

MAS Client Member Meeting: Questions 5 November 2014

Richard to introduce:

We will now respond to the particular questions submitted by Members prior to this meeting. These questions have been grouped loosely around the topics of:

- Governance and Management
- Financial Issues
- Policies
- Betterment
- Repair/Rebuild Management and PMO relations; and
- The Repair/Rebuild process.

Our CEO, Martin Stokes, and I, as Chairman of MAS, will respond to the questions on governance. Martin will address the questions on Financial Issues, our Policy, and Betterment, and Gerard Lieshout from Beca and Martin Stokes will address the questions on project management, PMO relations and the repair/rebuild process.

Governance and Management

1. **'Under my watch the company has come through the Global Financial Crisis, the Canterbury earthquakes and a period of significant regulatory change, and we remain in good shape having preserved our Standard and Poor's A- rating. Through all this we have continued to focus on Member satisfaction and we place this ahead of profits when evaluating our performance.'**
Richard Tyler, Chair of the Board, notice of MAS 2014 AGM

What measures have been taken to keep the board informed of MAS operations in Christchurch? (eg what reporting, how regularly, how comprehensive?)

Richard to respond

I have already discussed the way in which the Board is kept informed on progress with our earthquake programme so will not repeat myself here.

- 2. Has the Board ever been made aware of the current level of dissatisfaction with MAS performance? Collectively or individually?**

Richard to respond

Again, I have mentioned in my earlier address that the Board is well aware of a number of Members' dissatisfaction with the progress or the proposed resolution of their claims.

- 3. What is the Board's response to the knowledge that significant numbers of Christchurch members lack the belief or have that same trust in the MAS brand and now seriously question its brand? What is being done to restore and strengthen this previously blue chip brand?**

Richard to respond

We are of course concerned that any Members are dissatisfied and we are working hard to resolve the remaining claims whilst acknowledging for some Members we have not provided them the outcome they were looking for. The counterfactual is the relative growth in the number of properties that we insure in Christchurch. This provides a good measure of whether people are prepared to trust us with their house insurance, which in Christchurch is heavily influenced by our claim settlement performance. Since 1 July 2011 the number of houses we insure in Christchurch has grown 21%, compared to a national growth rate of 13%.

- 4. Why is there a culture of on-going delays and deferments? What are the factors involved? Is MAS awaiting court decisions? Reinsurer payments?**

Martin to respond

We do not accept the assertion there is a culture of on-going delays and deferments. This could not be further from the truth. We and our Reinsurers are committed to resolving claims as quickly as possible within the terms of the policy coverage and our obligations. As an example, MAS went ahead independently with its own geotechnical land testing programme on Members' sections while other Insurers

and EQC spent months, ultimately in vain, trying to broker a joint venture drilling programme.

Further, we are providing Members with funding in advance of construction starting based on a qualified estimate to reinstate or rebuild a Member's house. The payment of this pre-construction funding does not require the Member to discharge their claim, and explicitly provides for further payments where reasonable additional earthquake damage related costs are incurred. Depending on personal circumstances, this payment may allow a Member to offset a mortgage, or provide the funding required for dwelling changes and enhancements which are outside policy coverage.

We are not awaiting the outcome of any Court cases, including the Declaratory Judgment currently being sought by EQC and others in respect to land claims. We are also not awaiting payments from our Reinsurers. Claim costs (both cash settlements and construction progress payments) are paid for directly by MAS and reimbursed monthly by Reinsurers.

- 5. MAS lawyers in Wellington have proven hostile and coercive – eg demanding sign-off on agreement within 10 days by threatening non-engagement -- and have been described by other lawyers as unprofessional. Will the Board do anything to review their legal services and what would it take to get them to do so?**

Martin to respond

While MAS prefers to try to resolve disagreements and disputes without reference to lawyers, it is not always possible to reach a resolution without legal input. This is particularly so when Members choose to engage with us through their own lawyers.

When our lawyers are engaged to correspond with our Members' lawyers in relation to a disagreement or dispute, they will often need to express MAS' position in a firm manner, and to include time limits for responses in order to maintain reasonable progress on the claim. We do not see that this legal approach equates to coercion or aggression, and nor is it unprofessional.

We do however accept that some things could and perhaps should have been expressed in less assertive terms.

6. **The CEO has been quoted in the NZ doctor in September 2013 stating that the insurer is committed to completing its programme of repairs and rebuilds by the end of 2014. What is the more realistic timeframe**

Martin to respond

We did set ourselves an ambitious target to conclude the programme by the end of 2014 but hopefully Members can see this aspiration is consistent with our ambition to “get on with the job”.

