

30 July 2007

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Dear Michelle

Bronwyn Pullar

I am replying to your letter to Graeme Edwards dated 20 July 2007. Prior to your letter, Bronwyn had been communicating with Sovereign principally through her legal adviser, Mr Langstone. In those circumstances, it was appropriate that Sovereign responded through its own legal adviser. To ensure continuity in our approach to Bronwyn's insurance claim, responsibility for co-ordinating all liaison with all members of her adviser team has now been placed under me.

In your letter you make a number of comments, assertions, and assumptions that require a response from Sovereign to assist with clarification as to our position on Bronwyn's insurance claim.

Our overriding position has always been that we are committed to providing Bronwyn with the insurance cover to which she is entitled under her policy. We are sensitive to the fact that she has suffered a head injury, and that her life has been significantly altered as a consequence.

In our dealings with Bronwyn since the accident, now some four years, we have always found her articulate and competent to press her position in relation to her claim. She has engaged the services of accounting and legal advisers and since November last year Bronwyn has also engaged the public relations expertise of PR People.

We have been supplied with a list of 28 named people who are members of Bronwyn's 'claims support/advisory team'. This list contains prominent individuals such as Sir Selwyn Cushing, John Key, Jenny Shipley and Wayne Mapp. Representations have also been made to our Board and Managing Director seeking their personal intervention.

You personally have stated that Bronwyn's case will be taken to the media if her claim is not settled in a manner that is satisfactory to Bronwyn. You have raised Bronwyn's case on Radio New Zealand National and TV3's 60 Minutes has been appraised of the situation.

Throughout all of this we have been consistent in saying that we will provide Bronwyn with the financial support to which she is entitled to under her policy. The current claim being made on her behalf, which amounts to some \$14 million, is greatly in excess of her entitlement.

We have also said consistently that for us to meet Bronwyn's entitlement:

- a) she needs to provide us with the same financial and medical information that is required of all claimants; and
- b) we need to verify the information supplied.

The ability for insurers to access and verify information is a fundamental requirement of all types of insurance worldwide.

I would also like to summarise our position in relation to Bronwyn's claim as within your letter there are statements that are not consistent with our views. Our position is:

- Bronwyn's entitlement is to monthly payments in line with the terms of the policy until age 65. This is our normal procedure, and it would be very rare for us to agree to handle an accident or illness claim by way of making a lump sum payment. By paying monthly it means that if Bronwyn's circumstances remain the same she will most likely receive a minimum of about \$124,904 a year to age 65 through a combination of ACC payments, income from work, and our payments.
- If Bronwyn's preference is for a lump sum rather than ongoing monthly payments, we have already indicated that we will agree to this – but only if that is her wish.
- If it is her wish, and the two parties cannot agree as to what is a fair and reasonable lump sum payment, we are willing to go to independent mediation
- We have endeavoured to address some of the other issues raised by Bronwyn and her advisory team by negotiation. That has not produced a settlement and we have again offered to attend independent mediation to resolve what the payment should be.

Having outlined our overall position, I would now like to deal with each of the specific points you raise. For ease of reference, I have numbered each point in your letter (copy enclosed) and provided an answer to that point below.

Point #1

On Radio New Zealand National on 20 June 2007 and within your letter you make the claim that Sovereign has admitted to mishandling Bronwyn's claim. This is not our position. At all times we have made decisions based on the medical and financial information made available to us by Bronwyn. We do not accept that we have mishandled, or alternatively mismanaged Bronwyn's claim.

We have acknowledged that we have made mistakes on aspects of managing Bronwyn's claim and for that we have apologised.

Point #2

Our position is that we will continue to pay Bronwyn the monthly amount she is entitled to under the terms of the policy. That has always been our position, and remains our position.

We do not accept that discussions around a lump sum payment in place of future monthly payments were Sovereign led. If that is your perception, then through this letter I wish to clarify that Sovereign entered into a discussion about a lump sum payment based on Bronwyn's specific request via Mr Langstone. We understood through you that this is Bronwyn's preferred outcome.

If it is not Bronwyn's preferred outcome, let us put it aside and move forward on the basis of continuing to pay Bronwyn on a monthly basis under the terms of her policy. Would you please advise accordingly?

Point #3

Your sub-point #1 – See our point #1 of this letter. Apologising for oversights, mistakes or misunderstandings is something we are always prepared to do. We do not accept that we have 'mishandled' Bronwyn's case.

Sub-point #2 – We do not accept your synopsis of that aspect of the discussion. Our position is that the table to which you refer is illustrative as to the payment quantum Bronwyn would receive if she was to be paid out the maximum monthly benefit to age 65. The table is not misleading, and we are prepared to meet payments to Bronwyn in line with the provisions of the policy she has with us. It does not represent what we would pay Bronwyn in today's dollars, as one lump sum. As stated previously, Sovereign's obligation under the policy is not to pay a lump sum payment.

