

INDEPENDENT REVIEW OF OUR INTERNAL DISPUTES RESOLUTION SYSTEM

October 2014

A summary of findings and our responses

As part of our commitment to continued business improvement, transparency and understanding our communities' concerns, in early 2014 we commissioned a comprehensive independent review of our Internal Disputes Resolution System to improve management of disagreements and disputes. Mr John Marshall QC (Chair) and Mr Graham Warner were appointed to undertake the review.

In the course of the review, Mr John Marshall and Mr Graham Warner interviewed many people who are involved in the disputes resolution process. These included several customers, a representative from another Canterbury insurer, independent structural engineers, a Group Home Building Company, representatives from community groups, Residential Advisory Service, Arrow International, staff and Southern Response's Board Chair. Both positive feedback and suggestions for improvement were identified by the Review. For ease of reference, the key findings of that report, including conclusions, recommendations and responses from our management team, are summarised below.

1. Positive conclusions of the report

The report commented favorably on our recent developments and change in approach from an inflexible/rigid approach with too much focus on the Detailed Repair Analysis (DRA) to a more customer focused and sensitive approach.

- ✓ Improvement of Dispute Management Policy and Technical Review and Resolution Process. Commitment to continual improvement of complaint handling process;
- ✓ Positive approach in encouraging customers to refer matters to RAS and strong support of the ISO scheme where appropriate for dispute resolution;
- ✓ Engagement of the psychologist to advise staff on assisting customers suffering from stress;
- ✓ Provision of support to staff from EAP services;
- ✓ Increased use of mediation;
- ✓ Appointment of an independent technical experts panel to assist with dispute resolution in appropriate cases;
- ✓ Establishment of the Solutions Team to assist with processing and resolution of difficult claims and disputes;
- ✓ Development of an effective resolution process to address defective workmanship;

- ✓ Identification and prioritising claims of vulnerable customers with ongoing special attention. Development of the customer support team with additional employment of counsellors and social workers to assist vulnerable customers;
- ✓ Improved customer-focused approach and commitment to resolving complaints and disputes. Significant improvements in staff communication, customer consultation and consideration of expert evidence.

2. Recommendations and improvements

The Review acknowledges that Southern Response has taken a number of steps to improve its process since the end of 2013.

2.1 Adoption of a fair and reasonable approach

Recommendation: The current 'Firm but Fair' policy be replaced with 'Fair and Reasonable' to ensure it is clear that our approach to claims and disputes will be fair, flexible and reasonable with a less rigid approach to the DRA.

Response: The wording of the Disputes Management Policy has been rewritten to address this issue and is in the process of being formalised. The policy has been drafted in accordance with a fair and reasonable approach. Extensive training has already been conducted in this area.

2.2 Ensuring a sensitive approach

Recommendation: Staff (especially those involved in dealing with claims and disputes and customers suffering from traumatic stress) should regularly consult with counsellors, social workers and the psychologist to improve their understanding of stress, improve development of trust relationships with customers and assist on a personal level if required.

Response: Staff have confidential access to EAP Counselling Service with additional support available to the TRR Team should they require supervision. A psychologist has been engaged and provided training to staff in this regard.

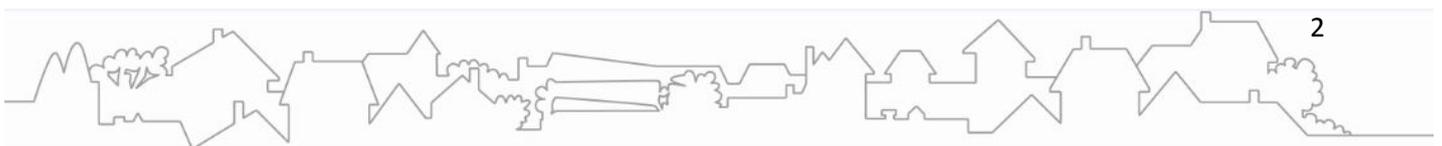
2.3 Improving communication and consultation

Recommendation: Customers be regularly informed of progress and consulted by telephone, response times be specified in the Technical Review and Resolution Process, effective communication to ensure customers are listened to adequately with an open mind (including an open minded response to expert reports provided by the customer) and issues considered from a customer perspective. The first step in the formal process should be for Southern Response to meet with the customer to discuss issues raised.

Response: The Technical Review and Resolution Process and Disputes Management Policy has been re-written to incorporate these requirements. Extensive training has already been conducted in February 2014.

