

16 May 2011

Flood insurance: Proposed reforms
c/- Insurance Contracts Act Review
Corporations and Financial Services Division
The Treasury
icareview@treasury.gov.au

Attention Mr Andrew Sellars

Dear Mr Sellars

IAG Submission to “Reforming flood insurance – Clearing the waters”

Introduction

Insurance Australia Group (IAG) welcomes the opportunity to make a submission to the Government’s paper “Reforming flood insurance – Clearing the waters”.

Who is IAG?

IAG is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite more than \$7.8 billion of premium per annum. It employs more than 12,700 people of which around 9,000 are in Australia. IAG operates some of Australia’s leading insurance brands including NRMA Insurance, CGU, SGIO, SGIC, RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV), Swann Insurance and The Buzz. IAG insures approximately one in three motor vehicles, and one in four homes, in Australia.

IAG’s direct insurance products, which include personal insurance as well as business insurance packages targeted at sole operators and smaller businesses, are sold primarily under the **NRMA Insurance** brand in NSW, ACT, Queensland and Tasmania. **SGIO** is the primary brand in Western Australia, and **SGIC** in South Australia. Products are distributed through branches, call centres, the internet and representatives.

IAG’s intermediated personal and business insurance products are sold primarily under the **CGU Insurance** and Swann Insurance brands through a network of more than 1,000 intermediaries, such as brokers, agents, motor dealerships and financial institutions. CGU is also a leading provider of workers’ compensation services in Australia, operating in every State and Territory except South Australia and Queensland.

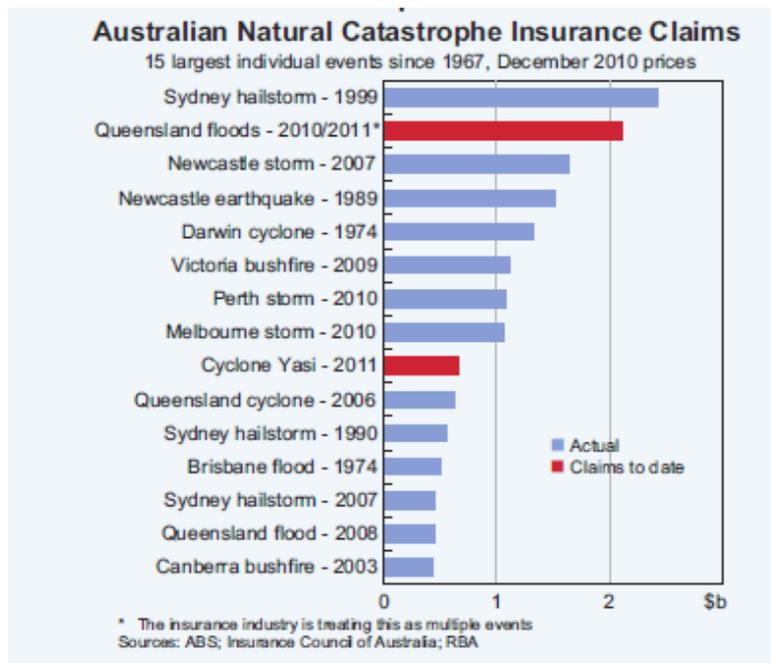
What is IAG's interest in the Discussion Paper?

Weather and climate are “core business” for the general insurance industry. At its most basic, insurers underwrite weather-related losses (including physical damages to insured property and interruptions to business continuity) by assessing, pricing and spreading the risk and then meeting valid claims when they arise. IAG is keenly interested in the issues raised in this consultation paper for the following reasons:

1. *This has the potential to impact our business.*
2. *It has the potential to have an impact on our customers, both positive and negative – IAG is keen to offer this response with the aim of ensuring that customers benefit from this process but avoid the potential pitfalls we have identified.*
3. *Extensive experience in insuring Australians means that the IAG brands can offer insight into how these proposals will play out in reality with customers.*

The Reserve Bank of Australia (RBA) noted in the March 2011 *Financial Stability Review*:

“..there has been a pick-up in the frequency of large claim events in recent years. Nine of Australia's fifteen largest claim events since 1967, measured in constant price terms, have occurred since 2006. Consistent with this, total annual catastrophe claims, in constant prices, have averaged around \$2 billion since 2006, compared with an average of \$0.6 billion since 1970.” (RBA, p.39)



Source: RBA March 2011.