A more realistic timeframe would see over 95% of claims closed by the end of 2015.

7. **Why are deposits being made into members bank accounts as “settlement” unilaterally with consultation and proper process? And upon challenge these payments are being referred to as progress payments?**

Martin to respond

The first point to note is that our obligation under the policy is a payment obligation, not an obligation to manage the actual repair or rebuild. We have settled many earthquake claims by mutual agreement of a full and final cash payment, and we have settled others through a managed reinstatement process where we have paid the reasonable costs of the reinstatement as they are incurred.

However, there are situations where we have not been able to reach agreement with the Member on a full and final cash settlement, or where it’s not feasible for us to undertake a managed reinstatement process and this can be because of

- the extent of proposed betterment,
- pre-existing defects, or
- land related issues,

In these situations, the only practical way we can progress the claim is to make an up-front payment of the assessed estimated cost to

reinstate. This payment which we now refer to as a pre-construction payment

is then available for Members to pay the reinstatement costs when they are incurred. Members will also have the benefit of the money in their bank accounts in the meantime.

These pre-construction payments have sometimes been described as “settlement payments” or “reinstatement payments” because they represent the amount we reasonably believe it will cost to repair the earthquake related damage to the home, and therefore to discharge our obligations under the policy.

The amount of the payment is determined using the same process we have always followed to establish the actual or estimated cost to reinstate the home. However, we’ve also tried to made it clear that if additional reasonable costs are incurred that are covered by the policy, we will make additional payments to the Members as we are required to do to meet our obligations. The payments are not therefore full and final settlements and we have never stated that this is the case.

Having said that, we acknowledge that some Members have misunderstood the nature of these payments and we apologise for any confusion we have caused regarding these payments. We have taken steps to make our written communications in respect of these payments clearer.

8. **What action would the board take if a member of the management team ignored a chartered engineering report that required a rebuild on the basis that the dwelling was structurally unsound and unsafe to occupy? Specifically if this point was proven in or out of court.**

Richard to respond

It is simply not possible to comment specifically on steps that might be taken without a full understanding of the background and circumstances. I am advised that none of the MAS or Beca team can

recall any such circumstances having arisen in respect of any property. If a Member considers that there are circumstances giving rise to this concern, they should contact me or the CEO.

Financial Issues

- 9. Can the CEO and the Board provide an absolute guarantee that the company is able to pay each and every unresolved claim the entitlement they are owed under the terms of the policy?**

Martin to respond

Richard Tyler has already commented on the confidence of the Board that MAS can and will pay every unresolved claim its entitlement under the policy, and provided some background information about our reinsurance arrangements. I would also like to add that our Insurance Company's Solvency level at 30 September 2014 of 215% of the minimum level required by the Reserve Bank, compares very favourably with the solvency ratios of some other insurers published on their websites. For example:

AA Insurance – 141%
Tower Insurance – 129%
Vero – 154%
FMG – 211%
IAG – 130%

- 10. If so, in what financial position does this leave MAS afterwards, and what would be its ability to cope with another similar or larger future event such as an EQ hitting Wellington?**

Martin to respond

As mentioned in response to the previous question, MAS currently maintains a level of solvency, or regulated capital, that is around 215% of that required by the regulator.

MAS buys catastrophe cover of up to \$320m for its estimated maximum probable loss – a significant seismic event in Wellington. The return period for this event is currently around 1 in 1,850 years.

This is well above the required period of 1,000 years, and could well be the most conservative reinsurance position in the country.

11. What is the current position with regard to the reinsurers?

Martin to respond

Reinsurers that were on our earthquake affected treaties for events in 2010, and 2011 are up to date with their payment obligations. Our current programme is well supported by a panel of 23 Reinsurers. The lowest rated participant is rated A-, and around 82% of the panel are rated A+ or above.

The panel includes some of the world's largest reinsurer including Swiss Re, Hannover Re and Gen Re. Reinsurance treaties are generally offered on a subscription basis and our April 1 2014 renewal was around 190% over-subscribed.

12. Have re-insurers indicated a limit to the replacement claims which would negatively impinge upon MAS management to comply with the policy wording at the time of the event?

Martin to respond

No – Reinsurers are very supportive of our decision to continue offering full replacement cover. Reinsurers have commented, through the audits that they have been undertaken, that they are very satisfied with the claims assessment process and the application of the policy limits by the EQ team. They have however observed that, Members may expect more of their policy than the policy provides.

13. What if any financial inducements or understandings have MAS management been offered or accepted in consideration of decreasing re-insurer liability?

