APPENDIX 56

Review of New Zealand Earthquake Commission's Catastrophe Response Operational Capability

May 2009
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Executive summary

The Earthquake Commission (EQC) has responsibilities under the Earthquake Commission Act 1993. Essentially these can be condensed into three key functions.¹

- Provide insurance of residential property against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips, to properties covered against fire in accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss by any of the above hazards plus storm or flood.
- Administer the Natural Disaster Fund, including its investment and reinsurance.
- Facilitate research and education about matters relevant to natural disaster damage and its mitigation.

One of the ways in which EQC meets these responsibilities is through its Catastrophe Response Programme (CRP). In late 2008 the Board of EQC considered it was appropriate to conduct a review of the operational capability of the CRP to provide confidence that it will achieve its objectives.

EQC needs to know whether, in the event of a major and widespread natural disaster, the CRP and the way it is implemented will enable EQC to meet its obligations as set out in the Act, to a standard acceptable to the government and public of New Zealand.

This review covers:

- soundness of the CRP itself in terms of the relevance and coverage of the arrangements planned for enabling EQC to meet its statutory obligations
- adequacy of EQC’s own internal disaster response arrangements
- soundness of the preparations for the acquisition, management and control of the resources of labour, equipment and material needed to meet the objectives of its CRP in the event of a major natural disaster
- adequacy of the quality control mechanisms and performance measures employed to gauge the extent to which success is being achieved
- adequacy, accuracy and utility of documentation and record keeping associated with the CRP; in particular, how well the documentation enables procedures to be followed by successors to current personnel or those being brought in with minimal training
- assessment of whether economical gains could be made without reducing readiness to an unacceptable degree.

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¹ Earthquake Commission Statement of Intent 1 July 2008–30 June 2011
Key findings

Strengths of the CRP

The concept of the CRP is sound in that it recognises that the day-to-day and crisis-response requirements of the Commission are similar in function but greatly different in scale and urgency. It seeks to identify, resource and prepare functions for quick response to relevant events. It also acknowledges there will be significant pressure on some of the desired resources from other quarters of the insurance industry.

There is no doubt it has been effective in the events to date - anecdotal evidence and customer reactions indicate this. However, there has been no comprehensive, formal evaluation of the CRP’s performance in some of the out-of-the ordinary but less than large scale events. This led the review panel to question the robustness and efficacy of arrangements for less likely but catastrophic events, such as a major Wellington earthquake.

It was evident to the panel that the CRP has a number of key strengths:

- the CRP has been activated on a number of occasions and it has been effective
- a constant improvement process has ensured the CRP is a living document
- highly committed and knowledgeable EQC staff
- excellent relationships with providers (e.g. Wheeler Campbell, DTZ, Corporate Call Centre)
- contracted staff (loss adjusters, office managers) are loyal and professional.

Review panel observations

The panel observed that:

- there is a misalignment of role expectations between some areas of government and EQC
- there is minimal guidance from government on what constitutes acceptable processing times for a moderate or large scale event
- there is some duplication of effort in processing and claims approval
- EQC has a small number of staff therefore the loss of one or more could compromise the activation of the CRP
- provider organisations have limited internal capacity and the loss of one or more of their staff could compromise activation of the CRP
- CRP documentation is difficult to navigate and the presentation does not take advantage of current document production techniques
- there is only an informal debrief and reporting process following activation events
- there is minimal collaboration with private sector insurers.

The panel made the following strategic findings based on the above observations.
Role expectations

Apart from the requirements of the Earthquake Commission Act 1993 (which provide for qualifying claims to be settled by payment, replacement or reinstatement) there is no clear direction to EQC from government about its expectations of the organisation in:
- supporting whole-of-government processes of disaster management and recovery
- providing support to home owners (in addition to cash settlements) in their replacement or reinstatement of damaged property.

EQC's current assumption, and preference, is that it settles claims in cash.

Interviews with stakeholders identified the possibility that EQC might be expected to take a more 'hands on' role in support of reconstruction activities following a large scale event, such as a Wellington earthquake.

Such a role would mean that, rather than just settling claims in cash, EQC might be expected to actively work with other local and central government agencies and private insurers to provide a coordinated approach to supporting home owners in replacing or reinstating damaged property.

Reasons offered for this view included the following:
- funds for reconstruction work, together with the supply of builders and materials, will likely be scarce
- government will be under pressure to ensure that available funds are effectively used in support of reconstruction work (and not spent by home owners on other purposes or absorbed by inflated building costs)
- while private insurers currently ensure their funds are used for reinstatement, in the event of a large scale event they may not have the capacity to do this and may settle claims by cash instead
- as a Crown owned entity, the government may expect EQC to work with other government agencies and insurance companies to facilitate reconstruction work.

Any such expectation would have significant planning, human and other resource implications for EQC, which are not currently factored into the CRP.

Any misalignment in role expectations between government and EQC could lead to confusion and friction at both political and operational levels and in the public arena. This is a risk unless alignment is achieved by either greater understanding before an event or by role adaptation by EQC following a large scale event (which it is currently unprepared for). It is important that EQC can clearly articulate its role, both before and during an event, to the public and its various stakeholders.

Resources versus timeliness

A key challenge for EQC is to be able to 'gear up' quickly following a disaster to meet an unknown level of demand for its services.

EQC's response to this challenge is to contract with various providers for additional capacity, up to specified levels, in the event that disasters occur. Providers put in place arrangements to provide or procure this capacity for EQC, and EQC pays monthly or annual fees for these arrangements, regardless of whether disasters occur. Examples of companies contracted to provide support in this
way are Gallagher Bassett Services, Wheeler Campbell and DTZ. In the event that a disaster does occur EQC pays the direct costs for the contracted service or resources.

In entering into these arrangements EQC makes an important judgment about the cost that it is prepared to pay for capacity versus the likelihood that the capacity will be needed. If too much is contracted for, EQC bears the costs of maintaining arrangements for surplus capacity that it may not need for some considerable period. If too little is contracted for, EQC must arrange for additional capacity for an event occurs or accept delays in processing and settling claims, and manage public and stakeholder expectations accordingly. Delays in processing claims and making payments would also be likely to delay private sector insurers’ processing of claims above EQC thresholds, leading to further delays to reconstruction efforts.

EQC staff currently make this judgment without particular guidance from any other body on what would constitute acceptable processing times in the event of a particular disaster. Would, for instance, a delay of several years before settlement be acceptable in the case of a major disaster?

So far the adequacy of EQC’s arrangements has only been tested against disasters involving up to a few thousand claims.

The CRP currently assumes ‘scalability’ of resources depending upon the size of the event. However, there is currently little understanding of the point at which ‘total resources available’ is reached which would then lead to claims processing times extending. Consideration needs to be given to the CRP having a ‘plan B’ – what changes are made to procedures to reduce the gap of resource availability and claims processing time?

EQC’s relationship to private sector insurers.

The quality of the relationship between EQC and private sector insurers is important for the following reasons.

- EQC depends on private sector insurers to provide it with timely information on the insurance policies they hold so EQC can validate and process claims against them.
- Home owners with damages over the EQC caps depend on settlements from both EQC and their private sector insurer to finance replacement or reconstruction.
- Private sector insurers who receive claims for damages over the EQC caps must wait on EQC to make decisions about settling claims before they can settle.
- In the event of a moderate or major disaster generating tens of thousands of claims, capacity to process claims will be scarce and EQC will compete against private sector insurers for it.

A number of issues in the current relationship could cause delays and inefficiencies in settling claims, both by EQC and private sector insurers, and could delay the release of funds for reconstruction following a disaster.

These issues include the following.

- EQC does not have direct access to information on the details of the people and residences it covers. Instead, EQC must iteratively and manually verify with private sector insurers, claim by claim, that a claimant has a valid insurance policy. This adds cost and time to EQC’s claims processing. In a large scale event it could cause a bottleneck. Direct access to
this information would enable EQC to better target information to uninsured home owners on the benefits of EQC cover.

- Processing of claims between EQC and other insurers is inefficient in the following ways:
  - claimants with large claims are required to deal with two insurers
  - there are multiple call centres – for EQC cover and private sector cover
  - claimants are required to provide similar information twice
  - multiple assessments of damage are carried out by two teams of loss adjusters
  - there is potential for dispute over assessments of damage between the insured and EQC
  - there is potential for bottlenecks as private sector insurers await the conclusions of EQC settlement decisions before undertaking their own assessments

- In a large event inefficiencies in the use of scarce resources would contribute to delays in settling claims.

Statutory claims lodgement

Claims must currently be lodged with EQC within a period of three months.

While this period appears sufficient for minor events it may be too short in the case of a moderate or major disaster that generates tens or hundreds of thousands of claims. In such an event home owners’ capacity to lodge claims may be constrained as may EQC’s ability to accept claims. The panel understands the Ombudsman and EQC have in the past made representation to government to extend the lodgement time period. The panel feels representation should again be made to look at providing more flexibility around the lodgement period.

Key recommendations

EQC role expectations

It is recommended that, to avoid the possibility of misaligned expectations of EQC’s role, EQC:

- canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster
- consider promoting the establishment of a ‘cluster’ of agencies likely to have complementary roles in reconstruction following a large scale event, including the following:
  - EQC
  - Insurance Council of New Zealand
  - Department of Building & Housing
  - Local Government New Zealand
  - Ministry of Civil Defence & Emergency Management
  - Department of Internal Affairs.
Resources versus timeliness

It is recommended that, in relation to expectations regarding the timeliness of settling claims in the aftermath of a large scale event and in the light of a possible evolution in the EQC concept (see above), EQC:

- establish the timescales around claims processing in a large scale event (80,000+ claims) that could be achieved with current CRP arrangements
- propose and seek agreement from its Board and responsible Minister of an indicative timeframe for finalising claims in the aftermath of minor, moderate and large scale events and have these timeframes included in the Statement of Intent
- undertake a strategic piece of work to understand how the above expectations can be met through changing procedures around processing of claims in moderate and large scale events.

EQC’s relationship to private sector insurers

It is recommended that EQC:

- commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. This work should take an overall systems approach, and consider:
  - the relative roles of EQC and insurers in initial claims lodgement and verification
  - the potential for a single claims lodgement process
  - the potential for EQC and insurers to take a joint approach to claims assessment
  - the potential for EQC and insurers to establish an integrated approach to claims settlement, including repair and replacement
  - the potential to provide EQC with live access to the details of people and properties with EQC cover for EQC related purposes.

Statutory claims lodgement

It is recommended that, given the pressures that will follow a large scale event:

- consideration be given to extending the current provisions of the Act to include more flexible timeframes while retaining ‘without prejudice’ provisions.

Claims processing

It is recommended that EQC:

- pursue the concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events
- pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large scale event to the fullest extent possible
- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjuster supervisors
- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services
- make provision for the appointment of one or more (depending on the geographical spread of the event) contract structural engineers to advise loss adjusters whether a full engineering inspection/report is required.

Adequacy of documentation

It is recommended that EQC:
- engage external specialist expertise to develop CRP documentation using appropriate software which provides a more efficient and effective method of document development and ongoing management.

Alignment with National Civil Defence Emergency Management

It is recommended that EQC:
- engage with national Civil Defence Emergency Management (CDEM) to determine expectations of EQC (e.g. staffing at National Crisis Management Centre, availability of Minerva data)
- determine likely transport arrangements and availability following a large Wellington event and how EQC might take advantage of national CDEM arrangements rather than its current contractual arrangements with Helipro.

Communications

It is recommended that EQC:
- review the CRP communications plan to ensure it is strategically focused and, in a large scale event, communications would be coordinated across public information, EQC operations, media relations, stakeholder relations and Ministerial servicing
- review the arrangements for public communication support to ensure they would provide the depth and breadth of skills and capacity needed to take a proactive approach on the ground and pre-empt or manage crisis situations as they occur
- include the contracts for public communication support in the CRP for regular review.


Introduction

The Earthquake Commission (EQC) has responsibilities under the Earthquake Commission Act 1993 (the Act) to settle claims in the event of a natural disaster. Specifically these responsibilities are:

a) to administer the insurance against natural disaster damage provided under the Act
b) to collect premiums payable for the insurance provided under the Act
c) to administer the Fund and, so far as is reasonably practicable, protect its value, including by the investment of money held in the Fund
d) to obtain reinsurance in respect of the whole or part of the insurance provided under the Act
e) to facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under the Act
f) such other functions as may be conferred on it by:
   i. this Act or any other Act; or
   ii. the Minister, by written notice to the Commission after consultation with the Commission.

Essentially the above responsibilities can be condensed into three key functions:

- Provide insurance of residential property against loss or damage caused by earthquake, volcanic eruption, hydrothermal activity, tsunamis and natural landslips, to properties insured against fire in accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss by any of the above hazards plus storm or flood.

- Administer the Natural Disaster Fund, including its investment and reinsurance.

- Facilitate research and education about matters relevant to natural disaster damage and its mitigation.

One of the ways in which EQC meets the above responsibilities through its Catastrophe Response Programme (CRP). In late 2008 the Board of EQC considered it was appropriate to conduct a review of the operational capability of the CRP to provide confidence that it will achieve its objectives.

Over the past decade EQC, through the CRP, has developed its means to cope with the sudden influx of thousands, or tens of thousands, of claims. The indicators of success for the CRP are as follows.

1. All claimants were able to lodge claims with EQC within the statutory due day period or such extended period approved by the Minister.

2. Claims were settled within a timeframe that gained broad public acceptance.

3. Claims were settled to standards of individual and overall fairness perceived as acceptable by the public.

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2 Earthquake Commission Act 1993 (Ss s51).
4. Essential office services were maintained at a level commensurate with a standard of operational efficiency acceptable to the Board.

The health and welfare of staff was maintained over long working hours, particularly in the avoidance of stress.

Over the past few years a number of events have occurred within New Zealand requiring EQC to activate the CRP. The most significant of these was the 2007 Gisborne earthquake which resulted in approximately 6000 claims. As a benchmark, the review panel considered an ‘upper level’ event to be one in which total claims exceeded 80,000, with a major Wellington earthquake resulting in as many as 150,000 claims. EQC needs to know whether, in the event of a major and widespread natural disaster, the CRP and the way it is implemented will enable EQC to meet its obligations as set out in the Act, to a standard acceptable to the government and public of New Zealand.

This review covers:

- soundness of the CRP itself in terms of the relevance and coverage of the arrangements planned for enabling EQC to meet its statutory obligations
- adequacy of EQC’s own internal disaster response arrangements
- soundness of the preparations for the acquisition, management and control of the resources of labour, equipment and materials needed to meet the objectives of its CRP in the event of a major natural disaster
- adequacy of the quality control mechanisms and performance measures employed to gauge the extent to which success is being achieved
- adequacy, accuracy and utility of documentation and record keeping associated with the CRP; in particular, how well the documentation enables procedures to be followed by successors to current personnel or those newly brought in with minimal training
- assessment of whether economical gains could be made without reducing readiness to an unacceptable degree.

Specifically excluded from the review are:

- EQC’s financial/accounting arrangements including the adequacy of the Natural Disaster Fund and its ability to meet its liabilities
- EQC’s reinsurance arrangements
- the provisions of the Earthquake Commission Act
- EQC’s new computerised claims management system, outside its context within the CRP.

To conduct the review a panel was sought with specialisation in the following areas:

1. Planning and deployment.
2. Insurance claims processes.
3. Public relations.
4. Public policy.
5. Emergency and disaster response management.
The Board agreed to the appointment of a Chair for the panel (Karen Stephens) and the remaining members were appointed following an advertisement and interview process. The members of the panel were:

Karen Stephens, Chair and Emergency and Disaster Response Management
General Peter Cosgrove, AC, CNZM, MC (Retd), Planning and Deployment
Anna Smith, Public Relations
Michael Mills, Public Policy
Ross Cuff, FCILA (UK), Insurance Claims Processes.

The full terms of reference and details of the panel members can be found in Appendices 1 and 2.
**Context**

The Earthquake Commission Act 1993 (the Act) provides for the Earthquake Commission (EQC).

EQC is a Crown entity. It operates under the relevant provisions of the Public Finance Act and is governed by a Board of commissioners appointed on the recommendation of the Minister of Finance. The chief executive reports to the Board. The Treasury monitors and advises the Minister of Finance on EQC’s performance and provides policy advice on matters related to the Act as described in the introduction to this report.

The insurance administered by EQC is deemed to apply where a person has a current contract of fire insurance with an insurance company for any personal property situated in New Zealand. It covers residential buildings, residential land and personal property against natural disaster damage from earthquake, natural landslip, volcanic eruption, hydrothermal activity and tsunami, and fire caused by natural disasters. In the case of residential land it also provides cover against damage caused by a storm or flood. Residential buildings are currently insured by EQC to a maximum of $100,000 and personal property to a maximum of $20,000.

EQC levies are collected by insurance companies and forwarded by them to EQC, at rates prescribed under the Act. Insurance companies also have obligations under the Act to keep records of insurance contracts for which levies are payable to the EQC. EQC does not, however, directly receive or have direct access to the details of the people and properties it covers.

The Act provides flexibility for EQC (subject to any regulations) to settle claims by payment, replacement or reinstatement. EQC's current policy is to settle claims by cash payment.

As a Crown entity, EQC operates within a broader whole-of-government context.

In the event of a natural disaster central government provides leadership, coordination and practical support and assistance for disaster management and recovery. To this end the National Crisis Management Centre (NCMC) exists to facilitate central government’s civil defence emergency management arrangements and to offer inter-agency and scalable operability to deal with any type of event or disaster. Following a disaster a number of government and local body agencies will likely become involved in reconstruction including (but not limited to) territorial authorities, the New Zealand Fire Service, the Department of Building & Housing and the Ministry of Civil Defence & Emergency Management.

In the system of recovery EQC, along with private sector insurers, plays an important role in providing home owners with access to the funds they need to finance reconstruction work. EQC also provides information from its simulation models (Minerva) to CDEM to help judge the likely impact of a disaster.

The number, nature and scale of disasters that EQC may need to respond to in any year are difficult to predict because:

- New Zealand is a geologically active country with a long coastline that is subject to a range of natural disasters
• Its population is highly urbanised and concentrated in the main urban centres, especially Auckland, Wellington and Christchurch, meaning that moderate events focused on particular centres can potentially generate large numbers of claims.

• Trends such as climate change are expected to result in greater exposure to storms, landslip and flooding in future.

EQC's experience to date has been that, in any one year, it may need to respond to a number of relatively minor events, involving several hundred to several thousand claims. The largest event to date has been the Gisborne earthquake of 2007 which generated around 6000 claims. A similar or larger event focused on a large population centre, such as a Wellington earthquake, a volcanic eruption in Auckland or an east coast New Zealand tsunami, could generate tens or hundreds of thousands of claims.

Since the inception of the CRP some 10 years ago, technology and collaboration opportunities between EQC and private sector insurers have progressed to potentially improve information sharing and efficiencies in the claims process.

The findings and recommendations within this report have been considered with the above context in mind.
Approach

A review of this nature it was important to ensure that, as far as possible, an objective assessment of the Catastrophe Response Plan was conducted. However, given the CRP has only been activated for relatively small events, the review panel had to make some subjective assessments about the plan’s capability to handle the number of claims anticipated in a large scale event, e.g., Wellington earthquake of 7.5 magnitude resulting in an estimated 150,000 claims.

Due to availability and travel arrangements for panel members it was decided to conduct the review over a five-day period – from 30 March to 3 April 2009.

Before the panel met on 30 March a number of documents were distributed to enable members to start developing a set of questions based on their own areas of specialisation. Panel members also put forward a list of people they wanted to interview as part of the review.

The Chair met EQC’s Operations Manager and identified the interviews required. These were, in the most part, arranged in advance of 30 March with a few additions being arranged during the review week. A full list of interviews conducted is included in Appendix 3.

The interviews were conducted in person or by conference call and the questions asked of the interviewees were based on the six objectives of the review.

1. Soundness of the CRP itself in terms of the relevance and coverage of the arrangements planned for enabling the EQC to meet its statutory obligations.
2. Adequacy of EQC’s own internal disaster response arrangements.
3. Soundness of the preparations for the acquisition, management and control of the resources of labour, equipment and materials needed to meet the objectives of its CRP in the event of a major natural disaster.
4. Adequacy of the quality control mechanisms and performance measures employed to gauge the extent to which success is being achieved.
5. Adequacy, accuracy and utility of documentation and record keeping associated with the CRP; in particular, how well the documentation enables procedures to be followed by successors to current personnel or those being brought in with minimal training.
6. Assessment of whether economical gains could be made without reducing readiness to an unacceptable degree.

These objectives were considered across the following five core disciplines:

1. Planning and deployment.
2. Insurance claim processes.
3. Public relations.
4. Public policy.
5. Emergency and disaster response management.

Given the number of interviews to be conducted within the five days available it was necessary for the panel to split up for some of the interviews. Where this occurred the most appropriate panel member(s) conducted the interview based on the area of specialisation.
In addition to the interviews a significant number of documents were reviewed against the six objectives and five disciplines, and where possible assessed against recognised international standards. However, given the uniqueness of EQC it was not possible to assess the CRP against any single international benchmark.

A list of the documents reviewed and, where applicable, the standards they were assessed against, is included in Appendix 4.
Findings

Strategic findings

Role expectations

Apart from the requirements of the Act (which provide for qualifying claims to be settled by payment, replacement or reinstatement) there is no clear direction to EQC from government about its expectations of the organisation in:

- supporting whole-of-government processes of disaster management and recovery
- providing support to home owners (in addition to cash settlements) in their replacement or reinstatement of damaged property.

EQC’s current assumption, and preference, is that it settles claims in cash.

Interviews with stakeholders identified the possibility that EQC might be expected to take a more ‘hands on’ role in support of reconstruction activities following a large scale event, such as a Wellington earthquake.

Such a role would mean that, rather than just settling claims in cash, EQC might be expected to actively work with other local and central government agencies and private insurers to provide a coordinated approach to supporting home owners in replacing or reinstating damaged property.

Reasons offered for this view included the following:

- funds for reconstruction work, together with the supply of builders and materials, will likely be scarce
- government will be under pressure to ensure that available funds are effectively used in support of reconstruction work (and not spent by home owners on other purposes or absorbed by inflated building costs)
- while private sector insurers currently ensure their funds are used for reinstatement, in the event of a large scale event they may not have the capacity to do this and may settle claims by cash instead
- as a Crown owned entity, the government may expect EQC to work with other government agencies and insurance companies to facilitate reconstruction work

Any such expectation would have significant planning, human and other resource implications for EQC, which are not currently factored into the CRP.

Any misalignment in role expectations between government and EQC could lead to confusion and friction at both political and operational levels and in the public arena. This is a risk unless alignment is achieved by either greater understanding before an event or by role adaptation by EQC following a large scale event (which it is currently unprepared for). It is important that EQC can clearly articulate its role, both before and during an event, to the public and its various stakeholders.
Resources versus timeliness

A key challenge for EQC is to be able to ‘gear up’ quickly following a disaster to meet an unknown level of demand for its services.

EQC’s response to this challenge is to contract with various providers for additional capacity, up to specified levels, in the event that disasters occur. Providers put in place arrangements to provide or procure this capacity for EQC, and EQC pays monthly or annual fees for these arrangements, regardless of whether disasters occur. Examples of companies contracted to provide support in this way are Giegericke Bassett Services, Wheeler Campbell and DTZ. In the event that a disaster does occur EQC pays the direct costs for the contracted service or resources.

In entering into these arrangements EQC makes an important judgment about the cost that it is prepared to pay for capacity versus the likelihood that the capacity will be needed. If too much is contracted for, EQC bear the costs of maintaining arrangements for surplus capacity that it may not need for some considerable period. If too little is contracted for, EQC must arrange for additional capacity after an event occurs or accept delays in processing and settling claims, and manage public and stakeholder expectations accordingly. Delays in processing claims and making payments would also be likely to delay private sector insurers’ processing of claims above EQC thresholds, leading to further delays to reconstruction efforts.

EQC staff currently make this judgment without particular guidance from any other body on what would constitute acceptable processing times in the event of a particular disaster. Would, for instance, a delay of several years before settlement be acceptable in the case of a major disaster?

So far the adequacy of EQC’s arrangements has only been tested against events involving up to a few thousand claims.

The CRP currently assumes ‘scalability’ of resources depending upon the size of the event. However, there is currently little understanding of the point at which ‘total resources available’ is reached which would then lead to claims processing times extending. Consideration needs to be given to the CRP having a ‘plan B’ – what changes are made to procedures to reduce the gap of resource availability and claims processing time?

EQC’s relationship to private sector Insurers

The quality of the relationship between EQC and private sector insurers is important for the following reasons.

- EQC depends on private sector insurers to provide it with timely information on the insurance policies they hold so EQC can validate and process claims against them.
- Home owners with damages over the EQC caps depend on settlements from both EQC and their private sector insurer to finance replacement or reconstruction.
- Private sector insurers who receive claims for damages over the EQC caps must wait on EQC to make decisions about settling claims before they can settle.
- In the event of a moderate or major disaster generating tens of thousands of claims, capacity to process claims will be scarce and EQC will compete against private sector insurers for it.
A number of issues in the current relationship could cause delays and inefficiencies in settling claims, both by EQC and private sector insurers, and could delay the release of funds for reconstruction following a disaster.

These issues include the following:

- EQC does not have direct access to information on the details of the people and residences insurers. Instead, EQC must iteratively and manually verify with private sector insurers, claim by claim, that a claimant has a valid insurance policy. This adds cost and time to EQC’s claims processing. In a large scale event it could cause a bottleneck. Direct access to this information may also enable EQC to better target information to uninsured home owners on the benefits of EQC cover.

- Processing of claims between EQC and other insurers is inefficient in the following ways:
  - claimants with large claims are required to deal with two insurers
  - there are multiple call centres – for EQC cover and private sector cover
  - claimants are required to provide similar information twice
  - multiple assessments of damage are carried out by two teams of loss adjusters
  - there is potential for dispute over assessments of damage between the insured and EQC
  - there is potential for bottlenecks as private sector insurers await the conclusions of EQC settlement decisions before undertaking their own assessments.

- In a large scale event inefficiencies in the use of scarce resources would contribute to delays in settling claims.

**Statutory claims lodging**

Claims must currently be lodged with EQC within a period of three months.

While this period appears sufficient for minor events it may be too short in the case of a moderate or large scale event that generates tens or hundreds of thousands of claims. In such an event home owners’ capacity to lodge claims may be constrained as may EQC’s ability to accept claims. The review panel understands the Ombudsman and EQC have, in the past, made representation to government to extend the lodging time period. The panel feels representation should again be made to look at providing more flexibility around the lodging period.

**Adequacy of caps**

While outside the scope of the review the panel felt it prudent to include within its report comment on the caps as these were regularly raised during interviews.

EQC currently pays up to $100,000 for property damage and up to $20,000 for damage to contents. Private sector insurers provide cover for claims over these amounts. These caps have not been adjusted since 1993. The implications of this are:

- an increasing proportion of property and contents claims are for amounts close to or over the caps
- an increasing proportion of home owners must deal with two insurers (for claims over the caps) particularly in a large scale event.
EQC also indicated to the review panel that, because levies are linked to the sum insured and most policies are written for at least the maximum amount covered by EQC, average per unit claims costs for EQC were increasing while levy income was staying constant.