2.4 Improvement of visibility and accessibility

Recommendation: Brochure to be amended and completed for uploading to website with a dispute form to be developed along with a process for accepting oral complaints. The purpose of the information is to clearly explain how the complaint/dispute processes work;



Response: The disputes/complaints brochure has been updated and will be accessible online through an activated link on our website. An online customer feedback form has been developed and is available on our newly refreshed website. Existing training for staff in the process for accepting oral complaints will be reviewed and provided to relevant staff members if required.

2.5 Accountability

Recommendation: The development of a clearer system for receiving and dealing with complaints to ensure complaints against staff are dealt with objectively and independently, to establish clear guidelines on what constitutes a complaint, to maintain a single database of complaints, to ensure increased consultation with and feedback to customers, and to facilitate a well developed resolution process to deal with defective workmanship.

Response: A complaints Policy and process is being developed to address this recommendation.

2.6 Use of experts

Recommendation: An early stage process is required for issues in dispute to be sent, with customer agreement, to an independent technical expert with Southern Response to agree to accept opinion of that expert.

Response: We are exploring methods of addressing this recommendation with the expansion of the existing panel of experts. The issue of ensuring confidence in the expert selected is being considered, with the requirement that we be satisfied of the credibility and reputation of the expert. The introduction of the Solutions Team is a critical initiative incorporating access to independent expertise where appropriate and ensuring a further 'fresh' review of claims exploring alternative avenues of resolution.

2.7 Mediation

Recommendation: Staff members involved in mediations to receive training on the mediation process, appointment of experts, dealing with customers and how to best represent the company.

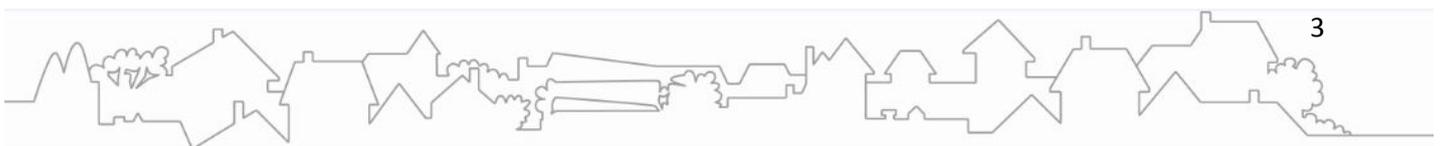
Staff members with sufficient authority to settle disputes are to attend mediations.

Response: Since the Review was completed a number of mediations have been successfully conducted with positive outcomes. We are continuing to actively develop the use of mediation.

2.8 Customer-focused response

Recommendation: Survey complaint/dispute customers for feedback.

Response: A market research company has been engaged to undertake customer surveys. An online customer feedback form has also been developed and is available on our newly refreshed website.



3. **Review acknowledgements**

The Review acknowledges the following in approaching dispute resolution on behalf of Southern Response. Recognition of these observations has informed management's response to the findings.

1. *Dealing with the many thousands of claims has not only been very time consuming but very difficult and complex and 'it is understandable one of the causes creating most of the dissatisfaction by customers is the delay in dealing with claims. The large number of claims reported following the earthquakes, coupled with limited resources, both internally and externally with the expertise required, have added to the time it would normally take to finalise a claim.' It recognises that delay is sometimes not due to Southern Response's fault.*
2. *Also acknowledged is that 'in some cases, customers have engaged advocates who have not held appropriate qualifications to advise customers. In other cases customers' representatives have made claims which Southern Response considers excessive leading to inflated expectations'.*
3. *'...some customers, including customers who may be represented by unqualified advocates, may take an approach which is contrary to the terms of the insurance policy. Those customers may fail to fairly consider the evidence presented by Southern Response. In those kinds of cases, the issues may need to go to Court. Certainly Southern Response cannot settle cases where a customer, or an advocate, is taking a very unreasonable approach, either to the quantum claimed, or to the interpretation of the insurance policy.'*
4. *'In some of these cases, claims have apparently been made which Southern Response has felt are excessive, and which may have created inflated and unreasonable expectations by customers. In other cases Southern Response also believes that that some advocates have incorrect views concerning engineering requirements, which have made resolution difficult, and resulted in delay in settling a claim. Southern Response has also been concerned that, as well as the extent of the claims, the advocate's costs made resolution of the disputes more difficult to negotiate.'*
5. *'We accept that Southern Response, as an insurer, does have an obligation to consider the terms of its policies, and settle claims in accordance with those terms. We understand that part of the objective of the disputes policies adopted by the Company, is to signal that it is not prepared to settle claims by 'splitting the difference', or entering into arrangements which do not have a proper evidential basis.'*