Martin to respond

Absolutely not. We would decline to do any further business with anyone that did.

14. Are the rest of MAS services/operations assured of independent funding support?

Martin to respond

All of MAS's operating divisions are expected to be financially independent. They are also required to meet and exceed regulated capital requirements independently of other companies within the MAS Group.

15. What additional provisions have been added to the estimated final cost of the reinstatement programme, as referred to by the MAS Chair in the 2014 annual report?

Martin to respond

Additional provisions added and accounted for in the year to March 2014 are approximately \$27.8m.

16. How many EQC over-cap referrals has MAS received in 2014 up to the end of September 2014?

Martin to respond

We have received 30 new claims in the year to date. This has included multi unit buildings that EQC finished determining mid year, a number of under cap claims that we have been waiting for EQC to reassess and some claims that EQC have now costed that have exceeded the EQC cap.

17. What is the estimated cost of these referrals for reinstatement?

Martin to respond

The assessed cost for 15 of these claims to MAS is currently around \$3.1m. We are still waiting for a scope of works from EQC on the remaining claims to assist in determining repair costs.

18. What is the additional risk margin within the claims estimation process projected for 2014-15?

Martin to respond

The current risk margin estimated for 2014/15 and beyond is \$21.5m.

Policies

19. MAS members all have the same policy, but claims being looked at now appear to be being treated and settled to noticeably variable standards and outcomes than earlier – why?

Martin to respond

We take our responsibility to pay the reasonable costs to reinstate homes seriously and we have endeavored to take a consistent approach to the assessment of the costs we are responsible for paying.

Each claim is assessed taking into account the particular aspects of the property and damage.

Through experience over the last 4 years, and as new information comes to light, we have had to evolve our processes and operational policies in order to better manage claims.

We acknowledge that early in the process a few Members may have had their homes reinstated where the outcome is not substantially the same as they were when new. We have found the management of these claims to be very complicated and although we started our reinstatement programme expecting that we would be able to accommodate Members' preferences to change their homes in this way, it has proven impractical to do so.

The consistently greater time, costs and complexity inherent in these claims as well as the tendency for disputes to arise, has required that we stop agreeing to manage complex projects which exceed our obligation under the policy.

It is also worth noting again in relation to the introduction of pre-construction payments, that this change has been introduced as a means of progressing otherwise stalled claims, but in no way diminishes Members' entitlements under their Policies.

- 20. Given the lengthy delays, does MAS intend to provide a discount on premiums or a pay-back for those houses which have yet to be repaired or rebuilt? Does it have a policy for premium rebates or paybacks for houses deemed rebuilds?**

Martin to respond

We accept that we need to look into this suggestion but it will have to be on a case by case basis as there is no simple way to assess the cover required to protect the property of individual Members given the complexity of indemnity value, contents cover, ongoing EQC cover if the home is still habitable, undamaged aspects of the property.

We have provided Members with a rebate of their premiums when their home has been a total loss. Please let us know if this has not been your experience so that we can discuss your individual situation with you.

- 21. Why are some rebuilt homes in Christchurch now being asked to provide a valuation on their new home so that an agreed value for total sum insured noted on the policy schedule? Why is this happening?**

Martin to respond

In general we do not require a reinstatement valuation on a newly-built property, regardless of whether it is an EQ rebuild or otherwise. Our normal underwriting approach for properties that are less than 12 months old is to use the actual build cost and add an estimated inflationary provision and an allowance for demolition and removal of debris. This is because we need to understand the extent of our obligation in the event of a future claim, including costs to demolish and dispose of any debris, prepare the site for re-building, reapply for consents, engage a project manager and rebuild at the cost of materials and labour at that time.

If there have been instances where we have requested a valuation, there would have been a reason why it was prudent for us to do so instead of relying on the approach I have just described.

When MAS enters into a contract with an uncapped liability to pay for the cost to reinstate a property, we need to be confident that we understand our exposure so that we stay within our reinsurance treaty limits and that we record an accurate picture of our accumulation of risks.

- 22. Why are there disparities with what Christchurch is being offered compared to the rest of NZ when it comes to full replacement in the event of a total loss?**

Martin to respond

There are no disparities – full replacement cover in Christchurch is the same as full replacement cover anywhere else in the country. However we will continue to limit cover to sum insured for certain types of risk and risk location regardless of where they are in the country.

- 23. Other insurers have paid “stress payments” in good faith as a result of systemic process delays or when they have found to have caused unreasonable stress due to unintended consequences – what is MAS track record in this regard?**

Martin to respond

We have not made any stress payments to Members as a result of the earthquakes. However Members do have access to a confidential and free support counseling programme.

