ltd.

Company Activities

Until the sale of its fire and general insurance business to IAG (NZ) Holdings Limited on 5 April 2012, the Company's principal activities, while operating under the name AMI Insurance, comprised the writing of fire and general business for the domestic property insurance market in New Zealand.

At 5 April 2012, the Company's principal activities changed to the management and settlement of insurance claims made by AMI policyholders relating to the Canterbury earthquake events up to 5 April 2012.

The company does not take on any new insurance business except to the extent that it is ancillary to its claims management business.

Governance Framework

The Company's governance framework is designed to ensure that the Company is effectively managed and that its statutory obligations are met. The governance framework ensures a clear understanding of the separate roles of board and management, and demonstrates a shared commitment to the Company's purpose. To enhance efficiency, the Board had delegated to the Chief Executive, and at the end of 2019, the General Manager, the day to day leadership and management of the Company.

The Board operates under Treasury's Owner's Expectations Manual which sets out the Ministers' expectations of the Board, including the reporting, accountability and financial governance expectations.

Board of Directors

The Board's duties, functions, and powers are governed by the Companies Act 1993, Southern Response's Constitution, the Crown Entities Act 2004, the Company's Statement of Intent and the Shareholders' Letter of Expectations.

The Crown Entities Act imposes the obligation on the Board to ensure that the Company operates in a manner consistent with its objectives, functions and Statement of Intent.

Directors

Under the Southern Response Constitution adopted on 5 April 2012 (with subsequent amendments since this date), the Board is appointed by shareholding Ministers and can comprise between three to seven non-executive directors, including the Chair. As at 30 June 2020, there were three non-executive directors of the Company whose appointment dates and terms are detailed in the following table.

Director	Position	Term
Alister James Christchurch-based professional director	Non-Executive Chair	Appointed 20 December 2018 Reappointed 1 July 2019 Term ends 30 June 2022
Anne Urlwin Wanaka-based professional director	Non-Executive Deputy Chair	Appointed 5 April 2012 Reappointed 1 July 2014 Reappointed 1 July 2016 Reappointed 1 October 2018 Term ends 30 June 2021
Bevan Killick Christchurch-based professional director	Non-Executive Director	Appointed 5 April 2012 Reappointed 1 July 2013 Reappointed 1 July 2015 Reappointed 1 July 2017 Reappointed 1 July 2020 Term ends 30 June 2021

Board committees

To ensure efficiency, the Board specifically delegates some of its roles to board committees under formal terms of reference, which specify the role and responsibility of each committee and its delegated authorities. Due to the decreasing size of the Board, all Directors now serve on the two remaining committees. The Audit and Risk Committee is chaired by Anne Urlwin and the People and Safety Committee is chaired by Bevan Killick.

Disclosure of Interests by Directors

The Board is conscious of its obligation to ensure directors avoid conflicts of interest (both real and perceived) between their duty to Southern Response and their own interests. Directors are required to ensure they immediately advise the Board of any new or changed relationships, and these are recorded in the Board's interests register.

In accordance with the Companies Act 1993, the Board maintains an up-to-date interests register to ensure conflicts of interest are avoided. The following table details new interests or cessations of interests of directors recorded in the interests register during the year ended 30 June 2020.

There have been no interests registered by directors in transactions during the financial year ended 30 June 2020.

Director	Entity	Relationship
Alister James	None	
Anne Urlwin	Waverley Wind Farm (NZ) Holding Ltd	Appointed a Director
	Precinct Properties New Zealand Ltd	Appointed a Director
	Cigna Life New Zealand Ltd	Appointed a Director
	OnePath Life (NZ) Ltd	Ceased to be a Director
	Chorus Limited & Chorus New Zealand Limited	Ceased to be a Director
Bevan Killick	Defence Employer Support Council	Appointed Chair
	Defence Industry Advisory Council	Appointed a member
	Public Trust	Ceased to be a Board Member

Indemnities and insurance

As permitted by Southern Response's Constitution, deeds of indemnity have been given to directors for potential liabilities and costs they may incur for actions or omissions in their capacity as directors of the Company.

The Company has directors' and officers' liability insurance in place to cover risks usually covered by such policies. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions. The insurance premium paid during the year ended 30 June 2020 was \$144,750 relating to cover for the period 1 July 2019 to 30 June 2020.

Use of company information

During the year, the Board received no notices from the directors requesting to use company information received in their capacity as directors and which would not otherwise have been available to them.

Director remuneration

The shareholding Ministers approved the base ordinary directors' fees of \$72,000 (chair), \$45,000 (deputy chair) and \$36,000 (director).

On 28 April 2020 the Board agreed to Company pay restraint measures in response to Covid-19, specifically to reduce the current Board fees that the directors would otherwise receive for the period 1 May 2020 to 31 October 2020 by 20%.

	2020	2019
	\$000	\$000
Ross Butler (ceased 19 December 2018)	-	36,000
Alister James (appointed 20 December 2018)	69,000	36,000
Anne Urlwin	43,500	45,000
Bevan Killick	34,800	36,000
Jenn Bestwick (ceased 30 September 2018)	-	9,000
Susan Thodey (ceased 30 September 2018)	-	9,000
	147,900	171,000

Board attendance

The below table represents the meetings held by the Board during the year and the Directors' attendance.

Director	Board meetings – scheduled (12 meetings held)	Board meetings – other (2 meetings held)	Audit & Risk Committee (6 meetings held)	People & Safety Committee (4 meetings)
Alister James	12	2	6	4
Anne Urlwin	12	2	6	4
Bevan Killick	12	2	6	4

Board development and training expenses

The Company spent \$3,354 on director development and training during the year ended 30 June 2020, (2019: \$4,602).