Flood is a persistent risk in the Australian community that traditionally accounts for one third of natural hazard damage (Bureau of Transport Economics 2001). However, the vast majority of properties in Australia have little or no flood risk. Approximately 2.8% of properties have some risk of flooding (Insurance Council of Australia).

The Insurance Council of Australia (ICA) highlighted in its response to the Report to the Council of Australian Governments on Natural Disasters in Australia (2006):

“Insurance works on the principle of spreading risk over a large number of policyholders who face similar potential losses. Pooling the premiums of the many to pay the claims of a relatively few keeps premiums at a reasonable level. In general, premiums reflect the level of risk each policyholder brings to the pool. The small number of homes vulnerable to flooding means the risk is spread over a relatively small group and therefore the cost of cover for each home would be very high.”

IAG’s position on Flood Insurance

As an insurer, we have defined our purpose as helping people manage risk and recover from the hardship of unexpected loss. In doing so we aim to provide a service offering to our customers to satisfy their risk minimisation demands through the provision of flood cover and reduce confusion over what we cover.

Current and Proposed Flood Insurance for Home and Contents

IAG brands have undertaken to provide a flood insurance product for home buildings and contents (noting that IAG already provides cover for motor vehicles damaged by flood), subject to the necessary mapping data being made available, implementation of regulatory changes, and resulting underwriting and process changes. Large regional and rural areas create the greatest challenges as these areas tend to be affected by flood and have poor flood mapping data. Our CGU business has a high concentration of customers in these areas.

Flood mapping is critically important as it underpins IAG’s ability to provide an accurate assessment of the risk of each individual property and hence the appropriate price of the policy. Without this data, we will need to make assumptions about flood risk that might be less accurate and overstate the risk associated with potential flood exposures. This is especially true for many rural and regional customers, because flood mapping is virtually non-existent in these areas. It is inequitable to disadvantage those who live in rural and regional areas.

	NSW/ACT	Vic	Qld	WA	SA	Tas	NT
NRMA Insurance	Yes*		∅			Yes*	
RACV (Vic based)		∅					
SGIO (WA based)				Optional			
SGIC (SA based)					Optional		
CGU	∅	∅	∅	∅	∅	∅	∅

* Customer may opt out of flood cover where there is a premium for flood.

∅ IAG operating brands are working towards developing a flood insurance product subject to the availability of relevant mapping data, implementation of regulatory changes, and resulting underwriting and process changes.

IAG's experience with underwriting flood

Flood cover was introduced as a standard feature in the NRMA Insurance Home Insurance policies in NSW, the ACT and Tasmania in June 2009. This followed the compilation of local council flood data by the Insurance Council of Australia along with State Government terrain data and independent hydrologist reports that enabled us to understand where the flood risk is in NSW. Generally, an additional flood premium is charged for those in higher risk areas.

IAG's experience on customer expectations after the recent Queensland flood.

Some customers know and accept that they are not covered for flood and may be aware that they live in flood prone areas. Some customers have encountered flood in the past, often more than once.

Where some have been clearly advised that they are not covered for certain events, the relevance of these exclusions to their individual circumstances may not have been well understood.

Standard Definition of Flood

IAG welcomes the adoption of a workable standard definition for flood. However, to ensure the full understanding of cover is provided to consumers, IAG supports the inclusion of stormwater channels as proposed by the ICA, highlighted below:

Flood means the covering of normally dry land by water that has escaped or been released from the normal confines of:

- A. any lake, or any river, creek or other natural watercourse, whether or not altered or modified; or
- B. any reservoir, canal, or dam, or water channel whether altered, modified or purpose built.

Most consumers would not be aware that stormwater drains are generally built along natural watercourses and can be the means through which riverine floodwaters are conveyed to built-up areas. For this reason, we agree that the definition needs to be extended as highlighted above.

