

KEY FEATURES FROM THE ANNUAL MEETING

23 October 2015

Making progress for our Canterbury customers

- Since Southern Response was established in 2012, we have successfully settled 65 percent of over cap house claims and 92 percent of out of scope claims (e.g. driveways, paths and pools), and are here to support our remaining customers through every step of the settlement process. In total, payments to or for customers had reached \$1.7 billion by end of September 2015.
- We are committed to helping all our customers get back into safe, quality homes or otherwise settle their claims as quickly as possible
- Just over half of our over cap customers have opted to cash settle for the replacement value of their home or opted to buy another home or manage their own rebuild with their settlement
- 2,956 of our over cap customers have chosen to have their home repaired or rebuilt in our Arrow-managed programme. As at the end of September 2015, we had completed 1338 repairs and rebuilds with a further 513 currently under construction and 849 claims in design and documentation stage
- Progress to date for the original volume of claims received is in line with expectations. A number of external factors are likely to push out the overall timelines beyond the current target of settling 90 percent of claims by the end of 2016. These factors include;
 - Complex construction and remediation for poorer land,
 - Shared property claims involving coordination of multiple homeowners and insurers
 - New over cap claims notified from EQC

The new target for having settled the vast majority of customer claims is mid-2017

- We are an organisation that listens and learns. We've made good progress given the complexities and are committed to settling the remainder of our customers claims.

Liabilities and funding

- The Southern Response Board remains confident that the company has adequate resources available to it to settle all notified earthquake claims. These funds include a \$500 million preference share facility subscribed to on April 2011 and a \$500 million uncalled ordinary share facility subscribed to on 31 January 2013
- We began quarterly drawdowns of the Crown funds at the start of October 2015, with a drawdown of \$40 million
- The Government has signalled its support over and above the \$1 billion already committed, if required

- The estimated gross cost of settling claims has continued to increase. The increase reflects the expanding technical challenges of the rebuild and continued notification of new over cap claims.

Improving our customer support

Process and support

- We continue to listen to feedback from our customers and look for new and innovative ways to improve and assist them through our claim settlement process
- We are committed to providing extra support for our vulnerable customers and families. Our Customer Support Team, including Customer Liaison Advisors with backgrounds in health services, is dedicated to providing end-to-end service for these customers. The team works alongside organisations such as Canterbury Earthquake Accommodation Service (CETAS), CanCERN and the Residential Advisory Service (RAS)
- We continue to support the Residential Advisory Services (RAS), who provide full and free representation for customers who wish to use them; funds are contributed by us and other insurers
- We continue to ensure that all customers can access the Insurance & Savings Ombudsman's (ISO) scheme, by voluntarily removing the previous \$200,000 jurisdiction cap on use of their services.

Communicating with our customers

- We continue to develop and provide information for customers to assist them with decision making and moving towards settlement
- To provide customers with a central point of communication, each claim is assigned to a dedicated Claims Specialist, offering a personalised approach. Continual integration between Arrow and Southern Response has seen Project Managers and Claim Specialists working alongside each other in the same team, creating a more seamless experience which is unique in the recovery environment
- We have increased our focus on holding customer meetings at their property wherever possible, to support customers with their settlement decisions
- Additional information about developments within Southern Response and resources to assist with the claim settlement process are provided through the regularly updated Southern Response website and monthly electronic newsletters for customers.

Quality assurance in our building programme

- We continue to look for innovative ways to provide the best technical service in our repairs and rebuilds. We continue to support our customers who enter our build programme with the aim of leaving a positive legacy for Christchurch

- We have set up a quality assurance helpline 0800 500 001 with a specialist team to answer customers' questions or concerns about their homes. This is open to all customers, repair or rebuild, in progress or already completed
- The quality assurance measures we have in place to ensure foundation repairs, in particular, are completed to our expected standards have proven effective and we will continue to refine and update these measures in line with industry best practice
- We work closely with our contractors to ensure that the highest standard of health and safety is practised at all times. We have introduced health and safety awards to recognise contractors who continue to uphold high standards in their field
- A monthly electronic newsletter for our contractors provides regular industry updates and reinforces our expectations of high quality work.

Managing the challenges

- The unique post-earthquake environment in Canterbury of open-ended insurance cover and complex environmental issues (poor land quality, flood-prone areas, contamination, and uncontrolled fill) is an ongoing challenge to settlement. We continue to work with other entities, such as the Ministry of Business, Innovation and Employment, the Insurance Council of New Zealand, Christchurch City Council and the Earthquake Commission to provide input into key decisions and planning, with the aim of achieving positive outcomes for our customers
- We regularly review the organisation's policies as required. In July the Supreme Court delivered its ruling on the Avonside Holdings vs Southern Response case, which concerned contingencies and professional services fees for customers who elect to cash settle their claim and self-manage their repair/rebuild. It was found that these customers are entitled to 10 percent contingency fees and professional fees not already incurred. The Southern Response board endorsed the decision and agreed to add the Avonside provisions for claims settled from 1 October 2014, when the Court of Appeal overturned the original High Court ruling. We are working with affected customers to adjust their settlements accordingly
- Shared property can be complex with various factors to consider. We have a dedicated team who specialise in working with customers who hold a shared title. Our team work closely alongside the homeowner, loss adjustors, project managers, contractors and other insurance companies to settle these claims
- To help progress new over cap claims quickly, customers are receiving full technical engineering evaluations before being presented with their settlement options, enabling them to make well informed decisions early in the process on how they would like to proceed with their claim.

Proposed Representative Action

- On 26 August 2015, a law firm filed a proceeding in the High Court in which one of our customers seeks to represent himself and 46 other Southern Response customers in a proposed representative action against Southern Response.



- The customer has asked the Court for approval for the proceeding to be brought as a representative action (which is sometimes also referred to as a class action). A Court hearing will take place on 16 December 2015 to determine whether all 47 claims should be dealt with together as a group.
- We believe that each customer's situation is different. As a result, we consider that the quickest and fairest way to settle each customer's claim is on an individual basis, taking into account each customer's own circumstances, and not on a common basis with 46 other customers.
- We are genuinely concerned about the risks and potential negative impacts on our customers being signed up to the proposed representative action. They may have to pay the representative action funder and lawyers up to 20% of the *total* amount of any settlement they receive from Southern Response, plus expert fees and other costs. That's why we continue to offer to pay for up to 2 hours of free independent legal advice for any customer considering joining the representative action.

Looking ahead to 2016 financial year

- The company has **sufficient cash resources** available – including Crown funding and support
- **Crown support** provides certainty that we can meet our claim settlement obligations
- Over 50,000 claims have been notified – over cap and others, and we are making good progress with **settlements for our customers**
- We value the **wellbeing** and safety of our customers, contractors and staff
- We are committed to **quality** construction
- Our organisation is evolving to ensure it continues to be **fit for purpose**
- We demonstrate industry **leadership** in a wide range of areas.

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