Senior executive remuneration

Former CEO Anthony Honeybone left Southern Response at the end of December 2019 as the Company restructured under its new operating model with the agency agreement with EQC, and Casey Hurren became General Manager of the Company at that time.

The remuneration for each of Anthony Honeybone and Casey Hurren for those parts of the year (ended 30 June 2020) that they were the respective senior executive leading the Company were:

	Fixed Remuneration			Pay for Performance Remuneration	Total Remuneration
	Base salary paid	Benefits*	Sub-total	Incentive paid	
Anthony Honeybone (July to December 2019)	170,345	15,678	186,023	86,318	272,340
Casey Hurren (January to June 2020)	152,781	5,678	158,459		158,459

* Benefits include 3% KiwiSaver contribution and health insurance

On 28 April 2020 the Board accepted the General Manager's offer to voluntarily reduce his salary for the period 1 May 2020 to 31 October 2020 by 20% in response to Covid-19.

Employee remuneration

The table below shows the number of employees and former employees who received remuneration in excess of \$100,000 during the year ended 30 June 2020.

Remuneration includes salary, performance bonuses, redundancy, employer's contributions to superannuation, health and insurance plans, motor vehicle and other sundry benefits received in their capacity as employees or former employees of the Company, excluding directors.

	2020	2019
Remuneration band	Number of Employees	
\$470,000 pa – \$479,999 pa	-	1
\$390,000 pa – \$399,999 pa	-	-
\$380,000 pa – \$389,999 pa	1	1
\$370,000 pa – \$379,999 pa	1	-
\$360,000 pa – \$369,999 pa	-	1
\$340,000 pa – \$349,999 pa	-	1
\$310,000 pa – \$369,999 pa	-	1
\$300,000 pa – \$319,999 pa	-	1
\$260,000 pa – \$269,999 pa	1	-
\$240,000 pa – \$249,999 pa	3	-
\$230,000 pa – \$239,999 pa	-	1
\$200,000 pa – \$209,999 pa	1	1
\$190,000 pa – \$199,999 pa	-	1
\$180,000 pa – \$189,999 pa	2	-
\$160,000 pa – \$169,999 pa	2	2
\$150,000 pa – \$159,999 pa	1	1
\$140,000 pa – \$149,999 pa	1	1
\$130,000 pa – \$139,999 pa	2	1
\$120,000 pa – \$129,999 pa	3	2
\$110,000 pa – \$119,999 pa	-	3
\$100,000 pa – \$109,999 pa	4	6

Glossary of terms as used in this report

Commercial Operations Group (formerly Crown Ownership Monitoring Unit (COMU)):	Treasury's Commercial Operations Group monitors the Government's investment in companies/entities owned by the Crown, assists with the appointment of Directors, and provides performance and governance advice to Ministers.
Over cap:	EQC insures the first \$100,000 + GST (115,000) of damage to a house (the "cap") for each earthquake event, EQC pays its contribution for each event and the private insurance company takes over responsibility for managing and settling the claim and paying the amount in excess of the cap that is "over cap".
Reinsurance:	Insurance purchased by an insurance company from one of more other special purpose insurance companies (reinsurers) to enable risks assessed to be spread.
Statement of intent:	An outline of a Crown entity's expected contribution to the Government's priorities over the medium term (3-5 years).

From the start of the 2020 calendar year, Southern Response remains responsible for its 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 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).

Financial Statements 2020

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Statement of responsibility

In accordance with the Public Finance Act 1989, the board of Southern Response Earthquake Services Limited accepts responsibility for:

- The preparation of financial statements and statement of performance and the judgements made in them;
- Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial statements and the statement of performance.

In the board's opinion, these financial statements and statement of performance fairly reflect the financial position and operations of Southern Response Earthquake Services Limited for the year ended 30 June 2020.

Signed on behalf of the board

Alister James
Chairman
24 August 2020



Anne Urlwin
Deputy Chairman
24 August 2020



Independent auditor's report

Deloitte.

TO THE READERS OF SOUTHERN RESPONSE EARTHQUAKE SERVICES LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2020.

The Auditor-General is the auditor of Southern Response Earthquake Services Limited (the Company). The Auditor-General has appointed me, Mike Hoshek, using the staff and resources of Deloitte Limited, to carry out the audit of the financial statements and the performance information of the Company on his behalf.

Opinion

We have audited:

- the financial statements of the Company on pages 18 to 34, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Company on page 35.

In our opinion:

- the financial statements of the Company on pages 18 to 34:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2020; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards; and
- the performance information on page 35:
 - presents fairly, in all material respects, the Company's performance for the year ended 30 June 2020, including:
 - for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 24 August 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Uncertainties associated with the outstanding claims liability

Without modifying our opinion, we draw attention to the fact that the liabilities of the Company exceed its assets by \$142 million at 30 June 2020 and, as outlined in note 10, there is considerable uncertainty surrounding the projection and valuation of the company's outstanding claims liability. In addition, a representative proceeding was filed against Southern Response on 29 May 2018. The financial statements do not recognise a provision relating to the representative proceedings as it cannot be reliably quantified due to the range of possible outcomes.

We agree that the financial statements have been appropriately prepared using the going concern basis of accounting, as stated in the going concern disclosure on page 10 of the financial statements. Note 5 to the financial statements explains that formal Crown financial support is available to the Company in the form of uncalled share capital together with a Deed of Indemnity which was entered into by the Crown on 26 September 2018, through the Minister of Finance to indemnify the Company in relation to certain litigation. The Deed of Indemnity was amended on 28 June 2019 to include any present or future proceeding or claim relating to a housing claim against the Company that is agreed as covered by both the Company and the Crown.

Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Company as set out on pages 22 and 33 to the financial statements.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Company for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the

Company for assessing the Company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Company's statement of performance expectations.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the Company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Independence

We are independent of the Company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Company.



Mike Hoshek
for Deloitte Limited

On behalf of the Auditor-General
Christchurch, New Zealand

Statement of comprehensive income

For the year ended 30 June 2020

	Note	2020 Budget \$000	2020 Actual \$000	2019 Actual \$000
Net claims incurred – non-earthquake	1	–	–	(7)
Net claims incurred – earthquake	1,2	(1,765)	(42,866)	18,181
Gain/(Loss) on sale or disposal of property, plant and equipment		13	13	9
Net underwriting profit/(loss)		(1,752)	(42,853)	18,183
Investment income and expenses	3	916	535	1,258
Profit/(Loss) for the year before tax		(836)	(42,318)	19,441
Tax expense	4	–	–	–
Profit/(Loss) for the year after tax		(836)	(42,318)	19,441
Other comprehensive income:				
Other comprehensive income for the year after tax		–	–	–
Total comprehensive profit/(loss) for the year		(836)	(42,318)	19,441

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of changes in equity

For the year ended 30 June 2020

2020	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2019		1,223,939	(1,378,229)	(154,290)
Profit/(Loss) for the year		-	(42,318)	(42,318)
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	(42,318)	(42,318)
Call on uncalled ordinary shares	5	55,000	-	55,000
Closing balance 30 June 2020		1,278,939	(1,420,547)	(141,608)

2019	Note	Ordinary Shares \$000	Accumulated Losses \$000	Total Equity/ (Deficit) \$000
Opening balance 1 July 2018		1,040,939	(1,397,670)	(356,731)
Profit/(Loss) for the year		-	19,441	19,441
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	19,441	19,441
Call on uncalled ordinary shares	5	183,000	-	183,000
Closing balance 30 June 2019		1,223,939	(1,378,229)	(154,290)

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of financial position

As at 30 June 2020

	Note	2020 Budget \$000	2020 Actual \$000	2019 Actual \$000
Shareholders' equity				
Total shareholders' deficit		(90,126)	(141,608)	(154,290)
Represented by:				
Assets				
Financial assets				
Cash and cash equivalents	6	27,277	28,157	51,097
Receivables	8	-	2,430	6,687
Reinsurance receivables	9	-	-	7,519
Plant and equipment		137	616	317
Total assets		27,414	31,203	65,620
Less:				
Liabilities				
Trade and other payables		2,937	4,592	2,460
Employee entitlements		-	49	1,202
Lease liability	14	-	486	-
Outstanding claims – non-earthquake		-	-	-
Outstanding claims – earthquake	10	114,603	167,684	216,248
Total liabilities		117,540	172,811	219,910
Net liabilities		(90,126)	(141,608)	(154,290)

On behalf of the Board

Alister James, Chairman



Anne Urlwin, Deputy Chairman



Financial statements authorised
for issue on 24 August 2020

The accompanying notes and accounting policies form an integral part of the financial statements.

Statement of cash flows

For the year ended 30 June 2020

	Note	2020 Budget \$'000	2020 Actual \$'000	2019 Actual \$'000
Cash flows from operating activities				
Interest received		916	552	1,258
Claim costs – non-earthquake		-	-	(12)
Claim costs – earthquake		(89,256)	(72,285)	(148,015)
Claim costs – reinsurance recoveries		6,541	7,353	377
Payments to suppliers and employees		(7,034)	(13,243)	(17,807)
Income tax paid		-	-	-
Net cash outflow from operating activities	7	(88,833)	(77,623)	(164,199)
Cash flows from investing activities				
Proceeds/(Loss) from sale of plant and equipment and property held for sale		13	13	4
Payments for plant and equipment and property held for sale		-	-	(361)
Net cash inflow from investing activities		13	13	(357)
Cash flows from financing activities				
Proceeds from the uncalled capital facility		65,000	55,000	183,000
Repayment of lease liability		-	(330)	-
Net cash inflow from financing activities		65,000	54,670	183,000
Net (decrease)/increase in cash and cash equivalents		(23,820)	(22,940)	18,444
Add opening cash and cash equivalents		51,097	51,097	32,653
Ending cash and cash equivalents	6	27,277	28,157	51,097

The accompanying notes and accounting policies form an integral part of the financial statements.

Notes to the financial statements

For the year ended 30 June 2020

Reporting entity

Southern Response Earthquake Services Limited (the Company) 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 registered office for the Company is located at 7 Winston Ave, Papanui, Christchurch.

The Company's principal business is to manage the settlement of claims from AMI Insurance policy holders arising from the Canterbury earthquakes occurring between 4 September 2010 and 5 April 2012.

Basis of preparation

The financial statements have been prepared:

- in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and also in accordance with the Financial Reporting Act 2013 and the Companies Act 1993. They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), International Financial Reporting Standards (IFRS) and other applicable financial reporting standards as appropriate for profit oriented companies.
- 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 and unless specifically stated otherwise are rounded to the nearest thousand dollars (\$'000). The functional currency of the Company is New Zealand dollars (NZ\$).

Going concern

As at 30 June 2020 the liabilities of the Company exceeded its assets. The directors have considered the appropriateness of the financial statements being presented on a going concern basis and have concluded that the going concern assumption is appropriate given the funding arrangements entered into with the Crown (note 5).

Presentation format

The statement of financial position is presented broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the notes.

