

Southern Response Building Process when your house is damaged beyond economic repair.

AMI Insurance Limited changed its name to Southern Response Earthquake Services Limited on 5 April 2012 and is referred to as Southern Response below. Southern Response is the same company that insured your property at the time of the Canterbury earthquakes when it was known as AMI.

OVERVIEW:

This document outlines the steps involved in the building process Southern Response will use if it becomes involved in the replacement of your damaged insured property.

We are committed to making this process as clear as possible. We also want to avoid unnecessary delays and unplanned additional costs.

It is important each of us understands the other's responsibilities under your insurance policy.

Please take your time to read and understand this information. It starts with what has already taken place and then moves on to the further steps.

It is important that you give us information that affects the process promptly and decisively. Delays or interruptions may impact on the availability of your chosen builder and may delay building work.

If you have any questions, please contact us to discuss.

We have engaged our agent to assist in the smooth management of the building work. You do not have any contractual relationship with Arrow but can deal with them as if you were dealing with Southern Response.

1. DRA (Detailed Repair / Rebuild Analysis) preparation

Arrow will have completed a DRA on behalf of Southern Response. The DRA records a description of your house and the damage to it. It also identifies the building work required based on the cover under your insurance policy.

The DRA is an important document. More information about the role of the DRA is included below.

2. Confirming your decision

Southern Response will have issued you with a Decision Pack. It describes the options available to you under your insurance policy.

If you have decided that you want Southern Response and Arrow to manage the building work, Southern Response may also have presented you with a form for you to sign as confirmation of your decision.

If you later change your mind, and want Southern Response to settle your claim in an alternative way, you need to talk to us immediately so we can reach agreement with you. If you do want to change your settlement decision, you may be required to reimburse Southern Response for any costs that have been incurred to implement your initial decision.

3. Choosing to replace your previous house under the terms of the policy or building something different.

If your house is 'beyond economic repair' and you have decided that you want Southern Response and Arrow to manage the building work, you have two options regarding build and design decisions:

- **Replicate to Policy:** Under this option you can choose to have your house rebuilt to its previous characteristics, using building materials and construction methods in common use today based on the terms of the policy.
- **Flexi-build :** Under this option you can take the cost to rebuild your previous house determined by using information from the DRA to form a budget. You can then apply that budget to build a new house that may differ from your previous house (for example you may choose to change the layout of your house).

In some circumstance you can also choose to contribute more to the cost of your new house than your flexi-build sum. There are limits to that option. For example if you wish to build a substantially larger and more costly home with design elements and requirements that are more complex than your previous house, Southern Response may not be prepared to be involved in the building project. Southern Response will talk to you about the practical limitations on the choices you have as the budget is being developed.

Further detail about how each of these options work is set out in the Southern Response Build Decision Document.

4. Using the DRA to establish the scope of the rebuild

The DRA is important for both of the rebuild options outlined above.

If you choose to have your house replicated to policy, the DRA and the insurance policy wording will be the guiding documents to define the type of house that will be rebuilt. Further detail about how the budgeting and design process works is set out in the Southern Response Build Decision Document.

If you choose the Build to Budget option the DRA and the insurance policy wording will still be used to define your previous house. Additions made by you which push the building cost over that budget will need to be paid for by you. Further details about how the budgeting and design process works is set out in the Southern Response Build Decision Document.

Arrow and Southern Response will consult with you about the contents of the DRA and the calculation of the assessed cost to rebuild. Once that information is finalised, you will be asked to agree in writing that you accept the contents of the DRA and to elect which option you want to take. Once we have agreement we can start developing the detail of the building process.

5. Developing the detail

Once you have confirmed that you want Arrow to manage the building work and have chosen the Replicate to Policy or Build to Budget option, Southern Response will arrange to have your decision put in place.

The next step includes defining and preparing the specific details of the building work which will be used as contract works schedules for the building contract.

If a separate designer (such as a drafts person, engineer or architect) is needed to produce design documentation before the contract works schedules are finalised, that work will start at this point. We will discuss this process with you on a case-by-case basis.