Several respondents interviewed by the panel suggested:

- there is no evidence of market failure in the provision of insurance for damage over the caps
- any decision to increase the caps would be unlikely to result in lower premiums for home owners from private sector insurers as the risk of their exposure to claims would not substantially change (and therefore overall insurance costs would increase).

Specific findings

Soundness of the CRP

The concept of the CRP is sound in that it recognises that the day-to-day and crisis-response requirements of the Commission are similar in function but greatly different in scale and urgency. It seeks to identify, resource and prepare functions for quick response to relevant events. It also acknowledges there will be significant pressure on some of the desired resources from other quarters of the insurance industry.

There is no doubt it has been effective in the events to date – anecdotal evidence and customer reactions indicate this. However, there has been no comprehensive, formal evaluation of the CRP’s performance in some of the out-of-the ordinary, but less than large scale events. This led the review panel to question the robustness and efficacy of arrangements for less likely but catastrophic events, such as a major Wellington earthquake.

The panel was impressed with the quality and dedication of long-serving and very experienced EQC staff working in Wellington. However, it also saw this as a considerable vulnerability in the early activation and execution of the CRP. If a few key personnel are unavailable, the plan’s implementation will be hindered.

Resources

The panel believes the concept of using a ‘pool’ of resources for recruiting additional key staff is appropriate. However, this approach has limitations for large scale events, as there would be capacity constraints on certain skilled staff, such as loss adjusters and geotechnical engineers. For example, the panel noted a bottleneck would occur in land claim assessments because of the limited availability of geotechnical engineers.

The panel also noted EQC’s dependence on external contracted organisations, and in particular individuals within those organisations, for activating elements of the response. The court does not clearly indicate alternate contacts for these individuals or alternate organisations.

The concept of the CRP is to scale up response dependent upon the size of the event. However, there is no clear understanding at what point resources are exhausted and what effect this would have on claims processing times.
Analysis is required to understand the above and discussion needed with stakeholders to determine acceptable claims processing timeframes in a large scale event. If these timeframes were not possible within the maximum resources available, alternative processing procedures would need to be defined and included within the CRP to ensure stakeholder expectations could be met in events resulting in 80,000+ claims.

Claims processing
The current process for managing and settling claims requires involvement of EQC contracted staff based in New Zealand supplemented by staff provided through the arrangements with Gallagher Bassett Services Australia. The review panel felt there was some duplication of effort in the claims approval process as loss adjusters currently approve the claim which is then further approved by Gallagher Bassett Services staff who have delegated authority for the final approval and payment. In any size of event it would seem appropriate that loss adjuster supervisors should have authority to approve and authorise claim payment.

Discussions with loss adjusters during the review suggested this was an area of frustration for them. It was not practical in a catastrophic to include all the information they gathered in reports and Gallagher Bassett Services staff were questioning approvals without the benefit of all the information. In some cases this resulted in additional work for the loss adjusters. It also seemed that, from its remote location, Gallagher Bassett Services made decisions based solely on the letter of the law in terms of EQC’s instructions. In some cases, where the maximum liability of EQC is absolutely clear, settlements could be approved without incurring the expense of obtaining, for example, an estimator’s report.

The panel feels there is an opportunity to streamline the claims process, particularly in the face of an event entailing large numbers of claims, by simplifying how claims are processed and approved.

Call centres
The panel acknowledges the key role of EQC’s three call centres. The discussions held with one of the call centres provided the panel with comfort that the capacity within each of the call centres could manage a large scale event. However, in the case of a Wellington earthquake the panel believes this vital capacity would be compromised as there is no predefined contingency to expand existing call centres in Auckland and Oamaru to cover the loss of the Wellington/Lower Hutt centre.

Discussion should take place with the Auckland and Wellington call centres to determine how each of them would gear up to cover the loss of the other when the potential call volumes would need to manage claims of 80,000+, and if necessary amend contractual arrangements to reflect this.

Comment was made during the interview that consistent messaging for call centres to use was not provided by EQC and that each call centre had developed their own. The panel felt this was a concern as different messages could be delivered to claimants resulting in confusion and potential media attention.

Communications
The communications plan set out in the CRP focuses on public information and media relations. It appears to have been effective in the events to date though there has been no formal evaluation of this. Interviews with those involved in implementing the plan suggest that it has been used more as a guide than a step-by-step plan that drives action.
The review panel believes the approach to communications needs to be more strategically focused to ensure that in a large scale event:

- communications and operations are integrated (e.g. consistent messages are delivered through the media, call centre staff and loss adjusters)
- communications are coordinated across public information, media relations, stakeholder relations and Ministerial servicing (OiAs, Parliamentary Questions and Ministerial correspondence)
- EQC has the capacity to pre-empt or manage crisis situations as they occur.

As well as supplying prepared public information through the media and advertising in the early stages of an event (as provided for in the CRP) the panel believes that, in a large scale event, EQC would need to establish an early presence on the ground to manage its positioning and provide a constant public face. The CRP needs to allow for a ramp-up of communications professionals ready to take a proactive approach to media relations, public information and liaison with local stakeholders, e.g. local authority/CDEM group, local MPs, mayors, etc. This proposition was universally supported by the EQC staff, external contractors and stakeholders interviewed.

There are likely to be protracted processes and significant strain on existing electronic communications in and around a major disaster area. For this reason the panel believes the CRP should include an option for a ‘shop front’ facility (or internet café) where people can lodge claims via the internet, offline or on paper. This facility would benefit from being linked to a field office but should not be located inside it.

The CRP communications plan should drive all communications activity and needs to include the following:

- clear communications objectives and approach
- key positioning messages
- analysis and mitigation of communication risks
- target audiences and key stakeholders
- guidelines for managing crisis situations
- communication channels likely to be available following a disaster
- clarity around media spokespeople and their roles
- a flexible action plan that can be adjusted according to need
- measures to be used to assess effectiveness.

The current communications manual (Catastrophe Response Procedures: Public Communication) includes some of this material but it is more a collection of possible tactics than a strategically thought-through plan. For example, considerable emphasis is given to organising visitor groups and press conferences but little consideration to the disruption of normal communication channels following a disaster and how communications would need to be adapted. The plan also lacks clear guidelines for managing crisis communications.
Interviews with staff and contractors suggest some of this thinking has been done but it is not captured in the plan. There is also a lack of clarity around who is authorised to speak to the media and inconsistencies between the CRP Management Manual and the Public Communication manual. Our interviews suggest different people have different views about who would speak on what, for example are EQC’s public relations contractors authorised to speak for the organisation? These roles in relation to the media, including that of the chair and other commissioners, need to be clarified in the two manuals.

Under the CRP, a large scale event would involve multiple field offices. The panel believes EQC should consider planning to deploy an EQC executive ‘on site’ to manage instances where there are multiple field offices – for coordination, efficiency and public relations reasons.

There is also a need to ensure agreed messages are integrated into core operations, eg common scripting and prepared questions and answers for staff in EQC’s three call centres. At present each call centre seems to be responsible for developing this material themselves rather than in conjunction with EQC. This could lead to inconsistent information being given across the three call centres and between the call centres and other channels such as the media.

Adequacy of EQC internal disaster response arrangements

The panel was concerned about EQC’s ability to relocate staff out of Wellington following a large scale event in the capital. The planned procedure is for staff to go to a predetermined location close to their home at a prescribed time two mornings after the event. A helicopter would then pick them up and transport them to Naenae College where the first ‘disaster meeting’ would occur. All staff would then be transferred by helicopter to the closest operating commercial airport. Once there they would obtain commercial tickets to Auckland.

On the face of it this seems a logical arrangement. However, it does not take account of the National CDEM arrangements which may be in place including airspace regulations, and the ability of the National Civil Defence Controller to commandeer aircraft for humanitarian, reconnaissance or response activities. These would likely be of higher priority than relocating EQC staff.

It would, therefore, seem more appropriate to have arrangements in place with National CDEM to be ‘on the list’ for transport out of Wellington as it is available. Discussions with the National CDEM Controller confirmed this was an appropriate course of action.

The panel reviewed the viability of EQC’s relocation arrangements, should the Wellington office be put out of action, and felt a more conservative/pessimistic approach should be taken. It is suggested consideration be given to establishing some parts of some functions permanently outside of Wellington which would have the effect of ensuring as early an activation as possible.

Alternate communications capability should also be considered for key staff within EQC and for providers, eg satellite phones.

It should be noted that EQC is not a disaster response agency and therefore would not be expected to activate within the first few hours following a large scale event. However as mentioned earlier in the report some expectations exist around EQC’s availability and visibility.

An initial area of concern for the panel was the dependency on two EQC staff for the day-to-day management of IT systems and the activation of field offices following an event. However, it became clear during discussions with Information Technology Manager Colin Kienener that the IT
systems were robust with good disaster recovery planning and testing. In the event of multiple field offices being needed, arrangements are in place with IT vendors to provide equipment and with IT consultants to support the set up of the field offices.

There is still a significant dependency on communications companies such as Telecom and Tesco Clear to provide communications links from field offices. This may be a bottleneck in a large scale event if there are multiple demands and conflicting priorities on those organisations. Links with National Civil Defence Emergency Management to clearly identify EQC’s needs following a large scale event may reduce this risk.

The panel noted that the CRP does not consider arrangements for ‘business as usual’ EQC operations outside of those focused on disaster response, e.g. funds management. The panel feels the CRP, for completeness, should include a section or annex describing business as usual for EQC non-disaster response functions. Also, the panel acknowledges the speed, functionality and flexibility of the essentially web-based claims process, which is a major strength of the CRP. However, it would be advisable for the CRP to include a workaround process to cater for the potentially protracted outage of the internet.

Soundness of preparations
The panel thought highly of the level of experience within EQC and the preparations inherent in its contingency planning. It therefore focused on opportunities for improvement in line with the ‘constant improvement’ process embarked by EQC since the CRP’s inception. The panel also took the approach of assessing the preparations against the worst case scenario of 80,000+ claims. All observations below should be seen in the light of refining broad plans which are considered sound and relevant.

Resources
The panel considered more broadly the crucial human capital needed after a large scale event.

On the basis of the Gisborne experience EQC has recently recalculated the number of claims a loss adjuster can handle in a day. This number has been revised from 1.5 a day to 5-6, based on 60,000 claims. As claims staff are procured at the time of an event and required for three week tours of duty, this means the following number of staff will be needed under the present model.

- Estimators: 160 (x 3 = 580)
- Loss adjusters: 80 (x 3 = 240)
- Claims administrators: 48 (x 3 = 144) – if these were permanently rather than on tour, only 48 would be required.

The panel saw value in tapping the New Zealand retired community for loss adjusters, much as has been done for office managers, to supplement the staff from Australia obtained by Gallagher Bassett Services.

The panel also believes EQC could usefully consider additional contracted staffing for a large scale event, where the number of claims could exceed 80,000. For example, land valuers would help the speed of claims resolution and additional case managers would assist greatly.

As noted earlier, the panel believes it is likely that the limited availability of geotechnical engineers would cause a bottleneck in land claim assessments. To ensure this limited resource is called upon only when needed, it is suggested EQC consider engaging an experienced contract structural
engineer who could advise loss adjusters in the damage areas when a formal engineering assessment was required – this person would need to be indemnified. This would avoid the situation in a large scale event of loss adjusters calling in consulting engineers when the damage did not warrant it.

The panel was impressed with the professionalism and dedication of external contracted organisations, and individuals within those organisations – such as John Topp of Wheeler Campbell and Dave Ovens of DTZ – and believes EQC could rightly rely on them for activation of elements of the response. However, as noted earlier, the panel has some concerns about whether a 'Second XI' has been identified and would be available in their absence. The CRP does not clearly indicate alternate contacts for these individuals or alternate organisations.

Field office activation

The process for the activation of field offices requires Wheeler Campbell (Wellington) to contact its contracted site / office managers who are then deployed with a 'site kit' to establish a field office at the relevant location. DTZ in Rotorua obtains appropriate office space for the field office as well as negotiating lease arrangements with landlords.

Once in situ the site / office manager coordinates the setting up of the field office with support from EQC in Wellington or on site. EQC information technology staff attend the site to implement technology and communications requirements. This has the potential for delay as they are reliant on external providers such as Telecom and Te traClear.

When the field office becomes operational, the site / office manager provides an overall administration and coordination role. It was suggested during interviews that where multiple field offices were activated the site / office manager could support multiple offices.

Experience in real events suggests that while the field office is being established EQC should have a presence in the affected area to provide people with information and set expectations of its role. Also setting up a 'shop front', where people could obtain information or lodge a claim, would provide an opportunity for EQC to be proactive in terms of public relations and communication.

The panel reviewed EQC’s induction training which is a critical element to ensure the field office process operates efficiently and effectively. The documentation for this was a 'work in progress' and some interviewees felt induction sessions for field office staff focused on the operation of the office rather than the situation and processes required. The panel believes the ultimate aim for induction and supporting training material should be to equip every 'draftee' into EQC to perform their designated function (generic and situation specific) as early as possible and with a minimum need for coaching and monitoring.

Communications

EQC holds contracts with two small public relations companies to supply communications support following an event – Niu Pacific in Wellington and Lindenberg & Partners in Auckland. Both companies hold prepared media releases and advertisements for immediate release following a large scale event. If a large-scale event hits Wellington, and EQC staff are unavailable, Lindenberg & Partners is authorised to release the material. If a large scale event strikes elsewhere, Niu Pacific will release the material on instruction from a senior member of EQC.
The size and scope of the public communication team for a large scale event would be set at the initial EQC managers' meeting. EQC has a communications adviser and communications coordinator on staff; Niu Pacific and Lindenberg & Partners have a small number of core staff but rely on a network of contacts for extra capacity. Wheeler Campbell is also contracted to supply additional communications staff should they be needed.

It is likely that, in a large-scale event, EQC will need greater capacity in crisis communications on the ground than the CRP currently covers. EQC would also need to link into the National CDEM Public Information Management response. The panel suggests the current arrangements are reviewed to ensure they provide the depth and breadth of skills and capacity needed to take a proactive approach and pre-empt or manage crisis situations as they occur. The contracts for communications support also need to be included for regular review in the CRP Management Manual.

Claims processing

As discussed earlier, there is a need to understand the tipping point where the available resources are insufficient to process claims within an acceptable timeframe.

At this point alternate processing procedures need to be pre-defined to reduce the time spent on each claim. For example, content claims may be accepted and paid with no loss adjuster involvement up to a certain threshold.

These options need to be considered and agreed in advance and included within the CRP.

Adequacy of quality control and performance measures

The current set of performance measures are mainly qualitative.

- All claimants were able to lodge claims with EQC within the statutory 30 day period or such extended period approved by the Minister.
- Claims were settled within a timeframe that gained broad public acceptance.
- Claims were settled to standards of individual and overall fairness perceived as acceptable by the public.
- Essential office services were maintained at a level commensurate with a standard of operational efficiency acceptable to the Board.
- The health and welfare of staff was maintained over long working hours, particularly in the avoidance of stress.

The problem with some of these measures is that the standards needed to achieve success will not be known until after the event. This is because success is judged in terms of public acceptability. This is not particularly useful to EQC in determining the level of capacity it needs to contract for, or the speed with which it needs to gear up following an event.

The panel proposes that the current indicators be reviewed with a view to replacing them, where appropriate, with quantitative indicators to be agreed with EQC's shareholding Minister. These can then be used to inform the development of the CRP and to evaluate its effectiveness following various sized events.

The CRP is underpinned by extensive contracting arrangements and assumptions about the performance and practicality of these arrangements. There are also assumptions about the likely
probability of events to which EQC will need to respond. For example, call centres are subject to volume testing on a regular basis, however ‘quality’ testing is not included. Feedback from call centre management indicated they would welcome this kind of testing and a more formal feedback process.

As the CRP is a living document the panel would expect these arrangements and assumptions to be improved and modified over time in light of both actual experience and new information. For this reason we would expect the CRP to be regularly monitored, evaluated and refined in light of new lessons learned from real experience and new information.

In practice, EQC holds debriefing sessions following events, but these are informal and not necessarily reported to the Board. There is no formal or systematic approach to reviewing, evaluating and modifying the CRP.

The panel proposes such an approach be developed and implemented, as an important part of the CRP. We would expect this to include:

- development of quantitative and qualitative performance indicators as a basis for monitoring the performance of the CRP and its various functional elements — examples of indicators might include call waiting times, total elapsed time between claim lodgement and claim settlement, customer satisfaction and cost to EQC in settling a claim
- the routine review and evaluation of the CRP following events
- documenting findings and recommendations of these reviews
- agreeing actions, responsibilities and timeframes for implementation of recommendations
- Board consideration of each review.

Adequacy, accuracy and utility of documentation

The CRP is a living document and there is evidence it has evolved over a number of years. However, as with many longer-term living documents, its coherence, completeness and logical flow have tended to suffer as a result of this evolution.

The panel considered the CRP documentation should be able to direct people other than those who have high knowledge of the programme and enable processes to be effective in a short period of time. This is particularly important given the ‘ad hoc’ surge capability needed under the programme.

The panel observed a considerable number of documents supporting the CRP (manuals and handbooks). The information contained in these was useful, in some cases up to date, but in others of questionable contemporary value.

The hierarchy of supporting programmes and manuals underneath the CRP should be clearly defined to provide a guide to users and to support maintenance and management of the documents. The documents would also benefit from an increased focus on outcomes for the public giving the sense that ‘the customer comes first’.

The overall layout of the manuals makes them difficult to follow – particularly in an emergency situation – and needs to be reviewed. There are also some inaccurate page and appendix references which need correcting. The panel suggests EQC engages some specialist expertise in document and user manuals production to review, develop and maintain the CRP documentation.
Potential economic gains

The panel reviewed four areas for achieving potential economic gains.

1. Catastrophe Response Programme.
2. Operations.
3. Corporate structure and activities.

Catastrophe Response Programme

A review of the claims administration process to reduce unnecessary levels of handling will lead to simpler review processes and quicker settling. The focus should be on providing more authority to loss adjuster supervisors and streamlining the verification process by removing the need for claim approvals to be signed off by Gallagher Bassett Services. There would then be potential for reviewing the Gallagher Bassett Services contractual arrangements.

After an initial period of setting up field offices, savings may be realised by having one office manager for a cluster of field offices. Discussions with a former loss adjuster supervisor suggested that once the site / office manager had carried out the initial set-up of a field office, management of the office could pass to the loss adjuster supervisor and/or the claims administrator supervisor. While this view could be countered by others, there would seem to be a good case in a major catastrophe for one office manager to cover the requirements of a cluster of two or three field offices.

There are also potential savings from ‘getting communications right’ particularly in the early stages of a large scale event. Inaccurate public information, that is at cross purposes to what is actually being done, can hinder operations and tie up senior staff. Averting potential crises, and/or managing situations effectively as they arise, will save time and money. Effective public communication will also provide a channel back from the public, allowing issues to be identified and the EQC response to be improved.

If it is estimated the field office(s) will be required for a period of months or years, employing staff local to the field office on fixed contracts would provide for savings and greater ongoing consistency. This would also result in the reduction of resources needed as the three week roster process would not be needed.

Operations

Achieving closer alignment between EQC and the Insurance Industry has the potential for significant savings. Some examples follow.

- Call centres – giving private sector insurers’ call centres the ability to lodge EQC claims so claimants are able to make a single call to lodge a claim both with their insurer and EQC. Verification of insurance would then occur at the time of lodgement. This would remove the time currently taken for a claimant’s insured status to be confirmed through Gallagher Bassett Services.

- Shared technical services – for loss adjusters, estimators and engineers. Given the fundamentally competitive nature of the Insurance Industry the rigour and energy needed to establish this and make it work would need to come from EQC. In a large scale event this arrangement would not only lead to economic efficiencies but go a long way to reducing the frictions associated with delays and double handling. The panel’s advice from
some sections of the insurance industry was to 'road test' these initiatives in the aftermath of a smaller event.

The panel was informed that the insurance industry prefers to establish an early joint presence by industry groups in disaster areas following an event. There are benefits to the insured, potential economies for EQC and very good positioning advantages in being part of this early presence on the ground.

**Corporate structure and activities**

The panel believes there is the potential for EQC to bring some core activities in-house, such as claims processing and approvals. This would result in a reduction of Gallagher Bassett Services contractual arrangements and consequent cost savings.

Reviewing all contracts in terms of function and cost as a part of sharpening the CRP may reveal further savings. For example, the contract with Helipro could be cancelled if staff relocation plans were linked to the National CEM response.
Recommendations

EQC role expectations

It is recommended that, to avoid the possibility of misaligned expectations of EQC’s role, EQC:

- canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster
- consider promoting the establishment of a ‘cluster’ of agencies likely to have complementary roles in reconstruction following a large scale event, including the following:
  - EQC
  - Insurance Council of New Zealand
  - Department of Building & Housing
  - Local Government, New Zealand
  - Ministry of Civil Defence & Emergency Management
  - Department of Internal Affairs.

Resources versus timeliness

It is recommended that, in relation to expectations regarding the timeliness of settling claims in the aftermath of a large scale event and in the light of a possible evolution in the EQC concept (see above), EQC:

- establish the timescales around claims processing in a large scale event (80,000+ claims) that could be achieved with current CRP arrangements
- propose and seek agreement from its Board and responsible Minister of an indicative timeframe for finalising claims in the aftermath of minor, moderate and large scale events and have these timeframes included in the Statement of Intent
- undertake a strategic piece of work to understand how the above expectations can be met through changing procedures around processing of claims in moderate and large scale events.

EQC’s relationship to private sector insurers

It is recommended that EQC:

- commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. This work should take an overall systems approach and consider:
  - the relative roles of EQC and insurers in initial claims lodgement and verification
  - the potential for a single claims lodgement process
  - the potential for EQC and insurers to take a joint approach to claims assessment
— the potential for EQC and insurers to establish an integrated approach to claims settlement, including repair and reinstatement
— the potential to provide EQC with live access to the details of people and properties with EQC cover for EQC related purposes.

Statutory claims lodgement

It is recommended that, given the pressures that will follow a large scale event:
- consideration be given to extending the current provisions of the Act to include more flexible time frames while retaining ‘without prejudice’ provisions.

Claims processing

It is recommended that EQC:
- pursue the concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events
- pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large scale event to the fullest extent possible
- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjuster supervisors
- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services
- make provision for the appointment of one or more (depending on the geographical spread of the event) contract structural engineers to adviser loss adjusters whether a full engineering inspection/report is required
- include a section in its training programme for recent retirees with business experience but from a non-insurance background who, in a large scale event, could be trained relatively quickly to deal with minor damage claims
- provide a ‘shop front’ at the earliest possible opportunity following an event where people could obtain information and lodge claims
- following the initial set up of field offices, provide for the appointment of one office manager to cover several field offices, rather than one manager per field office
- review the audit process which is likely to be too invasive and intrusive in a large scale event.

Formal evaluation process of the CRP

It is recommended that EQC:
- establish, on behalf of the Board, a formal, comprehensive evaluation process for the CRP which takes into account its sectional, living document nature and drives the plan’s completeness, coordination and coherence
- introduce formal reporting process following events where the CRP is activated
• Introduce formal evaluation processes for providers, e.g., call centre quality testing and a formal reporting process.

Contingency and continuity – personnel

It is recommended that EQC:
• Consider establishing a permanent, modest cross-section of vital skill-set personnel in another operating centre away from Wellington.

Engaging/earmarking additional key personnel

It is recommended that EQC:
• To assist claims assessment after a large scale event, consider formally engaging a contract structural engineer/advise to advise when formal engineering assessment is required.
• Explore the possibility of tapping the New Zealand retired community for loss adjusters to supplement the staff obtained in Australia by Gallagher Bassett Services.
• Consider engaging additional contracted staffing for a large scale event, such as land valuers and additional case managers.

Adequacy of documentation

It is recommended that EQC:
• Engage external specialist expertise to review and develop CRP documentation using appropriate software which provides a more efficient and effective method of document development, automation and ongoing management.

Alignment with national Civil Defence Emergency Management

It is recommended that EQC:
• Engage with national Civil Defence Emergency Management (CDEM) to determine expectations of EQC (e.g., staffing at National Crisis Management Centre, availability of Minerva data).
• Determine likely transport arrangements and availability following a large Wellington event and how EQC might take advantage of national CDEM arrangements rather than its current contractual arrangements with Helipro.
• Identify within the CRP who establishes contact with local/regional CDEM following an event.
Communications

It is recommended that EQC:

- review the CRP communications plan to ensure it is strategically focused and, in a large-scale event, communications would be coordinated across public information, EQC operations, media relations, stakeholder relations and Ministerial servicing
- review the arrangements for public communication support to ensure they would provide the depth and breadth of skills and capacity needed to take a proactive approach on the ground and pre-empt or manage crisis situations as they occur
- include the contracts for public communication support in the CRP for regular review.
Appendix 1: Terms of reference

Terms of Reference
Review of New Zealand Earthquake Commission's (EQC) Operational Capability

The Commission

EQC is a small government agency that reports through the national Treasury to the Minister of Finance. It operates under its own Act of Parliament, the Earthquake Commission Act (1993) and Regulations. Among its functions are to operate and administer the national natural disaster insurance scheme and the $5.5 billion Natural Disaster Fund, which is the capital and reserves of the scheme built up since it was first established in 1945.

The scheme now covers structures utilised as dwellings, the land around them and their contents against physical damage by earthquake, volcanic eruption, landslide, tsunami and geothermal activity. Land is also covered for storm and flood damage. Damage from fire following any of these perils is also included.

Private sector providers of domestic insurance policies are compelled by law to add EQC's premium charge to every policy and EQC is likewise obliged to carry the insurance for the above perils. EQC is a first loss insurer, carrying the first $100,000 of cover per dwelling, and $20,000 per contents policy. Land is insured for its market value. So called "back-up" cover above these limits is readily available from the private sector. There is a very small excess – the amount of a claim borne by the claimant – under each section of the cover.

EQC’s Disaster Response

EQC has a total staff of only 21, four of whom have direct claims handling duties. After enquiries with private sector insurance companies indicated delegation to them would not give EQC the confidence that the outcome it expected would be achieved, EQC contracted with a claims administration company (Gallagher Bassett Services of Brisbane, Australia) to provide claims back office services and developed an extensive plan to obtain and employ the necessary resources of labour and materials to enable it to handle suddenly escalating claims loads. This plan is supported by regular exercises and training of both staff and external participants.

The plan – called the Catastrophe Response Programme (CRP) to indicate that it is a routine part of EQC’s activities – has four stages:

Preparation – planning and reviewing all arrangements and their documentation; exercising and training.

Activation – when a disaster occurs, establishing the need for resources of labour, equipment and materials to meet EQC’s requirements for the inspection of properties and processing of claims; assembling, briefing and commissioning these resources.

Maintenance – during a disaster, supporting the resources in place, relieving and replacing and replenishing them, and processing claims to their conclusion.

Winding down – as the requirements of the disaster response subside, repatriating resources, closing down local offices, and reducing supporting staff in line with the reduction in workloads.
A large natural disaster, like a major earthquake in Wellington, could result in about 150,000 claims on the Commission. To date, the CRP has had to deal with events of up to 6,000 claims only.