Whilst a common definition provides consistency for customers, the real issue lies in its application and insurers must be able to either include or exclude cover as long as this is disclosed to the customer.

In relation to the statutory framework to incorporate a common flood definition, the Government should consult further with the insurance industry if this was to be delivered outside the standard cover regime.

There is no particular advantage to standardising other inundation risks as cover already exists for more common events such as storm.

IAG supports 'consumer testing' the standard definition to ensure the wording is customer friendly, however, the commercial practicalities will need to be considered as insurers ultimately need to be able to underwrite the risk.

Application of the Standard Definition

It must be recognised that the creation of a standard definition does not mean that all policies will cover flood.

Insurers should retain the right to exclude flood insurance if they consider it does not fit within their risk appetite, particularly when the ability to provide this cover is dependent on external factors such as the availability of flood risk data from local government authorities.

It should also be a matter of informed customer choice; knowing the risks that are most important to them, reading the policy documentation, and choosing the cover that is best suited to their individual circumstances. We note, that the question of affordability for a small percentage of the population who live in extremely high risk flood zones is being addressed in a separate review, and we will provide comments in that context.

IAG believes that the standard definition should be restricted to home buildings and home contents insurance policies, as commercial insurance is sold predominantly through intermediaries. Businesses are more likely to seek specialised advice and buy a policy aligned to their needs. They are, therefore, also more likely to understand the policy they have bought.

Not all commercial customers need flood insurance and may not want to pay for it. The diversity in scale and type of risk in commercial business means that these customers are not best served by standardised offerings. For instance, the insurance needs of a coffee shop in Brisbane will be vastly different to the insurance needs of a large industrial site in rural Victoria.

IAG's experience suggests that commercial customers would prefer to retain the flexibility to decide whether they wanted flood cover or not and that caution should be exercised in making decisions which recognises 'commercial insurance' as one category.

Key Facts Statement (Summary PDS)

While a one page summary has the advantage of simplicity, IAG considers that a 4-6 page summary may be more appropriate to enable adequate disclosure.

PDS documents are a regulatory requirement. The PDS size and complexity has increased along with increasing regulation relating to disclosure. The current regulatory regime has prevented previous industry attempts to progress a Key Facts Statement (KFS).

IAG strongly supports improved consumer awareness of general insurance. However, in seeking over the past several years to move towards simplified disclosure in the form of a 4-6 page summary document, the insurance industry has identified there are some inherent concerns (also noted by the High Court¹). Notwithstanding this, the industry has agreed to work

¹ See the judgment of Mildren J in *Marsh v CGU Insurance Ltd t/as Commercial Union Insurance [2004] NTCA* and in particular paragraph 11 of his judgment. When addressing the issue of whether the insurer 'clearly informed' the insured of a flood exclusion as required under section 35 of the Insurance Contracts Act 1984 (Cth) Mildren J of the Northern Territory Court of Appeal states:

"I do not consider that it is necessary for the relevant exclusion to be prominently displayed in bold capitals over the front cover in order for the insurer to succeed on this question. There are now a large number of "prescribed events" such as flood which are required to be excluded by clearly informing the proposed insured that they are not covered risks and it would be impractical to require them all to be so displayed."

with the Government on a one page summary document and the following is provided to assist in achieving the best outcome for consumers.

The purpose of the key fact sheet should be to assist customers to navigate the PDS, not to replace it.

A KFS can only be of some use to a customer if it makes it clear that all cover, exclusions and limitations are not outlined in it and that customers must still refer to the PDS and Policy Schedule (Certificate of Insurance) for full details of cover. It is important that personal responsibility is not lost as a result of the KFS. Additionally, it needs to be clear that the KFS is a summary only and is not a contract and that it may not take into account individual circumstances. Indeed, what is 'key' to a customer at claims time, in terms of cover and exclusions, depends on the facts and circumstances of individual claims.

The content of KFS should be principles based, and while some generic wording could be prescribed, the content should allow flexibility in differentiating coverage and encourage product innovation.

