

Chairman Address to Christchurch Members 5/11/2014

Good evening everyone.

On behalf of MAS and the Board (some of whom are here tonight), I would like to welcome Members and their Guests who are here this evening. We appreciate the opportunity to answer your questions and to address concerns you may have with the progress and management of your claim.

I am going to talk about the board, what it has heard, what information it gets, what expectations it has set and how it monitors progress.

A high level view of how we see claims being settled

Finally some reassurance about the financial health of MAS and its preparedness for a future earthquake of similar event

The Board is well aware, collectively, that there is a Group of Members who are not satisfied with either the progress or the proposed resolution of their claims. And that is of concern to the board !!

The Board held its February Board meeting this year in Christchurch, visited a number of properties at varying stages of claim resolution and hosted a function for Members that evening in response to the number of Member concerns that had been raised with us. Some directors have been involved individually in certain claims and have followed exchanges between MAS and the affected Member to ensure the issues are responded to and resolved where possible.

At each board meeting the Board receives comprehensive monthly reports on progress with the MAS earthquake programme. Reports include analysis of progress for both rebuilds and reinstatements through each of the key programme phases such as detailed design, procurement and consenting. The Board also considers monthly financial updates including changes to claim estimates, and continued compliance with relevant regulatory requirements.

Reports also include commentary, where relevant, on challenges to the programme such as resource constraints, and constant reassessments by EQC of damage and apportionment.

I would also like to say quite categorically that the board and management are absolutely motivated to progressing repairs, rebuilds or settlements as quickly as possible. There is absolutely no truth in any suggestion that we want to delay things.

When you take claims settled, in procurement or in construction we are 89% through rebuilds and 71% through repairs .

We are however aware that some of you here tonight are frustrated with the rate of reinstatement progress, and in some cases disagree with the proposed resolution to your claim.

The Board is well aware that a significant factor in Member dissatisfaction can be down to a difference of opinion between MAS and a Member over the cost to repair or rebuild their house.

This will be dealt with in detail later in response to questions but I want to talk about it briefly as it is a key issue.

The board has reiterated that MAS should pay what is fair and reasonable within the bounds of the policy.

As an example, MAS may have assessed the reasonable cost to rebuild your property to substantially the same condition as new will be \$1.5 million.

The Member may have engaged independent advice that assesses the same job will cost \$2.0 million. In many cases the major difference is a large contingency allowance

If the Member proceeds with the rebuild, then our approach will be to tender the job, and pay an up-front payment to the Member of the amount that is determined by MAS/Beca to be the reasonable cost to complete the project.

This is not a full and final settlement, and we are not asking Members to accept it as such. Projects are being tendered on a fixed price basis so any difference between this and the original estimate will be covered by MAS.

Any residual risk where the reasonable costs to complete the project exceed the amount of the up-front payment will be for MAS's account provided these are costs covered by the policy.

We would expect the architect to stick to the scope, and ensure you are satisfied with the quality of work completed before payment to the builders for each phase of work.

If however the rebuild scope is not substantially the same as the Member's original dwelling, or the Member has no intention of rebuilding the dwelling at all, then MAS will settle the claim on the basis of the advice it receives on what would have been the reasonable costs to rebuild the dwelling as covered by the policy.

Repairs are usually more complicated than a rebuild, but the same principles apply. We will assess and price the costs covered by the policy to repair the earthquake damage, and pay this to Members in advance of work commencing. This is not a final settlement

We will continue to cover the residual risk that costs covered by the policy are higher than expected unless the levels of betterment or design changes mean the project is no longer substantially the same.

If for example in a repair foundations (often a big part of the extra contingency) do cost another \$200,000. This will be covered by MAS

If in a repair example MAS / Beca assess the repair at 1 million and your advisers quote a repair of 1.5 million and most of the extra is contingency. If you repair to substantially the same we pay whatever is actual and reasonable be that 1 or 1.5 million. If you want to repair to something different we will settle on what is assessed as a fair and reasonable repair price to what you had .

That we think is fair and reasonable and would be judged as fair and reasonable by the member in the street.

I would now like to move on to the financial position of MAS and its ability to pay and its preparedness for another catastrophe

We are absolutely confident that MAS can and will pay every unresolved claim.

A significant amount of the payments still to be made are Reinsurance obligations. It is always possible, but not probable, that some future event may cause one or more of our Reinsurers to be unable to cover their share of the losses. We currently have 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.

At this point in time we can also say the following:

- Every single claim has an individual provision assigned to it which is determined by reference to expert opinion.
- In addition, the Reserve Bank which regulates licensed insurers including MAS requires our actuary to add a risk margin to the aggregate provision of all losses. This risk margin is assessed at a 75% level of sufficiency.
- The combined total of all the individual provisions, and the actuary's risk margin on top of this, has already been taken through the MAS accounts. In other words it has already been assumed this is how much it will cost.
- Even after taking this into account MAS solvency margin as at 30 September was assessed to be 215% of the required level of solvency.

With regards to another event MAS now 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 1,500 years. This is well above the required

period of 1,000 years. Reinsurance treaties are generally offered on a subscription basis and our April 1 2014 renewal was around 190% over-subscribed.

I have an opportunity later in the evening to make some concluding remarks.