Southern Response will give you the contract works schedules for you to review and approve.

Note: Your approval of the contract works schedules will commence the process and form the basis for selecting the builder to be contracted, pricing of the building work, and finalising the building contract.

If you later change your mind before a building contract is signed and want to purchase another house instead, Southern Response may charge you for the costs incurred for any design work and defining and preparing the specific details of the building work that would have been used as the contract works schedules for the building contract.

6. Nominating the builder

Arrow (on behalf of Southern Response) will nominate a building contractor for your property, OR

If you object to the builder that has been nominated, we will work with you to explore other options. All builders used must be accepted by Southern Response as suppliers to its rebuilding programme.

7. Pricing the building work

Arrow (on behalf of Southern Response) will request the builder to price the contract works schedules to obtain a fixed-sum cost. Note however, that cost may change with variations allowed (if any) under the building contract as the building work progresses. If the building process involves a group builder, some design work will be continued and finalised after the building contract is signed (see below).

8. Selecting the builder

If Arrow (on behalf of Southern Response) is satisfied with the overall response from the builder and you are satisfied with the cost contribution to be paid for by you, the nominated builder will then be requested to proceed to the contract phase.

If Arrow is not satisfied it may request further prices and may discuss alternative builders with you.

9. Signing the building contract

Southern Response has a standard form building contract prepared specifically for the Canterbury earthquake response. You, the builder and Southern Response will be the parties. The **current** general conditions of the building contract are available on request and are also available on our website at www.southernresponse.co.nz for your reference. The general conditions used by Southern Response may be altered from time to time, but once a building contract with you is signed, the General Conditions will not change for your particular contract after that point.

The general conditions will apply together with a set of specific documents which will set out the details relating to your particular situation.

Arrow will contact you directly to go through the pricing and the scope of the building work. The building work will be set out in the contract works schedules which will form part of the building contract documents. Arrow will also go through the building contract documents with you.

You are welcome to take some time to consider the building contract documents before signing them. Southern Response will ONLY sign the building contract after all of the following things have happened.

- you have agreed to the contract works schedules;
- you have signed the building contract;
- you have signed a deed assigning to Southern Response future EQC cover payments, claims, rights and/or remedies for the residential building(s) and in some cases the land at the insured property relating to damage arising from earthquake events happening on or before 5 April 2012 (a copy of that document will be given to you before the building contract is signed);

Once you sign the building contract, you will be agreeing to the builder carrying out the building work on the terms of the building contract.

10. What you will have to pay for

The amount you will be responsible for contributing to the building work up front will be agreed with you before the building contract is signed.

The payment will relate to one or more of the following depending on your particular situation:

- amounts you have received from the Earthquake Commission for claims for the residential building(s) and land (as applicable) at the insured property relating to damage arising from earthquake events happening on or before 5 April 2012, together with any excesses payable in relation to those amounts. These amounts are called the "EQC payout sum" in the building contract documents; plus the amount of any excess payable by you under the policy; plus
- amounts payable by you on account of the contract price over and above the agreed Build to Budget sums available before any subsequent variations (if any); plus a contribution to the insurance premium for contract works insurance; plus
- GST to the extent that it is payable and not already included in the above amounts.

All payments to the builder under the building contract will be administered and paid by Southern Response.

You must pay the amounts you are responsible for contributing to the building work to Southern Response within 10 days after the building contract is signed at the latest. The building contract is conditional on your payment. If payment is not made, Southern Response is entitled to cancel the building contract and may look to you to recoup costs incurred to that point.

Southern Response will therefore only commit the builder to doing the building work once your payment is made.

The total amount must be paid to Southern Response by direct electronic transfer to 06-0103-0195015-03. You must include your surname and your claim number as a reference.

Southern Response will verify payment has been received and cleared before it signs the building contract documents.

We recommend you talk to your bank as soon as possible about arranging your payment to Southern Response.

Additional detail about your contribution is contained in the general conditions document.