[Comments on Example Key Fact Statement Below](#)

Example KFS Section	Comment
Policy Name	Supported. If a single PDS is issued for both home building and contents cover, only one KFS should be required. To do otherwise would be confusing to a customer who has one policy that covers, for example, both building and contents.
Policy Type	<p>Not supported. The policy types listed are simply different examples of product innovations (which should not be limited). Furthermore, a home and contents policy could contain multiple elements in which case there would be no benefit to the customer in ticking multiple boxes. This could prove confusing where there are two policies covered in one PDS such as home building and contents.</p> <p>Furthermore, this does not distinguish between policies that provide 100% cover in that type and those that include limits to the policy or to specific cover under the policy.</p> <p>A preferable approach would be to allow a text box where an insurer must then the policy type and the broad terms of how the policy works.</p>
How to Use this Statement	Generally supported. However, there should be ongoing consultation with the industry on this issue. One element that should be included is a reference to the 'certificate/schedule of insurance' as one of the documents a customer needs to read if they decide to take out cover.
What is Covered	Any prescribed list should be a matter of consultation with the industry and should allow additional events/items to be included at the insurer's discretion.
What is Not Covered	Similarly, any prescription on 'what is not covered' needs to be a matter of consultation. While insurers may be able to provide high level summaries of some limits to cover, it needs to be quite clear that there are both general and specific exclusions and conditions – which are only going to

	be fully outlined in the PDS.
Covered amount	This is closely linked to the Policy Type section above.
Need to consider risks	A general comment is appropriate as long as it is plain language and consumer tested.
Cooling off	A general comment is appropriate as long as it is plain language and consumer tested.
Excess	<p>It is not feasible to have one 'standard' excess be included in the KFS. To provide greater flexibility to the customer, IAG brands have a range of excess levels available to enable a customer to have some control and choice in the premium they pay.</p> <p>If the amount of excess was required to be listed, any subsequent change to the excess would require the KFS to be reprinted.</p>
Optional Cover	The insurer should have discretion to include information about optional or additional cover, particularly information which differentiates the product benefits from those of its competitors.
Reverse side	This should be subject to further consultation with industry and could incorporate generic content by reference.
When should this be provided	<p>When taking out a policy the requirements should be similar to those of the PDS.</p> <p>If the customer requests a quote it should not be mandatory to provide the KFS. However, if the customer requests the KFS they could be referred to the insurer's website or have it posted to them.</p> <p>If the customer is not taking out a policy or requesting a quote but just wishes to review the KFS they could be referred to the insurer's website or have it posted to them on request.</p> <p>A cooling off period for the customer already exists to provide protection to the customer should they not wish to continue with this policy once they have read the KFS and PDS. This protection is important for customers who take out a policy over the phone and therefore may not have immediate access to a KFS or PDS.</p> <p>Customers would be greatly assisted in this regard if the Government amended the <i>Insurance Contracts Act</i> to enable electronic delivery of disclosure documents (eg, via email).</p>
Penalties	The existing regulatory framework provides sufficient protection.

Flood Mapping Development Framework

It is the role of Government to enable and encourage consumers to understand their level of risk and to take personal responsibility for taking appropriate action.

An increase in underwriting capacity for flood, and further competition in the market, can be facilitated by a nationally coordinated approach to accurate flood mapping (and digital elevation mapping) which remains the province of governments.

The challenge for insurers in providing flood cover to date has been a lack of data and lack of consistency in that data. The national flood mapping database should contain the same level and type of information for each area in Australia. Additionally, digital elevation mapping which

allows individual properties to be rated for flood risk (and other natural perils eg bushfires) is required.

The flood database should be available to the public so that individuals can understand their level of flood risk. This level of transparency is essential in reducing consumer confusion and encouraging people to take steps to manage their risk (eg, buying appropriate insurance cover, mitigation measures). A flood database would make decisions about mitigation measures, planning and building standards easier for individuals and local councils and ensure that consumers were more aware of the likely impact of their geographical location on costs such as land value and insurance costs.