Critical accounting judgements and estimates

Insurance Claim Liability Estimates

The Company makes estimates and assumptions in respect of certain liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key area in which critical estimates and judgements are applied is detailed in note 10 – the outstanding claims liability.

Covid-19

On 11 March 2020 the World Health organisation declared a global pandemic as a result of the outbreak and spread of Covid-19. On 25 March 2020 the New Zealand Government raised its alert level to 4, triggering a full lockdown of non-essential services. As a result of this, staff and contractors of the Company were required to work from home until 15 June 2020, when the alert level was reduced to 1. The Company has carried out an assessment of the impact of Covid-19 on its balance sheet, and has determined that Covid-19 has not had any adverse financial impact on the Company. However, claim settlement rates for the period were negatively impacted due to reduced customer interaction (in particular the ability to carry out face-to-face meetings) and the inability to physically undertake site assessments. Normal operations resumed to the end of the financial year.

Changes in accounting policies

The adoption of NZ IFRS 16 that became effective in the current year has led to a change in the Company's accounting policies in relation to accounting for leases. For detail on the changes implemented see note 19 – New standards and interpretations.

Other accounting policies

Other accounting policies have been adopted in the preparation and presentation of the financial statements. These are provided alongside the relevant notes to the financial statement.

1. Net claims incurred

Claim costs incurred have been separated between non-earthquake related claims and claims that relate to the Canterbury earthquakes. Gross claims expense represents movement in the gross outstanding claims liability.

	2020 \$000	2019 \$000
Non-earthquake:		
Gross claims expense/(recovery)	-	7
Reinsurance recovery expense/(revenue)	-	-
Total net non-earthquake claims expense/(recovery)	-	7
Earthquake:		
Gross claims expense/(benefit)	26,813	(39,588)
Claims handling expense	15,844	16,881
Reinsurance recovery expense	166	4,526
Shared property claims expense	43	-
Total net earthquake claims incurred	42,866	(18,181)
Total net claims incurred	42,866	(18,174)

2. Specified cost disclosures

	2020 \$000	2019 \$000
Employee benefit expenses ¹	7,992	9,497
Depreciation	181	49
Amortisation – right of use asset	320	-
KiwiSaver ²	136	163
Realised (gains)/losses on property, plant and equipment	(13)	(9)
Audit fees	126	139
Operating lease expenses ³	-	477

¹ Accounting policy for short-term employee benefits

Liabilities for salaries (including non-monetary benefits), annual leave, redundancy payments and accumulated sick leave are recognised in respect of employee services up to the reporting date. They are measured at the amount expected to be paid when the liabilities are settled.

² Accounting policy for employer contributions to KiwiSaver

Where employees have elected to join a KiwiSaver superannuation scheme, the Company complies with all applicable legislation in making employer contributions to these schemes. Obligations for contributions are recognised in profit or loss as they become payable.

³ The Company updated its accounting policy for leases on 1 July 2019 when NZ IFRS 16 came into effect, which effectively removed the distinction between finance and operating leases. All lease payments are now covered under note 14

3. Investment income

Interest income is recognised using the effective interest rate method.

	2020	2019
	\$000	\$000
Interest income	551	1,258
Interest expense	(16)	-
Total investment income	535	1,258

4. Income tax

Tax	2020	2019
	\$000	\$000
Profit/(Loss) before tax	(42,318)	19,441
Tax at applicable rate of 28%	(11,849)	5,443
Non-taxable/deductible items	5	-
Deferred tax not recognised	24	(339)
Prior period adjustment	(8)	-
Tax losses not recognised	11,828	(5,104)
Current tax expense	-	-

Imputation credit account:

Closing balance	196	196
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Deferred tax asset	2020	2019
	\$000	\$000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	97	66
Employee provisions and accruals	10	57
Other provisions and accruals	932	892
Deferred tax benefit not recognised	(1,039)	(1,016)
Net deferred tax asset	-	-

Taxation losses totalling \$1,168 million (tax effect \$327 million) have not been recognised as at 30 June 2020 (2019: tax losses \$1,125 million, tax effect \$315 million).

Accounting policy for current income tax

The current income tax asset or liability for the current and prior periods is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute this amount are those that are enacted or substantively enacted by the reporting date.

Current tax attributable to amounts recognised directly in equity is also recognised directly in equity.

Accounting policy for deferred income tax

Deferred tax assets will be recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

5. Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

As explained below, as the Company requires additional capital to meet its claims payment obligations it can access a further \$179 million of capital from the Crown (2019: \$234 million).

	2020 Shares	2020 \$000	2019 Shares	2019 \$000
Ordinary shares:				
Balance 1 July	751,000,102	1,223,939	568,000,102	1,040,939
Paid ordinary shares (from the uncalled capital facility)	55,000,000	55,000	183,000,000	183,000
Balance 30 June	806,000,102	1,278,939	751,000,102	1,223,939
Uncalled ordinary shares:				
Balance 1 July	234,000,000	-	417,000,000	-
Called shares	(55,000,000)	-	(183,000,000)	-
Balance 30 June	179,000,000	-	234,000,000	-

The issue price of the uncalled ordinary shares (yet to be called) is \$1 per share.

On 21 June 2017 the Shareholding Ministers agreed that the Crown would extend the existing Crown Support arrangement and subscribe for an additional \$230 million of capital in the Company. The shares are uncalled ordinary shares with an issue price of \$1 per share and were issued on 27 July 2017.

The Company may issue a call notice for a number of uncalled ordinary shares. On payment the shares will be designated as paid ordinary shares.

On 26 September 2018, the Crown, through the Minister of Finance, entered into a Deed of Indemnity agreeing to indemnify the Company in relation to certain litigation. 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.

