

2 May 2018

Mr Anthony Honeybone
Chief Executive Officer
Southern Response Earthquake Services Ltd
10 Show Place
Christchurch 8149
NEW ZEALAND

Dear Anthony

Earthquake Claim Liabilities as at 31 March 2018

We have been asked by Southern Response Earthquake Services Limited ("SRES") to make an assessment of its insurance liabilities as at 31 March 2018. SRES is the Crown-owned entity which emerged from a transaction whereby, with effect from 5 April 2012, the ongoing business of AMI Insurance Limited ("AMI") was separated from the existing AMI entity and sold to Insurance Australia Group.

The purpose of this letter is to provide an estimate of the earthquake claim liabilities for Southern Response Earthquake Services Limited ("SRES") as at 31 March 2018. This valuation follows on from the update we provided at 31 December 2017 and is based on a roll forward of our detailed valuation as at 30 June 2017, with changes to valuation assumptions where emerging experience suggests changes are appropriate. We include commentary on the key changes to the assumptions later in the letter.

This letter does not deal with the other non-earthquake retained events that were retained by SRES following the transaction on 5 April 2012.

Summary of Results

Table 1 summarises our estimates of SRES' earthquake liabilities and recommended provision at 31 March 2018. The provision includes an estimate of SRES future claims handling expenses (CHE) and a risk margin which we believe to be consistent with the requirements to establish provisions which incorporate at least a 75% probability of sufficiency. The line below the table indicates our estimate of the total amount which will ultimately be paid once all claims are settled (including payments already made but excluding SRES CHE). This represents our central estimate of the ultimate liability.

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Table 1 – Recommended EQ Provisions at 31 March 2018

Provisions for Outstanding Claims as at 31 Mar 2018	Cat 93	Cat 106	Cat 112	Total		
	4-Sep-10	22-Feb-11	13-Jun-11	Major	Minor	Overall
	\$m	\$m	\$m	\$m	\$m	\$m
Gross Outstanding Claims						
Inflated Values	52.4	307.7	14.2	374.3	4.1	378.4
Discount to Present Value	-1.0	-6.0	-0.3	-7.3	-0.1	-7.4
OSC Discounted to 31 Mar 2018	51.4	301.6	13.9	367.0	4.0	371.0
Claims Handling						
Gross Central Estimate						
Catastrophe R/I Recoveries	0.0	0.0	-13.9	-13.9	-1.6	-15.5
Aggregate R/I Recoveries	0.0	0.0	0.0	0.0	0.0	0.0
Net Central Estimate						
Risk Margin						
Recommended provision						
Gross Ultimate Payments (excl CHE) (Incl paid to date, excl CHE)	729	2,392	93	3,214	45	3,258.6
Change on 31 Dec 2017 Valuation	-20.8	25.6	-6.7	-1.8	1.4	-0.4
Change on 30 Sep 2017 Valuation	-26.5	33.9	-5.5	1.9	-2.0	-0.1

Our central estimate of the total amount that will ultimately be paid (before reinsurance) at 31 March 2018 is \$0.4 million lower than the 31 December 2017 estimate.

[REDACTED] 9(2)(i)

[REDACTED] 9(2)(i)

Table 2 shows the main components of cost underpinning our overall estimate of SRES' ultimate earthquake liabilities, while Table 3 shows the breakdown of the outstanding claims liabilities.

Table 2 – Estimated Ultimate EQ Liabilities at 31 March 2018

	31 Dec 17	31 Mar 18	Mov't Dec17 to Mar18	
	\$m	\$m	\$m	
Ultimate Outflows (Net of EQC)				
Over Cap	2,563	2,563	0	
Out of Scope	336	334	-2	
Other	154	155	1	
Claims Cost (Excl PM Cost)	3,053	3,053	0	
Project Management Costs	█	█	█	9(2)(b)(ii)
SRES Claims Handling	█	█	█	9(2)(i)
Reinsurance Recoveries	1,291	1,285	-6	
Ultimate Net Outflow (net of RI)	█	█	█	9(2)(b)(ii) and 9(2)(i)
Cum. Paid Net of EQC	2,986	3,038	52	
Discounted Net Liability				
Central Estimate	429	376	-54	
Risk Margin	█	█	█	9(2)(i)
Recommended Provision	█	█	█	

There has been a reallocation of costs away from the June event, towards the February event, which has led to a small increase in the net of reinsurance ultimate cost.