There currently exists a public perception that insurers should inform customers of their level of risk and provide advice in relation to policies. It would be inappropriate and impractical for insurers to take on this role of communicating this risk to the public, which is properly the domain of local government.

Ultimately, the goal is to ensure that communities, planners, emergency services, individuals, property owners and insurers understand the flood (and indeed other natural perils) risks that they face, and that effective risk mitigation measures can be implemented for community members. A copy of my recent speech to CEDA which discusses a long term approach to adaptation and community education, is attached.

Time limits for claims handling

IAG considers that the timelines in the General Insurance Code of Practice (GICOP) already meet reasonable consumer expectations and in the vast majority of cases IAG's operating brands meet or indeed exceed these timelines.

IAG's internal dispute resolution processes follow the guidelines established by the GICOP, and are in line with the Financial Ombudsmen Services *Terms of Reference*, and ASIC Regulatory Guidance.

It must be recognised that the weather events this summer presented an unprecedented demand on claims departments as well as on resources such as claims staff, assessors and hydrologists. Even in this scenario, the vast majority of claims were settled within the guidelines in the Code of Practice.

IAG's experience in recent large natural disasters – Victorian Bushfires, Melbourne and Perth storms, and Cyclone Larry affirm that IAG, and more broadly the industry, respond in times of crisis in a timely and efficient manner. Indeed, updated figures released by the ICA confirm that the general industry has responded to the enormous task of assessing over 118,000 insurance claims received as a result of the QLD floods and Cyclone Yasi, with 97% of all claims having been assessed and the customers informed of the insurers decision.

Despite the excellent overall claims performance, some claims require more extensive investigation where the cause of damage is uncertain or where the insurer is reliant on third parties or the individual for further information to be able to finalise the claim. Assessments and hydrology reports take time, particularly in large events where the demand for resources such as assessors and hydrologists is high. However, where flood cover is available in addition to storm cover, there is less contention in these claims and reliance on these reports to determine the cause of damage is reduced.

Interestingly, CGU received feedback during the Victorian bushfires that some customers who had experienced trauma were not ready to make a claim and needed more time to go through the process as they did not want to rush into decisions such as whether to rebuild in the area or elsewhere.

Every event is different and it's important that insurers retain the flexibility to respond in the most appropriate way to a particular event.

(See Attachment – Claims Handling Process.)

Centrepay processing of premium payments

IAG operating brands' customers are generally satisfied with monthly instalment billing arrangements currently offered, but IAG continues to examine payment options that meet emerging customer demands.

Consumer Education – Natural Perils

While not explicitly sought in this Paper, consumer/community education and awareness is a key element in developing a sustainable flood risk management strategy. As an organisation, IAG and its retail brands work proactively to educate the community on the risk of natural perils. Across the country IAG brands run joint campaigns with our community partners to encourage the community to prepare their homes to help prevent the risk of property damage through weather events, eg,:

- With the support of NRMA Insurance, the Queensland Fire and Rescue Service has been able to provide over 8,000 Safehome visits since 2006, giving Queenslanders advice on the correct positioning, maintenance and replacement of smoke alarms, preparation of fire evacuation plans, and other general household fire safety tips;
- NRMA Insurance has also provided grants of up to \$1000 to 30 State Emergency Service (SES) groups to help them purchase vital equipment for storm readiness and response, such as pole pruners and chainsaws;
- The NRMA Insurance, SGIC and SGIO brands are the major sponsors of the Salvation Army Emergency Services (SAES) across Qld, NSW/ACT, SA and WA. The SAES provides practical support, hope and encouragement to victims and emergency workers in crisis or disaster situations. This helps the SAES to maintain and continue their emergency services program and provide much needed equipment such as shade tents, wet weather clothing and training items. Additional funding and support is also offered during major disasters.

As part of this, and through a variety of campaigns/events, IAG's retail brands encourage customers to check their level of insurance cover.

Disaster risk awareness and risk reduction education are effective when the public, private, education, and community sectors collaborate. To involve these many stakeholders, cross-sectoral platforms such as disaster risk reduction task forces or networks can promote a collaborative process for the creation, implementation and dissemination of risk awareness and risk reduction education programs and strategies.