This service complements the counseling services that MAS Members who subscribe to Medical Protection Society (MPS) have as part of their mutual membership benefits. Counselors can assist Members with coping strategies to manage the changes and challenges associated with their personal, professional and financial situations and Members can attend up to three sessions, accompanied by their families if preferred, free of charge and in complete confidentiality. The contact number is 0800 327 669 – you just have to say that you are a MAS Member from Canterbury.

Betterment

- 24. Explain the definition of “betterment” as used by MAS/Beca, and clarify/justify what is and is not included in its usage when applied to repairs/rebuilds.**

Martin to respond

Betterment, in a practical sense, can be described as any work that you choose or need to do that is outside the cover provided by the policy.

Therefore, if you choose a repair solution that goes beyond what is reasonably required to reinstate the damaged elements of the dwelling to a condition substantially the same as new, and also goes beyond the repair solution necessary to receive a building consent, the additional cost to effect that proposed repair solution will be betterment because it is not covered by the policy.

The cost to rectify pre-existing defects in the house which are not earthquake damaged will also be regarded as betterment, because those costs are not covered under policy.

- 25. *The MAS policy states full rebuild and repair to as new. Beca has been citing “betterment” as an “inevitable part of the repair process” (Stokes, 22/03/11, Aurora Centre meeting) but is costing in items which should be part of a standard refit or, more commonly, proposing minimal possible restoration***

Martin to respond

The Policy provides that we will cover the costs to restore or rebuild the dwelling to a condition substantially the same as new, and those costs are limited to the reasonable costs. This means that we don't need to pay the cost to replace a damaged part of a house if it can be repaired to a standard that is substantially the same as new.

But if the damage cannot be repaired to that standard, then we must pay for that damaged part to be replaced, and there will therefore be an element of betterment in repair works that MAS will pay for merely because the damaged parts of the house may be replaced with new materials.

26. Why is this being used to prevent home owners from maintaining/improving their houses as part of a repair/rebuild?

Martin to respond

You are not prevented from maintaining or improving your houses as part of a repair or rebuild. However, we do not pay for any elected betterment.

The process of separating betterment costs from earthquake repair costs has proven difficult and costly. We have also experienced increased project management costs and this had led us to introduce the 10% betterment policy as a threshold for MAS' managed reinstatement programme.

The only impact on Members of our betterment policy, is that we will not agree to a managed reinstatement of a dwelling where the amount of betterment exceeds 10% of the value of the reinstatement work. Obviously, we will still pay Members for the reasonable costs of the earthquake repair work.

27. Why were unrealistic expectations as to house improvements aided and abetted by MAS staff early on during the reinstatement process resulting in disparities in outcomes for members?

Martin to respond

Earlier in the reinstatement programme, we were prepared to accommodate Members who wanted to make changes or take the opportunity to renovate their homes during the reinstatement process despite the management of this not being an entitlement under the Policy.

However, as time passed we realised that there were significant ongoing costs of managing and separating changes and upgrades during design and construction as there was such a high proportion of changes and upgrades in these managed projects.

It became clear last year that this was becoming untenable because of the time taken for Lead Consultants to draw up the changes and the number of changes that were made once the drawings were

completed. In addition, Members were asking for the costs of the betterment which in turn required additional work by Beca, at our cost, and in some instances, Members then chose to change the design, incurring duplication in design effort and quantity surveying costs.

Some Members became reluctant to meet the costs of the Lead Consultants incurred in making these changes and sometimes disputed that any changes were in fact betterment. This complicated the claim settlement process and affected the progress of many reinstatement projects.

We also learnt that once construction was underway, Members would continue to make changes and it became more and more difficult to determine how these costs should be attributed and who should be responsible for them. It also became very difficult when variations were required, whether these were related to the repair of earthquake-related damage or the changes to the home.

The extent of discussion, and at times dispute, as well as the associated additional time and cost, led to the decision to restrict this type of work. It is fair to say that we have been surprised at how difficult it has been to get Members to pay for this work and how this has in turn delayed the progress of other claims.

28. Who is driving the minimalistic assessment/payment option - Beca or MAS?

Martin to respond

No one. There is no such approach to how we manage claims. We are very clear in what we are required to pay for under the terms of the Policy and we are completely committed to meeting those covered costs.

There may be a perception of a minimalist approach and architects and engineers have not always been helpful in this aspect –some have encouraged Members to take the opportunity to make changes and some engineers have sought to implement the perfect reinstatement solution that Members may prefer but which is not necessarily covered under the terms of the Policy.