Table 3 – Estimated Outstanding Liabilities at 31 March 2018

	Outstanding 31 Dec 17	Outstanding 31 Mar 18	Mov't Mar18 to Dec17	
	\$m	\$m	\$m	
Net Outflows				
Claims Cost (Excl PM Cost)	396	353	-44	
Project Management Costs	█	█	█	9(2)(b)(ii)
SRES Claims Handling	█	█	█	9(2)(i)
	435	383	-52	
Net Central Estimate (undisc)	435	383	-52	
Discounting	-6	-7	-2	
Net Central Estimate (disc)	429	376	-54	
Risk Margin	█	█	█	9(2)(i)
Recommended Provision	█	█	█	

Summary of Key Movements

While the gross inflated ultimate costs remain unchanged relative to 31 December 2017, this is a result of some offsetting movements within the various valuation categories. The key underlying movements in the central estimate are set out in the table below.

Table 4 – Summary of Key Movements in Liability Estimate (net of EQC, excluding CHE)

		Notes	\$ Mov't from Dec-17	
Post 1 Oct16 Over Caps		Our ultimate number of over cap properties is unchanged from the December valuation. New over cap reports have slowed over the last two quarters, and we view our allowance for IBNR claims to be adequate. [REDACTED]	[REDACTED]	9(2)(i) and 9(2)(j)
BAU / TRR Properties	Rebuild	[REDACTED]	[REDACTED]	9(2)(i) and 9(2)(j)
		[REDACTED]	[REDACTED]	
	Repair	[REDACTED]	[REDACTED]	9(2)(i) and 9(2)(j)
		[REDACTED]	[REDACTED]	
Total Inflated Ultimate Excl. CHE			\$0M	

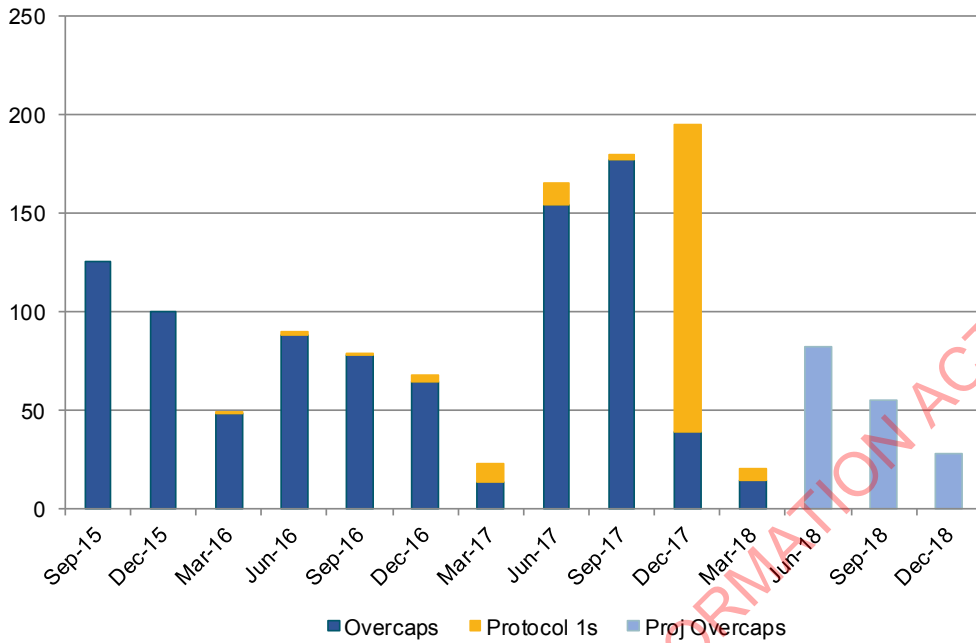
We comment on each of the key aspects of experience below.