Review of EQC's Catastrophe Response Programme

EQC is now seeking to have its CRP and the way it has been practised reviewed externally to provide confidence that the programme will achieve its objectives and make recommendations for any required improvements.

Objectives of EQC's Catastrophe Response Programme

The objective of the CRP is to achieve a successful response to a major natural disaster. Indicators of success are:

1. All claimants were able to lodge claims with EQC within the statutory 30-day period or such extended period approved by the Minister.
2. Claims were settled within a timeframe that gained broad public acceptance.
3. Claims were settled to standards of individual and overall fairness perceived as acceptable by the public.
4. Essential office services were maintained at a level commensurate with a standard of operational efficiency acceptable to the Board.
5. The health and welfare of staff was maintained over long working hours, particularly in the avoidance of stress.

The public’s reaction to EQC’s performance will be judged by:

1. A claimants’ survey conducted after settlement of claims.
2. Level of complaints to EQC.
3. Level of complaints to external authorities, such as the Ombudsman and the Minister.
4. General media attention.
5. Level and nature of general enquiries to EQC.
6. Comment from the insurance industry.
7. Any concerns expressed by EQC’s reinsurers.

EQC's claims administration company, Gallagher Bassett Services (Gallagher Bassett Services), operates under a service level agreement based on the assumption that Gallagher Bassett Services will maintain a capability for handling 60,000 claims in a year, working normal business hours and using their own staff. If the claims load exceeds 60,000, then this will be covered by extending working hours and employing new staff.

The Review

EQC needs to know whether, in the event of a major and widespread natural disaster, the CRP and the way it is implemented will enable EQC to meet its obligations as set out in the Earthquake Commission Act, to a standard acceptable to the government and public of New Zealand. It is therefore seeking a review to cover:
• Soundness of the CRP itself in terms of the relevance and coverage of the arrangements planned for enabling EQC to meet its statutory obligations.
• Adequacy of EQC’s own internal disaster response arrangements.
• Soundness of the preparations for the acquisition, management and control of the resources of labour, equipment and materials needed to meet the objectives of its CRP in the event of a major natural disaster.
• Adequacy of the quality control mechanisms and performance measures employed to gauge the extent to which success is being achieved.
• Adequacy, accuracy and utility of documentation and record keeping associated with the CRP; in particular, how well the documentation enables procedures to be followed by successors to current personnel or those being brought in with minimal training.
• Assessment of whether economical gains could be made without reducing readiness to an unacceptable degree.

The review should highlight any shortcomings and recommend improvements. A view of whether EQC could improve its readiness in any way should be expressed.

**Deliverables**

The review is to be in the form of a report to the Chief Executive. Before this is submitted, reviewers should be prepared to give an oral presentation of the draft findings.

**What is not covered in this review**

The following aspects of EQC’s operations and the CRP are not required to be reviewed:

- EQC’s financial/accounting arrangements including the adequacy of the Natural Disaster Fund and its ability to meet its liabilities.
- EQC’s reinsurance arrangements.
- The provisions of the Earthquake Commission Act
- EQC’s new computerised claims management system, outside its context within the catastrophe response programme.
Appendix 2: Members of the review panel

Karen Stephens, Chair and Emergency and Disaster Response Management

Karen has 30 years in the crisis management, business continuity and emergency management field have taken her around the world, managing assignments in the United States, Europe, Asia, Australia and New Zealand. She developed her knowledge in these areas as a senior manager with PricewaterhouseCoopers, delivering assignments to major clients, developing business continuity and crisis management methodologies, and training other consultants at a number of the international PricewaterhouseCoopers offices.

As well as working as a consultant, Karen has spent two years as Emergency Manager for Wellington City Council, where she implemented emergency management plans as well as having high profile input into New Zealand’s Emergency Response Planning and policy.

Karen now consults across a wide range of government and corporate organisations providing advice on and testing of crisis management, business continuity and emergency management planning.

In 2006 Karen designed and managed capacity and capability review of the Auckland Region Civil Defence Emergency Management Group. Following the delivery of the review significant additional funding was provided to increase Auckland’s resilience to large scale events.

General Peter Cosgrove, AC, CNZM, MC (Retd). Planning and Deployment

Peter Cosgrove graduated from Dunrobin in 1966. During service in Vietnam he was awarded the Military Cross for his performance under fire.

In 1999, after numerous command appointments General Cosgrove was appointed as Commander of the International Forces East Timor (Interfet). He was responsible for overseeing East Timor’s successful transition to independence.

He was Australian of the Year in 2001.

General Cosgrove retired as Chief of the Defence Force in 2005 and has accepted positions on the Qantas and Cardno Boards and the Qantas Superannuation Limited Trust. He has a consultancy with Deloittes and has written his memoirs. He is Chairman of the General Sir John Monash Foundation.

After Cyclone Larry devastated Far North Queensland, he was appointed Chairman of Operation Recovery Task Force. He is the Vice Chairman of the Australian Rugby Union board Chairman of Foster’s Community Grants Committee, Chairman of The Australian War Memorial Council, Chairman of the Defence South Australia Advisory Board and Chairman of Agusta Westland Australia.

Anna Smith, Public Relations

Anna is skilled in communications strategy and planning, relationship management and public relations. She has worked with a range of organisations in the public, private and community sectors, helping them to identify their key stakeholders and the most effective ways of communicating with them. She frequently advises senior management teams on issues and risk management and how best to consult and communicate with their stakeholders.
Anna has extensive experience of working in the public sector and currently leads a team of communications specialists providing public relations services to the Retirement Commission.

Michael Mills, Public Policy

Michael is a director of Martin, Jenkins & Associates Limited and has specialist skills and knowledge in public policy management, regulatory policy reform, and organisational capability building. He has intimate knowledge and first hand experience of government and parliamentary processes having held senior public sector positions in the Department of Prime Minister and Cabinet and the Department of Labour and being frequently called upon as a consultant to lead and manage major policy and regulatory reforms.

Michael has particular experience in the areas of regulatory policy including the role of insurance and markets in contributing to public good outcomes, having managed the development of policies to introduce competition to the ACC and to assess the viability of home warranty insurance in New Zealand. Over recent years he has developed specialist knowledge of the building and construction sector through work for the Ministry of Economic Development and the Department of Building & Housing.

Ross Cuff, FCILA (UK), Insurance Claims Processes

Ross has had 25 years managing team responses to major property damage losses involving teams of up to five adjusters dealing with different aspects of a loss (building, stock, plant, business interruption, liability). He has also had 10 years managing major claims in Asia, particularly Taiwan, using local and offshore specialists. The largest claim he has handled totalled US$300 million.

Ross has also been involved in investigating numerous Earthquake Commission (and previously Earthquake & War Damage Commission) claims over the last 35 years including major work in serious flood, landslip and earthquake situations. He is currently handling major landslip losses in Torbay, North Shore City, following an event in July 2008.
### Appendix 3: Interviews conducted by review panel

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Position and organisation</th>
<th>Panel members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Wintringham</td>
<td>Chairman, EQC</td>
<td>Karen Stephens, Michael Mills, Anna Smith</td>
</tr>
<tr>
<td>Patrick Heiney</td>
<td>Senior Policy Advisor, Department of Prime Minister &amp; Cabinet</td>
<td>Karen Stephens, Michael Mills, Anna Smith</td>
</tr>
<tr>
<td>David Coetzee</td>
<td>National Controller, Ministry of Civil Defence &amp; Emergency Management</td>
<td>Karen Stephens, Peter Cosgrove</td>
</tr>
<tr>
<td>Don McGhee</td>
<td>Fire Contract Loss Adjuster</td>
<td>All</td>
</tr>
<tr>
<td>Reid Scriv</td>
<td>Fire Contract Loss Adjuster</td>
<td>All</td>
</tr>
<tr>
<td>Julie Speer</td>
<td>Call Centre Advisor and Claims Administrator Supervisor</td>
<td>All</td>
</tr>
<tr>
<td>Sharon Rowell</td>
<td>Corporate Call Centre</td>
<td>All</td>
</tr>
<tr>
<td>John Kinanne</td>
<td>Client Relationship Manager, Gallagher Bassett Services, Brisbane</td>
<td>All</td>
</tr>
<tr>
<td>Don Newsham</td>
<td>Queensland Regional Manager, Gallagher Bassett Services, Brisbane</td>
<td>All</td>
</tr>
<tr>
<td>Meagan Newsham</td>
<td>Team Leader EQC, Gallagher Bassett Services, Brisbane</td>
<td>All</td>
</tr>
<tr>
<td>John Topp</td>
<td>Wheeler Campbell</td>
<td>All</td>
</tr>
<tr>
<td>Arthur Davis</td>
<td>Contracted Site/Office Manager</td>
<td>All</td>
</tr>
<tr>
<td>Ken Hughes</td>
<td>Contracted Site/Office Manager</td>
<td>All</td>
</tr>
<tr>
<td>Barrie Cook</td>
<td>Director, Niu Pacific</td>
<td>Anna Smith</td>
</tr>
<tr>
<td>Dave Townsend</td>
<td>DTZ</td>
<td>Peter Cosgrove, Ross Cuff</td>
</tr>
<tr>
<td>John Lucas</td>
<td>Insurance Council of New Zealand</td>
<td>Peter Cosgrove, Ross Cuff, Michael Mills</td>
</tr>
<tr>
<td>Barry Searle</td>
<td>McLarens Young Loss Adjusters</td>
<td>Ross Cuff</td>
</tr>
<tr>
<td>Dave Brunson</td>
<td>Kestrel Group</td>
<td>Peter Cosgrove, Ross Cuff</td>
</tr>
<tr>
<td>David Middleton</td>
<td>Chief Executive, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Doug Bent</td>
<td>Operations Manager, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Tony Sheehan</td>
<td>Training Manager, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Lance Dixon</td>
<td>Insurance Manager, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Graham Booth</td>
<td>Claims Manager, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Colin Klenner</td>
<td>IT Manager, EQC</td>
<td>All</td>
</tr>
<tr>
<td>Jo Martin</td>
<td>Communications Advisor, EQC</td>
<td>Anna Smith</td>
</tr>
</tbody>
</table>
Appendix 4: Documents reviewed

<table>
<thead>
<tr>
<th>Document name</th>
<th>Assessed against:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catastrophe Response Management Manual CRP Management</td>
<td>British Standard BS25999 Business Continuity</td>
</tr>
<tr>
<td></td>
<td>National Civil Defence Emergency Management Plan Order 2005</td>
</tr>
<tr>
<td></td>
<td>National Civil Defence Emergency Management Plan</td>
</tr>
<tr>
<td>Catastrophe Response Procedures Claims Processing</td>
<td>Delivering Excellence in Insurance Claims Handling – Guide to Best Practice, AIRMIC UK</td>
</tr>
<tr>
<td>Catastrophe Response Procedures Public Communication</td>
<td></td>
</tr>
<tr>
<td>Catastrophe Response Site Support Manual</td>
<td></td>
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<tr>
<td>Catastrophe Response Procedures Induction</td>
<td></td>
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<tr>
<td>Catastrophe Response Management Manual Field Health &amp; Safety</td>
<td></td>
</tr>
<tr>
<td>Catastrophe Response Quality Assurance and Internal Audit Manual</td>
<td></td>
</tr>
<tr>
<td>Catastrophe Response Agreements for Goods and Services</td>
<td></td>
</tr>
<tr>
<td>Report to the Board on the audit of the Earthquake Commission for the year ended 30 June 2008</td>
<td>(prepared by Audit New Zealand)</td>
</tr>
</tbody>
</table>
# Appendix 5: Glossary of terms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Act</td>
<td>Earthquake Commission Act 1993</td>
</tr>
<tr>
<td>CDEN</td>
<td>Civil Defence &amp; Emergency Management</td>
</tr>
<tr>
<td>CRP</td>
<td>Catastrophe Response Programme</td>
</tr>
<tr>
<td>EQC</td>
<td>Earthquake Commission</td>
</tr>
<tr>
<td>NCMC</td>
<td>National Crisis Management Centre</td>
</tr>
</tbody>
</table>
Review of EQC's Operational Capability

The Earthquake Commission (EQC) is a Crown Entity responsible for, among other things, the handling of claims upon the residential natural disaster insurance scheme detailed in the Earthquake Commission Act (1993). A major characteristic of this task is that claims occur in large batches following a natural disaster like an earthquake. For example, over 6,000 claims were made by EQC following the Gisborne earthquake of 2007 and the magnitude 7.8 Fiordland earthquake in July 2009 is expected to result in about 3,000 claims.

An earthquake also causes extensive residential damage in one of the urban centres of New Zealand could result in tens of thousands of claims on EQC.

With a staff of 21, EQC needs to develop and maintain extensive plans to be able to cope with such loads and settle all claims made under its scheme in a reasonable timeframe. To this end, EQC operates under its Catastrophe Response Programme (CRP), with testing and training schedules, outsourcing and service level agreements, and memoranda of understanding, as part of its routine processes.

After over a decade of development and continuous improvement, especially after debriefing following disaster events, EQC sought to evolve the CRP and the way it has been practised reviewed externally to provide confidence that the programme will achieve its objectives and is keeping up with modern practice. The examination of the programme by experts with fresh perspectives from outside EQC would add a dimension that purely internal attention could not give.

EQC formed a panel of experts after calling for applications. These experts were led by Karen Stephens, an ex-emergency manager for Wellington City Council and a crisis management and business continuity expert. Also on the panel was General Peter Cosgrove (ret’d), ex Chief of the Australian Defence Force and Chairman of the Recovery Task Force appointed by the Queensland Government to oversee recovery operations after Cyclone Larry hit northern Queensland. Other panel members covered communications, public policy and claims handling areas.

The Panel met in Wellington over the course of a week during March/April 2009. It interviewed stakeholders and staff members of EQC and examined documents.

The Panel was able to provide the assurance that the CRP and the way it is practised will achieve the objectives of the Commission. In affirming this, the Panel has, as one of its major findings, alerted EQC to the need to assure itself that its own objectives actually align with those of the Government and that EQC has the capability to manage and meet the expectations of both government and the public, following a large natural disaster.

More detailed findings and recommendations of the Panel, with EQC’s response, are set out below. The Panel’s full report is attached.
Findings and recommendations, with EQC Response

EQC role expectations
The Panel suspected a misalignment of role expectations between some areas of government and EQC may exist. It recommended that:

- to avoid the possibility of misaligned expectations of EQC’s role, EQC canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster.
- EQC will brief its Minister and agencies on the role that is specified in the Earthquake Commission Act, and show in its Statement of Intent how it is prepared to meet its responsibilities within this role.
- EQC to engage with national Civil Defence Emergency Management (CDEM) to determine expectations of EQC including likely transport arrangements and availability following a large Wellington event and how EQC might take advantage of national CDEM arrangements rather than its current contractual arrangements with a commercial provider.
- EQC is raising these matters in existing fora that enable such discussions.
- EQC should consider promoting the establishment of a ‘cluster’ of agencies likely to have complementary roles in reconstruction following a large scale event.

There is a central government grouping of agencies and NGO’s with disaster response roles and this meets after an event has occurred. EQC will explore with these agencies the benefits of more regular meetings.

Resources versus timeliness
The Review Panel recommended that EQC establish the timescales around claims processing in a large scale event that could be achieved with current CRP arrangements, then propose and seek agreement from its Board and responsible Minister of an indicative timeframe for finalising claims in the aftermath of minor, moderate and large scale events and have these timeframes included in the Statement of Intent.

EQC is preparing some scenarios to demonstrate probable processing times for events of 30,000 claims and above. See further comment below.

EQC should undertake a strategic piece of work to understand how the above expectations can be met through changing procedures around processing of claims in moderate and large scale events.

Working through the scenarios noted above with its systems dynamics model, EQC will identify constraint points and consider how its plans for the use of resources could be amended to remove or minimise these bottlenecks, with the overall aim of reducing time to claims settlement. With all improvements incorporated and tested, real estimated times will be discussed with the Board and incorporated into the Statement of Intent for the attention of the Minister.

EQC’s relationship to private sector insurers
The Panel was concerned that there is minimal collaboration with private sector insurers. It recommended that EQC commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. EQC should pursue the
concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events.

EQC has commenced discussions with a private sector insurer to establish protocols covering all the areas mentioned in the Panel's report, as a possible template on which negotiations with other insurers may be based.

Statutory claims lodgement
The Review Panel recommended that, given the pressures that will follow a large scale event, consideration be given to extending the current provisions of the Act to include more flexible timeframes while retaining 'without prejudice' provisions.

EQC is bringing for the incoming Minister referred to EQC's preference for the claim notification time in the Act to be extended. The Minister has responded with a request for specific proposals for amendment to the Act and EQC is working with Treasury on these at present.

Claims processing
The Panel recommended that EQC:

- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjusters supervisors to avoid duplication of effort in processing and claims approval.

EQC's Board is considering a management proposal to give certain loss adjusters authority to approve payments on small claims (covering over 80% of EQC's claims in a significant event).

- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services.

GBS operate EQC's account from Brisbane, which is in itself a risk management measure. Before they were appointed an exercise of the type suggested was carried out. Before reappointment negotiations are undertaken, further investigations will be made, with any benefits balanced against the risk of operating completely within the area for which EQC is responsible.

- provide a 'shop front' at the earliest possible opportunity following an event where people could obtain information and lodge claims.

This is something EQC is seeking to discuss with private sector insurers and other government agencies in the interests of an "all of government" approach, but will also separately consider how it can best serve these needs of claimants following a disaster.

- following the initial set up of field offices, provide for the appointment of one office manager to cover several field offices, rather than one manager per field office.

EQC will consider doing this if geography and other circumstances are favourable.

- review the audit process which is likely to be too invasive and interruptive in a large scale event.

EQC will review how its audit requirements can be met with the least disruption to front line staff.
Contingency and continuity – personnel
The Review Panel recommended that EQC consider establishing a permanent, modest cross-
section of vital skill-set personnel in another operating centre away from Wellington.

EQC has some contractors outside Wellington but will investigate whether a small
permanent staff could be maintained economically and effectively away from its main
office, and that such a development would enhance EQC’s catastrophe response
capability at an acceptable cost.

The Panel noted that EQC has a small number of staff therefore the loss of one or more could
compromise its response, and that provider organisations have limited internal capacity.

EQC will review its plans for coping with the unavailability of internal staff to cater for
single or double backup, and require critical provider organisations to likewise review
and adapt to EQC on their own disaster management plans.

In order to source and engage additional key personnel, the Panel recommended that EQC:

- pursue strengthening its relationship with large engineering firms to avoid potential
bottlenecks following a large scale event to the fullest extent possible

- make provision for the appointment of one or more (depending on the geographical
spread of the event) contract structural engineers to advise loss adjusters whether a full
engineering inspection report is required.

- explore the possibility of tapping the New Zealand retired community for loss adjusters
to supplement the staff retained in Australia by Gallagher Bassett Services

- consider engaging additional contract staffing for a large scale event, such as land
valuers and additional case managers.

- Include a section in its training programmes for recent retirees with business experience
but from a non-insurance background who, in a large scale event, could be trained
relatively quickly to deal with minor damage claims.

The exercise of running realistic scenarios through the systems dynamics model
described under the “Resources versus Timeliness” section will clarify the requirements
for engineering, loss adjusting and other services at different levels of expertise. EQC will
then consider the above suggestions, along with a re-examination of processes, within
the context of the identified constraints to handling claims to an acceptable timescale
and with acceptable economy.

Formal evaluation process of the CRP
The Review Panel noted that there is only an informal debrief and reporting process following
activation events, and recommended that EQC:

- establish, on behalf of the Board, a formal, comprehensive evaluation process for the
CRP.

The Board has a CRP committee and the requirement for such a review will be
incorporated into its terms of reference.

- introduce formal reporting processes following events where the CRP is activated

EQC will formalise its evaluation and reporting processes.

- introduce formal evaluation processes for providers, e.g. call centre quality testing and a
formal reporting process.
EQC will investigate what evaluation processes for providers can be added to existing evaluations like claimant satisfaction surveys.

Adequacy of documentation

The Review Panel found EQC’s Catastrophe Response Plan documentation difficult to navigate and the presentation does not take advantage of current document production techniques. It recommended that EQC engage external specialist expertise to review and develop the documentation utilising these latest methods.

EQC will implement this recommendation.

Communications

The Review Panel recognised the importance of effective communications as part of the Catastrophe Response Plan, and recommended that EQC review the CRP communications plan to ensure it is strategically focused and co-ordinated, the arrangements for public communication support to ensure it would provide the depth and breadth of skills and capacity needed and include the contracts for public communication support in the CRP for regular review.

EQC will implement this recommendation.

Conclusion

The Review endorses EQC’s strategy, how it will meet its obligations under the Earthquake Commission Act. EQC looks forward to working with other agencies to co-ordinate plans for a community’s recovery from major disasters. EQC will also conduct further work to expand on some of the Panel’s findings and implement other recommendations as soon as practicable. This activity can be carried out without a significant impact on EQC’s budget for 2009/10.

The government and the public has been assured by the Panel of Experts that EQC has adopted the right approach to ensure it will be able to meet its obligations in the event of a natural disaster, with its Catastrophe Response Programme and the way it is practised. The timeliness of claims settlements should be acceptable to government and the public for all but the largest events. The Panel has suggested ways in which EQC could be better prepared even for these claims pulses, which would be at least eight times larger than any experienced by the Commission in its sixty-four year history, and these will be further investigated.
MEMO TO: CRP COMMITTEE

RE: INSURANCE MANAGER

DATE: 28 October 2009

SUBJECT: CRP Overview Report

Tuatapere Earthquake

Operational Support
As a result of the 15 July earthquake in Fiordland (referred to as the Tuatapere event) a field office was opened in Invercargill in accordance with our established planning procedures. It opened on 16 July with about 30 people, but after three weeks this doubled to nearly 60. It began winding down in late September and closed on 17 October.

Our expectation was that most claims would be in the Invercargill/Southland area, but it became apparent that we would need a presence in Christchurch, Central Otago (Cromwell), and Dunedin.

In Christchurch we established an administration centre from which the loss adjusters collected their day’s work and undertook the paperwork generated. A single administration assistant collected their paperwork then scanned and emailed this to EQC Wellington for data-entry into ClaimCenter. All claims decisions were then made by GBS in Brisbane. The Christchurch office closed in late August.

In Cromwell and Dunedin we established “satellite” offices, staffed by 5-12 people. By satellite office is meant a smaller short term office with the same structure as a field office, i.e. it is managed by an EQC contract loss adjuster who has 3-4 loss adjusters working in their team, along with administrative support and access to ClaimCenter. However, all payment authorisations were made by GBS staff in Brisbane.

In the beginning these offices worked independently of the field offices, but as the work in their areas wound down they came under the control of the Invercargill Field Office. The satellite offices closed in September. We will be considering future direction of satellite offices once we have analysed their cost-effectiveness and efficiency in the area.

Claims Workload
The graph below shows the status of the claims through the event. It can be seen that 80% of claims were resolved by the week beginning 27th September, approximately 10 weeks after the event date.
The Statement of Intent for EQC is that 80% of claimants receive their entitlements (claim payment) within 90 days of lodging their claim. The table below provides a comparison between this event and the Hastings and Gisborne earthquake events:

<table>
<thead>
<tr>
<th>Event</th>
<th>No. of Paid Claims</th>
<th>Percentage of open claims as at 28th Oct</th>
<th>Total Paid</th>
<th>Percentage of claims paid within 90 days of lodgement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuatapere – July 09</td>
<td>2422</td>
<td>95%</td>
<td>$6.1m</td>
<td>99%</td>
</tr>
<tr>
<td>Hastings – Aug 08</td>
<td>830</td>
<td>95%</td>
<td>$1.9m</td>
<td>88%</td>
</tr>
<tr>
<td>Gisborne – Dec 07</td>
<td>4438</td>
<td>95%</td>
<td>$26.4m</td>
<td>36%</td>
</tr>
</tbody>
</table>

Under the new authorisations approved by the Board the field office was given authority to settle claims up to $5000 without referral to GBS. The table indicates that this change to the process has improved our settlement times. We are now awaiting the results from the claimant satisfaction survey to ensure our service standards have not been impaired.

One feature of the Tuatapere earthquake has been the high percentage of claims declined. With 95% of all claims resolved we have declined 48% of all claims received. This compares to 29% for Gisborne and 39% for Hastings.

EQC does decline a high percentage of earthquake claims received (mainly because the damage claimed is not earthquake related), averaging just over 40% prior to this event. Factors we believe led to an increase in declinatures are:

- **Significant media exposure** – at the time this event occurred it was the largest event in the world this year and the largest event in NZ for approximately 70 years. So people may have assumed they would find damage.
- **People seeking reassurance** – A number of claimants indicated that they had noticed small cracks in their house but were more interested in obtaining reassurance their house was safe rather than compensation. EQC did complete inspections of these properties, looking for earthquake damage, but did not provide formal reassurances. Claimants were advised to seek professional advice if they still had concerns.
• **Heightened awareness in the area** — This was the fourth earthquake event in the area since 2003.

We have received a number of letters from loss adjusters commending EQC on the professional manner in which the Field Office was run by our contract loss adjusting team, including praise of the new pod system of working, where loss adjusters, estimators and claims administrators operated in small teams with a senior loss adjuster leading each team.

**Debriefs and Report**

There will be a professionally facilitated debrief with the management and supervisory levels of the Field office and satellites on 10 November (following a recommendation from the CRP Review Committee) and an internal review of that after action review process. The findings of these events will be included in the final operational report.

**Training and Exercises**

Training and exercise activities planned for the period have been successfully carried out, except that a trip to Melbourne to train loss adjusters, scheduled for late September, has been deferred to March next year. This deferment was largely influenced by the Tutupere earthquake event.

**Head Office Relocation to Manukau City**

The planned alternative site exercise was held in the week 14 – 18 September. It involved closing EQC’s Wellington office for the Tuesday, Wednesday, and Thursday and working at the Manukau City site for those days. The site was set up on Monday and vacated on Friday.

Travel, accommodation, and furniture arrangements were made well in advance (largely to secure lowest possible cost).

The exercise went smoothly with no major hitches. The work conducted was "business as usual" this time; it has been recommended that future exercises should incorporate a disaster setting to focus people’s minds to how they might do business in that environment.

An internal report with follow up actions noted has been prepared.

**CRP Review Follow-up**

The tables below indicate progress on the significant follow up actions from the CRP review earlier this year. All actions are on track. Latest updates in the ‘Progress’ column are in italics. Greyed-out tasks are complete.