We have also experienced Members' appointed quantity surveyors inflating modern-day equivalent, contingency and escalation costs. Against this, the policy covers the reasonable cost of reinstatement so we need to ensure that any costs are necessary and are assessed using current market rates to ensure we meet our policy obligation to both Members and the reinsurers.

29. Why are incidental items/surprises being treated as betterment, rather than contingency?

Martin to respond

A variation is an alteration to the scope of works in a construction contract in the form of an addition, substitution or omission from the original scope of works.

Variations that are covered by the Policy are included in the contingency aspect of a claim and we therefore pay them. Other incidental items are not covered by the Policy.

The cost to fix pre-existing defects (whether in design, workmanship, or materials or due to deferred maintenance or other excluded damage) is not covered under your policy unless it forms part of the building work required to fix the earthquake-related damage. But if a pre-existing defect to any part of the home which has not suffered earthquake-related damage is discovered, you will need to pay the cost to fix it.

Dealing with this type of issue would be the same as if you were doing an extension or renovation and a variation was identified.

Repair/Rebuild Management: PMO relations

30. What made MAS decide on Beca as PMO?

Martin to respond

We chose to engage Beca for a variety of reasons. Beca was able to offer strong programme and project management skills that would enable claims to be managed consistently. They could provide centralized reporting and data management and consistency in damage assessments and quantity surveying / cost estimation services.

Beca either employed in-house or had access to specialized professional and technical resources that would be required to complete the project and were immediately available at the time when these resources were scarce in Christchurch.

Beca is a well-regarded and internationally recognized professional consultancy that we believed would be a good fit with MAS.

31. Is it exclusively committed to Beca or can an alternative PMO be appointed to provide a choice?

Martin to respond

We are committed to Beca. It is not practical or efficient for a relatively small programme like ours to maintain multiple programme managers. Multiple reporting and data management platforms along with potentially inconsistent approaches to assessment, apportionment, and risk management would add additional costs and complexity to the programme.

Further, we would not expect our Reinsurers and their auditors to be supportive of this approach. It is conceivable they might decline to pay for multiple managers.

32. How much have Beca been paid to date and what proportion has been spent on completed claims?

Martin to respond

This is commercially sensitive and is subject to a confidentiality agreement between MAS and Beca. You can be certain that we review any costs we receive from Beca for reasonableness and we discuss any exceptions with them where necessary.

33. Why is it taking a long time for builders to be paid, such that work remains uncompleted? Is it incomplete paperwork, poor accountancy practices or lack of money?

Martin to respond

We pride ourselves on paying builders and all our suppliers for works that have been approved and invoiced correctly within 1-2 days of receiving a recommendation for the release of funds by Beca.

Each month your builder will submit a payment claim to your lead consultant for approval. When the lead consultant is satisfied that the amount is appropriate and reflects the work that has been undertaken, they issue a draft payment certificate which you and Beca review before the payment certificate is finalised.

Once finalised, an invoice is issued to MAS and Beca recommend the release of funds to meet the reasonable costs of the reinstatement, which we then pay within 1-2 days in order to meet the requirements of the Construction Contracts Act.

- 34. Beca's assessments and costings are often significantly lower to third-party ones, and those which have been accepted have seen significant cost over-runs -- how does Beca plan to rectify this to restore trust in their capabilities to accurately cost repairs and rebuilds?**

Gerard to respond

We disagree that the assessment and costings undertaken by Beca are often significantly lower than third-party assessments when the scope of work that both parties base their estimates on is similar. In fact, through our experience of completing building projects for MAS Members, our costings have proven to be broadly accurate.

The problem with some third party estimates is they are not comparing apples with apples. In many cases we have seen that third party estimates have been based on scopes of work that exceed the Lead Consultants scope of damage and proposed repair methodology, and which also go beyond the cover provided by MAS policy (which is for the reinstatement only of damage caused by the earthquakes).

- 35. There have been serious issues with the lack of professionalism of Beca staff - what does the company plan to do to improve this?**

Martin to respond

We do not accept the allegation that Beca's staff lack professionalism. Beca is a large professional consultancy that prides itself on its professional approach.

We understand that dealing with the earthquake-related damage to homes and the reinstatement process can often be highly stressed and emotional, which despite best efforts can often be lengthy and complex.

We have found that some Members do not understand or accept the limits of the cover provided by the policy, or the claims assessment and management service that Beca have been contracted by MAS to provide this means that Members will not always be open to hearing or accepting difficult messages and it is easy for Members to project their disappointment, frustration and sometimes anger onto the individuals who deliver this information.