6. Cash and cash equivalents

Cash and cash equivalents includes cash at bank, deposits on call and other short-term, highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

As part of its investment strategy, the Company actively manages its cash and cash equivalents to ensure that deposits mature in accordance with the expected pattern of future cash flows arising from the outstanding claims liability.

	2020 \$000	2019 \$000
Cash and cash equivalents		
Cash held for operational purposes	12,605	12,376
Cash on call and short term bank deposits	15,552	38,721
	28,157	51,097

7. Cash flows from operating activities

Reconciliation of the profit/loss for the year to cash outflow from operating activities:

	2020 \$000	2019 \$000
Profit/(Loss) for the year	(42,318)	19,441
Add/(Less) non-cash items:		
Depreciation and amortisation	501	49
Sub-total "A"	(41,817)	19,490
Movement in working capital items:		
(Increase)/Decrease in receivables	4,257	578
(Increase)/Decrease in reinsurance and insurance receivables	7,519	4,904
Increase/(Decrease) in payables	1,818	(1,168)
(Decrease)/Increase in employee entitlements	(1,153)	-
Decrease in insurance liabilities	(48,564)	(187,998)
Sub-total "B"	(36,123)	(183,684)
Items classified as investing activities & financing activities:		
Repayment of lease liability	330	-
Net (gain)/loss on sale of property, plant and equipment	(13)	(5)
Sub-total "C"	317	(5)
Cash outflow from operating activities (A+B+C)	(77,623)	(164,199)

8. Receivables

	2020 \$000	2019 \$000
Receivables	914	4,065
Prepayments	69	48
GST refund due	1,447	2,574
	2,430	6,687

9. Reinsurance receivables

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income in net claims incurred. Reinsurance recoveries on paid claims are included as a component of reinsurance recoveries net of any provision for impairment based on objective evidence for individual receivables. All recoveries receivable on outstanding claims are measured as the present value

of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the statement of financial position. All reinsurance was commuted through settlements with reinsurers during the year. No balances remain outstanding at 30 June 2020.

	2020 \$000	2019 \$000
Gross reinsurance receivable	-	7,519
Discount to present value	-	-
	-	7,519
Changes in gross reinsurance receivable:		
Balance 1 July	7,519	12,601
Change in gross estimated recovery	(166)	(4,705)
Reinsurance collections	(7,353)	(377)
Balance 30 June	-	7,519

10. Outstanding earthquake claims liability

Outstanding claims liability

Claims represent the benefits paid or payable to the policy holder on the occurrence of an event giving rise to loss according to the terms of the policy.

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 to at least 75% the probability that the net liability is adequately provided for (2019: 75%).

Critical judgements and estimates: The ultimate liability arising from earthquake claims made under insurance contracts

Provision is made for the estimated cost of claims incurred but not settled at the reporting date, including the cost of claims incurred but not yet reported to the Company. The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate.

The estimated ultimate cost of claims includes direct costs 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 claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already 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.

	2020	2019
	\$000	\$000
Changes in gross discounted outstanding claims liability		
Outstanding claims beginning of year	216,248	400,729
Change in central estimate	42,182	(19,634)
Change in claims handling provision	(9,703)	(1,072)
Change in discounting to present value	1,908	2,827
Change in risk margin	(7,574)	(21,709)
Claim payments	(75,377)	(144,893)
Outstanding claims end of year	167,684	216,248

Claims development

Below is a reconciliation of the central estimate to the net outstanding claims liability, reflected in the financial statements.

	2020	2019
	\$000	\$000
Central estimate	3,274,909	3,232,727
Claims handling expense	7,831	17,534
Cumulative payments	(3,150,246)	(3,074,869)
Discount of unpaid liability to present value	(494)	(2,402)
Discounted central estimate	132,000	172,990
Risk margin	35,684	43,258
Gross discounted outstanding claims liability	167,684	216,248
Reinsurance receivables (refer note 9)	-	(7,519)
Net outstanding claims liability	167,684	208,729

Actuarial calculation, assumptions and methods

The effective date of the actuarial report on the earthquake insurance liabilities is 30 June 2020. The actuarial report has been prepared by the appointed actuaries, Ashish Ahluwalia and Luke Cassar (Fellows of the Institute of Actuaries of Australia and Fellows of the New Zealand Society of Actuaries) of Finity Consulting Pty Limited (Finity). Finity are satisfied with the quality of data provided for the purpose of estimating insurance liabilities.

In the actuary's opinion the insurance liabilities have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standard (NZ IFRS 4 Insurance Contracts) and the NZ Society of Actuaries Professional Standard 4.1 governing

technical liability valuations for general insurance business.

Representative action

On May 29 2018, a representative action proceeding was filed against Southern Response proposing to represent policyholders that entered into a settlement agreement with Southern Response prior to 1 October 2014.

Southern Response has disclosed this as a contingent liability (note 17). The outstanding claims provision as at 30 June 2020 makes no allowance for any costs that may arise from the proceeding.

Key actuarial assumptions – earthquake

	2020	2019
Future inflation average		
· Building cost	0.00%	0.00%
· Temporary accommodation	0.00%	0.00%
· Other cover types	0.00%	3.00%
· Claims handling expenses	0.00%	0.00%
Discount rate	0.28%	1.19%
Risk margin – outstanding claims liabilities	27.00%	25.00%
Average weighted term to settlement from financial reporting date (years)	1.46%	1.26

Process to determine assumptions

Inflation

Build cost inflation has been consistently reflected across both financial periods. Inflation is taken into account using nominal dollar values to examine past build experience. On this basis the actuarial model implicitly allows for future inflation in building costs. Cost increases, including inflationary impacts are projected within the model.