Many government-sponsored and community programs continue to place heavy emphasis on emergency response and civilian response-preparedness. While important, this focus often fails to emphasise the individual and collective actions that can be taken prior to a disaster and

may even promote a sense of public helplessness. Risk awareness and education efforts should place emphasis on concrete risk reduction tools and strategies that can be adopted; moreover, to be fully effective and efficient, these efforts should take place at, and be targeted to, every level of society – at the individual, business, community, and governmental levels. As shown by recent events, the social and economic impact of large-scale catastrophes leads to human tragedy, and hinders growth and development. Building a comprehensive education/awareness program is widely recognised as a key plank in developing more resilient societies.

It is in the insurance industry's interest to educate the community on how to become more resilient to increasingly severe weather events such as floods, as well as how to reduce their impact on the environment. This includes conducting and sharing research which can feed directly into building and zoning codes.

IAG would be pleased to explore some options with the Government.

Conclusion

Flood remains a significant community issue that stands to worsen with the various inundation predictions arising from current weather volatility models. IAG believes that the social and economic impacts of weather volatility can be reduced in a society that has greater resilience to changed climate conditions.

If you wish to discuss this matter or make further inquiries please contact George Karagiannakis, Senior Advisor, External Relations on (02) 9292 9588.

Yours sincerely,

Michael Wilkins
Managing Director &
Chief Executive Officer

Attachment – Claims Handling Process

CGU Claims Handling

CGU responded to the Queensland floods in a number of ways:

- Providing and promoting a 24 hour claims hotline;
- Forming a dedicated local response team in Brisbane, utilising CGU's most experienced claims staff, to deal specifically with claims from the Queensland floods;
- Dividing claims into three categories according to level of damage and prioritising those customers who were most in need;
- Employing extra claims staff to deal with increased workload;
- Following a process to accurately assess claims and inform customers of the outcome as quickly as possible (see 'Claims Assessment Process');
- Forming an internal 'Flood Panel', from across the business, to determine more complex claims.

Claims Assessment Process

In any major event, the key priorities from a claims assessment perspective are to accurately establish the cause and severity of the damage and to assist customers.

As CGU's standard policies exclude flood, in the case of a major weather event it is a priority to establish whether damage was caused by an insured event (storm damage) or a non-insured event (flood damage).

Customer feedback from previous large weather events was that customers want to reach a resolution as soon as possible and be spared excess bureaucracy.

CGU assesses claims on a case-by-case. Accordingly, each claim may require a different level of information to make an assessment. This has an impact on the time taken to reach a decision in each case.

The process CGU followed to assess claims from the Queensland storms and floods were as follows:

1. CGU encouraged customers to contact the CGU 24-hour Claims Hotline (1800 252 461) or to lodge a claim through their insurance broker or adviser;
2. The CGU Claims team reviewed information relating to the claim before calling the customer back. This information may have included area assessor reports, aerial photography, information from customers, weather data and area hydrology reports;
3. The CGU Claims team then called the customer to either advise the outcome of the claim or to arrange for further investigations to be made in order to reach a decision on the claim (see '6');
4. If the claim was accepted, staff then discussed next steps with the customer. This may have included arranging make-safe repairs, obtaining quotes from builders, appointing an assessor or agreeing a cash settlement;
5. If the claim was rejected, the customer was informed by phone and sent a letter to confirm the decision. The letter included details of the options to pursue if the customer wished to dispute the outcome of the claim;
6. Where further information was required to make an accurate assessment of the claim, CGU arranged for an individual site assessment and/or a site specific hydrology report;

7. The claim was then reviewed and accepted or rejected on the basis of the additional information gathered; and
8. If a customer wished to dispute the outcome of a claim, they were able to refer their claim to the Internal Dispute Resolution (IDR) team (see Dispute Resolution Process section).

Despite the challenges presented by multiple weather events in Queensland and around Australia we resolved over 80% of claims relating to the floods and storms within 6 weeks of the event.