Beca provides us with weekly and monthly reports regarding claims progress, as well as joining us for weekly meetings that I chair. As a result, we have a close working relationship with Beca and its representatives on our programme, and remain satisfied with the work that Beca is undertaking in its role as PMO.

My own observation is that those of our own staff and Beca's representatives working on our EQ programme who have Member-facing roles take the brunt of Members frustrations. The performance of these frontline roles is extremely demanding and the continued commitment of our own, and Beca's team, to seeing the Programme through to completion and their dedication to performing their roles responsibly speaks highly of their personal integrity and professionalism.

36. What support will the Board be giving to MAS members to ensure they are treated professionally and in reasonable time?

Martin to respond

As mentioned earlier, the Board has close oversight of the programme with some Board members copied into the correspondence you send. Both the Board and management respond to the feedback we receive and look into the matters raised, where necessary as a matter of urgency, taking into consideration other priorities.

37. Has the board initiated an audit of Beca performance similar to the one commissioned by the board of Southern Response to KPMG for Arrow International? This KPMG review involved an audit of the performance and value for money for the benefit of all stakeholders – what has the board done in regard to this matter

Richard to respond

We have not commissioned an external audit of Beca. Beca is a large international consultancy which regularly undertakes their own internal and external audits of the projects they are managing. There was an internal audit of this project last September that resulted in some process changes and a follow up review in February this year. Beca apply the ISO 9001 standard to the delivery of its projects and as such have a delivery manual that defines the operational processes Beca apply to our programme.

We are expecting Beca to undertake another internal audit shortly.

Worth noting is that we have had a number of reinsurance audits over the term of the programme and we have received consistently positive feedback regarding the claims assessment and administration process in relation to the application of the limits of the policy.

38. What are the key performance indicators for Beca performance?

Martin to respond

As our programme manager, Beca coordinates the relationship between you, your lead consultant and your builder. This means one of Beca's key performance indicators is the timely completion of each claim working with external professionals and within the regulatory and commercial environment that affect a reinstatement project.

As our quantity surveyors, Beca undertakes a costing exercise of the scope of the earthquake-related damage prepared by your lead consultant. Beca is also responsible for advising us of the reasonable cost of reinstating your homes through the design, procurement and construction phases plus the tracking and management of the programme wide costs.

We regularly track Beca's contact frequency with Members and their contact management with Lead Consultants to ensure individual projects are progressed which is critically important to ensure claims are kept on track as much as possible

As already mentioned, we receive weekly and monthly reports from Beca and are satisfied with the work that Beca is undertaking in its role as PMO. In particular, we are satisfied that cost estimates for reinstatements are broadly similar to what is incurred unless there are significant changes to the work required based on new information.

- 39. Given that other insurers are further ahead with their reinstatement programme and additional expertise is available - what steps is the board taking to provide management with the necessary means to contract additional expertise?**

Richard to respond

It is not clear at all that other insurers are ahead of MAS in terms of their reinstatement programme as the means of measuring progress is different across the industry. Some insurers measure by the number of settled claims and others measure on the value of the programme remaining. If we use the latter, we have settled over 70% of estimated residential incurred claims by value. This is ahead of the industry figures published by CERA.

We will continue to monitor resource need carefully but a key focus for us is ensuring that Lead Consultants deliver as quickly as possible and to work with Members where claims are being delayed by Lead Consultant's workloads and limited capacity to work on MAS projects.

Repair/Rebuild Process

- 40. Will MAS guarantee to act in good faith by accepting tenders for repairs/rebuilds, rather than using these to attempt to force a cash settlement?**

Martin to respond

We do act in good faith in the discharge of our policy obligations to Members and will continue to do so.

As covered previously tonight, we will use a tender for repairs and rebuilds as the basis of a pre-construction payment. However this does not preclude the payment of further sums to meet reasonable additional and unexpected costs incurred for earthquake damage covered by the policy

- 41. If MAS intends to continue to ask for tenders and then push cash settlements based on the tender price, will they pay the cost of tendering for those cases where cash settlements are made after the tendering process has been completed?**

Martin to respond

We are not pushing cash settlements – we want to make pre-construction payments when the tender costs are known.

Our expectation is that tenders are requested for all projects upon completion of the detailed design phase for the intention that the home will then be reinstated by the preferred builder. In some situations, we have noted that prior to committing to the acceptance of a tender a Member may chose to cash settle their claim as a full and final settlement versus proceeding based on a pre-construction payment, as they have decided not to continue on with the reinstatement.