### 1. Urgent

<table>
<thead>
<tr>
<th>Task</th>
<th>Responsibility</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Establish realistic timeframes and resource requirements for various events:</td>
<td>Operations Manager</td>
</tr>
<tr>
<td></td>
<td>a. Establish maximum manageable event (mme)</td>
<td>) by end of calendar</td>
</tr>
<tr>
<td></td>
<td>b. Identify earthquake scenarios &gt; mme using Minerva to get claim numbers. Check that mme figure is still in scale</td>
<td>) year 2009</td>
</tr>
<tr>
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<td>)</td>
</tr>
<tr>
<td>Task</td>
<td>Responsibility</td>
<td>Progress</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>c. make rules for resource requirements in relation to damage ratios, MM scale or other relevant measure of damage for each event &gt; mme, allocate resources and establish constraints through Logjam model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Devise method to minimise/maintain/move each constraint</td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Is the method suitable for all events?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. If “yes”, change CRP; If “no”, devise “Plan b” for this eventuality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Re-run Logjam and establish time limit for 90% claim settlement for each scenario</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Draft targets for Statement of Intent.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NB there is a link with the need for EQC to plan to exercise any option for settlement allowed by the Act, and cover the possibility of government intervention to direct EQC on its settlement basis, but as a first round, we should base the above on our normal settlement practices.</td>
<td></td>
<td>Working hypothesis set at 30,000 claims for 90% settlement within one year Steps a and b 80% complete</td>
</tr>
<tr>
<td>2. Review and revise role of third party claims administration firm</td>
<td>Insurance Manager</td>
<td>Claims payment authorisations changed to eliminate unnecessary improvement of GBS.</td>
</tr>
<tr>
<td>3. Review staff and external providers’ backup arrangements</td>
<td>Operations Manager</td>
<td>All critical external providers have offices outside Wellington or have arrangements with like businesses. Work on staff backups in progress.</td>
</tr>
<tr>
<td>4. Review call centre arrangements to ensure consistency of message and overall capacity</td>
<td>Training Manager</td>
<td>Done – call centres will send their training/message material to EQC Training Manager to vet; call centres have their own satisfactory backup arrangements.</td>
</tr>
<tr>
<td>Task</td>
<td>Responsibility</td>
<td>Progress</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5. Develop protocols with insurance companies for claims settlement</td>
<td>Claims Manager</td>
<td>Protocol drafted by EQC being considered by AMI/Tower/IAG/Vero.</td>
</tr>
<tr>
<td>methods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Discuss with MCDEM EQC’s plans for evacuation of personnel by</td>
<td>Operations Manager</td>
<td>In-principle agreement reached that EQC’s helicopter evacuation procedure is acceptable to MCDEM for the time being.</td>
</tr>
<tr>
<td>helicopter.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Important

<table>
<thead>
<tr>
<th>Task</th>
<th>Responsibility</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Seek an extension of the claims lodgement time stipulated in the</td>
<td>CEO</td>
<td>In paper on changes to the Act requested by EQC, being referred to Treasury</td>
</tr>
<tr>
<td>Act</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Rewrite CRP documents for ease of use and reading</td>
<td>Operations Manager</td>
<td>External rewriter to be appointed. Proposals from 4 potential suppliers due 11 Nov 09.</td>
</tr>
<tr>
<td>3. Devise formal evaluation procedures for post-event briefings</td>
<td>Claims Manager</td>
<td>More formal than previous briefing organised for 10th November and to be subsequently evaluated</td>
</tr>
<tr>
<td>Insurance Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Complete a communications strategy for the CRP, including crisis</td>
<td>Communications Advisor</td>
<td>Preliminary discussions are in progress with Nul Pacific.</td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Key person replacement planning – on staff and CRP partners</td>
<td>Insurance Manager</td>
<td>Junior staff and CRP partners are covered.</td>
</tr>
<tr>
<td>Operations Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. CRP to include provisions for full exercise of EQC’s claims</td>
<td>Insurance Manager</td>
<td>Development of guidelines has commenced</td>
</tr>
<tr>
<td>settlement options under the Act; a policy for which option to be</td>
<td></td>
<td></td>
</tr>
<tr>
<td>preferred in each case to be developed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Board paper on the extent to which EQC should become involved in</td>
<td>CEO</td>
<td></td>
</tr>
<tr>
<td>the supply of resources for repairing homes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Engage with insurers and other agencies with a role in recovery,</td>
<td>Claims Manager</td>
<td>Workshop organised by the Insurance Council to be attended in early</td>
</tr>
<tr>
<td>to discuss planning and whether to provide a “shop front” for</td>
<td>Insurance Manager</td>
<td>December. This could be the catalyst for further discussions.</td>
</tr>
<tr>
<td>claimants/beneficiaries in the disaster region.</td>
<td>Operations Manager</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>9. Review the on-site claims audit process to minimise disruption</td>
<td>Insurance Manager</td>
<td></td>
</tr>
<tr>
<td>10. Investigate the permanent establishment of a centre for vital skills away from Wellington</td>
<td>Insurance Manager</td>
<td></td>
</tr>
</tbody>
</table>
BOARD OF THE COMMISSION
FROM: EQC MANAGEMENT
DATE: August 2010
SUBJECT: CRP Strategy Roadmap

At the Strategic Planning Workshop held on 22nd July 2010 the Board identified the following:-

- The key weakness of the CRP is the inability to cope with a large event
- Reaffirmed the findings of the CRP Review Panel in 2009
- Agreed the two key areas to concentrate efforts were
  o Develop plan for undertaking repairs - day-to-day and in a disaster or catastrophe
  o Identify resources required for coping with large scale event and establish realistic timeframe for resolution of claims

To accomplish the above objectives we have developed the attached roadmap. Risks have been ranked using the NZS 4360 matrix.

<table>
<thead>
<tr>
<th></th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost Certain</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>Extreme</td>
<td></td>
</tr>
<tr>
<td>Likely</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Possible</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Rare</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Objective</td>
<td>Progress</td>
<td>Risks</td>
<td>Resources</td>
<td>Interactions</td>
<td>Timeframe</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>-----------------------------</td>
<td>-----------------------------</td>
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</tr>
<tr>
<td>Establish the resources required to cope with a catastrophe (event greater than 30,000 claims)</td>
<td>Complete the work started on the maximum manageable event (MME) project.</td>
<td>Event occurs before work is completed (medium)</td>
<td>Operations Manager</td>
<td>Research</td>
<td>Dec 2010</td>
</tr>
<tr>
<td>Increase base resource to ensure EQC capable of handling up to 30,000 claims in 12 months</td>
<td>Complete retender of claims administration and recommend new contract to Board.</td>
<td>Event occurs before resource trained (medium)</td>
<td>Insurance Manager</td>
<td></td>
<td>Dec 2010</td>
</tr>
<tr>
<td></td>
<td>What bottlenecks have we identified?</td>
<td>Can't find the resource (medium)</td>
<td>Training Manager</td>
<td></td>
<td>Board approval</td>
</tr>
<tr>
<td></td>
<td>What resources are required to minimise the bottlenecks?</td>
<td>Budget unable to be found (low)</td>
<td>Claims Manager</td>
<td></td>
<td>Oct 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Operations Manager</td>
<td></td>
<td>Dec 2010</td>
</tr>
<tr>
<td>After completing MME project identify and secure resources to cope with catastrophe</td>
<td>Does a catastrophe look any different to disaster (under 30k event)?</td>
<td>Event occurs before work is completed (medium)</td>
<td>Insurance Manager</td>
<td></td>
<td>July 2011</td>
</tr>
<tr>
<td></td>
<td>What resources will be required to manage a catastrophe?</td>
<td>Can't find the resource (high)</td>
<td>Claims Manager</td>
<td></td>
<td>Board approval</td>
</tr>
<tr>
<td></td>
<td>Where will the resources come from?</td>
<td>Can't secure contracts or agreements (high)</td>
<td>Operations Manager</td>
<td></td>
<td>April 2011</td>
</tr>
<tr>
<td></td>
<td>What commitments will need to be made to secure resources?</td>
<td>Budget unable to be found (low)</td>
<td>Insurance Manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>What timelines are acceptable (Eg. Public/Govt) for settling claims?</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>What is “claim settlement” U: what mix of repairs/cash settlement that ensures damage that should be repaired is and “minor” claims are not adding to any bottlenecks?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify and secure resources for undertaking repair</td>
<td>What level of repairs should EQC engage in?</td>
<td>Event occurs before work is completed (medium)</td>
<td>Insurance Manager</td>
<td></td>
<td>Sept 2011</td>
</tr>
<tr>
<td></td>
<td>Where will repairs come from?</td>
<td>Can't find the resource (high)</td>
<td>Claims Manager</td>
<td></td>
<td>Board approval</td>
</tr>
<tr>
<td></td>
<td>Who will co-ordinate?</td>
<td>Can't secure contracts or agreements (high)</td>
<td>Operations Manager</td>
<td></td>
<td>Aug 2011</td>
</tr>
<tr>
<td></td>
<td>What will undertaking repairs mean for claim life and therefore resource availability?</td>
<td>Budget unable to be found (low)</td>
<td>Insurance Manager</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Earthquake Commission

Briefing to the Incoming Minister

December 2011
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Executive Summary

The New Zealand Earthquake Commission (EQC) is a Crown Entity dedicated to preventing and reducing natural disaster damage. Through its research and education activities EQC facilitates innovative and cost-effective assessment of risk and through its insurance scheme EQC underpins a thriving private insurance market to manage natural disaster risk. When a major natural disaster occurs, EQC’s insurance scheme helps affected residents to recover and its administration of the scheme supports market confidence.

The Canterbury earthquakes of 2010 and 2011 were New Zealand’s most damaging natural disaster. As a result of the 22 February 2011 earthquake, 182 people lost their lives and many more were injured. Extensive damage to land and buildings has meant thousands of people have to replace their homes. Treasury estimates the total cost of the earthquakes at around $30 billion, which is around 15 per cent of GDP. To put this estimate in context, the March 2011 earthquake off the north-east coast of Japan, although larger in physical terms, is estimated to have caused damage equivalent to around three to five per cent of Japan’s GDP. Rebuilding and recovery, therefore, represents a huge challenge for Canterbury communities and the whole country.

The Canterbury earthquakes also represent an unprecedented challenge for EQC. As at 24 November, EQC has received 618,000 building, land or contents claims. Its previous biggest event was the Inangahua earthquake in 1968, with 30,500 claims. Internationally, the 4 September and 22 February earthquakes are each among the five most damaging earthquakes in the world by insured losses.

EQC has already paid out $2.5 billion, around 10 per cent of Canterbury GDP, and closed 206,000 contents, land and building claims. At a time of global economic uncertainty, EQC has absorbed a $12 billion liability with the call on Government funds currently estimated at around $490 million. But there is still a lot of work to be done. Billions more in cash settlements remain to be paid out. And over the next three to four years, EQC will oversee the repair of around 100,000 houses to ensure that earthquake damage is repaired to a consistent standard and costs managed.

The Canterbury earthquakes have demonstrated the value of an independent entity dedicated to reducing the impact of natural disasters. Risk pooling has reduced the strain on individual insurers, while mandatory disaster cover enabled a very high level of insurance penetration for residential property that has assisted community confidence. The centralisation of most claims handling has certainly increased the workload on EQC, but has also presented opportunities for coordination of the rebuild that would not otherwise be possible.

There are lessons to be learned from the operational response for EQC and other agencies with similar response roles. It is appropriate that a full review is undertaken, once the recovery is bedded

---

1 Treasury (2011) Pre-Election Economic and Fiscal Update
2 NZIER (2011) March 2010 Year Regional Shares of GDP
In, to ensure the scheme continues to meet the expectations of New Zealanders and contributes to a sustainable private insurance market. This review will also provide an opportunity to address longstanding anomalies in the scheme.

The first part of this briefing examines EQC's response to the Canterbury earthquakes so far, including operational changes and the assumption of new roles. The second part examines the work still to be done to settle all claims. The third part examines the role of EQC and suggests a number of areas that could be considered in the upcoming review of the EQC scheme. In addition to the substantive parts of this briefing, Annex 1 provides an overview of the scheme, Annex 2 covers governance matters including upcoming Board appointments, and Annex 3 sets out current staffing levels and the organisational structure. The main points of each part are collated overleaf.
EQC Response to Canterbury Earthquakes

The accuracy of EQC’s claims settlement and apportionment process will continue to be a focus given the importance of ongoing reinsurer confidence in the New Zealand insurance market.

- The Catastrophe Response Programme enabled a rapid increase in staff numbers but there are lessons to be learned about ensuring flexibility, quality of customer processes and managing trade-offs given the operational changes and expanded role that EQC assumed in response to the nature of the events.
- The PMO is a critical part of EQC’s claims handling performance. The outcomes achieved through of the PMO will inform EQC’s approach to future events.
- There is a need for improved pre-event cooperation and Information-sharing, such as the creation of a single authoritative address database.

Work Still to Do

- EQC will determine the timeframes and programme of work for cash settlement of claims and consult Ministers in early 2012.
- EQC will consult Ministers on the full repair programme for the Fletcher EQR PMO in early 2012.
- Consideration will need to be given to management of labour capacity given competing demands (e.g. private insurers).
- EQC will determine the timeframes and programme of work for settling land claims and consult Ministers in early 2012.

Review of EQC Scheme

The Review should:

- Ensure insurance parameters chosen support broader Government, community, and commercial risk management decisions.
- Consider the removal of contents cover from EQC insurance.
- Re-examine the policy rationale for land cover and how current land provisions work.
- Consider the potential to introduce differential pricing to reflect the actual risk commensurate with location or construction characteristics.
- Consider simplifying excesses and increasing incentives for mitigation.
- Consider automatic adjustment mechanisms for excesses and caps.
- Consider changing the caps, in conjunction with premium changes, to achieve a more optimal split between EQC’s first loss cover and private insurer cover.
- Consider the target level and mix of assets and reinsurance in the Fund.
- Consider elevated reinsurance levels while the Fund rebuilds.
- Consider the potential for improved coordination and robust monitoring of the effectiveness of hazard education programmes.
EQC Response to Canterbury Earthquakes

This part of the briefing examines:

- Activation of the Catastrophe Response Programme;
- Process Assessing and Settling Claims;
- Operational Changes Made; and
- Expansion of EQC Role.

EQC’s research and education activities, and the way in which they contributed to greater resilience when the Canterbury earthquakes occurred and are informing the recovery, are considered in the third part of this briefing Review of EQC Scheme.

EQC’s ongoing claims settlement role outside of Canterbury is not discussed in detail in this briefing. In 2010/11, EQC dealt with 436 non-Canterbury claims. These included EQC’s largest ever landslip event in the aftermath of Cyclone Wilma in January 2011, the first payments for claims arising from a tsunami in March 2011, and the landslips resulting from the storms in Hawke’s Bay in April 2011.

Main Points

- The accuracy of EQC’s claims settlement and apportionment process will continue to be a focus given the importance of ongoing reassurer confidence in the New Zealand insurance market.
- The Catastrophe Response Programme enabled a rapid increase in staff numbers but there are lessons to be learned about ensuring flexibility, quality of customer processes and managing trade-offs given the operational changes and expanded role that EQC assumed in response to the nature of the events.
- The PMO is a critical part of EQC’s claims handling performance. The outcomes achieved through the PMO will inform EQC’s approach to future events.
- There is a need for improved pre-event cooperation and information-sharing, such as the creation of a single authoritative address database.

Activation of the Catastrophe Response Programme

Prior to 4 September 2010, EQC’s experience was limited to events resulting in around 5,000 claims, such as the 20 December 2007 earthquake near Gisborne and the 15 July 2009 earthquake in Fiordland. In 1968, the Inangahua earthquake had generated the most claims from a single event since EQC’s establishment with a comparatively few 10,500 claims. Initial modelling of the 4 September earthquake indicated that EQC would receive well in excess of 100,000 claims. The chart overleaf shows that claim numbers for the 4 September earthquake alone were comparable to the size of the largest event EQC had expected and planned for (i.e. a large Wellington event).
EQC’s operational response to a major event was set out in the Catastrophe Response Programme (CRP). The CRP had been externally reviewed in 2009, with a number of operational improvements made and the overall model endorsed. For a major event, the CRP set out a number of actions to allow EQC to expand rapidly. These actions were:

• Utilising the pool of experienced staff who had been employed in previous events;
• Activating a number of outsourcing relationships in New Zealand and Australia;
• Training on any excess capacity in the market, which EQC had enlarged through industry education support and an assessment capacity initiative begun in 2009; and
• Instituting training programmes to grow the total number of skilled staff available.

Given the size of the 4 September earthquake, all of these actions were required. In addition, EQC created an in-house claims handling team to supplement outsourced services.

These plans enabled EQC to put ‘boots on the ground’ by deploying trained assessment teams from around the country and calling on outsourced Australian loss adjustment specialists (as distinct from estimators who require knowledge of local building standards and were also more readily available in the local market). The latter were contracted on the basis they were independent of a New Zealand disaster and available during the cyclical flood/bushfire seasons in Australia. Concurrently, training and outsourcing enabled a rapid expansion to 400 staff deployed in-field (mainly assessment teams) by early October. By the end of 2011, total staff numbers were over 1,000.

The CRP was effective at deploying resources in the field and increasing these in a relatively short timescale. But the CRP did not ensure the scalability of support functions in an event of the magnitude experienced in Canterbury. The more “personalised” customer experience delivered in previous small and medium scale events was much more difficult to ensure once much higher numbers of customers were affected.

*Chart 1: Historical Comparison of Event Size (by Claims Lodged)*
Claims from the Canterbury earthquakes combined are over five times larger than the “large scale event” of 80,000 claims that the 2009 External Review recommended EQC plan for (with a major Wellington earthquake assumed to result in 150,000 claims). The review also assumed that EQC would need to respond to a single event. Canterbury has endured 14 claim generating events and thousands of lesser aftershocks.

**Progress Assessing and Settling Claims**

EQC’s aim is to ensure all customers receive their correct entitlement under the Earthquake Commission Act 1993 (The EQC Act). Managing this process well is important for all New Zealanders, as EQC’s claims handling process determines the costs to levy-payers (and to taxpayers, in the event the Crown guarantee is called on). Accuracy also matters for third parties who have a financial interest in the claim (e.g., mortgage holders, private insurers, international reinsurers) who look for certainty about their costs and risks, so they can price these accordingly. Ultimately, these costs also fall on levy payers and taxpayers.

**Overview of the Claims Handling Process**

EQC’s claims handling process involves a number of steps to ensure that claimants get their correct entitlement and settlement is accurate. These steps are set out below, and cover the entire process from lodgement of claims and validating insurance details, to assessing repair costs, authorising the final settlement and dealing with any outstanding issues such as recovering overpayments. EQC will be audited to ensure the accuracy of its settlement processes, in the interests of levy payers and reinsurers.

```
Lodge -> Validate -> Assess -> Settle -> Authorise -> Resolve
```

**Assessments**

Assessments had to be started over following the 22 February earthquake (and in some cases additional assessments were also required after later events, particularly land assessments following the 13 June earthquake). 81,775 full building assessments were completed between 4 September and 22 February. Prior to 22 February, the building assessment phase was on track to finish at the end of March 2011. With the additional damage of 22 February (and other aftershocks), EQC expects to undertake 266,000 full building damage assessments, across the 182,000 damaged houses in greater Christchurch. This figure excludes the more than 182,000 rapid assessments undertaken in the aftermath of 22 February (see page 13).

**Table 1: Assessments Complete as at 24 November**

<table>
<thead>
<tr>
<th></th>
<th>Complete</th>
<th>Total to do</th>
<th>% Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>171,585</td>
<td>184,427</td>
<td>93%</td>
</tr>
<tr>
<td>Land</td>
<td>51,420</td>
<td>54,100</td>
<td>95%</td>
</tr>
</tbody>
</table>

3 The number of land and building assessments estimated to be required is lower than the number of land and building claims, as multiple events have resulted in many properties having multiple claims. Earlier assessments (prior to 22 February) are excluded.
EQC has committed to completing all building assessments by Christmas 2011. There were 12,842 building assessments to complete as at 24 November. The 220 assessments teams need to complete an average of 3,211 per week to achieve the target, and are currently running ahead of schedule, at 6,930 per week.

EQC also aims to complete all land assessments by Christmas 2011, so that decisions on the process for settling land claims can be made. Of the 54,100 land claims to be assessed (based on land mapping), 45,800 are on the plains and 5,100 in the Port Hills. Land Damage Assessment Teams have completed 97 per cent of assessments on the plains as at 24 November, and geo-technical resource will then be transferred to speed up land damage assessment in the Port Hills, where 73 per cent of land claims have been assessed.

**Safety**

EQC’s statutory role is to inspect properties to quantify natural disaster damage and to determine whether to meet a claim for the cost of that damage. EQC therefore inspects damage with a view to administering insurance. It does not have the mandate nor presume to have the expertise to assess the safety of a building. EQC is not involved in the process of “red stickering” properties to indicate a dangerous building and prohibit people from entering or occupying that building. This role was undertaken by the Christchurch City Council and by members of the Civil Defence Emergency Management Group. EQC assessors worked around red-stickered buildings and progressively moved in to assess damage to inner-city apartments in the CBD cordon area.

Following 22 February, EQC has instituted processes to notify councils if and when assessment teams become aware of a serious and imminent risk to public health and safety in the course of their damage assessments. This process is not a substitute for council or Civil Defence mandated procedures.

**Settlement of Claims**

Once assessment is complete, the claim can be settled. Settlement of valid claims can occur in a number of ways: cash payment, replacement or reinstatement. Some land and building claims will be reinstated as part of the managed repair processes set out on pages 13 to 14 and 18 to 21. The remaining valid claims will be cash settled.

**Table 2: Claims Closed as at 24 November**

<table>
<thead>
<tr>
<th></th>
<th>Closed</th>
<th>Total Claims</th>
<th>% Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contents</td>
<td>106,455</td>
<td>168,506</td>
<td>63%</td>
</tr>
<tr>
<td>Building</td>
<td>84,965</td>
<td>366,830</td>
<td>23%</td>
</tr>
<tr>
<td>Land</td>
<td>15,439</td>
<td>83,146</td>
<td>19%</td>
</tr>
</tbody>
</table>

EQC has committed to closing by Christmas 2011 all valid contents claims with schedules of contents supplied by 28 October. Without a schedule and appropriate supporting information, EQC cannot settle the claim. EQC undertook an awareness raising campaign to encourage submission of
schedules of contents, including media advertising, outbound calls and follow-up letters. Of the 62,051 contents claims still open, only 6,522 have submitted contents schedules prior to 28 October. These claims will be closed by Christmas. The remaining claims will be addressed in early 2012.

Paid Paid to Date
Overall $2.5 billion has been paid, nearly a quarter of the overall claims cost and over a third of the $6 billion Natural Disaster Fund (the Fund) assets held at the time of the first earthquake.

During this time, managing claims handling costs has been a priority for EQC. EQC’s target claims-handling cost is no more than 10 per cent of pay-out, a level that is forecast to be achieved in mid-2012. The claims handling cost is higher than this initially as handling costs are front-loaded due to the need for a large numbers of in-field damage assessment teams (and associated overheads) as part of EQC’s first loss time. Claims handling cost drivers are unique, and thus not directly comparable with those of other New Zealand insurers.

Reporting
Since September 2010, at its own initiative EQC has provided weekly (and, for a period, daily) updates to Government on operational matters relating to EQC’s response to the Canterbury earthquakes. EQC also has regular discussions with the Minister for Canterbury Earthquake Recovery (to whom Ministerial oversight of operational matters was delegated). Again at its own initiative, EQC has been working with external consultants with expertise in the insurance and financial services industry to make a number of monitoring and reporting enhancements.

Difficulties arising from Multiple Events
The Canterbury earthquakes created operational complexities unprecedented in major insurance events worldwide. Aside from the additional work created (and in some cases the previous work undone) the occurrence of multiple events created operational challenges throughout the claims handling process, including:

- Multiple claims for a single property had to be manually associated and validated, a task made more difficult by the lack of a single, authoritative address database that could be accessed.
- Lodgement and validation of claims was complicated by a higher proportion of duplicate or invalid claims.
- A new process of apportionment had to be created to attribute damage to causative events, so that correct excess amounts and liabilities can be assigned to each event (as reinsurace contracts cover different events in different ways).
- Determining which repairs are the responsibility of private Insurers is not straightforward, particularly following the High Court ruling on reinstatement.
- There are greater audit and review requirements given the additional complexity.
- There is more complex and potentially frustrating interaction for customers.
Operational Changes Made

In past briefings to Government, EQC had raised the tension between fast and simple settlement by both the potential negative effects for cost inflation and quality of repair.

The CRP was essentially geared to scaling up to manage a large number of claims in the event of a major natural disaster. The CRP allowed for much larger volumes of work but not significantly different processes, partly because international experience had shown that the ways in which a major event might change processes would be unpredictable, and partly because it is difficult for a Government to set in advance its priorities, expectations and processes for a hypothetical event.

However, lessons on the balance between maintaining flexibility and having detailed plans in place, coordination challenges, and the trade-offs necessary in a recovery need to be collated and analysed.

Similar challenges apply to other organisations. The earthquakes have brought to the fore outstanding questions about the demands on local councils and utility infrastructure providers in a major disaster, and unresolved responsibilities around issues such as temporary housing. EQC’s role is only one piece of the coordinated challenge facing Government and communities in preparing for and responding to natural disaster.

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**Interaction with Insurers**

As the first loss insurer for natural disasters, EQC handles the majority of residential property claims in their entirety – and only requires confirmation of insurance details from private insurers. With the extensive damage in Christchurch, EQC expects around 30,000 damaged properties to be over the EQC cap and so be passed to insurers, around 15 percent of the 187,000 damaged houses in greater Christchurch. Insurers also cover some items that are excluded from the EQC Act (e.g., swimming pools) which increases the number of customers who need to deal with multiple insurers.

The need for industry-wide cooperation protocols had been identified for some time as a gap in disaster response planning, including protocols around both information-sharing and cost-sharing after an event. These protocols were not agreed upon prior to the Canterbury earthquakes and had to be established following 4 September.

An example of the difficulty of establishing cooperation during an event is that while private insurers did make their initial ‘elemental’ building assessments available to EQC, these elemental assessments were undertaken to generate reserve estimates and were often based on simple calculations of building or repair cost by general floor area. As a result, one third of the properties advised to EQC as over-cap based on elemental assessments by private insurers between 4 September and 22 February were assessed by EQC to be under the $100,000 cap. This discrepancy created confusion for customers.

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The size, location and timing of the Canterbury earthquakes created macroeconomic and social concerns that shaped the Government response. A sequence of major earthquakes in (or near) Christchurch was at the lower end of probabilities for the central region of the country as a whole. Occurring, as it did, after a long period of seismic quiescence (i.e. it was psychologically unexpected), there was concern about capital flight, economic disruption and the need to restore confidence in the nation. The 4 September earthquake also struck as the economy was coming out of recession, and at a time when the liability for widespread residential building quality failure ('leaky buildings') was a national issue. The sheer scale of the work brought to the fore macroeconomic concerns of cost inflation and potentially poor quality repair work.

EQC responded with two new processes: a "Fast Track" process which would cash settle low value, non-structural building and contents claims quickly; and a Project Management Office (PMO) to manage building repairs to ensure quality and cost containment for more substantive building work. The Government also directed (and separately funded) EQC to project manage additional land remediation to a higher standard than that required under the EQC Act (see page 17).

Fast Track settlement for building and personal property claims under $10,000
The "Fast Track" programme was based on experience gained from Chilean insurers following the M8.8 earthquake of 27 February 2010 that struck south-central Chile. Fast Track estimators conducted a virtual assessment, interviewing customers on the nature of building and personal property damage. Based on this information, the claim value was estimated and a one-off settlement figure offered.

28,000 customers (around 15 per cent of the total) had their building and contents claims settled through the Fast Track process. The average claim handling cost to EQC was approximately $100 per claim, less than half the cost of an in-person assessment. The Fast Track programme cut approximately 100 days from the assessment programme.