Sub-point #3 – We confirm we have agreed to make a contribution to Bronwyn's costs and interest as part of an overall settlement of all issues. However, as you are well aware, there has never been agreement on the sum to be paid. Any previous offers made have been superseded by the additional claims tabled by you at the meeting on 22 May 2007.

Our willingness to meet fair and reasonable costs is not open ended or without time constraints. What we are prepared to pay and our decision will be guided by:

- a) whether the costs are fair and reasonable; and
- b) the provider, service and timeframe (validated by actual invoices)

Point #4

The point I have taken from this paragraph is that it is not your intention to provide us with the information we have sought to enable us to reconcile conflicting information supplied to date. Is that correct?

We acknowledge your right to have an opinion on Sovereign and the history of the claim. Our position is that we are prepared to pay Bronwyn every benefit she is entitled to under the policy. We will base our decisions on medical and financial information supplied to us by Bronwyn. When that information is incomplete or conflicting, we will seek clarification until we have a full understanding or the discrepancy is resolved.

You make the point that Bronwyn has good records. If that is the case then while it may be an annoyance to supply information that you believe has already been submitted, it would materially assist us to progress a speedy resolution, which is to everyone's benefit.

Point #5

For nearly 18 months, Bronwyn and her advisers, including yourself personally, have been saying to us that if we did not settle Bronwyn's claims against us in a way acceptable to Bronwyn that she would 'go to the media'. The inference we drew from this was that you would seek to obtain media coverage that would be detrimental to Sovereign. On 20 June 2007 on Radio New Zealand National you followed through with your intention to discuss the case publicly.

Sovereign has also been approached by TV3's 60 Minutes programme, and Mr Tim Flowers, the broker that sold the policy to Bronwyn, has advised us that he is aware of 60 Minutes' interest.

In addition, Sir Selwyn Cushing has made personal representations to board members and senior executives in relation to Bronwyn's claim, MP Wayne Mapp has attended a meeting to discuss Bronwyn's case and you have also had a meeting with one of our board members. In addition to these actions, we have been supplied with a list of 28 people who 'support/advise' Bronwyn. Included on that list are names such as John Key and Jenny Shipley.

Our position is that based on the medical and financial information supplied to us, we are fulfilling the terms of the insurance policy Bronwyn has with us. If additional information is available, and can be verified, we will reconsider our position.

We will not be swayed to reach a position as to what is fair and reasonable on the basis of media coverage or high profile advocacy.

Point #6

You say that the approach to Sovereign by Melanie Reid of 60 Minutes was in relation to '...seeking answers on the reason for the delay in settling Ms Pular's claim'. If that is your understanding then it is not correct. Ms Reid contacted our Managing Director's PA on 4 July 2007 and stated she would be approaching Sovereign for comment in relation to Bronwyn re:

- Misrepresentation/misleading sales literature
- Mishandling of her claim
- Taking advantage of a head injury patient
- [Because of Sovereign's treatment] not able to be rehabilitated

It was against this background we wrote to Ms Reid saying that if we were to be able to comment on Bronwyn's claim, then we would require written permission from Bronwyn. This is standard practice. Given the subject matter Ms Reid indicated she would be traversing (much of which has only been canvassed in confidential and 'without prejudice' meetings and correspondence) then we would also need to have permission to discuss these issues.

It is standard practice when approached by the media, to discuss an individual's relationship with us, to advise the media as to what we require to be able to do so. As an experienced media person I am sure you are familiar with this requirement.

As we have never spoken to the media about Bronwyn, yet 60 Minutes has approached us with a fair summation of points you have put to us, and also made their interest known to Tim Flowers, our assumption was that their knowledge of Bronwyn's claim came from you, or another party associated with Bronwyn. Are you saying this is not correct?

Point #7

Our payments to Bronwyn have always been based on medical and financial information she supplied. As she altered and updated that information, such as:

- pre-disability income
- post-disability income
- hours worked
- medical information

we modified our payments after verification.

We understand Bronwyn purchased and sold the property at 3/24 Hamilton Road in 2003. These transactions took place while Bronwyn's claim was being processed by Sovereign, and before any payments from Sovereign commenced.

Our policy covers Bronwyn for lost income due to illness or accident. Based on information supplied, Bronwyn's pre-disability income level was initially determined to be \$93,751 per annum and post-disability income (including ACC) \$95,832. Due to Bronwyn being self-employed (which meant accurate income information was not immediately available) and structuring her affairs to optimise her tax position these figures were the subject of some discussion. In March 2005 at our instigation, a review of Bronwyn's financial position was initiated and based on information supplied by Bronwyn, this led to Bronwyn's pre-disability income level being re-determined in July 2006 as \$166,539 per annum. Bronwyn's payments then were recalculated based on 75% of \$166,539 as per her policy, with the shortfall being backdated to the first eligible payment date of March 2003.

Again, Sovereign's payments and calculations were based on the information provided to us by Bronwyn.

Point #8

Responsibility for care in relation to Bronwyn's rehabilitation lies with her health advisers and ACC. She had cover for additional expenses through her Southern Cross health insurance.