Other (non-building) cover types are subject to a future inflation allowance of 0% per annum (2019: 3%), based on the CPI.

Discount rate

Discounting has been applied to the outstanding claims by reference to the risk free zero coupon yields published by the New Zealand Treasury at 30 June 2020.

Claims handling expenses

The estimate of outstanding claims liabilities includes an allowance for the future cost of administering claims. It is based primarily on the Company's budgeted direct operating costs with an additional allowance for unreported claims based on the actuary's best estimate. The Company changed its approach to accounting for claims handling expenses during the year ended 30 June 2020, with the indirect portion of future claims handling costs now being excluded from the allowance included in the estimate.

Risk margin

The risk margin is expressed as a percentage of the gross (of reinsurance) discounted outstanding claims liability including claims handling expenses and intended to achieve at least 75% probability of adequacy for the outstanding claims.

It should be noted that considerable uncertainty still surrounds the projection and valuation of the Company's claim liabilities. As the claim settlement process has progressed, a greater proportion of the outstanding claims liability relates to more complex claims, meaning the uncertainty around future settlement outcomes for outstanding claims is magnified (as compared to 'normal' residential property claims). Furthermore, there remains significant uncertainty as to the number of unreported (IBNR) claims, which becomes a larger component of outstanding portfolio as more of the older claims are settled.

In response to the inherent uncertainties, the risk margin has been set at 27% of the estimated liability (2019: 25%).

Average weighted term to settlement

Expected payment patterns have been used to determine the outstanding claims liability. The payment patterns adopted have been set based on the actuary's best estimate of when the payments are likely to be made.

Sensitivity analysis – impact of changes in key variables

The impact of change in key assumptions on the net outstanding claims liabilities are shown in the table below for the Company. Each change has been calculated in isolation to other changes.

Variable	Change in Variable	2020 \$000	2019 \$000
Discount rate	+1% p.a.	(2,398)	(2,538)
	-1% p.a.	2,480	2,617
Claims handling expense	+10%	995	2,192
	-10%	(995)	(2,192)
Risk margin	+1%	1,320	1,730
	-1%	(1,320)	(1,730)
Future Over Cap Numbers	+10%	8,126	6,197
	-10%	(8,126)	(5,389)

11. Overall risk management framework

The Company's constitution defines its purpose as "to manage covered claims, to manage the Company's recoveries from reinsurers, to manage its investment portfolio, manage the insurance claims of another Crown Entity under contract with that Crown Entity and to conduct any activities that are associated with those purposes."

Covered claims include any claim made by a policyholder under any customer insurance contract relating to any retained¹ claim event; any other claim relating to customer insurance contract indemnities; and any contract works or similar insurance policy under which the Company is or may be liable from time to time.

To help the board monitor the Company's exposure to all risks (both financial and insurance) an audit and risk committee meets regularly. This committee has the responsibility of reviewing the effectiveness of risk management processes and controls, as well as ensuring the Company has adequate liquidity to meet its obligations and that the financial assets are managed in accordance with the investment strategy set out in the Crown support deed. This committee also approves the Company's risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

12. Insurance contracts – risk management policies and procedures

The financial condition and operation of the Company are affected by a number of key risks including insurance risk, interest rate risk, credit risk and market risk.

Policies and procedures are put in place to reduce the risk exposure of the Company. These policies ensure completion of a regular, detailed review of claims handling procedures and investigation of possible fraudulent claims.

An internal audit function has been established to assess and report on compliance with policies and procedures.

The Company has a policy of actively managing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

Actuarial models, using information from the management information systems and external sources, are used to calculate the outstanding claims liability. Past experience and statistical methods are used as part of this process.

¹ Retained claim event means:

(a) the Canterbury earthquake events occurring between 5 September 2010 and 4 April 2012; and

(b) any other event that occurred prior to 5 April 2012 which entitles the Company to make any claim under any reinsurance contract

13. Financial instruments – risk management policies and procedures

Financial instrument information and risk management

The key objective of the Company's financial risk management activities is to ensure that the financial assets are managed in accordance with the investment strategy set out in the Crown Support Deed and that sufficient liquidity is maintained at all times to meet insurance liabilities.

The board has delegated the responsibility of monitoring financial assets to the audit and risk committee.

Specific financial risks involving financial instruments other than insurance contracts

Interest rate risk

Interest rate risk is the risk that arises from fluctuating interest rates in the market. The Company is funded quarterly by the Crown, based on expected cash outflows for that quarter and keeps temporary surplus cash on Call or 32 day maturity deposits with various financial institutions.

Credit risk

Credit risk is the risk that a counterparty will fail to meet their contractual commitments in full and on time. Financial assets that subject the Company to credit risk principally consist of cash and cash equivalents and reinsurance receivables.

The maximum exposure to credit risk on receivables at reporting date is the carrying amounts on the statement of financial position.

Cash and cash equivalents are placed with high quality financial institutions and the amount of credit exposure to any one financial institution is limited. All of these financial institutions are rated 'AA-' or better by Standard & Poors.

Receivables represent amounts owing by reinsurers for catastrophe claim recoveries and other debtors for insurance claim recoveries. All amounts are considered to be fully recoverable.

Liquidity risk

The company's audit and risk committee and treasury function monitor cash flow forecasts and liquidity levels to ensure sufficient funds are available to meet obligations as they fall due. Requests for funding are submitted to the Crown quarterly in accordance with the Crown Support Deed (refer to note 5).

Net discounted outstanding claims liabilities and reinsurance receivables have been determined based on expected payment patterns.