Managed Repair Programme for building claims over $10,000
Following the 4 September earthquake there were estimated to be 50,000 houses with damage in the cost range of $10,000 to the EQC cap of $100,000 (GST exclusive). The EQC Board determined, and Ministers agreed, that a Project Management Office (PMO) to residential repairs between $10,000 and EQC's cap was the best way to manage building repairs to ensure quality, mitigate inflation and facilitate equitable access to qualified labour.

In October 2010, Fletcher Construction won the tender to manage the repair process on behalf of EQC. The PMO, known as Fletcher EQR (for Earthquake Recovery), manages the contracts between individual builders and EQC to carry out the repairs. After the 22 February and 13 June earthquakes, and the ruling of the High Court that the EQC cap applied per event, the estimate of work required increased to around 100,000 houses.
The Fletcher EQR is one of the biggest construction projects in New Zealand history. Although the final cost, timeframes and workforce requirements are yet to be determined, initial estimates are that Fletcher EQR will spend $3.2 billion repairing houses, with a workforce of around 5,000, with the bulk of the work occurring over three to four years. That compares with some of the largest construction projects in New Zealand’s history, including the Auckland harbour bridge ($357 million, in today’s dollars; 1956-59), the Sky Tower ($107 million; 1994-1997) and even the Clyde Dam ($4.5 billion, 1977-1989) all of which had just 1,000 workers at peak.

The work still to be done by Fletcher EQR is discussed further on pages 18 to 20. The scale of the project and the importance of the quality and cost containment outcomes for the Canterbury recovery mean that the success of the PMO will be monitored closely by EQC as a critical component of EQC claims handling. The outcomes of the PMO will also inform EQC’s approach to future events.

Rapid Assessments initiated following 22 February
The 22 February earthquake caused widespread and severe building damage in eastern suburbs and the CBD of Christchurch. The combination of more severe damage with the colder autumn and winter months approaching, led EQC to develop a door-to-door assessment approach called “rapid assessment” to triage properties with minor, moderate and severe damage, so that full assessments of severely damaged properties could be prioritised (assess the ‘worst first’). The quick assessment of the seriousness of the damage allowed EQC to build a picture of the city’s damage profile.

The rapid assessment programme also gave the Government the opportunity to capture information that could be used to inform the broader government response. As part of the Rapid Assessment process EQC assessment teams identified vulnerable households and those seeking temporary accommodation, as well as residents who had lost their sole source of heating. By Ministerial Direction, EQC undertook similar assessments of uninsured and otherwise ineligible residential properties, with these costs being funded by the Government.

In October 2011, with all buildings with severe and moderate damage having been assessed (and all those in Red and Orange zones) EQC moved to a ‘street-by-street’ approach to assess the remaining houses with less damage as quickly as possible.
Change to Electronic Building Damage Assessments

The rapid assessments required an electronic solution. Accordingly, a quick analysis was made of suitable portable devices and software applications. The first iPads with the Rapid Assessment application were rolled out after nine days and used successfully over the next eight weeks to inspect over 182,000 houses.

Following the success of this process, even bigger operational gains and financial savings were identified from moving the entire full assessment process to an electronic one. A more comprehensive application to replace the paper-based system was designed from early April and rolled out by late May. This change allowed a significant improvement in consistency of assessments and costings, ability to manage data flow, speed of getting the assessment details into ClaimCenter and the ability to better manage the workflow of assessment teams. The rapid assessments were also used to set and manage expectations by giving homeowners a timeframe for full assessment of their property.

Expansion of EQC Role

In addition to the operational changes made, the nature of the events and the Government’s response and recovery priorities also saw EQC take on new roles. Important additions were the emergency repairs and chimney replacement winter heating programmes, and the additional work needed given the extensive land damage. The impact of emergency repairs and the winter heating programme on Fletcher EQR and EQC resources highlights the tension between addressing pressing immediate needs like public health and the community’s desire for a timely and certain recovery process. For example, with the increase in emergency works following the 22 February earthquake, EQC decided to transfer claims administration resources from settling contents claims to processing emergency works invoices. The effect was to slow down contents payments.

Emergency Repairs

Emergency repairs were a way for part of the customer’s building claim entitlement to be used to enable residents to stay in their houses and, as such, were intended to be confined to the minimum work necessary to ensure a safe, sanitary and secure home. Following a Ministerial direction, EQC provided these emergency repairs for uninsured people from 22 February until April 31. The cost of these repairs was recouped from Government (as the uninsured are not covered by EQC).

Where a private insurer pays for repairs, rather than cash settling a claim, normal practice is that a set number of pre-approved contractors will be retained by the private insurer to carry out the repairs. This practice ensures quality and cost-effectiveness. Having EQC accept invoices for emergency repairs invoices direct from contractors resulted in a large group of tradespeople seeking payment from EQC. EQC received over 61,000 invoices, requiring processing in a system designed to settle claims, not pay accounts.

In a number of cases, the rapid growth of businesses to cater for the increased demand resulted in contractors having insufficient processes of their own to meet the requirements for payment by EQC.
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(such as a valid GST number or a fully itemised description of the work completed). EQC also identified a significant number of cases of inflated charging, poor workmanship, work not covered by the EQC Act and even work that was not completed. An additional problem arose when EQC reimbursed an Invoice to a homeowner but the homeowner did not on-pay those funds to the contractor. All these factors contributed to well-publicised complaints about slow payments.

While the immediate impact fell on EQC, the issue is a broader one for Government. There is the potential for flow-on effects for other Government agencies, such as Inland Revenue, where a number of these businesses have managed a large amount of work without necessarily putting in place usual processes. In future, there may be more of a role for business mentors, chambers of commerce and trade organisations in helping businesses scale up immediately following a disaster. Trades organisations had, and will continue, to play an important role in informing cost and quality of repair standards.

Chimney Replacement - Winter Heating Programme

The decommissioning of damaged chimneys and parallel installation of “clean heat” devices was intended to capitalise on an opportunity to both improve Christchurch air quality and provide more efficient heating options for affected households. The voluntary scheme was promoted by the Energy Efficiency and Conservation Authority (EECA), which entered into a Memorandum of Understanding (MoU) with EQC. Under the MoU EECA was to provide a parallel PMO service for those claims where the only structural damage was to chimneys – although other minor non-structural damage would also be repaired. Around 800 devices were installed by EECA in the four or so months to 22 February.

After 22 February it was apparent that the number of installations that were likely to be requested, in combination with the more severe damage to homes and the approach of winter, would require a different provider. As a result EQC, with EECA’s agreement, transferred responsibility for the programme to the Fletcher EQR. Fletcher EQR was able to install 1500 devices by late March alone.
Fletcher EQR Work on Emergency Repairs and Winter Heating

When the 22 February earthquake struck, ten Fletcher EQR hubs had already been established in Christchurch suburbs and around 2,000 repairs were in progress or had been completed. With the need to ensure the delivery of the winter heating programme and manage the cost and appropriateness of emergency repairs, Fletcher EQR was reprioritised to ensure houses were safe, sanitary and secure. Headline figures on what was achieved are given below.

**Emergency Repairs**
- 29,000 emergency repairs completed to ensure houses safe, sanitary and secure

**Winter Heating**
- 112,000 outbound calls to identify at-risk residents
- 12,600 heat pumps and log burners installed
- 2,000 units repaired

Achieving these results necessarily meant slower progress on core roles. The low rate of substantive repairs from March to July as emergency repairs and winter heating were prioritised can be seen in the chart below. Repair completions were able to be ramped up from around September as emergency repairs and winter heating programmes wound down. Note that the absolute numbers of substantive repair completions are lower as these are more time-consuming jobs.

*Chart 2: Fletcher EQR Reprioritisation to Emergency Repairs and Winter Heating*

Orders for new heating devices were halted in October 2011 in response to decreasing demand with the onset of warmer temperatures. The Fletcher EQR role in completing the wider Christchurch Replacement Programme as first envisaged by EECA will be reviewed in early 2012. Outstanding emergency repairs will continue to be managed through Fletcher EQR.
Project Management of Additional Land Remediation

Following 4 September it became clear that, in some cases, EQC's land liability would not cover the necessary enhancement to allow ongoing residential land use, particularly near waterways where liquefaction of the ground occurred. The Government decided to fund enhancements to land to help maintain confidence in the residential property market and, in turn, give confidence to affected communities, local government, banks and insurers to rebuild. The Government directed EQC to project manage a programme of additional land remediation works, in conjunction with local councils, in certain parts of the Christchurch and Waimakariri districts. Significant additional land damage in large parts of Christchurch occurred as a result of the 22 February 2011 earthquake, including more lateral spreading, and worse and more extensive liquefaction. As a result, the programme of additional land remediation was put hold. In June, when land was zoned Red, Orange, White or Green the programme was cancelled.

Operational Impact of Residential Land Zoning Decisions

The Government decisions on four residential zones triggered substantial reprioritisation by EQC. EQC redirected more than half of its 220 assessment teams to focus on full assessments of all eligible properties, irrespective of damage. In the Red, Orange and White zones to help inform Government and residents' decisions. Settlement team resources were also reprioritised to ensure that offers could be made by the Government with an understanding of both EQC payments to date and the estimated balance of EQC's outstanding liability.

The decision by the Government to purchase a large number of Red Zone properties will result in the Crown becoming, in effect, EQC's largest customer.
Work Still to Do

This part of the briefing examines:

- Cash Settlement in 2012;
- Fletcher EQR for Managed Repair of Houses with over $10,000 Damage; and
- Settlement of Land Claims.

**Main Points**

- EQC will determine the timeframes and programme of work for cash settlement of claims and consult Ministers in early 2012.
- EQC will consult Ministers on the full repair programme for the Fletcher EQR PMO in early 2012.
- Consideration will need to be given to management of labour capacity given competing demands (e.g. private insurers).
- EQC will determine the timeframes and programme of work for settling land claims and consult Ministers in early 2012.

**Cash Settlement in 2012**

The completion of full land and building damage assessments by Christmas 2011 means that the next phase will be settling these claims. A number of building claims and some land claims will be ‘streamed’ to the managed repair processes (these are described below). However there are also likely to be a number of categories of claims which will need to be cash settled in 2012.

Claims that will be cash settled include remaining contents claims, claims over the EQC caps and potentially other minor land or building damage claims. The number of each of these claim types, and the dollar amounts involved, will be better known early in 2012. At that time, EQC will develop timeframes and a programme of work to settle these claims and discuss this with Ministers. An indicative figure for total cash settlement required in 2012 is up to $5 billion but this is still subject to considerable uncertainty.

**PMO for Managed Repair of Houses with over $10,000 Damage**

The Fletcher EQR PMO has been established to repair an estimated 100,000 houses in Canterbury which have more than $10,000 damage but are not over EQC’s caps. The decision to adopt a managed repair programme was driven by the desire to contain repair cost inflation and ensure consistent repair quality (and thus limit the chance of future long term liability to EQC and the Crown).
The programme is managed by Fletcher Construction, New Zealand's largest construction company with a long history in construction project management. The programme is flexible and scalable, with local contractors independently managing sub-contracting trades across multiple repair jobs, enabling flexibility and high trades utilisation. The contractors undergo an accreditation process to ensure they meet a high professional standard. Fletcher EQR has also instituted quality control processes and a complaints resolution process, and is looking at options for further community engagement to ensure customer satisfaction. The cost scale of repairs is managed centrally to ensure fair pay and dampen inflationary pressure. In turn, EQC has a number of processes and incentive mechanisms in place to ensure the performance of the PMO and is working with Fletcher EQR to finalise this for the substantive repair programme over the long haul.

Customers can opt out of the Fletcher EQR process if they wish, in which case EQC will ensure the cost of their repairs is reasonable by benchmarking to Fletcher EQR costs. Organising consents and ensuring quality of repair will be the responsibility of customers.

Progress as at 24 November is shown in the chart below. Essentially, around 30 per cent of the estimated 100,000 substantive repairs required (and 60 per cent of the Initial estimate) have now been completed or are underway. Twenty hubs are operating in Christchurch suburbs and surrounds, and the contractor FTI estimate as at 24 November was 4,745.

**Chart 3: Progress on Substantive Repairs as at 24 November**

With dwelling assessments close to completion, the full scale of the task can now be determined. As such, a full repair programme is under development. The EQC Board will agree timeframes and consult Ministers in early 2012.

*Additional labour and coordination will be key needs*

Careful consideration needs to be given to labour supply issues, and not just for Fletcher EQR. Multiple rebuild and recovery projects will be competing for labour and there is the potential for wider impacts across the country, such as for nationally important infrastructure projects.
As an indication of the additional labour that may be required in Canterbury, the Canterbury Development Corporation (CDC) has provided estimates of demand for tradespeople and compared these to Department of Labour (DOL) estimates of 2010 capacity. The overall picture is that there will be a significant shortage, particularly in skilled trades such as carpenters, painters, bricklayers and mosaicists. Fletcher EQR is undertaking a number of training initiatives to up-skill workers and youth across the region to assist with the rebuild. However, there is a limit to how far these will go in addressing the skills gaps that are expected given the nature of the repair work EQR will undertake.

Table 3: Fletcher EQR and All Canterbury Required Reconstruction Workforce Estimates

<table>
<thead>
<tr>
<th>Trade</th>
<th>Fletcher EQR Required</th>
<th>Canterbury 2010 Capacity (source: DOL)</th>
<th>All Canterbury FTEs Required (source: CDC)</th>
<th>All Canterbury FTE Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2,778</td>
<td>5,552</td>
<td>23,400</td>
<td>5,175</td>
</tr>
<tr>
<td>Painters</td>
<td>1,300</td>
<td>2,620</td>
<td>825</td>
<td>6,000</td>
</tr>
<tr>
<td>Carpenters</td>
<td>546</td>
<td>1,092</td>
<td>2,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Bricklayers</td>
<td>322</td>
<td>643</td>
<td>525</td>
<td>1,260</td>
</tr>
</tbody>
</table>

Note that the FTEs required by Fletcher EQR will depend on the finalised repair programme.

A further constraint on labour will be the amount of accommodation available – both for workers and for those homeowners who need temporary accommodation while significant repairs are completed.

**Settlement of Land Claims**

EQC’s liability for land damage is complex and dependent on a number of factors. Under the Act, any EQC Insurance pay-out is limited to the lower of the value (at the time of the earthquake or natural disaster) of:

- The destroyed or damaged land;
- 4,000 square metres of land at the site of the damage;
- The minimum area allowed by the district plan for land used for the same purpose as it was at the time of the damage (i.e. residential).

The primary challenge in settling land damage claims in Christchurch is that many of the types of land damage are unprecedented and require a great deal of technical and legal work to determine both the required solutions and EQC’s liability. For example, determining the correct value of land that has experienced cumulative damage over a period of months, in a context of a distorted housing market, has not been encountered before. Similarly, the most appropriate repair strategy for certain types of land damage needs to be established.

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Note that the total forecast labour needs for all Canterbury repairs exclude normal business as usual construction activity. Hence the resource shortfall is likely understated.
While these challenges are being addressed, it is likely that a number of different repair and settlement options will need to be used in different cases. These could include cash settling or utilising Fletcher EQR for some minor land damage claims and managing the repair of more complex consolidation where geotechnical expertise is needed.

EQC will determine the timeframes and programme of work for settling land claims and consult Minister early in 2012.

**Recent Land Zoning Decisions and EQC Liability**

Recent land zoning decisions have caused some confusion for residents over EQC's land liability and the future use of land. If the necessary repairs to land exceed EQC's maximum liability for land damage, EQC will consist of settle. Customers will then need to work with their private insurer to decide what course of action to take. Just because the cost of repairing the land exceeds the amount of EQC's cover, does not necessarily mean the land cannot be built upon.
Review of EQC Scheme

EQC welcomes the opportunity to refresh the parameters of the EQC scheme. The scheme has not been comprehensively reviewed in the 18 years since the Introduction of the Earthquake Commission Act in 1993. So it is sensible that a full review is undertaken to optimise the scheme, once revised, community expectations can be gauged, and private insurance markets are functioning normally.

EQC’s Board and management are committed to informing the review. It may be useful for EQC to prepare discussion documents on points of the scheme where opportunities to improve practice may exist.

This part of the Briefing examines:

- EQC’s Role;
- EQC Scheme Design;
- Core Aspects of the EQC Scheme; and
- Aspects of the Scheme Design to Consider for Review.

Main Points

The Review should:

- Ensure insurance parameters chosen support broader Government, community, and commercial risk management decisions.
- Consider the removal of contents cover from EQC insurance.
- Re-examine the policy rationale for land cover and how current land provisions work.
- Consider the potential to introduce differential pricing to reflect the actual risk commensurate with location or construction characteristics.
- Consider simplifying excesses and increasing incentives for mitigation.
- Consider automatic adjustment mechanisms for excesses and caps.
- Consider changing the caps, in conjunction with premium changes, to achieve an optimal split between EQC’s first loss cover and private insurer cover.
- Consider the target level and mix of assets and reinsurance in the Fund.
- Consider elevated reinsurance levels while the Fund rebuilds.
- Consider the potential for improved coordination and robust monitoring of the effectiveness of hazard education programmes.
EQC’s Role

The costs of natural disasters are largely determined by the development decisions that communities have made rather than predetermined by natural forces. Accordingly, **ex-ante** mitigation and management can substantially reduce both the short-term and long-term costs of natural disasters. 7

Historical data can be a poor guide to the future for natural disasters, which are therefore difficult to price. There is an understandable tendency for changing levels of public commitment to mitigation over time, with low sensitivity prior to natural disasters and heightened sensitivity following them. This tendency is exacerbated by long periods of seismic quiescence, such as New Zealand had experienced over the six decades since the establishment of EQC in 1945. For related reasons, elected officials are generally incentivised to underinvest in **ex-ante** mitigation and overinvest in **ex-post** reconstruction. Each legislative mandate and independent Board mean it is well-placed to support consistent, evidence-based risk management.

**Market-Enhancing Intervention**

The market-enhancing theory of intervention recognises that there are a number of actions that Governments can take that will have a net benefit for all market participants. 8 These actions include overcoming coordination problems to provide public good information that improves understanding and modelling of risk (and therefore impacts the pricing of risk), and raising awareness and changing behaviours through education.

The theory also recognises that in certain circumstances, Governments need to create institutions to solve problems such as adverse selection and moral hazard.

EQC’s role can be broadly seen as a market-enhancing one. EQC provides a range of education, research, facilitation and capacity-building initiatives that underpin effective mitigation measures, healthy private insurance markets and New Zealand’s resilience and recovery in the event of natural disasters. EQC’s market-enhancing role fits within New Zealand’s approach to emergency management which is based on best practice models of building capacity across the full spectrum of the “4 Rs”: Reducing risk; Readiness; Response; and Recovery. 9

Notable areas where this market-enhancing role has proved valuable in the Canterbury earthquakes are set out on pages 24 to 25 below. It is important to note that EQC’s research and education activities inform national understanding of a wider range of perils than the specific events in

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7 IDB (2010) *The Economics of Natural Disasters*
8 Cummins, JD and O Mahul (2005) *Catastrophe Risk Financing in Developing Countries: Principles for Public Intervention*
Canterbury – and a different natural disaster would have highlighted different contributions to national capability and resilience from these and other activities.

Monitoring Geological Hazard
GeoNet took a leading role in the establishment and expansion of the GeoNet hazard monitoring network following recognition in the 1990s that there was no agency responsible for monitoring geological hazard, and that there was no viable business model for commercial provision of a national monitoring network. GeoNet operates under a model of free availability of Government information to generate benefits beyond those that could be captured through cost-recovery. EQC also facilitated the creation of Memoranda of Understanding between GeoNet and various agencies, identifying the capabilities available to enhance emergency management and defining the protocols under which the parties work together.

GeoNet also lowers EQC costs directly by reducing the uncertainty associated with hazard assessment, which informs net reinsurance rates and risk accumulation strategies for reinsurers.10 Similar benefits are likely to have accrued to private insurers who also place New Zealand natural disaster risk on overseas markets.

The Canterbury earthquake sequence is one of the best-recorded major earthquakes anywhere in the world. The information gathered by GeoNet provided early indications of the probable distribution of impacts, contributing to effective decision-making about engineering safety and damage assessments. GeoNet information provides an outstanding evidential base for hearings by the Canterbury Earthquakes Royal Commission, and will inform policy changes to design and construction standards for repairs to land, infrastructure, housing and commercial property.

Risk Modelling
Over the last decade, EQC commissioned and developed, with private sector partner Aon Re, a new disaster damage model (MINERVA) incorporating scientific results from publicly-funded hazards research, together with a Quotable Value (QV) residential dwelling database of construction types and replacement cost rates.

Following the 4 September earthquake, MINERVA indicated that the earthquake would produce well over 100,000 claims (the final total was 153,000), and a loss forecast of $1.6 to 2.4 billion. The current actuarial estimate is $3.25 billion. This Indicative estimate by MINERVA provided EQC with a flying start to its response, with early activation of the CRP, and helped reduce uncertainty for Government.

MINERVA was less reliable for modelling the 22 February earthquake due to the damage already incurred by the housing stock and the extensive effects of liquefaction which were not adequately modelled. Work is currently underway to incorporate these and other insights into hazard and vulnerability, so that risk-pricing will be informed by the best available evidence.

Facilitation of Best Practice Risk Mitigation

The rapid restoration of lifeline utilities in Canterbury’s transport, energy and communications networks following the earthquake was enabled by the New Zealand Engineering Lifelines process followed by EQC since the early 1990s. Network operators had carried out retrofitting, increased route diversity, best-practice design, spare parts management and installed equipment restraints that greatly improved network resilience prior to the earthquakes. As an example, the local electricity distributor Orion invested $6 million in seismic strengthening pre-earthquake. This strengthening is estimated to have saved $60 to $65 million in direct asset replacement and repair costs following the earthquakes.\(^{11}\) This estimate excludes the downstream economic benefits from the shorter downtime achieved.

Research into Natural Hazard Risk

Since the late 1980s, EQC commissioned or co-sponsored much of the research into seismic hazard in Canterbury. The results have been publicly disseminated and inform derivative assessments of hazard and vulnerability by Councils and lifeline utility operators. Most Local Government zoning decisions in the residential areas of eastern Christchurch and Waimakariri District, where the effects of liquefaction and lateral spreading were most severe, pre-date the availability of relevant local information on seismic hazards (i.e. information has been added to Land Information Memoranda since about 2005). However, the information on active faulting, liquefaction susceptibility, ground-shaking potential and regional hazard modeling will inform future zoning choices, design standards and risk pricing.

EQC is coordinating its research programme following the Canterbury earthquakes to maximise the learning from these events.

Public Education

EQC’s public education efforts show the ongoing need to convert awareness of natural disasters into better preparedness. For more than a decade EQC has used various tools to promote behaviour that reduces or avoids natural disaster damage, including television commercials, internet and billboard advertising, school information kits, museum and science-centre sponsorships, ethnic minority education and brochure translations, a mitigation website and display road-shows. These campaigns, in combination with the work of other interested agencies such as the Ministry of Civil Defence and Emergency Management, have been largely successful in terms of raising awareness, but more focused education is needed to alter behaviours.\(^{12}\)

The EQC scheme review could also address the potential for improved coordination of such education efforts, and robust monitoring of their effectiveness, across central and local Government.


The EQC Insurance Scheme

Risk management is generally described as a balance of four different strategies. These strategies are set out below. As can immediately be seen, there are a lot of different parties involved and different choices available. Key constraints for disaster risk management are often around misperceptions of probability, budgeting pressures and the quality of information to make efficient choices about long-tail risks – hence the importance of EQC’s market-enhancing role.

Table 4: Four Strategies of Risk Reduction and Management

<table>
<thead>
<tr>
<th></th>
<th>Avoidance</th>
<th>Control</th>
<th>Transfer</th>
<th>Acceptance</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.g.</td>
<td>Prohibitions on land use or activities</td>
<td>National Building Codes and construction practices</td>
<td>Self-insurance, insurance, reinsurance</td>
<td>No mitigation, deal with disasters as they occur, or accept partial repair</td>
</tr>
</tbody>
</table>

The challenge of the EQC scheme review will be to ensure that the scheme reflects Government, community and commercial appetite for risk and the most effective strategies are chosen to manage that risk. This is because the scheme itself sets where many of the costs and benefits fall, and so has the potential to support or undermine incentives for effective risk management.

Interaction of EQC Insurance Scheme Parameters

The interaction of the different parameters of the EQC scheme also needs to be considered. Only by considering all these parameters together, can the EQC’s liability for a given event, and what is left for private markets to insure, be known. EQC’s “footprint” is shown conceptually below. The values themselves are not scientific, but represent an estimate of greater or lesser use or application of the relevant parameter. For example, the footprint shows a very low use of differential pricing, very high use of compulsory insurance and risk pooling, and medium use of reinsurance.

Chart 3: EQC Insurance Footprint (Potential Liability and Interaction with Private Insurers)
Each of these eight parameters is discussed in pages 27 to 34 below.

Any decision to move the boundaries between private insurer and EQC cover should carefully consider the change in costs and benefits. While in theory both private insurers and EQC should be able to adjust pricing to reflect shifts in cover, a degree of price stickiness is likely. The advantage of considering a number of parameters in a single review is that trade-offs can be made to avoid windfall gains or losses to any parties. For example, a decision to raise caps could be offset by a decision to remove EQC cover from contents.

Core Aspects of the EQC Scheme

The core aspects of the EQC scheme are:

- Compulsory insurance; and
- Risk pooling.

Compulsory Insurance

Compulsory natural disaster insurance (with fire insurance) has resulted in coverage of around 90 per cent of houses in New Zealand. It is no accident that of the ten most damaging earthquakes (1980-2011) by insurance losses, the 4 September and 22 February earthquakes are estimated to have the highest proportion of full losses covered by insurance.\(^{18}\)

In countries where natural disaster cover is not compulsory, low penetration rates are the norm and insurance conditions are unattractive or unmanageable. This under-insurance exacerbates the economic and social impacts of major events. Major earthquakes such as Northridge (California) in 1994, Kobe in 1995, and Taiwan in 1999 had only between one third and one twentieth of total property losses insured (residential, commercial, and civil).\(^{34}\)

The 27 February 2010 earthquake that struck south-central Chile also demonstrates difficulties in achieving high penetration rates. Only two to four per cent of homeowners had voluntarily purchased earthquake insurance. However, another 22 per cent of homeowners were insured compulsorily for mortgage protection. As a result of the earthquake (and subsequent tsunami) 189,000 residential building claims were lodged, but hundreds of thousands of Chilean families were uninsured and required Government assistance.\(^{35}\)

Risk Pooling

Similarly, risk pooling is successfully used in a number of countries to help limit the stress on individual insurers in the event of a major disaster. Risk pooling can be effected in a number of ways, and some international comparators are included in the text box below. In New Zealand, the ‘first loss’ nature of EQC insurance is an important risk pooling mechanism.