In this situation we would ask the Member to reimburse the preferred builder for their time. If the Member does not do this then MAS will likely pay some or all of the tender costs as a measure of good faith to the builder so that they tender for other projects on our programme.

42. Why are the architects prevented from access to clear policy wording?

Martin to respond

The policy wording is available to all lead consultants and we have informed them of the policy requirements that any repair solution must reinstate the damaged parts of the dwelling to a condition substantially the same as new.

We have made specific reference to this policy requirement in communication updates as well as discussions with lead consultants working on the programme.

43. Beca is driving the design side by telling the architects what to do and how to do it – what liability will BECA be accepting?

Gerard to respond

We do not agree that Beca is telling architects what to do and how to do it. We are engaged by MAS to advise the reasonable cost to reinstate your homes. This means that we may need to challenge the reinstatement methodology proposed by your design team. This is likely to occur where, for example:

- A proposed repair or rebuild solution goes beyond the requirements under the Policy to reinstate the damaged elements to a condition substantially the same as new.
- A proposed repair or rebuild solution goes beyond the requirements of the Building Act 2004 and the relevant regulations.
- Part of the proposed solution is to rectify pre-existing defects in the house which are not earthquake damaged; or
- Where the solutions proposed appear to be inconsistent with the solutions proposed for other similar properties with similar damage.

- 44. There are builders undertaking work – in some case for well over 6-8 months – who have yet to be provided a contract – why is that the case and what is Beca going to do to rectify this?**

Gerard to respond

During the procurement phase, builders are sent Tender Documentation by Lead Consultants setting out the building works to be undertaken as well as the anticipated building contract. This documentation is the basis of the Offer (tender) that is made by each builder to carry out the work.

When approved by MAS, the Lead Consultant seeks approval from the Member and then sends a Letter of Acceptance to the builder on behalf of the Member. This Offer and Acceptance forms a Contract that is binding on both the Member and the Builder.

The Lead Consultant then compiles the Contract Documentation that captures the information I have already referred to. This Contract Documentation is then signed as required by the builder, the Member and finally by MAS (under the Discharge Agreement and Tripartite Agreement which gives MAS the authority to pay the builder directly).

We are aware that in a few cases the compilation of the Contract Documentation and its subsequent signing by all parties is not completed prior to commencement of construction. While both Beca and MAS prefer that this documentation is compiled and signed by all parties prior to commencement of construction, there have been a few instances in which construction has been permitted to commence in good faith so as not to further delay the reinstatement.

We understand that some Members are seeking legal advice on some of the terms of the contract prior to signing. From our perspective, it would be preferred if this advice is sought during the tender process because the terms of the contract are part of the Tender Documentation the Lead Consultants send to the builders.

- 45. Does MAS/Beca accept that a type 2A foundation requirement based on geotech report for TC3 land is NOT betterment under the policy? If not why not?**

Gerard to respond

We cannot comment specifically on whether this is deemed betterment without a full understanding of the background of the particular claim and circumstances giving rise to such a question.

Our usual process is to confirm that the foundation of the home is damaged beyond repair and that a new foundation is required to reinstate the home. For TC3 land this would require the opinion of one or more engineers and often also a geotechnical assessment.

Once we have confirmed that a new foundation is required we would then work with structural and geotechnical specialists on behalf of MAS to confirm the most appropriate foundation solution.

If your engineers propose an alternative foundation solution that would reinstate the dwelling to a better condition than substantially the same as new, this would be deemed betterment.

If you consider that there are circumstances relating to your claim giving rise to this concern, I would be happy to discuss this further with you or if you would prefer to have this matter dealt with directly by MAS, you should contact Martin Stokes.

- 46. When Beca has asked for and used an independently sourced QS report, why would MAS then refuse to contribute to the cost of that report?**

Martin to respond

The policy provides cover for the reasonable costs of the reinstatement/rebuild and that includes the reasonable costs of any expert reports commissioned by us. The policy does not cover the cost of reports that Members may choose to commission but if you refer a report you have commissioned to MAS for our consideration and it is of use, then we will consider the payment of it on a case-by-case basis.

- 47. Given that MAS has acknowledged the accommodation allowance has been inadequate, what do they plan to do now for people currently out of their houses and out of their allowances as a result of the huge delays by BECA?**

Martin to respond

We do not accept this assertion that Beca has caused huge delays.

The policy cover for temporary accommodation is limited to \$25,000 or 12 months, depending on what comes first. We expect lead consultants to advise you when you should vacate your home so that the reinstatement can begin. This should be just prior to work commencing on-site and when all documentation is complete.

