

On 3 September 2010, headlines on the front page of The Christchurch Press included 'Big shake-up on cards for child support' and 'Mayorality rivals divided on transport'. A day later, on 4 September 2010, headlines around the world were carrying news of a massive earthquake in Christchurch. What a difference a day makes - and what a difference a year makes.

Nobody could have predicted that the September 4 earthquake would be followed by over 7000 aftershocks to date, including the destructive Boxing Day and June quakes and the fatal February 22 quake. Nobody could have predicted the billions of dollars of damage that would be caused, the thousands of homes and buildings that would be lost, or the hundreds of lives that those earthquakes would claim in the year to follow 4 September, 2010.

The Canterbury earthquakes have resulted in an enormous challenge on an international scale for all of us. This is New Zealand's biggest insured natural catastrophe and, due to the unprecedented level of devastation from these earthquakes, we have all had to learn as we go.

Vero's response to the earthquakes - upsized, restructured, resourced

At Vero, we've made enormous strides to resource the business to deal with the unprecedented number of claims received. Dealing with the Canterbury earthquakes has been a more demanding task that we could ever have imagined, but we have adapted and we are a bigger and better resourced company today than we were a year ago as a result.

There are some things we would have liked to have done better and there are always things we would like to be doing quicker. But given the challenges that the past year has brought, we are proud and grateful for the work that our staff and our partners in the broker community and at MWH Mainzeal have achieved.

Our partnership with MWH Mainzeal started in December last year and was followed by a rapid build-up in engineering and project management staff. By February we had the required complement and were making excellent progress but the February 22 event changed the scale of requirements. Once again, we quickly responded by mobilising and increasing resources to meet the new demands. Soon after the February aftershock we had 56 Building Surveyors undertaking site assessments for the damaged properties of claimants.

By April MWH Mainzeal had doubled staff numbers and by July they had almost 70 people on board. Currently they have 91 staff with another 10 confirmed to start next month. Recruitment has been a significant challenge which we have successfully met.

Our success stories for customers include:

- We have created dedicated earthquake response teams to take special care of our Cantabrian customers.
- We have partnered with MWH Mainzeal who will help make it easier for our customers when they rebuild or get the repairs they need.
- We have assessed and costed more than 500 properties in the red residential land zone in Christchurch in time for the owners to be able to compare the government payment options available to them.
- We have made safe or warm 1800 homes.
- We have completed both damage assessing and costing exercises for about 2,000 over EQC cap moderately to severely damaged houses.
- We have launched a customer website for Vero over cap customers - a first for New Zealand.
- An introductory call is made to all new claimants where we provide information about the reinstatement process.

- By mid-August we had made at least one follow up call to every domestic property damage claimant to verify and update their details to ensure effective contact for when their repair or rebuild can be started.

Providing stability in uncertain times

The current climate of uncertainty in Christchurch caused by the ongoing seismicity and other issues such as land stability that need to be resolved mean that we are not able to progress our reconstruction work as quickly as we would like to. The risk of further damage from earthquakes in Christchurch remains too high for us to commit to large scale rebuilding, and the magnitude 4 and 4.7 aftershocks on 31 August as well as the 4.9 on 2 September were a sharp reminder of that. However, working with MWH Mainzeal we have made excellent headway with our scoping work and in carrying out essential repairs and reconstruction to critical services.

We've assessed almost every home that we have a claim for over cap damage (many several times due to the number of events) and have scoped the cost of repairs for around 70% of these. We have around 100 projects under construction and another 200 in the pre-construction phase.

The recent announcement about the EQC's liability increasing from \$3.05 billion to \$7.1 billion has added to the feeling of uncertainty in Christchurch. Vero, however, remains confident in our ability to meet our current and ongoing commitments. We have sufficient reinsurance contracts in place as we successfully purchased new reinsurance catastrophe treaties as of 1 July, we have the confidence of an A+ (strong) rating from Standard and Poors, and we are supported by the Suncorp Group.

Increases in insurance premiums are a reality, and we are being upfront about that. New Zealand has an entirely different risk profile today than it did a year ago and everyone from reinsurers through to customers, is dealing with the consequences.

The nature of our insurance policies is also changing in response to the heightened risk in Christchurch and beyond. We have already advised you about changes to some of our policies and we will continue to keep you informed about any further changes we make.

Vero has a plan going forward

We have made good progress to date on our earthquake claims, but there is a lot of work still to be done. Vero has a plan to complete this work as efficiently as circumstances allow.

We have set up a prioritisation process for our domestic and commercial customers to enable us to focus first on those of our high need customers whose claims can be progressed. Red zone customers are being managed separately by our dedicated red zone team. Residential green, orange and white zone customers are being prioritised according to criteria such as:

- Whether the home is a total loss;
- Whether the customer is living in temporary or 'make safe' accommodation;
- Whether the customer has health issues, is elderly, or has suffered a fatality in the family as a result of the earthquake;
- Where the home is repairable, the extent of damage;

Commercial customers are being prioritised according to criteria such as:

- Whether the property is located within the cordon;
- The extent of damage to the property;

- Whether they have a Business Interruption policy and the indemnity period of that policy;
- Whether they are currently able to operate from the property;

In addition to each customer's personal circumstances, we need to take into account the land that we are potentially going to be rebuilding on when we prioritise our reconstruction work. It makes sense to start first in areas that have less shaking and this usually means those farthest away from the fault lines. Next we look at the soil type and then at how the structure will perform if there is a shake. We review all these factors when estimating how vulnerable a project is to aftershocks and thus how soon we feel comfortable starting work.

This prioritisation process is essential because we want to ensure that the rebuilding process is conducted to the proper standards and don't wish to subject customers to the stress of multiple rebuilds (and extra costs) because we started too soon.

We are also making good progress with cash settlements. A number of our larger claims have been settled in this way and there are more in the pipeline. This is an option that we are very willing to consider for those customers who would prefer a cash settlement to a rebuild or repair.

Under these exceptionally busy circumstances when there is a lot of material circulating, we believe the most useful communications are those focusing on practical information and advice. We are currently sending information and offer letters to our first set of Red Zone customers and are beginning to send advisers and brokers, lists of their red zone customers and offer details. Further technical information will be provided as our understanding of the key concerns of red zone customers develops.

One year on from the 4 September 2010 earthquake is an appropriate time to reflect on the massive changes that have occurred in the past 12 months. At Vero we are also keenly looking ahead to ensure we play the most effective part we can in the rebuild of Christchurch over the next 12 months and beyond. I look forward to keeping you updated on our progress.