If you are paying for a proportion of the building work and there are variations during the building project which increase the cost of the work, you will be required to pay a proportion of the estimated costs of that additional work to Southern Response before the builder starts that additional work. If you do not make those payments Southern Response will be entitled to suspend the building work.

There may also be cases where you or a financially interested party receive a cash payment from Southern Response relating to some elements of your insurance claim, e.g. paving work, shared fences or shared driveways. In such cases, those damaged items will not form part of the work carried out under any building contract we enter into with you, but will form part of the general discharge of our obligations to you under your policy. The cash payment will be in full and final settlement of your claim with Southern Response for damage to those items.

11. Financially interested parties

If a financially interested party is involved, you will need to talk to them as soon as possible after the scope and cost of the building work is confirmed. Your financially interested party will need to , sign a deed assigning to

Southern Response future EQCover payments, claims, rights and/or remedies for the residential building(s) and land (as applicable) at the insured property relating to earthquake events happening on or before 5 April 2012.

12. Doing the building work

Once the building contract is signed, the building contractor will undertake the building work and Arrow will manage the process to ensure it proceeds as agreed. Building work will occur to the timeframe agreed in the building contract documents.

Arrow is referred to as the Project Manager in the general conditions of the building contract. The general conditions set out Arrow's role in the building process.

We have engaged Arrow as our agent to assist in the smooth management of the building work. You do not have any contractual relationship with Arrow yourselves but can deal with them as if you were dealing with Southern Response.

13. Managing the Process

Southern Response retains control over the delivery of the building work because that is part of our obligations under the policy.

Southern Response will only enter into a building contract on the basis that Southern Response is entitled to give directions, issue notices and payment schedules and make decisions relating to all of the building work either directly, or through Arrow as set out in the building contract.

Southern Response will act in good faith when exercising those powers using reasonable care and skill. Neither Southern Response nor Arrow will however assume any of the builder's obligations or liabilities to you by exercising those powers.

Southern Response will consult with you about key aspects of the progress of the building work.

14. Variations

Southern Response will only require variations to the building work in the rare circumstances where we reasonably believe the variation is necessary to complete the overall job. We will not use variations to limit your rights under the policy.

In some cases variations may be necessary which increase the costs of the building work. Southern Response will consult with you before approving any variation that will have the effect of increasing the amount payable by you for the building work.

If you wish to request a variation you can make that request to Southern Response. We retain the right to decide whether to approve any variation. We will require an agreement to be reached with you about who will bear the cost of that variation.

In some cases Southern Response may suspend the building work. That might happen if we cannot reach agreement about variations which affect the amount you will need to pay, or if unforeseen physical conditions become apparent after the building work has commenced. That may arise for example in circumstances where unstable ground conditions are discovered after excavations for foundations have commenced. If that occurs, Southern Response will discuss the situation with you before taking any further steps. Each situation will need to be managed on a case-by-case basis.

15. Completion inspection and hand-over

Southern Response will consult with you with regards to the process to:

- complete inspections at 'practical completion' stage (end of the building project).

- allow you to move into the house after practical completion.

These matters are dealt with in more detail in the building contract documents.

Note: An automatic three month 'defects liability' period applies after practical completion for any defects identified, to be remedied by the building contractor.

It is important that you check the house from time to time after the building work has been completed. If you identify any defects or problems you need to tell us and the builder or designer involved promptly, so that something can be done about it if necessary. You need to note that if an architect is used in relation to your building project the New Zealand Institute of Architects requires that the architect involved be notified of any problems within 60 days of you becoming aware of them. You need to check the architect's agreements for further details.

16. Southern Response's right to give effect to alternative settlement

In certain circumstances, Southern Response may need to reconsider the way in which it settles your insurance claim with you under your insurance policy. Those circumstances might include:

- you require work to be carried out over and above that allowed for in a Build to Budget situation which is unacceptable to Southern Response and Arrow, or is significantly greater in scope, OR
- your contribution to the building work is not available on terms acceptable to Southern Response, OR
- the parties cannot agree on the contract works schedules.

If a satisfactory solution cannot be reached, Southern Response will contact you to negotiate the basis of settlement for your claim.