	Net discounted outstanding claims liability		Lease liabilities		Cash, term deposits and receivables	
	2020	2019	2020	2019	2020	2019
Liquidity table	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	-	-	-	-	28,157	51,097
Within 1 year	75,068	98,140	322	-	2,430	6,687
Within 1 to 2 years	46,906	62,318	164	-	-	-
Within 2 to 3 years	26,991	31,315	-	-	-	-
Within 3 to 4 years	12,800	11,875	-	-	-	-
Within 4 to 5 years	5,919	5,081	-	-	-	-
5+ years	-	-	-	-	-	-
	167,684	208,729	486	-	30,587	57,784

14. Leases

Accounting policy

Measurement basis

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or rate
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date
- Any initial direct costs, and
- Restoration costs

Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment.

Extension and termination options

Extension and termination options are included in the building lease. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Company and not by the respective Lessor.

Note disclosure

Amounts recognised in the statement of financial position

Right-of-use asset net book value – 7 Winston Avenue	2020	2019
Opening balance	800	–
Less depreciation	(320)	–
Closing balance	480	–

The right of use asset is included in the plant and equipment balance in the Statement of Financial Position.

Lease Liabilities	2020 \$000	2019 \$000
Current liability	322	–
Non-current liability	164	–
	486	–

Amounts recognised in the statement of comprehensive income	2020 \$000	2019 \$000
Depreciation charge of right-of-use assets	320	–
Interest expense (included in finance cost)	16	–
Expense relating to short-term leases (including in operating expenses)	2	–
Expense relating to low value assets that are not shown above as short term leases (included in operating expenses)	–	–
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	68	–
	486	–

The total cash outflow for leases in the year ended 30 June 2020 was \$330,213.

15. Related party transactions

Remuneration of key management personnel

Key management personnel are executive managers who have authority and responsibility for planning, directing and controlling the activities of the Company, as well as the Directors of the Company.

From 1 July 2019 to 31 December 2019 key management personnel included the Chief Executive Officer, General Manager Operations and Shared Services, General Manager Legal and Strategy, Senior Finance Manager and Directors of the Company. Following the Company's restructure on 1 January 2020, key management personnel include the Company General Manager and Directors of the Company.

	2020	2019
	\$'000	\$'000
Remuneration of key management personnel:		
Short term employee benefits	981	1,500
Termination benefits	374	-
Director fees	148	171
	1,503	1,671

The shareholding Ministers approved the base ordinary directors' fees of \$72,000 (chair), \$45,000 (deputy chair) and \$36,000 (director).

On 28 April 2020 the Board agreed to Company pay restraint measures in response to Covid-19, specifically to reduce the current Board fees that it would otherwise receive for the period 1 May 2020 to 31 October 2020 by 20%. On the same day the General Manager voluntarily offered to voluntarily reduce his salary by 20% for the same period, which was accepted by the board.

Transactions with Crown entities

Receivables contain \$0.914 million as at 30 June 2020 (2019: \$2.517 million) for collection from the Earthquake Commission as reimbursement for settlement costs the Company incurred when settling the Undercap portion of customers' claims.

Payables contain \$1.13 million as at 30 June 2020 (2019: \$nil) for payment to the Earthquake Commission for management of customers' claims.

16. Capital commitments

At 30 June 2020, the Company has capital commitments of \$nil (2019: \$nil).

17. Contingent liabilities and assets

The Company from time to time receives notification of legal claims and disputes in relation to claim settlements as a commercial outcome of conducting its business. The Company defends all such claims.

One such proceeding is a representative action filed against Southern Response on 29 May 2018 seeking to represent policyholders that entered into a full and final settlement agreement with Southern Response prior to 1 October 2014. The Company is defending this claim and because there are a wide range of potential outcomes, any estimate of a possible obligation resulting from this proceeding would be unreliable.

If certain future events occur that transfer the contingent liability into a probable obligation, or provision, the Company has the necessary arrangements in place to meet any such obligation.

The Company has commenced discussions with EQC around the "wash up" between the organisations of the allocation of claims costs. Given the uncertainty around the final outcome and the potentially offsetting nature of elements of the settlements, no estimate of possible payable or receivable amounts are included in the financial statements.

18. Events after reporting date

There have been no significant events after the reporting date that are not otherwise disclosed in these financial statements.

On 11 August 2020 the New Zealand Government announced that from midday 12 August 2020 Auckland would return to Covid-19 Alert Level 3 and the rest of New Zealand to Covid-19 Alert Level 2 for three days. On 14 August 2020, the duration of these Alert levels was extended from three to 14 days. No adjustments have been made to the financial statements.

19. New standards and interpretations

The adoption of NZ IFRS 16 that became effective in the current year has led to a change in the Company's accounting policies in relation to accounting for leases. The Company has adopted NZ IFRS 16 from 1 July 2019, and has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The Company applied the simplified transition approach and did not restate comparative amounts for the year prior to first adoption.

On adoption of NZ IFRS 16 the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July was 2.5%.

	2020 \$000
Operating lease commitments disclosed as at 30 June 2019	485
Discounted using the Company's incremental borrowing rate	(26)
Adjustments as a result of a different treatment of extension and termination options	341
Lease liability recognised as at 1 July 2019	800

There was no material change in net profit after tax for the year ended 30 June 2020 as a result of adopting the new rules. Operating cash flows increased and financing cash flows decreased by \$330k as a result of applying the standard, as repayment of the principal portion of the lease liabilities is classified as cash flows from financing activities.

