

CEO Address to Christchurch Members 5/11/2014

Good evening everyone.

I've been asked to cover three areas in my address

- EQ claims by the numbers and rates of progress up to date
- Achievements and challenges
- And an explanation of the claims assessment and settlement process along with operational policy

EQ claims by the numbers and rates of progress up to date

As at the end of September, we have registered a total of 3,072 claims related to one or more of the earthquake events to strike Christchurch over the past 4 years.

However a lot of these were relatively small claims so I think it would be more useful if I moved quickly to report on overcap claims which have been or are currently part of the MAS/Beca programme, and the relatively small number that are still with other assessors.

I'll start with reinstatements – properties which are deemed repairable.

As at last week, the total number of repair properties that had been registered in the MAS/Beca programme was exactly 300. As we will discuss later, a number of these have come onto the programme in the last 12 months as EQC have signed them off as overcap.

Of the 300, 122 have been completed and closed and a further 29 are currently part of cash settlement discussions.

Of the remaining 149, 57 are still in scoping or detailed design, 47 are in procurement, and 45 are in construction.

This means that around 71% are either settled, in procurement, or under construction.

I'll now turn to the rebuilds.

As at last week, the total number of rebuilds that had been registered in the programme was 126.

Of the 126, 102 have been completed and closed leaving 24 open claims.

Of the 24 still open, 4 are in cash settlement discussions, 10 are still in the scoping or detailed design phase, 2 are in procurement and 8 are in construction.

This means around 89% are either settled, in procurement, or under construction.

Achievements and Challenges

You've asked us to also highlight achievements and challenges. I will be brief in equal measure on both counts as I know there are a lot of questions to get through in the next session.

There have been many challenges including dealing with EQC, changing building standards, consenting delays, pressure on availability of professionals such as architects and engineers, and the distraction of frequent reinsurance audits.

There are also some highlights we are proud of - briefly, I think we have got through a lot of claims considering the scale and complexity of the challenge for a relatively small organization. We were ahead of the industry in geotech testing, and started undertaking reinstatements in TC3 land pretty much before anyone else. In the first months after both the September and February events we were prepared to underwrite new business when most others had placed

a freeze on underwriting and today we are effectively the only Insurer continuing to provide full replacement domestic cover for all perils, not just fire.

I believe our programme is almost unique in providing policy holders in most cases with their own choice of preferred lead consultant for their rebuild or reinstatement. These lead consultants are paid for by the policy but are answerable to the Member. This ensures that the quality of work done will be to the owner's satisfaction, not the Insurers.

Much of the rest of the reconstruction of homes in Christchurch, including the EQC programme, is being done on a group build basis where the builder will be answerable only to the Insurer

Claims assessment process along with operational policy

Once a claim is in the programme, a preliminary assessment is made of whether it is likely to be a repair or a rebuild. This can and does change when an assessment is undertaken at a more detailed level.

We have continued to assess claims using the design construction process that is not overly different from the design process for a standard renovation or alteration project but have very recently begun to fund the payment of the claim in a different way.

The stages of your claim include scoping, detailed design, procurement and construction. The scoping phase involves completion of a scope of damage at your property. The scope is reviewed and amended if necessary, based on the limits of the policy. In a rebuild the claim moves to the concept design phase which is when a high level design is completed for the replacement home including the floor areas, profiles, elevation. This design is reviewed in relation to the insured property, amended if necessary

and the project is moved to detailed design. Costs of earthquake-related repairs and rebuilds are also estimated during the scoping and concept design phases.

During detailed design, a design for the reinstatement is documented taking into account any relevant geotechnical assessment that is necessary to help inform the foundation design and any floor level issues. The design also details fittings, finishes and completion of detailed design the consenting process usually starts as part of the procurement phase.

At the same time as obtaining a building consent, builders, that your lead consultants have discussed with you, are approached to submit a competitive price. The submitted prices are reviewed by your Lead Consultant and Beca and once selected the builder is usually engaged by you to complete the construction works. Preconstruction documentation is also required at this stage.

As I mentioned, we have recently made changes to the way that a claim will progress from this point and we have considered ways to simplify the process particularly in the construction phase. Once the project is in construction all the design work is complete and we have all of the detailed documentation or the work required to restore your property under the terms of your policy.

The significant ongoing costs of managing and separating the costs of the changes and upgrades during design and construction led us to make an operational policy change last year regarding the extent of changes and upgrades in projects that we are prepared to directly manage. In general, where the value of changes or upgrades included in your reinstatement is more than 10% of the value of works required to repair the earthquake-related damage, or the changes complicate the completion of the earthquake repairs

because the design no longer meets the cover provided by the policy of 'a condition substantially the same as new', we have made a cash payment of the earthquake-related portion of the claim either by way of a full and final cash payment in agreement with you or by way of a pre-construction payment.

As your insurer, we cover the costs that are reasonable and necessary to repair the earthquake-related damage to your home, subject to the limits of cover under the policy. This means that we will pay you the cost of repairs as a pre-construction payment as an upfront lump sum that is based on the known costs to repair the damage as per the tender. This means you can manage the repairs, as well as any changes, upgrades or other uninsured works, to your property, alongside your lead consultant and as you prefer. In some cases, we are prepared to make this payment on an estimate.

This type of payment is not a full and final payment – we will continue to accept responsibility for any additional costs that are assessed as necessary and reasonable to repair the earthquake-related damage under the terms of the policy. We will make additional payments during the construction process if those additional costs are covered, providing we have the opportunity to inspect them. We will make certain that we have building inspectors available to assess any such variations and our own team will also be available to meet you and your design team on-site and answer any questions you may have.