New Over Caps

Numbers

The projected ultimate number of Over Cap claims (8,562) remains unchanged relative to the December valuation. This allows for 154 new Over Caps to emerge in future. The figure below shows historic reporting patterns of new Over Cap claims, and our projected emergence pattern.

Figure 1 – New Over Cap Reporting



The high rate of new Over Cap reporting brought on by the SRES' detailed review of EQC only properties has now dropped off. There were only 14 new over caps reported in the first two months of 2018. The review brought forward the identification of new over caps that may otherwise have taken a lot longer to emerge, and we view our current projection of new over cap numbers to be sufficient.

Average Size

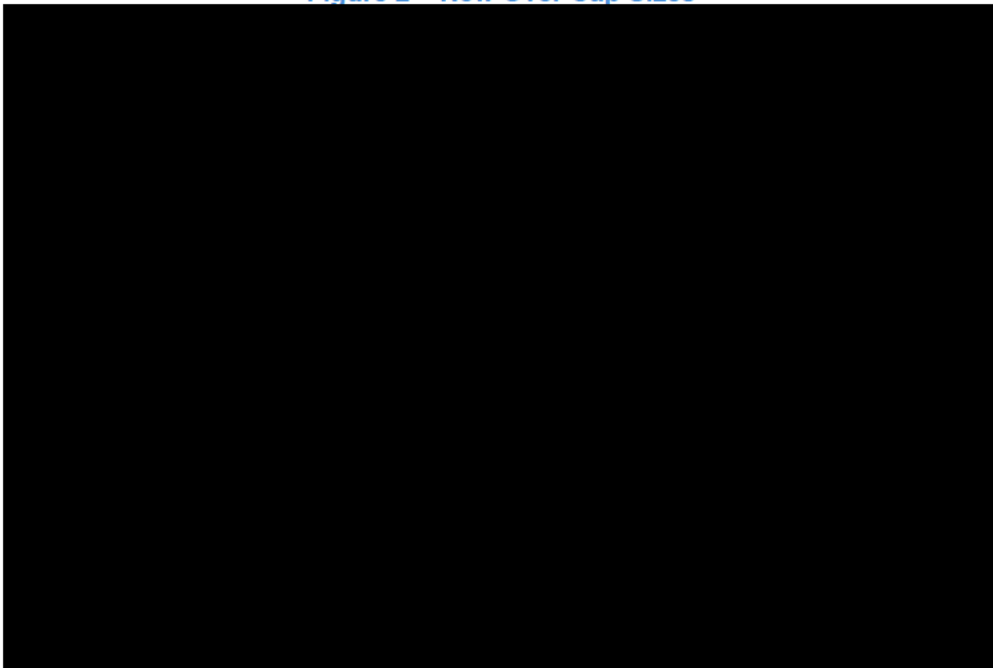
Gross Size

There are now over 130 new Over Cap properties that have either had an assessment or cash settlement completed.

Figure 2 below shows the average assessment size by when the claim turned Over Cap.

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Figure 2 – New Over Cap Sizes



9(2)(i) and 9(2)(j)

1982

The average size of assessments and settlements to date has been lower than our projected sizes for these properties, which already assumed that the new Over Caps would have incurred less damage than the older Over Caps. Given the assessment sizes continue to emerge lower than we had previously assumed, we have decreased our assumption [REDACTED] 9(2)(i) and 9(2)(j) [REDACTED] We have not fully aligned our assumed sizes with the current assessed values, noting that in many cases the initial assessments will be revised upward before the Builder's Price DRA is finalised.