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective and

have not been adopted early by the Company. Those considered relevant to the Company and their expected effective dates are:

- NZ IFRS 17 Insurance Contracts 1 Jan 2023
Upon preliminary review management do not expect NZ IFRS 17, the Insurance Contracts standard, to have a significant impact on the Company's financial statements, however the Company has not gone to the extent of determining the final impact of the standard. The Company will adopt the standard from its mandatory adoption date.

20. Explanation of significant variances against budget

As disclosed in note 10, the estimation of the ultimate cost of settling earthquake related claims involves a number of key assumptions and is the most critical accounting estimate. The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty.

The revised 2020 financial year budget (together with the Statement of Performance Expectations) was approved by the Board in March 2020 and was based on the latest available actuarial valuation at that time. The budget assumed no adjustment to the claims liability or unwinding of the risk margin.

Statement of comprehensive income

- The statement of comprehensive income reflects changes in the Discounted Central Estimate, Risk Margin and Reinsurance. The budget assumes no changes to these figures and that only changes to discounting to present value occur. Changes in the Risk Margin resulted in a \$7 million gain to the income statement. Changes in the discounted central estimate resulted in a \$45m

loss to the income statement, largely due to the ultimate number of claims assumption (IBNR) increasing following the pattern of earthquake claims re-openings.

Statement of financial position

- The outstanding claims liability is \$53m greater than budget due to the net effect of an increase in IBNR claims and a downward revision of the risk margin.

Statement of cash flows

- Claim payments are \$17m less than budget. This is due to the fact that the budget assumes that the risk margin is paid out in proportion to the associated claims, however in reality the risk margin has not had to be spent.
- Proceeds from the Crown are \$10m less than budget, principally due to a slower than expected claim payment experience due to a lower than expected claim payment experience.

Statement of performance

For the year ended 30 June 2020

With the significant changes to its operating model, including outsourcing the management of its claims settlement activities to EQC as the Company's agent at the end of December 2019, Southern Response modified its Statement of Performance Expectations accordingly. The strategic objectives reflect the Company's transition from the end of 2019 to 2020.

Strategic objective	Outcome	2019–20 targets	Status
1. Outsourcing of covered claims to EQC is embedded and effective	Utilising the Company's retained capability to support EQC to deliver fair and enduring settlements for customers with unresolved claims with both Southern Response and EQC.	Organisation run down is in accordance with forecasts	Not achieved.
		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	Achieved.
2. Settling notified Covered Claims	Although EQC will be acting as Southern Response's agent, the Company will still retain the decision-making obligations and ultimate responsibility for Covered Claims	99.73% of Covered Claims notified to the Company by 30 November 2019 will be settled by 30 June 2020.	Achieved.
		8,350 (97%) of the 8614* claims notified by 31 March 2019 are settled by 31 December 2019. ² (*note: this includes both overcap and undercap claims)	Achieved: 8,350 (97%) of the 8,614 claims notified by 31 March 2019 were settled by 31 December 2019. In total 8,393 of 8,642 claims were settled by 31 December 2019.
3. Completing finalisation work with EQC	Southern Response and EQC will continue to engage with one another to agree any outstanding amounts that may be owed due to allocation of costs to earthquake events from the Canterbury Earthquake Sequence.	By 30 June 2021, Southern Response will have completed all technical and operational work necessary for finalisation.	On track for achievement.
4. Southern Response has outsourced arrangements in place to ensure that the Company meets its ongoing obligations	As a Crown-owned company, Southern Response will have ongoing financial, governance, legal and reporting obligations that will continue for a number of years.	Compliance with obligations arising from the Public Finance Act 1989 and the Crown Entities Act 2004.	Achieved – obligations met in accordance with the requirements outlined in the Owner's Expectations Manual, including the submission of the Statement of Performance Expectations (and modified SPE to reflect the Company's updated operational structure).
		Manage liquidity in accordance with the investment management policy directed by the Crown, including reporting of actual and projected shortfalls in a timely manner.	Achieved – reports were sent within set timelines.
		Continue to regularly review the adequacy of capital facilities at an appropriate confidence level, in recognition of the possible claims liability valuation volatility, due to ongoing uncertainty around claim numbers, ongoing litigation and final cost.	Achieved – Company reviews capital facilities using actuarial valuations and financial forecasts.
		Review the Company's operating structure and associated budget annually.	Achieved.
5. To ensure people are safe	Everyone involved in a Southern Response claim is safe and their wellbeing is supported by our processes and practices.	A minimum score of 90% for critical H&S risks assessed as being adequately managed by contractors. ²	Achieved: The monthly average risks managed have been consistently at least 90%.
		Staff Wellbeing Scores remain consistent or improve. ²	Achieved: No "score" is established but positive wellbeing trends can be seen in the six months of survey data.
6. 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.	The number of litigated claims as at 30 November 2019 is reduced in accordance with the Company's actuarial forecasts.	Achieved: of the 52 litigated claims open at 30 November 2019, 18 were settled prior to balance date which is above the 14 expected settlements. There were then a further 13 newly litigated claims between 30 November and 31 May 2020.

² SPE measure from the 2019 calendar year.

Directory

Shareholders

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Minister for Greater Christchurch Regeneration

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Web: www.southernresponse.co.nz

Executive Management

Casey Hurren, General Manager

Actuary

Finity Consulting Pty Limited

Auditor

The Auditor-General pursuant to section 15 of the Public Audit Act 2001.

Mike Hoshek of Deloitte is appointed to perform the audit on behalf of the Auditor-General.

Banker

ANZ Bank of New Zealand Limited

Legal Advisors

Bell Gully

Buddle Findlay

Affiliations

Insurance and Financial Services Ombudsman (IFSO) Scheme participant

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