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\(^{18}\) Insurance Information Institute (2011)
\(^{34}\) ibid.
\(^{35}\) Cowan H et. al. (2011) "The M8.8 Chile Earthquake, 27 February 2010" New Zealand Society for Earthquake Engineering Bulletin Vol. 44 No. 3
Risk Pooling in Norway and Japan
In Norway, all fire insurers must belong to the Norway Natural Disaster Pool. This scheme pools losses, which are allocated back to the fire insurers on the basis of market share. The scheme pools losses, which are allocated back to the fire insurers on the basis of market share.\textsuperscript{16}
In Japan, private insurers cede risk and a percentage of premium income back to a risk pool, which in turn cedes some premium to the Government. In a major earthquake, once a certain level of cost is met, the Government bears 50 per cent of the next tranche of costs. Above a second threshold, the Government bears 95 per cent of costs.\textsuperscript{17}

Aspects of the EQC Insurance Scheme to consider for Review
Aspects of the scheme that could be considered in the upcoming review are:

- Coverage, both which risks and which losses are covered;
- Differential Pricing;
- Operational Model;
- Financial Settings; and
- Risk Financing.

Coverage
The extent of EQC coverage forms the boundary between where the Government is compulsorily pooling first loss and where the private market functions independently. These boundaries include both which natural disaster perils and also which losses are covered by the scheme.

The natural disaster perils that are currently covered by EQC are broadly the 'long-tail' risks, where their occurrence on a substantial scale is rare: earthquake, tsunami, volcano, geothermal and, to a lesser degree, landslips. Internationally, functioning private markets for this risk are rare. On the demand side, property owners are likely to underinsure against such risks, with the exception of those at most risk (adverse selection). From a supply side, such events are difficult to price and risk is difficult to diversify. Low rates of penetration and adverse selection problems compound these difficulties.

The market failure arguments for EQC's cover of landslips, and land cover for storm and flood, are arguably not as strong as for events such as earthquakes and volcanoes. Nonetheless, any changes in cover would need to be carefully considered to identify the likely functioning of private markets in that area, and ensure that the transfer of risks and benefits was appropriate, particularly given historic land use decisions. The potential for differential pricing to reflect heightened vulnerability even to long-tail events such as volcanoes and earthquake is discussed on page 29 to 30 below.

\textsuperscript{16} International examples in this and the following section are from Consorcio De Compensacion De Seguros (2008) Natural Catastrophe Insurance Cover: A Diversity of Systems except where otherwise indicated.
\textsuperscript{17} Nomura Research Institute (2011) Summary of Japan’s Earthquake Insurance System and The Great East Japan Earthquake
The losses covered by the scheme are those to residential land, buildings and personal property. EQC covers only residential property, reflecting a decision that commercial insurance coverage should be the responsibility of the private sector, but that low levels of residential insurance would not be tenable. While some overseas jurisdictions (e.g. France) do provide additional coverage such as personal injury, business continuity and vehicular coverage, ACC and private insurers fulfil these needs in New Zealand.

EQC currently does have the ability to provide voluntary cover to those who do not have fire insurance. This option has had minimal take-up and the review should consider whether EQC continues to offer this cover.

It is unclear whether the rationale for cover of residential buildings extends to residential contents. EQC’s coverage of contents increases complexity for customers and, in light of the Canterbury experience, requires disproportionate EQC resources during the recovery phase. Arguably, private insurance or self-insurance may result in more effective mitigation by homeowners than EQC cover does.

Residential land cover is unique to New Zealand and has proved difficult to operationalise following the more complex types of land damage seen in the Canterbury earthquakes. The unfunded nature of land cover (homeowners pay no levy for this cover), and difficulty in aligning costs between those who make decisions on land use, particularly local government, and those who bear risks raises questions about whether the design of land insurance is meeting the original policy intent. In saying this, a system that links a scientific understanding of hazard and land use decisions to EQC premiums and cover — such as through land zoning — would represent a significant change to the current system, and any changes to which parties bear costs and risks would need to be carefully considered.

**EQC Recommends:**

- Considering the removal of residential contents cover from the EQC scheme;
- Re-examining the policy rationale for land cover and identifying whether the current land coverage is likely to achieve that rationale; and
- Considering the removal of current provisions for direct natural disaster insurance.

**Differential Pricing**

With mandatory coverage and a high insurance penetration rate, New Zealand has an opportunity to incentivise loss mitigation actions. Differential pricing of risk is increasingly being used by private insurers for perils such as flood risk. Differential pricing incentivises risk-mitigating behaviour in choices of construction type (including materials) and location. This change in behaviour reduces both the liability of the Insurer and the potential for loss of life and property in the event of a substantial natural disaster. The increasing use of differential pricing and its synergy with EQC’s market-enhancing role to improve the evidence base for policy and pricing can be seen in the findings of the recent Australian Flood Insurance Review: one of which was the need for nationwide identification of levels of flood risk to facilitate effective price signals.
Differential pricing should, in theory, support better behaviours by removing moral hazard (where risks and benefits are not aligned). However, the gains that come from differential pricing will need to be weighed against the administrative and other costs incurred in administering a more complex model. The higher prices imposed on some homeowners for historic decisions should be balanced against current inequities where low-risk homeowners subsidise those with higher seismic risk. Probable floor size or by storeys could also be considered to adjust for the likelihood of higher repair costs for bigger houses.

Differential Pricing for Catastrophe Risk in California and Turkey
In the United States, the California Earthquake Authority utilises differential pricing based on geographic area, with higher prices in San Francisco, for example, than in San Diego. Premiums are also differentiated for one and two-storey buildings.

In Turkey, the mandatory earthquake insurance scheme (the Turkish Catastrophe Insurance Pool) utilises differential pricing across three different dimensions. The premium is calculated according to a matrix of five different (geographical) earthquake risk zones and three different building types, multiplied by the floor space of the building insured.

The arguments for differential pricing for non-catastrophe risks are improving over time as knowledge of risk and mitigation measures improves. Differential pricing according to construction type should be considered. Differential pricing according to the level of hazard is more difficult given the combination of uncertainty and the low likelihood of significant events means price signals may be difficult to set, may be weak, or may turn out to be incorrect. The combination of hazards also implies complexity in determining the different exposures of different geographical areas. The exposure of practically all New Zealand to at least one of the perils of earthquake, tsunami, volcano, geothermal events or landslide has been the argument for a blanket rate to this point.

EQC Recommends:

- Considering a differential premium based on floor size;
- Considering a differential premium based on building construction type; and
- Considering whether processes to manage land use are likely to enable differential pricing based on hazard risk in the medium term.

Operational Model
There are two broad types of operational model following a natural disaster. A decentralised approach involves multiple private insurers handling claims, and managing repairs if necessary. This model is used in France, for example, where a state entity acts as a reinsurer. A centralised model has claims handling and repairs conducted by a single entity.

For residential property, New Zealand has a more centralised model, with EQC handling the majority of natural disaster claims for land, building and contents, and only passing claims to private insurers
for settlement once they reach the limits of EQC's cover (see below, page 32). In Canterbury, EQC will assess and settle 600,000 exposures, from 400,000 claims across around 200,000 properties. Cumulatively, other insurers are likely to assess and settle up to 30,000 residential buildings (15 per cent) and less than 10,000 contents claims (six per cent).¹⁸

The concentration of all residential properties with EQC presents logistical challenges — although the experience in Canterbury has shown that in a major event, both EQC and private insurers had to bring in significant assessment resources from overseas. Ultimately, EQC was able to recruit as many as 500 assessors, while large private insurers are estimated to have each fielded around 10 to 15 per cent of this amount, including some from overseas, as the domestic market was exhausted.

Consolidating the bulk of residential claims handling in a single entity has two advantages:

- It allows for coordination and efficiency gains. These benefits accrue to the preparation of plans to scale up resources rapidly, including overseas recruiting and domestic training of additional assessors, and to claims settlement, where an overview of total damage allows for more effective prioritisation and organisation.
- Secondly, it provides an enhanced ability to reflect Government policy. EQC currently strikes a balance between delivering community and Government expectations while protecting our liability position and administering claims more efficiently in the interests of the whole country and the sustainability of New Zealand's insurance and reinsurance markets.

In contrast, the decentralised model (with EQC as a reinsurer) represents a significant financial risk to EQC as without an assessment role EQC would need to vigilantly audit private insurer assessments to contain cost-shifting by the insurance industry. At present, the existence of both EQC and private insurer assessments for houses that are overcap means both parties can have confidence in the protocol for agreeing costs to each party. The trade-off of this approach is that there is the potential for dispute between EQC and private insurers regarding assessment and repair strategies, as well as added complexity for customers.

The operational model has implications for organisational form. Given the large operational role in a major event, there may be some synergies if EQC were a semi-autonomous body within a large operational Government department. However, the requirement to operate with regard for the long-term sustainability and efficiency of New Zealand's insurance market, and the strategic focus required by the long-term nature of EQC's market-enhancing role, means that an independent board and mandate remains appropriate. Instead, Innovative ways to increase operational expertise collaboratively with Government and private sector partners in a major event will need to continue to be a focus of Catastrophe Response Planning.

**EQC Recommends:**

- Government (currently EQC) continuing to handle the bulk of residential property claims.

¹⁸ Private insurers cover some damage that EQC does not, and so are responsible for a number of claims with residential customers who are not over the EQC cap. Private insurers will also assess and settle commercial and some civil claims.
Financial Settings

The financial settings of the scheme should also be considered in the review. The current settings include:

- The recently increased blanket premiums (i.e. the EQC levy);
- Low but complex excesses;
  - Caps that are now considerably lower in real terms than when first set;
  - Automatic reinstatement rules (following the ruling of the High Court); and
  - No cap on an event as a whole.

The average level of premiums should not have a significant policy effect on the scheme given high levels of household fire insurance and compulsory disaster risk cover. Accordingly, the premium (whether flat or differentiated) should be set once all other parameters of the scheme are known. The level of the premium should ensure financial sustainability of the scheme over time, given the Government’s risk preferences. It may also be useful to consider an automatic adjustment mechanism for the premium (and also any caps), to ensure that policy intent is reflected over time. Over the last 18 years private insurer premiums have increased while EQC’s has not. Yet increases in damage sustained and repair costs over that time appear to have been largely captured by EQC given the large proportion of homes under the EQC caps.

Excesses are standard industry practice to reduce the volume of small claims that are affordable to the household and disproportionately costly to administer. Excesses also may incentivise property owners to take cost-effective steps to safeguard their properties, although the effect of EQC’s excesses is likely to be negligible. Given the low level of the current excess relative to mitigation measures, even the cost of securing contents may not be rationally justified except to mitigate against injury. The EQC scheme currently has a complex but low excess. Excesses were last reviewed in 1993 and are a mix of flat rate, proportional and per building, with relatively low ceilings and applied on a per claim basis. EQC recommends that the excesses be reviewed with a view to simplifying them and improving mitigation incentives. A co-payment design such as that incorporated in the current excess model is generally employed when a higher proportion of the loss is to be borne by the homeowner. Co-payments (a percentage of the pay-out) are more complex to administer than flat excesses.

As a first-loss insurer, EQC provides cover up to set caps. These caps are the first $100,000 (excluding GST) of damage to residential buildings and the first $20,000 (excluding GST) of loss for contents, per event. The cap on EQC cover is intended to limit liability in the event of a natural disaster. These caps have not been reviewed since 1993 and without any inflationary adjustment the unintended effect of reducing EQC’s premium income far more than it has lessened its liability. The cap has also had the effect of subsidising the owners of more expensive homes, as they are more likely to make larger claims than owners of less valuable homes, despite both paying the same annual premium. Higher caps would make this subsidy less pronounced and increase the premium income available to EQC (see comment on differential pricing by floor size on page 29 to 30).
The Canterbury earthquakes have shown that the current caps already capture a very large proportion of the total liability for damage to residential property. While final figures are not known, EQC expects to pass up to 15 per cent of properties and five per cent of contents claims that are above cap to private insurers. Given this experience, consideration should be given to changes which would either remove the caps so that EQC took on all premium income and all risk from natural disaster damage or reducing the caps to change the split of liabilities between EQC and private insurers. Alternatively, a change to the first loss provisions could be considered, to pro-rate EQC’s contribution with private insurer liability, or cover losses above a certain cap. A move away from first loss insurance would also imply a move away from the centralised operational model described on pages 30 to 31.

Countries such as Norway, Japan and Iceland employ overall caps for each event, above which all payments for that event are pro-rated down. However, the contention that overall caps would reduce any call on Government in the context of a major event seems doubtful.

EQC Recommends:

- Considering the appropriate split of income and risks between EQC and private insurers;
- Considering automatic adjustment measures for the premium and caps;
- Simplifying excesses;
- Considering a higher excess; and
- Setting the premium once the other parameters of the scheme are determined as a residual decision to ensure financial sustainability.

Risk Financing

The interaction of the parameters (see page 26) in determining the potential liabilities of the scheme, together with an evolving knowledge of hazard and risk, will inform the optimal amount of cover required, and the mix of self-insurance, reinsurance and acceptance (including an implicit or explicit Government guarantee) for the Natural Disaster Fund (the Fund).

EQC operates the Fund to meet a number of objectives: to diversify risk, (in particular to diversify risk away from New Zealand); to provide immediate liquidity in the event of the disaster; and to earn sufficient revenues to continue building the Fund given a premium with significantly eroded value. A target level of capital and reinsurance will need to be set, taking account of these factors. While the Fund is being drawn down and rebuilt, a temporarily elevated level of reinsurance may be appropriate.

Historic decisions to hold some of EQC’s capital ‘notional’ and borrow the funds for on-payment to EQC once an event occurs has resulted in some of the cash requirements of the fund being met through borrowing after the event, which does not fit with the objective of building a fund over time to reduce the impact of natural disasters.

Other countries are beginning to use both loss reduction incentives and insurance-linked securities to further diversify natural disaster risks. Examples include the announcement of a new natural catastrophe compensation scheme to boost risk prevention in France and Catastrophe Bonds...
employed by the California Earthquake Authority. Developments in this space need to be monitored but functioning markets for these instruments are still developing and there is capacity in traditional reinsurance markets to meet New Zealand's diversified approach to natural hazard risk management.

ECG recommends:

- Considering the appropriate target level and mix of assets and reinsurance for the Fund;
- Considering elevated levels of reinsurance while the Fund is rebuilding;
- Removing notional bonds from the Fund; and
- Continuing to monitor developments in capital markets that may be used to improve the target level and mix of the Fund.
Annex 1: Functions under the EQC Act

The EQC is the successor to the Earthquake and War Damage Commission, and was reformed by the Earthquake Commission Act 1993.

EQC is a Crown Agent under the Crown Entities Act 2004. It is one of the Crown Financial Institutions (CFIs) that manages large funds (in EQC’s case the Natural Disaster Fund) at arm’s length from Government.

EQC’s functions are set out in Section 5 of the Act and are to:

- Manage the insurance of residential property (buildings, contents and land) against damage by specified natural perils, including the administration of claims, in accordance with the terms and conditions set out in the Act. The perils do not include storm or flood damage to buildings or contents;
- Collect premiums through insurance companies and manage the Natural Disaster Fund, including investment of the fund in accordance with policies agreed with the Minister. At present the Fund is Invested 65 per cent in New Zealand government securities and 35 per cent in offshore equities;
- Obtain reinsurance in respect of the whole or part of the insurance provided under the Act;
- Facilitate research into natural hazards and their mitigation. EQC has a research strategy that emphasises:
  ◦ maintaining and growing New Zealand’s capacity for world class research, for example by supporting university research positions and funding the national hazard monitoring network; and
  ◦ transferring science to practice, for example by supporting Standards NZ; and
- Inform New Zealanders about how they can make their homes safer and protect their possessions from the effects of natural disasters. As EQC’s cover is available only to those who insure their homes in the private sector, the purchase of insurance is also encouraged.

EQC’s main function is to insure homes, their contents and the land around the home against damage by earthquake, volcanic eruption, natural landslip, hydrothermal activity, and tsunami. Cover also includes fire following any of these disasters. Additional cover is given for residential land damaged by storm or flood. The picture overleaf illustrates the extent of cover available.
The Act restricts the EQC scheme to residential property, leaving commercial property owners free to make their own decisions about insurance protection. All residential property owners who buy fire insurance automatically acquire EQC Insurance. Those who do not buy private sector insurance do not receive this cover.

Dwellings are insured up to caps, which are generally $100,000 (excluding GST), contents up to $20,000 (excluding GST). The cap for land is generally the value of the minimum section size (excluding GST). A premium of 5 cents per $100 of cover is paid through insurance companies and passed on to EQC. The premium is set to rise from 1 February 2012 to 5 cents per $100, with the maximum premium generally payable therefore rising to $207.

EQC's monitoring agency is Treasury. Treasury's understanding of EQC's operations is still developing, reflecting necessary prioritisation choices made in "peacetime", and an ownership lens that emphasised EQC's status as a Crown Financial Institution. Treasury's broader focus on the economic recovery and EQC's expanded role and expertise in insurance markets means both agencies now interact on a broader range of policy matters.
Annex 2: Board

Under current legislation, the Commission must have a board of between five and nine members. These, including a chairperson, are appointed by the Minister of Finance. The current members of the Commission and their term expiry dates are listed below.

As can be seen, there are four Commissioners with terms expiring in 2012:

- Giselle McLachlan, on 30/4/2012
- Michael Wintringham, on 31/7/2012
- Keith Taylor, on 2/8/2012
- Denise Bovaird, on 30/9/2012

<table>
<thead>
<tr>
<th>Commissioner</th>
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<tbody>
<tr>
<td>Michael Wintringham (Chairman)</td>
<td>Appointed Deputy Chairman 1/6/2003</td>
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<td>Appointed Chairman 26/7/2006</td>
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<td></td>
<td>Reappointed 1/8/2009</td>
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<td></td>
<td>Term ends: 31/7/2012</td>
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<tr>
<td>Keith Taylor (Deputy Chair)</td>
<td>Appointed 18/08/2006</td>
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<td></td>
<td>Appointed Deputy Chairman 1/5/2009</td>
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<td></td>
<td>Term ends 2/8/2012</td>
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<tr>
<td>Giselle McLachlan</td>
<td>Appointed 1/5/2009</td>
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<td>Term ends 30/4/2012</td>
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<td></td>
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Annex 3: Staff

Prior to 4 September 2010, EQC had a staff of 22, led by a CEO, and one permanent office in Wellington (with an outsourced claims administration facility in Brisbane, Queensland).

As at 24 November, EQC had staff and contractors of almost 1,600, consisting of:

- 970 assessors and estimators;
- 440 claims processing; and
- 160 corporate staff.

This is the highest staffing level reached so far. This level reflects the dual commitments to complete assessments and settle completed contents claims by Christmas 2011.

From early 2012, staffing levels will be reduced substantially as fewer assessors and estimators will be required.

These staffing levels exclude Fletcher EQR contractors, the Tonkin & Taylor contracted Land Damage Assessment teams, and a further 250 claims processing staff working for third party providers.

A chart of the Executive Leadership team is provided below.
To: Phillip Jacques, Lance Dixon, [Redacted] Heather Stewart
From: Jane Thomassen, Risk & Assurance Manager
Date: 15 August 2011 – updated 18 August 2011
Subject: Catastrophe Response/Business Continuity Plans

Purpose

The purpose of this memo is to:

- outline changes required to EQC’s Catastrophe Response/Business Continuity plans
- suggest new definitions to clarify the different focus that different plans require.
- recommend the appointment of a Business Continuity advisor to update EQC’s Business Continuity plans as soon as possible.

Background

EQC has maintained and activated a suite of Catastrophe Response Plans for many years, with activation primarily being the establishment of field offices at the location of an earthquake or other natural disaster event covered by the EQ Act. These field offices have generally been established for a matter of weeks or a few months only.

Catastrophe Response Plans have been documented for the following:

- CR Management
- Claims Administrator
- Claims Operations in the Field
- Executive Support Pack
- Field H&S
- Induction
- Public Communications
- QA Audit Manual
- Site Support
- Staff Pack

These plans catered for three scenarios:

- A community-wide natural disaster in Wellington,
- A community-wide natural disaster outside Wellington, and
- A single site disaster affecting only Majestic Centre, e.g. a fire.
In respect to events impacting Wellington, and hence EQC management and staff, plans were established to move the team of 22 people either to Auckland or an alternate site in Wellington.

With the rapid growth of EQC in Wellington, and the prospect of requiring a Christchurch field office for a significant period of time (>1 year), plans for ensuring the continuity of EQC’s own operations need to be reviewed and updated.

These plans need to reflect that EQC now has 3 major office locations, being Majestic Centre (2 floors), Manpower House (3 floors) and Deans Avenue (2 floors) from which critical functions are performed. Requirements for other locations should also be considered, but are less urgent.

Other factors that have increased the urgency with which these plans are reviewed include:

- Concerns were raised regarding the potential for Deans Avenue being red stickered if another >5 magnitude event occurred. This risk has been substantially alleviated with strengthening work to the building.
- Continuity of power supplies continues to be a concern in Christchurch. Contacts at Orion have advised that services are stretched and that is without power being required in the CBD. None of EQC’s buildings have generators and all but one (Woolston) are on the same power grid (Islington).
- Showplace has been set up with alternate IT equipment for Deans Avenue, but this lease expires in October and cannot be renewed.
- The alternate site in Manukau is no longer available.
- Board members have indicated concern that they no longer know what their required role would be should Wellington management be unable to function.

A mitigating factor, that may make planning easier in some respects is the very driver for needing to review the existing plans. Namely, with more than one established centre of operations in NZ, resources at the multiple sites may now be able to perform a few of the impacted operations.

**Catastrophe Response/Business Continuity Framework**

EQC needs to be prepared for the following scenarios:

- A natural disaster that does not impact EQC’s own operations.
- A natural disaster that does impact EQC’s own operations.
- A localised event that impacts EQC’s operations only. This may be due to prevention of access to a key site and/or a critical systems failure.

To differentiate between the different responses, it is proposed that, under the overall umbrella of Catastrophe Response Planning, different terms are used to differentiate between the nature of the plans required as follows:

- Event Response Plans – the plans required to change the scale of EQC’s operations to cope with an influx of claims regardless of volume.
- Business Continuity Plans – the plans required to enable EQC’s operations to continue from different premises, and/or using alternate management/personnel.
- Disaster Recovery Plans – the plans required to switch from production to back-up IT systems.

Activation of each plan may or may not require activation of other plans. Some examples of activation are as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Plans to be activated</th>
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<tbody>
<tr>
<td>Major Fire in Majestic Centre</td>
<td>BCP for Majestic Centre</td>
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<tr>
<td></td>
<td>DRP for Servers based at Majestic Centre</td>
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<tr>
<td>Major Fire at AM’s Auckland Data Centre</td>
<td>DRP for Claims Center</td>
</tr>
<tr>
<td>Road blocks preventing access to Deans Avenue</td>
<td>BCP for Deans Avenue</td>
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<tr>
<td>Earthquake in Wellington</td>
<td>ERP for Wellington</td>
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<tr>
<td></td>
<td>BCP for Majestic and Manpower House</td>
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<tr>
<td></td>
<td>DRP for Great Plains and Wellington Servers</td>
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<tr>
<td>Natural Disaster not impacting Wellington or Canterbury</td>
<td>ERP for the new region</td>
</tr>
</tbody>
</table>

These proposed definitions will also enable greater clarity of accountabilities as follows:

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<thead>
<tr>
<th></th>
<th>Line</th>
<th>Managers</th>
<th>Residential</th>
<th>Services</th>
<th>Information Technology</th>
<th>Risk &amp; Assurance</th>
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**Business Continuity Advisor**

To enable the development of Business Continuity Plans for all critical functions operating from EQC’s 3 primary sites of Majestic Centre, Manpower House and Deans Avenue, a new dedicated resource is required.

It is recommended that this resource is contracted by the Risk & Assurance Manager for an initial period of 6 months with the primary focus being to ensure plans are developed and completed for all functions identified by senior management as being critical.

The proposed job description is attached.
Review of EQC's Operational Capability

The Earthquake Commission (EQC) is a Crown Entity responsible for, among other things, the handling of claims upon the residential natural disaster insurance scheme detailed in the Earthquake Commission Act (1993). A major characteristic of this task is that claims occur in large pulses following a natural disaster like an earthquake. For example, over 6,000 claims were made on EQC following the Gisborne earthquake of 2007 and the magnitude 7.8 Fiordland earthquake of July 2009 is expected to result in about 3,000 claims.

An earthquake that causes extensive residential damage in one of the urban centres of New Zealand could result in tens of thousands of claims on EQC.

With a staff of 21, EQC must develop and maintain extensive plans to be able to cope with such loads and settle all claims made under its scheme in a reasonable timeframe. To this end, EQC operates under its Catastrophe Response Programme (CRP), with testing and training schedules, outsourcing and service level agreements, and memoranda of understanding, as part of its routine processes.

After over a decade of development and continuous improvement, especially after debriefing following disaster events, EQC sought to review the CRP and the way it has been practised reviewed externally to provide confidence that the programme will achieve its objectives and is keeping up with modern practice. The examination of the programme by experts with fresh perspectives from outside EQC would add a dimension that purely internal attention could not give.

EQC formed a panel of experts after calling for applications. These experts were led by Karen Stephens, an ex-emergency manager for Wellington City Council and a crisis management and business continuity expert. Also on the panel was General Peter Cosgrove (ret’d), ex Chief of the Australian Defence Force and Chairman of the Recovery Task Force appointed by the Queensland Government to oversee recovery operations after Cyclone Larry hit northern Queensland. Other panel members covered communications, public policy and claims handling areas.

The Panel met in Wellington over the course of a week during March/April 2009. It interviewed stakeholders and staff members of EQC and examined documents.

The Panel was able to provide the assurance that the CRP and the way it is practised will achieve the objectives of the Commission. In affirming this, the Panel has, as one of its major findings, alerted EQC to the need to assure itself that its own objectives actually align with those of the Government and that EQC has the capability to manage and meet the expectations of both government and the public, following a large natural disaster.

More detailed findings and recommendations of the Panel, with EQC's response, are set out below. The Panel's full report is attached.
Findings and recommendations, with EQC Response

EQC role expectations
The Panel suspected a misalignment of role expectations between some areas of government and EQC may exist. It recommended that:

- to avoid the possibility of misaligned expectations of EQC’s role, EQC canvass and confirm with its Minister, Treasury and wider government agencies expectations of its role in providing support for reconstruction following a major natural disaster.
- EQC will brief its Minister and agencies on the role that is specified in the Earthquake Commission Act, and show in its Statement of Intent how it is prepared to meet its responsibilities within this role.
- EQC engage with national Civil Defence Emergency Management (CDEM) to determine expectations of EQC including likely transport arrangements and availability following a large Wellington event and how EQC might take advantage of national CDEM arrangements rather than its current contractual arrangements with a commercial provider.

EQC is raising these matters in existing fora that enable such discussions.

- EQC should consider proponents the establishment of a ‘cluster’ of agencies likely to have complementary roles on reconstruction following a large scale event.

There is a central government grouping of agencies and NGO’s with disaster response roles and this meets after an event has occurred. EQC will explore with these agencies the benefits of more regular meeting.

Resources versus timeliness
The Review Panel recommended that EQC establish the timescales around claims processing in a large scale event that could be achieved with current CRP arrangements, then propose and seek agreement from its Board and responsible Minister of an indicative timeframe for finalising claims in the aftermath of minor, moderate and large scale events and have these timeframes included in the Statement of Intent.