We are aware of some Members leaving their homes when a rental property becomes available rather than waiting until all aspects of the pre-construction process has been completed.

The delays to progress can be attributed to many different reasons, including consenting, documentation delivery from lead consultants, over-commitment from contractors with delays in work being completed on other sites. While we acknowledge those delays, and the associated financial implications, it is unreasonable to solely attribute all delays to Beca.

We agree the accommodation limits have proven to be inadequate, and this has been addressed in the revised policies, however we

- 48. What is your record of progress with EQC when a member identifies their property as still under cap but yet they are near a water way (subject to Lateral spread) or on TC3 land – how have you intervened and what is your record of successful joint reviews?**

Martin to respond

We have undertaken approximately 110 joint insurer reviews with EQC, with varying factors affecting each property including the proximity to water and technical land classification. Two thirds of these are now on our programme.

Members may not be aware that if we choose to admit a claim for repair of a property when EQC has not confirmed the claim as over cap, we may forfeit the right to any recovery of funds from EQC under the current legislation and these costs will not be covered by reinsurers.

- 49. Why are definitive and clear chartered engineering reports being ignored or re-worked up by a different engineering firm?**

Martin to respond

Engineering reports are not being ignored. We consider all reports and we may choose to get another engineering report when we are advised that the proposed engineering solution goes beyond the requirements under the Policy and effectively seeks to future proof a property or protect the liability of an engineer.

- 50. Why has MAS chosen not to publish on its website monthly progress of claims settled, rebuilds/repairs completed, etc.? Other insurers have done this as a useful guide as to progress for its customers.**

Martin to respond

We made a decision last year to stop providing general updates as each claim had its own particular set of circumstances and issues and it was becoming more and more challenging to provide an update that would be of interest of the wider membership. We would be very happy to reinstitute a regular general programme update.

51. What proportion of MAS rebuilds have required a deed assignment of EQC land claim?

Martin to respond

We have introduced a Deed of Assignment for all claims, regardless of whether they are a rebuild or repair, that require an enhanced foundation as part of our standard process. This means approximately half of our active claims will need to have a Deed of Assignment.

Any total loss claims that have been settled by way of a full and final discharge with the costs of a standard foundation have not required a Deed of Assignment.

52. What is the current position on deed of assignment of EQC land claim for MAS rebuilds?

Martin to respond

We are asking Members to sign the Deed of Assignment of EQC land claims if MAS is paying the cost of enhanced foundations to address vulnerable land issues, and if the external works include repairing pathways, driveways, swimming pools, tennis courts or retaining walls that have been damaged because of the land underneath them.

This is because, where we pay for enhanced foundations and the cost to fix retaining walls and the like, we are relieving you as the land owner from the costs to fix the land that would otherwise need to be met by you. If you receive compensation from EQC that relates to the land on which your house or external structures are built, you are effectively being compensated twice for the same damage, and MAS is therefore entitled to 'step into your shoes' and require payment of that portion of land claim compensation that relates to work that we have paid for.

But please note that we will only be looking to offset the actual incurred costs of mitigating land damage and any surplus payments

from EQC land claims can be retained by the owner. We will not however look to the owner for any contribution where the land compensation does not cover these additional costs. That discussion will be between us and EQC.

53. Please explain the accommodation allowance entitlement for EQC led repairs? What is the arrangement for rebuilds or major repairs?

Martin to respond

The policy excludes damage caused by earthquakes except when the damage is over the EQC cap. This means there is no temporary accommodation allowance for under cap claims. However, the Board decided to provide an allowance of up to \$1,000 per week for a maximum of 8 weeks for Members with an under cap claim.

If you have an under cap claim and need to vacate your home, please complete the claims form that is on our website. We will then make payments when we receive the necessary documentation.

If your home is over cap, we will discuss the payment of the temporary accommodation allowance with you. We have taken a flexible approach to paying this allowance depending on your situation and the time we expect the rebuild or reinstatement to take. In some instances we have paid it as a lump sum upfront, other times on receipt of tenancy agreements.

54. Why has MAS not complied with its obligation under the policy to pay compensation to its members for their losses?

Martin to respond

We simply disagree with this generalisation.

55. Would MAS/Beca EQ recovery teams be interested in spending time with Southern Response/Arrow senior EQ recovery staff as a learning opportunity?

Martin to respond

We have regular contact with senior management of Southern Response and many other earthquake Programme Teams. These contacts are valuable and we continue to get value from discussions about issues and challenges which are common to all the programmes. We are also mindful of our differences – MAS has architecturally designed homes as opposed to group home designs and the cost of our reinstatements and rebuilds are over twice the industry average.