Bronwyn first approached us in relation to meeting rehabilitation costs in August 2003 when she asked us to pay \$2090 to cover a shortfall in claims she had made against ACC and Southern Cross. While not covered by her policy, we did agree to meet \$1965 of that claim.

We note from information provided by Bronwyn to support her request for Sovereign to contribute to her rehabilitation expenses, that in the first eight months after her accident, Bronwyn had extensive rehabilitation funded by ACC and Southern Cross including 17 GP visits, 53 physiotherapy sessions and 21 osteopathy sessions. Bronwyn has also been under the care of a neuro-psychiatrist since July 2003. We understand that ACC continued to fund her rehabilitation programme beyond the first eight months.

Bronwyn next asked us to pay for rehabilitation covering energy healing as ACC would not pay for this treatment. While not part of the insurance cover provided, we agreed to cover this treatment for 12 months from March 2005 at a cost of \$2580 to see whether it would assist her recovery. We declined to continue paying for this treatment from March 2006 as the treatment did not appear to be assisting her recovery.

The facts do not support your assertion, nor does logic, as a return to full health by Bronwyn would reduce our financial obligations.

Our payments to Bronwyn have always been based on information she supplied to us and it was not until Sovereign instigated a financial review of her position in March 2005 (two years after payments became effective) that anomalies began to emerge. It took until July 2006 for a multitude of anomalies to be resolved. Once resolved, Bronwyn's payments were increased and back payments made.

Point #9

While we respect your right to your personal views, we have genuinely attempted to reach a settlement with Bronwyn.

I repeat the point made many times in this letter; our position is that we will continue to meet our obligations on a monthly basis in terms of the policy. We do this for about 500 people a month, and it is not the purpose of the policy to pay out a lump sum in full and final settlement of possible future entitlements.

Point #10

As stated repeatedly, our position is that we will continue to pay Bronwyn on a monthly basis in terms of the policy and have only considered a lump sum alternative as we believe that is Bronwyn's preference.

We are at a loss to understand what advantage there would be to seeking to delay Bronwyn taking legal action if that is her preference. We are currently meeting our commitments to Bronwyn, at least two media outlets have been appraised of the fact that there is a dispute between Bronwyn and Sovereign and we strongly believe we have no obligations to Bronwyn other than those we have already met.

While we believe mediation to be a better route for Bronwyn, we also believe any examination of our position by the Courts would find in our favour.

Point #11

We do not accept that an amount in excess of \$14 million bears any relevance to the policy entitlement and other claims made by Bronwyn.

Historical benefit	To date we have been unable to reconcile your claim figures with ours. We are willing to negotiate further to resolve this and enter into independent mediation if necessary.
Historical interest	Once the historical benefit is resolved we will pay interest on the agreed amount.
Professional fees	Our position is covered in point 3/3 of this letter.
Rehabilitation costs	These are not covered by Bronwyn's insurance.
Interest on cards etc	Rehabilitation is not covered by Bronwyn's insurance so no interest is payable. For credit card expenses and costs we are prepared to negotiate further to resolve this and enter into independent mediation if necessary.
Disability Benefit	If Bronwyn prefers we will consider making a lump sum payment. The sum tabled is unacceptable to us. If we cannot agree on what is fair and reasonable we suggest this be resolved through mediation or Sovereign continues to make monthly payments in line with the policy.
Living Assurance	See point 12 below.
3/24 Hamilton Road	See point 7 above.
1/24 Hamilton Road	See point 7 above.

Point #12

Our position on the Living Assurance Benefit is that if Bronwyn qualifies for this benefit we will make the payment to her.

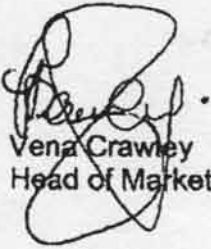
We are asking of Bronwyn nothing more than we would of any other person seeking this benefit, which is to be examined by a consulting neurologist. We cannot accept that being examined by a consulting neurologist is 'inhumane'. It is standard practice world wide for insurance companies to seek confirmation of a person's medical condition before paying out on a claim or benefit, and the requirement is clearly stated in the policy that Bronwyn agreed to before her accident.

We have provided Bronwyn and members of her support and advisory team with a list of three independent consulting neurologists for her to choose from and we have also offered to make an appointment with her preferred choice. To date we have not heard from Bronwyn on this matter.

We too would like to see an early resolution of the issues between Bronwyn and Sovereign. Between when Bronwyn first made her claim in February 2003 and until Sovereign instigated its financial review in March 2005, the history of Bronwyn's claim was not thwart with disagreement. This changed between March 2005 and July 2006 as a final resolution of Bronwyn's financial and medical position was sought.

Bronwyn is well supported in her claim by advisers covering PR, legal and financial matters, and we do believe that a fair and reasonable resolution is possible. If the two groups can not find common ground then our recommendation is that we move swiftly to mediation.

Yours sincerely



Vena Crawley
Head of Marketing and Product Management