EQC is preparing some scenarios to demonstrate probable processing times for events of 30,000 claims and above. See further comment below.

EQC should undertake a strategic piece of work to understand how the above expectations can be met through changing procedures around processing of claims in moderate and large scale events.

Working through the scenarios noted above with its systems dynamics model, EQC will identify constraint points and consider how its plans for the use of resources could be amended to remove or minimise these bottlenecks, with the overall aim of reducing time to claims settlement. With all improvements incorporated and tested, final estimated times will be discussed with the Board and incorporated into the Statement of Intent for the attention of the Minister.

EQC’s relationship to private sector insurers
ThePanel was concerned that there is minimal collaboration with private sector insurers. It recommended that EQC commission work with the insurance industry to explore viable options to improve the efficiency and effectiveness of claims handling and processing between EQC and other insurers, with the objective of improving outcomes for claimants. EQC should pursue the
concept of sharing resources with the insurance industry and work towards trialling this concept in smaller events.

EQC has commenced discussions with a private sector insurer to establish protocols covering all the areas mentioned in the Panel’s report, as a possible template on which negotiations with other insurers may be based.

Stationary claims lodgement
The Review Panel recommended that, given the pressures that will follow a large scale event, consideration be given to extending the current provisions of the Act to include more flexible timeframes while retaining ‘without prejudice’ provisions.

EQC is keen for the incoming Minister referred to EQC’s preference for the claim notification time in the Act to be extended. The Minister has responded with a request for specific proposals for amendment to the Act and EQC is working with Treasury on these at present.

Claims processing
The Panel recommended that EQC:

- make provision for claim acceptance authority to be transferred from Gallagher Bassett Services to loss adjuster supervisors to avoid duplication of effort in processing and claims approval.

  EQC’s Board is considering a management proposal to give certain loss adjusters authority to approve payments of small claims (covering over 80% of EQC’s claims in a significant event).

- assess the viability of recruitment of temporary staff in New Zealand to undertake the claims processing role currently carried out by Gallagher Bassett Services.

  GBS operate EQC’s account from Brisbane, which is in itself a risk management measure. Before they were appointed an exercise of the type suggested was carried out. Before reappointment negotiations are undertaken, similar investigations will be made, with any benefits balanced against the risk of operating completely within the area for which EQC is responsible.

- provide a ‘shop front’ at the earliest possible opportunity following an event where people could obtain information and lodge claims.

  This is something EQC is seeking to discuss with private sector insurers and other government agencies in the interests of an “all of government” approach, but will also separately consider how it can best serve these needs of claims following a disaster.

- following the initial set up of field offices, provide for the appointment of one office manager to cover several field offices, rather than one manager per field office.

  EQC will consider doing this if geography and other circumstances are favourable.

- review the audit process which is likely to be too invasive and interruptive in a large scale event.

  EQC will review how its audit requirements can be met with the least disruption to front line staff.
Contingency and continuity – personnel
The Review Panel recommended that EQC consider establishing a permanent, modest cross-section of vital skill-set personnel in another operating centre away from Wellington.

EQC has some contractors outside Wellington but will investigate whether a small permanent staff could be maintained economically and effectively away from its main office, and that such a development would enhance EQC’s catastrophe response capability at an acceptable cost.

The Panel noted that EQC has a small number of staff therefore the loss of one or more could compromise its response, and that provider organisations have limited internal capacity.

EQC will review its plans for coping with the unavailability of internal staff to cater for single, or double backup, and require critical provider organisations to likewise review and report to EQC on their own disaster management plans.

In order to source and engage additional key personnel, the Panel recommended that EQC:

- pursue strengthening its relationship with large engineering firms to avoid potential bottlenecks following a large scale event to the fullest extent possible
- make provision for the appointment of one or more (depending on the geographical spread of the event) contract structural engineers to advise loss adjusters whether a full engineering inspection report is required.
- explore the possibility of tapping the New Zealand retired community for loss adjusters to supplement the staff obtained in Australia by Gallagher Bassett Services
- consider engaging additional contracted staffing for a large scale event, such as land valuers and additional case managers.
- include a section in its training programme for recent retirees with business experience but from a non-insurance background, who, in a large scale event, could be trained relatively quickly to deal with minor damage claims.

The exercise of running realistic scenarios through the systems dynamics model described under the “Resources versus Timeliness” section will clarify the requirements for engineering, loss adjusting and other services at different levels of expertise. EQC will then consider the above suggestions, along with re-examination of processes, within the context of the identified constraints to handling claims to an acceptable timescale and with acceptable economy.

Formal evaluation process of the CRP
The Review Panel noted that there is only an informal debrief and reporting process following activation events, and recommended that EQC:

- establish, on behalf of the Board, a formal, comprehensive evaluation process for the CRP.

The Board has a CRP committee and the requirement for such a review will be incorporated into its terms of reference.

- introduce formal reporting processes following events where the CRP is activated.

EQC will formalise its evaluation and reporting processes.

- introduce formal evaluation processes for providers, e.g. call centre quality testing and a formal reporting process.
EQC will investigate what evaluation processes for providers can be added to existing evaluations like claimant satisfaction surveys.

Adequacy of documentation
The Review Panel found EQC’s Catastrophe Response Plan documentation difficult to navigate and the presentation does not take advantage of current document production techniques. It recommended that EQC engage external specialist expertise to review and develop the documentation utilising these latest methods.

EQC will implement this recommendation.

Communications
The Review Panel recognised the importance of effective communications as part of the Catastrophe Response Plan, and recommended that EQC review the CRP communications plan to ensure it is strategically focused and co-ordinated, the arrangements for public communication support to ensure it would provide the depth and breadth of skills and capacity needed and include the contracts for public communication support in the CRP for regular review.

EQC will implement this recommendation.

Conclusion
The Review endorses EQC’s strategy for how it will meet its obligations under the Earthquake Commission Act. EQC looks forward to working with other agencies to co-ordinate plans for a community’s recovery from major disasters. EQC will also conduct further work to expand on some of the Panel’s findings and implement other recommendations as soon as practicable. This activity can be carried out without a significant impact on EQC’s budget for 2009/10.

The government and the public has been assured by the Panel of Experts that EQC has adopted the right approach to ensure it will be able to meet its obligations in the event of a natural disaster, with its Catastrophe Response Programme and the way it is practised. The timeliness of claims settlements should be acceptable to government and the public for all but the largest events. The Panel has suggested ways in which EQC could be better prepared even for these claims pulses, which would be at least eight times larger than any experienced by the Commission in its sixty-four year history, and these will be further investigated.
CATASTROPHE RESPONSE PROGRAMME

STRATEGIC PLAN

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May 2010
NOT FOR DISTRIBUTION
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OVERVIEW

Document Purpose

The purpose of this document is to present a Strategic Plan for claims handling and the Catastrophe Response Programme (CRP) within the Earthquake Commission (EQC). The plan is aimed at identifying; where we are currently, looking at where we want to be in five years’ time, and developing a road map to get there.

This plan compliments the EQC Statement of Intent and will build on the 2009 Operational Review of EQC’s Catastrophe response Programme.

Intended Audience

The intended audience of this document is the EQC senior management, staff of EQC, and existing CRP partners. It is not a policy document. It is designed to introduce concepts and proposals, and provides a view on where we want to be based on current knowledge and thinking. Specific proposals put forward will be subject to discussion and approval prior to implementation.

Document Control

This document was produced by EQC’s Chief Operating Officer. No changes are authorised to be made to this document except by the COO.

Parts of this document may be copied or referenced within EQC for EQC purposes, providing the parts so used are referenced by the source document name, version number, and saved date, contained in the Document Properties information.
INTRODUCTION

EQC has a strong mature Catastrophe Response Programme. EQC's day-to-day resources cope with a workload of around 3,000 claims per year. However, a large earthquake or prolonged volcanic eruption could generate more than 150,000 claims. Clearly there will be a requirement to increase the size of the organisation. The CRP sets out the arrangements in place to manage such a situation. Following this logic, a "catastrophe" is defined as something with EQC's normal routines are insufficient to deal with.

The programme is continuously evolving and improving. Its documentation is of necessity long, detailed and complex. Furthermore, experience, knowledge and technology do not stand still and EQC's Catastrophe Response Programme must keep pace with change in these areas and also with the changing environment in which it will operate.

In 2009 EQC convened an international panel to reviews EQC's CRP. The Panel was able to provide the assurance that the CRP and the way it is practised will achieve the objectives of the Commission. In affirming this, the Panel has, as one of its major findings, alerted EQC to the need to assure itself that its own objectives actually align with those of the Government and that EQC has the capability to manage and meet the expectations of both government and the public, following a large natural disaster.

The panel provided a list of recommendations for EQC and those recommendations are being worked through. The specific findings and actions being taken are shown in Section x below.

EQC's claim process was reviewed in the mid-1990s. The current process has stood the test of time well:-

Lodgement – registering a claim with EQC
Verification – confirming the property claimed on a insured
Allocation – assigning the claim to a loss adjuster in field office
Inspection – viewing the damage on-site (property and
Quantification – calculating the loss based on agreed rates
Assessment – applying the insurance conditions
Resolution – paying or declining the claim

This process will be reviewed again in 2010.

The IT Strategic Plan integrates into a single document a view of EQC's current IT capabilities and investments, and a forecast for future directions and developments. The plan is:

- An Iterative document updated each year in January
- A summary of the previous year of EQC IT activities
- An overview of market and other pressures and directions
- A summary forecast of developments anticipated in key EQC applications

EQC is very dependent on technology to support the processing of claims and provide customer support.
EXECUTIVE SUMMARY

Since 2008 EQC has gone through a rapid evolutionary cycle for IT systems and services. This cycle has formed the basis for upgrading EQC’s core IT infrastructure and assets setting the scene for ongoing maintenance.

From 2009 until 2012 EQC can expect to enjoy a period of respite from the considerable changes that characterised the previous period. Installed products and services will continue to evolve, but change will be incremental as existing contracts fall due, or upgrades are required.

Services available through the internet continue to evolve in complexity, functionality, and description. Although EQC is well placed to take advantage of this evolution, the challenge is to ensure the best possible fit to business of all the potential solutions available.

Demands on EQC for greater transparency and compliance will continue to increase. EQC has now implemented services that serve these twin demands. The Finance and Claims management systems each support reporting of greater depth and complexity than previously possible. Compliance with the government Initiatives in document and email management and archiving policies and practice are in place.

The Claims system, implemented in April 2008, faces a significant upgrade to the core application (ClaimCenter) to bring it into line with the latest released version. As this is likely to be a costly exercise (estimated at ~$200,000) there will be a significant restraint on minor changes and enhancements throughout the 2010/2011 financial period to partially offset this. The refinements in the new version will significantly improve functionality and management over the current version.

Great Plains has been upgraded in line with expectations this year to include enhanced security and improved transaction processing. These improvements will assist the accounting section to offer continuous improvements in service delivery. However it has become evident that, despite the robustness of Great Plains, there are some significant issues, especially for remote access operations. These issues will be considered and solutions proposed over time.

Normal changes and upgrades for hardware (servers, laptops, and printers) and software (Operating systems and office applications) are forecast out over the next few years in a consistent manner, based on current and projected requirements. A significant impact on these purchases is likely to be the ‘All Of Government’ purchasing project currently underway, as this may change the way EQC conducts purchases.

Looking past 2012 EQC can expect additional change to take place as the next round of contract renewals takes place. By then CMS will be at mid-life, Great Plains will need reviewing against needs, and technology will again be pushing new boundaries. Against recovering world economies, and new demands for ‘green’ technologies, will be even more security demands and compliance expectations. These will require careful evaluation and consideration by EQC against the demands to meet statutory requirements.

Demands on the IT staff have been high over the last period, meeting routine operational demands as well as special project responsibilities. The next period will put greater emphasis on operational management, but also emphasize strategic planning.
09 REVIEW OF OPERATIONAL CAPABILITY

The Earthquake Commission (EQC) is a Crown Entity responsible for, among other things, the handling of claims upon the residential natural disaster insurance scheme detailed in the Earthquake Commission Act (1995). A major characteristic of this task is that claims occur in large pulses following a natural disaster like an earthquake. For example, over 6,000 claims were made on EQC following the Gisborne earthquake of 2007 and the magnitude 7.8 Fiordland earthquake of July 2009 resulted in 5,500 claims.

An earthquake that causes extensive residential damage in one of the urban centres of New Zealand could result in ten to thousands of claims on EQC.

With a staff of 26, EQC has developed, and maintains, extensive plans to be able to cope with such loads and settle all claims made under its scheme in a reasonable timeframe. To this end, EQC operates under its Catastrophe Response Programme (CRP), with testing and training schedules, outsourcing and service level agreements, and management of understanding, as part of its routine processes.

After over a decade of development and continuous improvement, especially after debriefing following disaster events, EQC sought to have the CRP and the way it has been practised reviewed externally to provide confidence that the programme will achieve its objectives and is keeping up with modern practice. The examination of the programme by experts with fresh perspectives from outside EQC would add a dimension that purely internal attention could not.

EQC formed a panel of experts after calling for applications. These experts were led by Karen Stephens, an ex-emergency manager for Wellington City Council and a crisis management and business continuity expert. Also on the panel was General Peter Cosgrove (retired), ex-Chief of the Australian Defence Force and Chairman of the Recovery Task Force appointed by the Queensland Government to oversee recovery operations after Cyclone Larry hit northern Queensland. Other panel members covered communications, public policy and claims handling areas.

The Panel met in Wellington over the course of a week during March/April 2009. It interviewed stakeholders and staff members of EQC and examined documents. The panel was able to provide the assurance that the CRP and the way it is practised will achieve the objectives of the commission. The panel’s report, along with EQC Management comment on the findings can be found at [EQC website link]

Staff at EQC have been working through the panel’s findings and the current position is:-

<table>
<thead>
<tr>
<th>Task</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. There is a misalignment of role expectations between some areas of government and EQC</td>
<td>Establish realistic timeframes and resource requirements for various events:</td>
</tr>
<tr>
<td></td>
<td>a. Establish maximum manageable event (mme)</td>
</tr>
<tr>
<td></td>
<td>Working hypothesis set at 30,000 claims for 365 day settlement within one year</td>
</tr>
<tr>
<td></td>
<td>b. Identify earthquake scenarios &gt; mme using Minerva to get claim numbers. Check that mme figure is still in scale</td>
</tr>
<tr>
<td></td>
<td>c. Make rules for resource requirements in relation to damage ratios, MM scale or other relevant measure of damage</td>
</tr>
<tr>
<td></td>
<td>d. For each event &gt; mme, allocate resources and establish constraints through Logjam model</td>
</tr>
<tr>
<td></td>
<td>e. Devise method to minimise/eliminate/move each constraint</td>
</tr>
<tr>
<td></td>
<td>f. Is the method suitable for all events?</td>
</tr>
<tr>
<td></td>
<td>g. If &quot;yes&quot;, change CRP; if &quot;no&quot;, devise &quot;Plan B&quot; for this event</td>
</tr>
<tr>
<td></td>
<td>h. Re-run Logjam and establish time limit for 90% claims settlement</td>
</tr>
<tr>
<td>Task</td>
<td>Progress</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
</tr>
<tr>
<td>1. Seek an extension of the claims lodgement time stipulated in the Act</td>
<td>In paper on changes to the Act requested by EQC, being referred to Treasury</td>
</tr>
<tr>
<td>2. Rewrite CRP documents for ease of use and reading</td>
<td>External rewriter appointed. <em>(Doug some words to cover off process mapping)</em></td>
</tr>
<tr>
<td>3. Devise formal evaluation procedures for post-event briefings</td>
<td>More formal than previous briefing organised for 10th November and to be subsequently evaluated</td>
</tr>
<tr>
<td>4. Complete a communications strategy for the CRP, including crisis management</td>
<td>Preliminary discussions are in progress with Nul Pacific.</td>
</tr>
<tr>
<td>5. Key person replacement planning – on staff and CRP partners</td>
<td>Junior staff and CRP partners are covered. Insurance Manager and Operations Manager covered. Other senior staff interim arrangements in place, yet to be finalised</td>
</tr>
<tr>
<td>6. CRP to include provisions for full exercise of EQC's claims settlement options under the Act; a policy for which option to be preferred in each case to be developed</td>
<td>Development of guidelines has commenced</td>
</tr>
<tr>
<td>7. Board paper on the extent to which EQC should become involved in the supply of resources for repairing homes</td>
<td></td>
</tr>
<tr>
<td>8. Engage with Insurers and other agencies with a role in</td>
<td></td>
</tr>
</tbody>
</table>

for each scenario
1. Draft targets for Statement of Intent.

*NB there is a link with the need for EQC to plan to exercise any option for settlement allowed by the Act, and cover the possibility of government intervention to direct EQC on its settlement basis, but as a first round, we should base the above on our normal settlement practices (refer Routine item 6).*
<table>
<thead>
<tr>
<th>8. Review the on-site claims and process to minimise disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>9. Investigate the permanent establishment of a centre for vital skills away from Wellington</td>
</tr>
</tbody>
</table>

In affirming this, the panel has, as one of its major findings, alerted EQC to the need to assure itself that its own objectives actually align with those of the Government and that EQC has the capability to manage and meet the expectations of both government and the public, following a large natural disaster. Following the rapid-fire earthquake and tsunamis events of 2008, 2009 remained quiet until July. There were no major events, and relatively few minor ones, enabling EQC to draw a breath, examine closely what worked and what did not, and plan for the next event. Nature delivered in July with the largest magnitude earthquake event for many years, located west of Tuatapere. This was a 5,000 claim event, covering the lower half of the South Island, and required establishment of offices in four locations. At the peak of field operations EQC had more than 80 people temporarily employed with the majority operating from premises in Invercargill. Despite the size of the event, EQC committed to a goal of inspecting and settling 80% of claims within 90 days of the event. Despite the occurrence of after shocks, these staff committed to this goal and met their target.

**EXTERNAL ENVIRONMENT**

With the economic recession beginning to make itself felt across New Zealand, parliament called on government departments and agencies to curb spending and extract greater efficiencies. EQC was not exempt from these policies, and budgets were subject to greater scrutiny, resulting in some discretionary spending elements being reduced or cut. While this has not greatly affected IT core spending, it has resulted in a more detailed and consultative approach to the implementation of improvements, especially in the Claims system.

Throughout the year IT has maintained systems and services to the high standard required, and removed or replaced services and equipment as needed. Email-to-cell phone software, as an example, has been replaced with low impact on staff and a small budget, despite being a major effort by IT staff.

During the year EQC carried out it's own CRP exercise relocating all staff to Manukau for a week. Minor IT issues were dealt with quickly and services maintained throughout the exercise.
Technical

The Claims system has once again been at the forefront of change throughout the year as small defects have been dealt with, reports improved, and some significant new features implemented. There have been some significant improvements to forms used by Loss Adjustors, as well as a raft of new reports developed.

EQC experienced a major outage on the Claims Production system in late October due to a power supply malfunction during routine testing of the backup power supply systems. Fortunately for EQC this occurred during a quiet claims period and in a weekend. This outage impacted several major customers of IBM, including Air New Zealand, and made media headlines.

EQC relocated the corporate office to alternative premises in Manukau in September. IT services functioned well during this exercise, and some minor issues were quickly remedied or worked around. As is usual with a short term exercise of this type, the office servers were not transferred to Auckland, and people continued to operate as normal. This exposed one major weakness with the Great Plains system. As this system did not operate well with remote access, there were some process-related issues that Accounts staff found and were able to improve on. The RLAB in the Auckland site was found to be partially defective, and was repaired during the exercise period, testing technical support arrangements.

The response to the Tuatalave event in July to implement a larger office in Invercargill exceeded previously agreed service levels. As a result, some office IT services were constrained. As well as this the site suffered external radio interference, affected wireless networks and phones intermittently. Despite these issues, the office functioned relatively well and a few process suggestions by IT staff have been accepted as best practice for future offices as well.

As an outcome of the high demands of the Invercargill office, and the issues raised in Auckland, IT have re-examined the basic assumptions for remote offices and begun implementing up-rated systems to better cope in future. Despite budget constraints this work has progressed quickly and greatly improved the ability to respond to the demands of larger, and more diverse, operations requirements.

Government negotiations with Microsoft for a renewal of all-of-government licensing agreement broke down at the beginning of the 2009 year. EQC were advised by Microsoft that as a result there was potential for significantly higher licensing costs. An Interim government agreement was reached in June. However, as a result of an independent review of software licences across EQC started the previous year, some significant changes have been made and a slight cost reduction achieved.

As a result of the Archives Act, and related initiatives to make government more transparent, there has been a need to improve the capture, storage, and retrieval of email and electronic documents. EQC implemented a full review of the general filing system early in the year. An email archiving system was implemented, and later upgraded, to capture all email to and from all users and archive them. A File archiving system was introduced late in the 2009 year, and after a few issues, is now fully functional. An upgraded search engine will be implemented before the end of the 2010 year.
EQC CORPORATE ENVIRONMENT

Summary

Applications and supporting IT functions are focused on the needs of each of three divisions. Most applications tend to be specific to the division or specialty within that unit, but areas such as telecommunications support all divisions.

The Administration division includes Board support, Media, Financial services, Funds management, insurance industry audit, and Information Technology.

The Insurance division includes Claims management and processing, Operations and Catastrophe Response Planning, Call Centre support, and External Resource management and training related to these functions.

The Research division, is the smallest of the divisions and covers management of research grants and funding.

Within each of the above areas are specialty areas that report internally and may also report to the Chief Executive, who reports to the EQC Board.

Administration

Board Support includes secretarial management for both the Board and executive, an integrated web portal including document management, and email filing.

Media includes the dissemination of information to, and receipt from, external agencies and Parliament, as well as maintenance of the EQC websites content.

Financial Services includes the management of all funds and operational finances for EQC, including payment of claims, vendor and supplier financial information management, payroll, budgeting and reporting.

Funds Management is the means by which the Board manages the total EQC fund. Management includes monitoring investments, completing investment transactions, reporting, and where required making funds available for claims payments.

Insurance Industry auditing is performed on an ongoing basis to ensure records provided to EQC are accurate and timely, to provide training where required on EQC processes, and to encourage broader cooperation in the insurance industry.

Information Technology is the provisioning and development, support and maintenance of technology for all EQC functions.

Insurance

EQC has sufficient staff to provide routine services. Without extensive planning and preparation, a large disaster could overwhelm these permanent resources. EQC has pioneered extensive planning to enable the organisation to cope with any reasonably foreseeable natural catastrophe. This activity is called the Catastrophe Response Programme (CRP). Its main constituents are:

- A web of external arrangements for the provision of the additional personnel and services required to build and maintain a large organisation equipped to operate in a disaster scenario and bring claims to the speediest conclusion possible.
- Means of checking, enhancing, testing and augmenting these arrangements.
- Tools and processes for management and control.
Claims management and processing are primary functions for EQC. Claims and events are recorded, claims allocated to experts, and information collated in order to assess the eligibility of a claim and the amount to make payment on. The claims group includes an outsourced team, Gallagher Basset Services, in Brisbane.

Operations planning is integral to EQC as a disaster-focused organization. This provides the logistical support for field operations and planning and training for staff and others.

Call Centre support includes the liaison with EQC’s three contracted Call Centre’s, providing training and support and ensuring other training needs in EQC are met.

External resource management forms the basis for a team of contracted resources for processing the claims in the field, and support for field office operations when required.

Research

The Research division of EQC is charged with maintaining the right balance of investment and return to the New Zealand public for education, pure research, capability building, and commercialization of knowledge about natural hazards and disaster mitigation. Research funding includes the overseeing of the funding to GNS Science for GeoNet, as well as to various university positions and grant recipients.
ENVIRONMENT

Description

This section of the report is intended to outline existing IT systems and functions. This outline is a brief overview, describing how these various systems and functions support the business of EQC. In addition, suppliers are identified and, where appropriate, references made based on existing shortfalls.

This section is divided into three parts: Applications, Networks, and Telecommunications. The Applications section covers the use of applications, and the development of them. It also covers some extent the server platforms these applications reside on. The Networks section covers the base infrastructure that carries the data between sites and machines. The Telecommunications section covers all aspects of communications utilising the PABX systems and cell phones. Necessarily there is convergence between all three areas as technology evolves.

Applications

The applications fall into two major groups of use – Insurance and General.

Insurance applications are used almost exclusively by the Insurance and Claims staff. These include CMS, Logjam, and the Minerva hazard model.

The Claims Management System is an integrated suite of web-based applications. The suite of applications includes:

- ClaimCenter from Guidewire Corporation, San Mateo, USA.
- Document Manager from IBM New Zealand
- GIS from Eagle Technologies, New Zealand

This suite of applications is hosted by IBM at data centres in Auckland and Petone, and access is via the Internet for most purposes. A GIS desktop client has been retained for limited expert use only. Additionally ClaimCenter interfaces with the FMIS accounting system for payments and supplier information.

Minerva is a desktop application for modelling the impact of earthquakes, attempting to predict the number of claims and estimating the likely cost of those claims to EQC. As well Minerva is used for development of strategies, plans, and cases on the future development of the Natural Disaster Fund. It can carry out scenario analysis and stochastic modelling. This application has been under review for contractual support and ongoing development by the Research Manager and Insurance Manager for quite some time.

Logjam is a systems dynamics model for estimating the logistical requirements for EQC against a given event. It is a fairly mature product and unlikely to require more than maintenance support. This is externally developed and supported.

General applications cover all other aspects of EQC functions. These include:

- Microsoft Office Suite (2007)
  - Word processing
  - Spreadsheets
  - PowerPoint presentation
  - Email
  - Access
- Banking
- Payroll
- Cheque printing
- Reuters
- Virus Scanning for Workstations and Servers (Symantec)
Networks

Local Area Networks

Local Area Networks (LAN) are networks that support servers and workstations within an office location. LAN consists of two essential elements; wiring and the transmission and management equipment.

In Level 20 Majestie Centre high quality (Category 6) cabling has been installed, delivering data and telephony from a central wiring cabinet throughout the office. Voice over IP (VOIP) is not implemented. In AMI House, Manukau, lower standard (Category 5e) cabling is installed delivering data and telephony from a central wiring cabinet throughout the office. Use of wireless technology for data delivery has been trialled in this location.

For Remote Offices Category-5e cabling is used where available, but wireless is used for most situations. Using wireless communication reduces setup time and maintenance, but still provides excellent service in most situations.

Wide Area Networks

EQC has outsourced the Wide Area Network (WAN) provisioning and management to DTS Ltd. DTS have relationships with several providers in New Zealand.

The services provided are high-speed Internet connections. Secure Virtual Private Networks (VPN’s) are used to connect each major site for data traffic. The service provides end-to-end secure connections, flexible bandwidth for growth, and resilient connections. EQC staff use the same technology from Laptops equipped with the software to access the EQC corporate network for files and email from remote locations.

Separate circuits to the IBM data-centres provide the Internet connection for the CMS application.

EQC also has OON (One Office Network) circuits (provided by Telecom) between the Wellington and Auckland Datacom data-centres to provide replication circuits for the Internet Web Servers hosted at Datacom.

EQC pays for high-speed broadband access for most staff on the basis that these staff will from time to time be required to work from home and still need to access corporate email and files.

A high-speed connection to EQC Head Office is maintained for catastrophe response use separate to the Corporate connection.