EQC Contribution

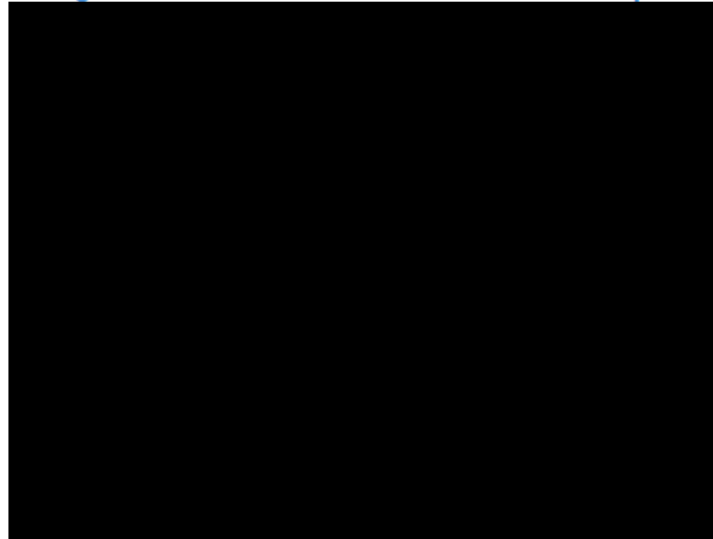
In the absence of any specific data, we previously assumed new Over Cap properties would have a similar EQC contribution size to BAU properties. [REDACTED] 9(2)(i) and 9(2)(j)

[REDACTED] This data allows us to monitor outstanding costs more closely, and in particular gives us a clearer indication of the level of EQC contributions expected for the new Over Caps.

The figure below shows the EQC contributions expected on these claims, compared to our previous assumption.

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Figure 3 – EQC Contributions on new Over Caps



9(2)(i) and 9(2)(b)(ii)

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[REDACTED] This result reflects that many of these properties have already had some valid work done by the EQC and are not eligible for a full contribution (SRES will only be doing work on top of repairs completed to date).

9(2)(i) and 9(2)(b)(ii)

[REDACTED]

9(2)(i) and 9(2)(b)(ii)

There remains a reasonable degree of uncertainty around this assumption due to the relatively low volume of data.

[REDACTED]

9(2)(i) and 9(2)(b)(ii)

BAU Properties

BAU Repairs

[REDACTED]

9(2)(i) and 9(2)(j)

[REDACTED] Figure 4 below shows the development ratio from Builder's Price DRA to Builder's Price quote by Builder's Price DRA quarter. This ratio has remained [REDACTED] for the last three quarters.

- the volume of future new Over Cap claims which might emerge, and the proportion of these which will ultimately be the subject of dispute and/or litigation
- higher than allowed escalation in settling the remaining body of outstanding claims, including the additional costs involved in settling disputed and litigated claims.

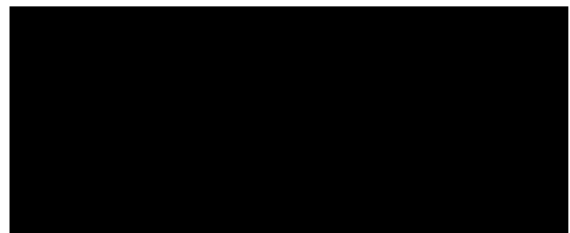
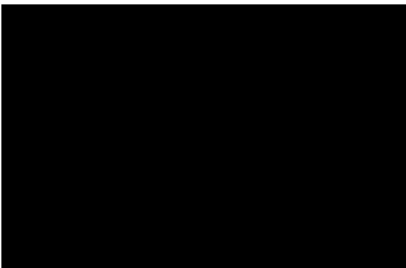
Reliances and Limitations

This letter has been prepared for the use of SRES for the stated purpose. We understand that a copy of the letter may be provided to the Board of SRES. No other use of, nor reference to, our letter other than as required by the Crown, should be made without prior written consent from Finity, nor should the whole or part of our letter be disclosed to any unauthorised person.

Third parties, whether authorised or not to receive this letter, should recognise that Finity will not be liable for any losses or damages howsoever incurred by the third party as a result of them receiving, acting upon or relying upon any information or advice contained in the report.

Our letter should be considered as a whole. Members of Finity staff are available to answer any queries, and the reader should seek that advice before drawing conclusions on any issue in doubt.

Yours sincerely 9(2)(a)



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