Assessing

CGU has an internal assessing team. The function was brought in-house in 2010 to ensure a more rapid response to severe weather events and to improve customer service.

CGU aims to have its assessing team on the ground as soon as possible following major events. For instance, in the case of the Queensland floods we had an assessing team on the ground in Toowoomba within 48 hours of the storm. The team stayed in the area for 2 weeks, visiting customers, making assessments and completing paperwork so that claims could be concluded as soon as possible.

In many cases the assessing team cash settled claims with customers, if that was their preferred option.

Our approach to claims in relation to the Queensland Floods:

When there was uncertainty over the proportion of damage caused by storm or flood water, CGU was pragmatic in its interpretation of policy wording.

For example, if damage was caused by a mixture of storm and flood water and the storm element of the damage could be identified, we accepted the storm proportion of the claim.

In other cases, we accepted claims where the flood proportion of the damage was minimal or hard to identify.

Despite these efforts, there were some properties which were obviously damaged by flood water and these claims were rejected, as flood is excluded from CGU's standard home and business policies.

Dispute Resolution Process

CGU's Internal Dispute Resolution (IDR) process follows the guidelines established by the General Insurance Code of Practice, and is in line with the Financial Ombudsmen Services *Terms of Reference*, and ASIC Regulatory Guidance.

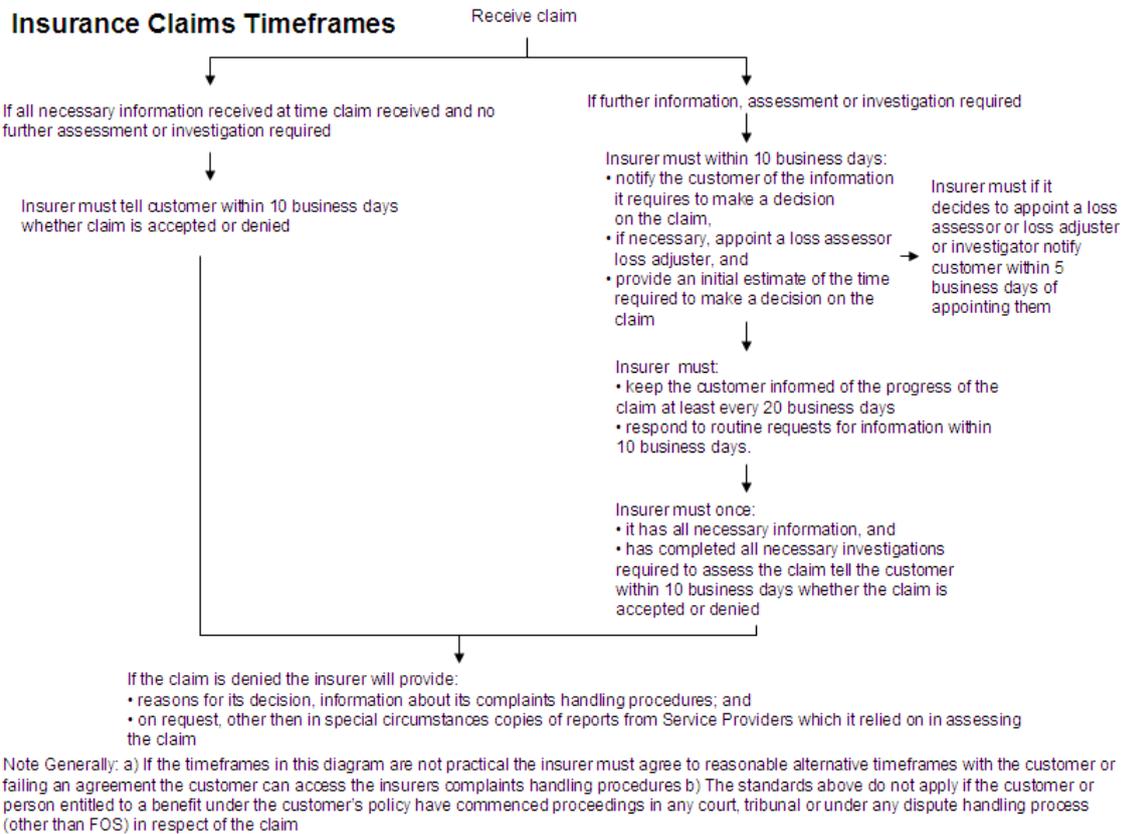
The IDR process provides the customer with a review of their claim independent of the original decision maker and to also present any additional information they feel may add to the validity of their claim.