Microsoft servers provide core networking services such as Active Directory (AD), Domain Name Services (DNS), Dynamic Host Control Protocols (DHCP), Intranet, printing, time services, as well as network monitoring and the Service Desk application.

Microsoft Exchange servers provide email to Outlook clients, and via a web interface. Exchange also provides shared public folder services. Replication is via ‘Doubletake’, a specialist application. Mail is provided via secure client direct to mobile phones.

The financial management information system (FMIS) is Microsoft Great Plains. The servers are supported by IT, but the management and security of Great Plains access and use is performed by the Finance Manager. Password aging and length are governed by AD rules. Support of the application is contracted to Olympic Software Ltd.
Hardware

EQC purchases servers for the various corporate applications and services, and duplicate servers for Auckland. Most servers are between 2 and 5 years old and planned replacement is ongoing. A contract for additional support for corporate servers is in place with Optimation Ltd.

EQC also purchases servers for the EQC website hosting. Datacom provide the data centre housing and support for these servers, along with their software support in Auckland and Wellington.

PC’s and laptops for permanent staff are purchased directly by EQC. These range in age from under 1 year to over 4 years old. Flat-panel LCD displays are standard on all desktops. PC’s are being phased out in favour of laptops to ensure maximum flexibility for all staff should they be required to work away from the office.

Generally EQC hardware (servers, PC’s and printers) is under warranty. A program has been established to ensure adequate provisioning of replacement equipment over time.

Remote offices are provisioned from a pool of CRP Laptops which is topped up with rental laptops as needed. EQC has provided equipment for shared printing, and shared file scanning. This flexible arrangement allows quick office set up and lowers EQC IT support requirements and overall costs. Security has been greatly enhanced since last year, and continues to improve.

EQC does not supply or support any equipment for any contracted Call Centres, contracted staff, or to Gallagher Basset Services Limited (GBS). Equipment supplied to GBS under a previous contract is no longer supported and the responsibility of GBS to replace as required under the current contract.

Telecommunications

EQC has a complex agreement for its telecommunications, initiated in 2004. This is generally under a contract for services which will expire in March 2009. Zintel and EQC have signed a 12-month term contract to allow service continuity until replacement services can be established.

Telstra acts as the primary provider and integrator for telephony voice circuits and national backbone services. Telstra provides ISDN trunks into EQC offices. PABX’s sized to be capable of supporting 32 concurrent circuits in operation. Telstra have reserved 100 phone numbers and 029 cell-phone numbers for EQC use. Rules in the Telstra backbone network allow for switch-over from Wellington to Auckland if a disaster is declared by EQC.

Zintel Ericsson PABX’s are installed in EQC Auckland and Wellington offices. These PABX’s operate independently, allowing flexible operations should one fail. Digital phones are provided on desks, with a console-style unit for the receptionist. The PABX in Wellington has a maximum of 32 extensions available, and Auckland has 12 extensions available. Zintel maintains a stock of hardware in Auckland and Wellington to expand the capabilities of the PABX’s should this be required.

Zintel also manage the EQC 0800 numbers used, and provide monthly reports on their use. These 0800 numbers provide access to EQC Call Centres, Corporate offices, and when required to Field Offices.

Vodafone provide the mobile phones and plans for EQC use. Corporate staff are equipped with Nokia smartphones, and field staff with basic Nokia phones. The agreement with Vodafone expires in April 2010. Zintel have incorporated an interim Schedule into their contract for another year.
MARKET AND EQC FUTURE DIRECTIONS

The basis of this section is to identify areas where improvement can take place, and try to determine where EQC may head in future without diverging from market directions.

EQC Pressures and Directions

General.
With the change of government, and the ongoing impact of the recession, there have been some substantial changes in policy. The Government is seeking to implement common policies and practices across all central and most other government bodies. These include purchase, data retention, staff policies, accounting, IT and telecommunications.

It is expected that there will be pressure to utilise centralised purchasing contracts for all EQC activities, including the short-term rental equipment. This is projected to be in place by June 2010, and become mandatory within 12 months. Further contracts covering purchase of office stationary, vehicles and fuel, are expected to follow soon after.

EQC continues to evolve its technical requirements, seeking to test and improve the ability to deliver to core responsibilities including claims processing, funds management, and research and grants management. Challenges include a more mobile and flexible work force, organisational catastrophe response (business continuity), and the use of mobile telecommunication and cell phones.

The use of remote offices (including staff working at home or remotely), enabled partly by the change to an Internet accessible Claims Management System, will continue to grow and become more diverse in structure and dependencies. Ease of communication and changing work practices create new challenges. Each disaster event presents opportunities to test and improve these concepts. EQC IT must continue to develop services to deliver to this rapidly changing environment.

The staff of EQC have been able to work remotely for some time, and this situation is not expected to alter, except to cover almost all staff by the end of 2010. The majority of remote connectivity are email and file access. Although current technology is robust, it will continue to consider and, where possible, test alternative access to ensure best suitability to EQC's needs.

A direct result of remote working is the desire by some staff with laptops to down-size them to lighter models. Fully functional laptops may, as technology permits, be replaced with 'Netbooks'. The investigation into this technology will not begin until the 2011 year as it will require consideration of business needs, especially in relation with the Catastrophe Response Plan.

Mobile technologies such as cell phones continue to evolve. Although 3G technologies and operating systems have changed and improved markedly in recent years there are no forecast improvements for the applications EQC uses to take advantage of this.

Claims System.
The Claims System Upgrade from v4.0 to v6.0 will be due by June 2011. Version 6.0 contains some significant enhancements useful to EQC, and a much improved user interface. This is a major upgrade and will require significant effort. As well, Guidewire has advised that Version 6 requires upgraded software and databases, which will require upgrading the hardware supporting it. This will be the subject of major negotiation with IBM as it represents a renewed commitment from EQC to fund the change. At this time the upgrade is expected to exceed the development budget of $250,000, and a special case to the Board will be developed in 2010.
There are still a significant number of developments to be made including additional management reports and GIS reports, document uploading, role definition and permissions refinement, and others. This is additional cost commitment required for the 2010/2011 financial year.

The issue of archiving claims and events from the claims system, including all associated GIS and document data has not been addressed. EQC will have to create and implement solutions to meet the requirements of the Public Records Act, and the planned audits to be performed over all of government in the 2010/11 years. Cost for this is unknown as no planning has been undertaken.

Telecommunications

The Telecommunications contracts fall due in March 2011, having been extended for a year. The contract covers the PABX services and office phones for the corporate offices, cell phone hardware for corporate and CRP use, cell phone voice and data plans, the corporate numbers (978 64xx) and cell phone numbers (029 978 64xx), and business continuity.

Significant changes in telecommunications have been made since the original contract was issued in 2005:

- Integration of voice and data on office networks has blurred the separation of these systems.
- Wireless networks are commonplace and can now carry voice traffic
- Internet protocols may make it possible, in certain situations, to use the internet rather than existing voice lines and cell phone systems
- Satellite coverage has improved for data transport, including VOIP (Voice over IP).
- Widespread distribution of high-speed Internet has improved, although there are still large areas of New Zealand not adequately covered.

Data Networks

Traditionally data and voice were carried via separate wires and to separate end systems (phones, PC’s PABX’s). Convergence of data and voice technologies has made it possible to integrate these technologies onto the same wired networks, and telephone as another application on a computer. Although IT continues to examine the potential use within EQC, the cost of change remains a major barrier. Further investigation will be made over 2010/11 in line with the telecommunications investigations.

Wide Area data networks operate well for EQC at present, connecting the corporate office to Manukau, providing Internet access to the EQC web servers, and Internet access to the Claims System. There have been no indications that these are insufficient for EQC needs, but they are constantly being monitored.

Finance System.

A significant upgrade to the current version has been undertaken in 2009, and the contract renewed for a further 3 years to 2012. Analytical Accounting, which proved to be incompatible with EQC practices, has been removed, and the focus will now be on improving reporting to budget managers.

At the end of the contract (2012) it is expected that more complete solutions that are web-based will be available, and this will be a significant point of selection.

Market Directions

Government

Archives New Zealand has responsibility for ensuring implementation of the Public Records Act 2005 (PRA). The PRA introduces two key duties that all public offices and local authorities must adhere to. They are:

1. Requirement to create and maintain records

   Under the PRA, all public offices and local authorities are required to create and maintain full and accurate records in accordance with normal, prudent business practice. These records must also be accessible over time. The PRA requires public offices to gain the Chief Archivist’s authorisation before disposing of public records.

2. Compliance
The PRA enables the Chief Archivist to issue mandatory standards that will achieve certain recordkeeping outcomes. Copies of the recordkeeping standards and guides can be found on the recordkeeping publications page on the Continuum website (http://www.archives.govt.nz/).

The PRA introduces measures to assess whether agencies are meeting its requirements. This requires all government departments and agencies to have retention and disposal policies for all paper-based records, as well as electronic files and email.

EQC has been working on these requirements throughout the year, following the introduction of email archiving in November 2008. File archiving has been put in place for electronic files and final policy wording is due to be completed by February 2010. Archives is to begin auditing organisations in 2010 and EQC is confident it has good systems and processes in place.

Another all-of-government (a-o-g) initiative underway is Government Procurement Reform. Centres of excellence have been or are being established to work on common groupings of purchases. In 2009 the Department of Internal Affairs established a centre to work on a-o-g purchasing contracts for IT equipment and multi-functional devices. The Ministry for Economic Development has established centres for negotiation passenger vehicles and stationary. These contracts, once established, will enable State Sector agencies, including EQC, to purchase common items from one centrally-managed contract, with anticipated cost savings and efficiencies.

EQC is required to participate in information gathering and contract implementation, and may achieve some of the benefits through participation in the larger contract. However this poses several risks to EQC at the same time. It has stressed the need for EQC to be flexible in its field operations, and to be able to act swiftly to the demands of these operations. As the form of the initial contracts will not be known until at least June 2010, EQC is continuing to work to ensure its requirements are communicated.

Applications

Database-centric applications have been evolved for some time towards web and portal technologies and away from client-server architectures. EQC has embraced this approach, especially with the Claims Management System and the Commissioners website (Leaders) system. Other services possible for EQC include the email system, and Minerva.

Office productivity applications are still mostly client-installed applications, although this focus is changing towards a web-rental model over time. Companies still require central repositories of files accessible only internally, so this area is still under development, but a space worth watching. A particular issue with this trend is how they meet the requirements of the Archives Act.

The surge of interest in social networking sites seems to be reducing corporately, although individual staff are involved in some of these services. EQC has dipped its toe into these waters with exclusive email groups, and limited business networking permitted. As there is limited benefit to EQC at present a watching brief only will be maintained.

Networking

Standards for Local Area Networks, including Bluetooth and Wi-Fi, are stable. Integration to 3G cellular networking is growing at a rapid rate as vendors begin to embrace convergence in this market, and the networks are built. In particular integration of 3G capability into laptops is beginning to promises to open up the access-from-anywhere digital market. Costs remain prohibitively high in New Zealand at present, but are expected to reduce as investments costs by telecommunication companies are recouped.

The New Zealand landscape for network services is undergoing a period of realignment as the new government encourages development of fast broadband country-wide. As EQC requires significant use of internet for Corporate, local, and roaming staff and contractors, special attention is being paid to developments in this area, including the initial use of satellite technology for temporary offices.
Consolidation

Over the last decade there has been considerable press about the ability to consolidate hardware, especially in data centres through a technique called 'virtualization'. This creates several virtual machines on one physical machine. Despite the hype there have also been issues around deployment of this technology. Recent changes and advances have made this a viable option for even smaller businesses, and EQC may be able to take advantage of this.

At present EQC has a number of servers, each performing a unique task. Using the virtualization technology it may be possible for EQC to reduce hardware purchases and costs, and support costs for the corporate office.

Further investigation will continue in 2010.

Mobility

A lot of effort has gone into promoting mobile workforces for many years. Mobile working is becoming more common-place as high speed internet reaches many areas of New Zealand, Café-Net and similar networks become more widespread, and 3G cellular technologies gain wider coverage.

Technology is also supporting the ability to deliver mobility with better laptops, smart cell phones, web-enabled applications, and portable data devices such as memory sticks. As well security on all these devices has improved, and continues to develop.

EQC IT will maintain a watching brief on these developments to assess what may be of use to EQC business.
ISSUES AFFECTING STRATEGIES

Security

Web security, as evidenced by the use of Firewalls, intrusion detection systems, Web & Mail Marshall servers, and anti-virus software, is good at EQC by industry standards, and well maintained. Patches and updates are maintained on a daily basis, and most are automatically applied.

Field Office equipment is most at risk of theft due to the inherently insecure nature of the premises. With the new Claims Management System local software and storage of data is minimized. Electronic security is implemented in Field Offices to include similar restrictions as those in Corporate offices, including restricting access to web sites and banning internet radio channels.

Information held on remote systems, such as laptops and cell phones, is considered by the IT Manager as vulnerable. Users have access to main systems via VPN, but often copy files to the local laptop for convenience. This is only secured by login, and may easily be bypassed. Cell phones are similarly exposed as they carry company emails, contacts, and calendar information which is automatically synchronised. The ability to remotely lock cell phones in the event of theft has been implemented to reduce the potential risk, but more security will be implemented over time on all devices.

Development

Following a series of unplanned outages in late 2009, the proposal by IBM of significant costs associated with the CMS upgrade, and the smaller than expected commitment by IBM to maintain skills, the overall relationship with them has cooled somewhat. This may, unless addressed, pose a significant issue to EQC in 2010.

EQC’s relationship with other vendors remains on good terms. However as no significant developments have been forecast there will be a period where EQC must work to maintain the relationships instead of relying on the vendors initiatives, to ensure longer term benefits. IT has a strong ethic to ensuring relationships are well maintained.

Resource & Supplier Management

EQC has made progress in ensuring supply and support arrangements with IT suppliers are documented. As a result of rationalisation of services there are fewer suppliers for IT than in previous years, and fewer cross-over services between suppliers.

IBM has yet to deliver portions of the overall CMS system, particularly in system and service monitoring and reporting. IT will be watching this closely in future and recommending strict compliance with deliverable service standards. It is important that EQC receives quality of service that is both measurable and reported.

Olympic software provides support for the Great Plains FMIS under a support contract, and there are similar contracts in place for Banking, and other smaller applications. These are from a number of different vendors, and have different requirements and impacts on business continuity.

The telecommunications support is still fragmented across Telecom, Telstra, Vodafone and Zintel. As the core telecommunications agreement falls due in 2010 there will be an opportunity to improve this position. The current telecommunications contract with Zintel was for a period of 5 years. This has provided stability but also has inhibited some areas of development as technology has either developed or moved on. The next contract will be for a 3-year period.
Documentation

Documentation of business processes, including IT, is being encouraged through a dedicated tool, Promapp. Technical documentation for IT is becoming more complete, although ongoing work is required to maintain it.

The use of the Promapp tool is being encouraged in all areas of EQC, especially in the CRP and finance teams. As processes are developed, this tool provides an easy way to record and refine them, and publish them to those who need to know.

Ongoing documentation in the ServiceDesk application is also improving asset management of IT equipment. ServiceDesk captures Order Numbers, automates IT software and hardware asset information acquisition and reporting, valid information and contract dates. It also provides a trouble ticketing system accessible to all EQC users and contractors.

Cost Management

IT is acutely aware of cost management. Sound strategies of review and reconciliation continue to be applied to every area of the budgets each year, and this will continue. As a result of the strategic approach taken, and careful asset management, EQC can forecast with confidence the costs for replacement of corporate equipment several years in advance.

As well as ensuring cost control, EQC is concerned with ensuring the services delivered are accurately forecast and reported against. Working closely with the Finance Manager, the IT Manager has clarified cost code structures for all IT related budget codes. Contracts, as an example, are now directly related to cost codes. IT will be more closely monitoring service performance to ensure the delivery promised and contracted meets specification for quality and timeliness. This will particularly apply to larger items such as the IBM contract.

The exception to this is the development budget for CMS. The Insurance Manager defines and manages the development items for CMS, and ensures compliance with the budget. This is expected to remain in place for some time, but the IT Manager will be working with the Insurance Manager to apply more consistency in this area.

IT costs for supporting remote offices are a part of the overall event budget, but there is room for service improvement without substantial cost increases. Continual pricing and review are now standard.
BUSINESS STRATEGY

From the EQC Statement of Intent 2009 to 2012

Statutory functions

EQC is an independent Crown entity with statutory responsibilities set out in section 5 of the Earthquake Commission Act 1993.

Those responsibilities are:

a) To administer the insurance against natural disaster damage provided under this Act;
b) To collect premiums payable for the insurance provided under this Act;
c) To administer the Fund and, so far as is reasonably practicable, protect its value, including by the investment of money held in the Fund;
d) To obtain reinsurance in respect of the whole or part of the insurance provided under this Act;
e) To facilitate research and education about matters relevant to natural disaster damage, methods of reducing or preventing natural disaster damage, and the insurance provided under this Act;
f) Such other functions as may be conferred on it by -
   i. This Act or any other Act; or
   ii. (ii) The Minister, by written notice to the Commission after consultation with the
       Commission.

In plain language, EQC’s responsibilities are to:

• Provide insurance of residential property against loss or damage caused by earthquake, volcanic
  eruption, hydrothermal activity, tsunami, and natural landslips, to properties insured against fire in
  accordance with the Earthquake Commission Act 1993. There is also limited cover provided for land loss
  by any of the above hazards plus storm or flood.
• Administer the Natural Disaster Fund (the Fund), including its investment and reinsurance.
• Facilitate research and education about matters relevant to natural disaster damage and its mitigation.

EQC believes there is a synergy among its three core functions – insurance scheme, research and public
education – and they are all essential if New Zealand is to manage the risk of geological disasters effectively.
INFORMATION TECHNOLOGY STRATEGIES

Strategic Developments

It is important that IT systems and services are kept aligned to the organisation directions and stated intentions. However technology changes occur rapidly, making longer term strategies susceptible to obsolescence.

EQC has now completed its effort to make core systems and processes able to meet business needs in a modern, increasingly electronic world. This aim has been met by the updating of networks, core applications, and business processes.

The dramatic changes in the last few years have given way to a focus on specific improvements in key areas to achieve maximum effect. This is expected to continue over the 2010 year, and in the latter half focus will be the CMS version upgrade and the development of business process maps.

In 2011 the changes will be consolidated for the CMS system, and focus will shift to the accounting system to plan for its contract expiry, upgrades to minor systems (Banking, ServiceDesk, EQC website, Leaders) will occur throughout 2010 and 2011 as they fall due.

Key Developments

Policies

In order to meet some of the strategies outlined below EQC will have to adopt policy changes to work practices. These will be required to align EQC with all-of-government guidelines and regulations, as well as best work practices.

Key among these will be practices for staff when storing, retrieving, or altering documents of any sort, or dealing with email. Metadata information will be required with all documents, regardless of source or intended audience. A method of tracking who accesses files, when, and if they altered the files will be required, and will necessitate investment in software to enable this information to be captured and reported on.

Metadata is information that describes the document including author, date of creation and revision, keywords, and type of document. It is usually stored within the document itself as a part of the data.

Claims Management System

EQC business processes are expected to be documented and placed in an online repository for all EQC and partners to access.

In summary:

a. The Operations Manager has begun the project to make the CRP processes and procedures cohesive and inclusive. This will continue over the first half of 2010.

b. Processes previously documented for the CMS system will require review to ensure that as development has proceeded the processes have remained aligned and accounted for. This is expected to follow on from the CRP process documentation.

IT resources are closely involved in day-to-day maintenance of the CMS system, especially in user and group management. The ServiceDesk application has proved a key element in capturing jobs and ensuring tracking of these jobs, relating the jobs to assets, and ensuring prompt and efficient service. The email interface has made it possible for external suppliers to raise jobs and issues easily and be provided with a tracking ticket number.
Where possible IBM will be encouraged to develop and implement changes to the CMS environments to drive reduced operating costs or improve services. This will include a hardware refresh timed to coincide with the migration to ClaimCenter version 6.

EQC will begin the process of migration to Version 6 of ClaimCenter in 2010, although final migration is now expected in mid-2011, due to fiscal and development constraints at EQC. This is expected to be the last major version upgrade until possibly 2015.

After Version 6 of ClaimCenter, Guidewire have indicated the development of the core product set will be stabilised, and other ‘add-on’ factors will be focussed on. This may, to the benefit of EQC, include an integrated portal design, support for mobile devices, and greater support for GIS enablement – all items EQC either has developed or is a leader in.

**FMIS**

With the upgrade of Great Plains to version 10 in the latter half of 2009, the analytical accounting modules have been removed as not practical for EQC use. A feature of the upgraded version is to allow access to reports relevant to case centre managers. EQC IT will be making use of this to ensure more accurate management of budgets where possible. Another feature is increased security, with integration into the EQC corporate network rules for password aging and complexity.

The contract with Olympic Softtek Ltd for support of Great Plains has been renewed for a term of 3 years until 2012. Apart from another upgrade in about 2 years, there are no further upgrades or improvements recommended for this system.

**Temporary Offices**

The evolution of temporary office operations will continue to be a key area of focus. Lessons learnt from previous operations have been documented, and service improvements covering telecommunications within the offices and between them, printing services, and general maintenance have been recommended.

As a result reconfiguration of kits for the IT gear have been made and tested in 2009. Capacity to support up to three major offices (up to 50 office staff per office), and three smaller offices (up to 10 office staff per office) has been added. Wireless networking has improved networking flexibility significantly, and the use of satellite communications as a first-effort to get offices started quickly has been tested. Established offices will be connected to broadband where available as this is still faster and cheaper than satellite or 3G-broadband.

Both wired and wireless 3G broadband are being rolled out across New Zealand, speed of access increase is steadily improving, and cost of use is falling. EQC IT will monitor developments and assess how best to take advantage. In particular mobile workforces will require a new type of ‘office’ environment, and telephony communications will become more important. There is no specific timeframe for these improvements, however.

**Telecommunications**

The PABX services and cell phone provisioning have been reviewed during the 2009 year, and an RFP process to gauge market reaction has been completed. Following a less than successful response, further work is being undertaken to refine key requirements and invite new tendering. The existing contract has been renewed, with cost reduction, for a further 12 months.

EQC recognises that VOIP (Voice over Internet Protocol) is reaching a maturity point in New Zealand that will reduce costs dramatically in the near future. Therefore a delay in selection and implementation of a replacement system will be in EQC’s best interests. It is expected a solution will be selected and rolled out in late 2010, based on a 3-year contract.

**Security and Storage**

A review of the email storage and retention arrangements during the 2007 year led to implementation of an email archiving solution in 2008 to meet increasing regulatory and compliance requirements. However, additional work is required in this area to ensure other parts of EQC also meet compliance requirements. The following are key issues:

1. An archive policy will be developed for the Claims system in 2010, to include main claims data and associated notes and images.
2 Implementation of the Claims archive policy will be included in planning after 2010. This will tie in with the upgrade to Version 6 of ClaimCenter.

Board Support

The EQC Board and senior executive have access to an online repository of Board papers, including agendas, minutes, and supporting information. The application is called Leaders, is hosted on the EQC web servers and available via secure login access. The information is maintained as a copy of information held on the EQC corporate network.

The intention of the site was to allow board members access to papers online rather than sending out printed copies, increasing flexibility and reducing printing and delivery costs. However board members do not find the site easy to use and have requested a review of available modifications or alternatives. This will begin in 2010. Depending on feedback, a case will be developed and incorporated into the following budget round.

Staff and Contractor Support

As part of the Catastrophic Response Program, EQC has plans in place should the Corporate office become unavailable. Conceivably this could be because of fire, pandemic, or natural disaster. The plans allow for the capability for staff to work from home. EQC has, therefore, provided subsidy support to enable staff to perform their duties from home.

EQC staff are provided with a high standard of equipment in order to perform their duties. Most have laptops, and it is intended that all staff will have them. It is policy that those with laptops take the laptop home at night. In order to work from home, EQC subsidises basic broadband Internet access from home. Most staff have EQC supplied high quality cell phones to enable them to work from home or remotely.

EQC reviews the subsidy program on an annual basis, and staff inclusion on an as-needed basis.

EQC Contractors provide their own equipment unless working within an EQC field office. This includes the cell phone, laptop, and broadband access. It is not intended that EQC extend subsidy support to this group.
Project View

Base workload for IT staff has increased with the introduction of the CMS system. User maintenance has risen from the 2004/05 level of about 50 users, to maintenance of about 180-200 active users in a pool of over 800 in the CMS system. This has been partially offset by the introduction of processes and systems to increase efficiency of the services.

Below is an outline of major projects indicated in this document and their anticipated execution periods. This is a representation and, apart from the contractual agreements, is subject to change.

Workload on the IT staff has been quite substantial over the past few years as EQC progressed through the major changes needed. Despite the number of projects forecast, the workload overall for these projects will be less as use of specialist vendors for many of the upgrades will be made where possible.

This representation further supports the view that the 2010/2011 period and into 2012 is expected to be less active than previous periods, allowing EQC time to adapt fully to the changes executed over the past several years.

For IT staff the projected quieter period allows maintenance activities to be well planned and executed, and time for staff training and personal development activities. It also allows space to plan future projects and consolidate previous document planning.

<table>
<thead>
<tr>
<th>Project Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMS Version Upgrades</td>
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<tr>
<td>CMS Enhancements</td>
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<tr>
<td>GIS Upgrade Version</td>
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<tr>
<td>Great Plains Version Upgrade</td>
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<tr>
<td>FMIS Contract Review</td>
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<tr>
<td>Telecommunications Review</td>
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<tr>
<td>Exchange version upgrade</td>
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<tr>
<td>Wide Area Network Review</td>
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<tr>
<td>Process Mapping Exercise</td>
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<tr>
<td>Server Upgrades</td>
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</table>
## Budget Projection

IT spending will become dominated by maintenance tasks instead of new investment from the 2010/2011 financial year.

The tables below reflect current and anticipated budgets by category (in 000's).

<table>
<thead>
<tr>
<th>Operating Expenditure</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
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<tbody>
<tr>
<td>Administration</td>
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<td>Development</td>
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<td>Communications</td>
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<td>Insurance</td>
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<tr>
<td>Development</td>
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<td>Research</td>
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<td>Communications</td>
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<tr>
<td>Depreciation</td>
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<td>1040</td>
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<td><strong>TOTAL</strong></td>
<td><strong>4251</strong></td>
<td><strong>4284</strong></td>
<td><strong>4298</strong></td>
<td><strong>4306</strong></td>
</tr>
</tbody>
</table>

Capital expenditure will be on replacement of existing equipment and servers as these become due, and continued CMS development, including the upgrade to ClaimCenter version 6.

<table>
<thead>
<tr>
<th>Capital Expenditure</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware</td>
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<tr>
<td>Software</td>
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<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Development (CMS)</td>
<td>280</td>
<td>280</td>
<td>250</td>
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</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>395</strong></td>
<td><strong>392</strong></td>
<td><strong>367</strong></td>
<td><strong>370</strong></td>
</tr>
</tbody>
</table>

Notes:
1. These figures are the budget figures, not actual end-of-year spend.
2. Provisional Budget figures only, not approved.
3. Forecast budget only, subject to change and review.