If the claim denial is maintained, we will give the customer a 'final decision letter'. If the customer doesn't accept CGU's final decision, due within 45 calendar days from receipt of the initial complaint, the customer may escalate their dispute to the Financial Ombudsman Service. We proactively provide information and support to help them do this.

NRMA Insurance Claims Handling

Claims Assessment

In line with the GICOP the diagram below provides an overview of NRMA Insurance's claims management process. Customers must contact NRMA Insurance through the teleclaims call centre and log their claims over the phone.



Claims Determination

1. Flood claims are lodged in a “without prejudice” basis in those states and/or policies where it is not covered. The customer is informed upfront that flood is not covered and that the property will need to be assessed via an onsite inspection to determine the cause of damage. Once this has been established NRMA Insurance can be in a position to confirm their claim.
2. After reviewing the information, the claims consultant determines what further information is needed and makes contact with the customer.
3. Following discussion with the customer, which may include additional questions, if a determination is still not possible, the claims consultant may request further investigation of the claim.
4. Where the cause of damage has been unclear, NRMA Insurance provide customers with an extensive review before making a decision. This review includes:
 - a customer's account of events;
 - aerial images taken during the flooding;

- satellite imagery;
 - river level data; and
 - and an external hydrology assessment.
5. For those customers where the cause of damage may still remain unclear, NRMA Insurance request additional hydrology reports specific to their street or property. NRMA Insurance will always strive to get as much information as possible to see if NRMA Insurance can play a claim under the policy.
 6. As soon as NRMA Insurance have confirmation on the cause of damage, the consultant will make a determination and we inform the customer of the decision.
 7. If the claim is accepted, the customer will be advised of the next steps NRMA Insurance will take to repair the damage and their options in relation to the repair.
 8. If the claim is denied, the customer will be advised of the denial over the phone and will also receive written advice. The customer will be informed of the next steps to take should they wish to dispute the decision.
 9. Customers who wish to dispute a decision around their claim can go through a review by the NRMA Insurance disputes resolution team and the Financial Ombudsman Service. (See details of Internal Dispute Resolution processes below).

Dispute Resolution

NRMA Insurance treats each customer on a case by case basis. NRMA Insurance's Internal Dispute Resolution (IDR) process follows the guidelines established by the GICOP, and is also followed in line with the Financial Ombudsmen Services *Terms of Reference*, and under ASIC Regulatory Guidance.

The IDR process provides the customer with a review of their claim independent of the original decision maker and to also present any additional information they feel may add to the validity of their claim.

If the claim denial is maintained, NRMA Insurance will give the customer a 'final decision letter'. If the customer doesn't accept the final decision, due within 45 calendar days from receipt of the initial complaint, the customer may escalate their dispute externally e.g, to the Financial Ombudsman Service. NRMA Insurance proactively provide information and support to help them do this.

We have given NRMA Insurance customers the benefit of extensive review before making a decision. This review included a customer's account of events, an on-site property assessment, aerial images taken during the flooding, river level data and an external hydrology assessment.

ADDRESS TO CEDA

Mike Wilkins

Managing Director and Chief Executive Officer

Building Australia's resilience to natural disaster

11 April 2011

INTRODUCTION

Ladies and Gentlemen:

Australia is no stranger to natural disaster, but by any measure we've experienced an unusual concentration of significant natural disasters recently.

Floods, bushfires, massive cyclones and hailstorms have caused a tragic loss of life and destruction of property. If this wasn't enough, events in Japan and New Zealand have further underscored the vulnerability of so much of what we take for granted to the forces of nature.

In this context it's no surprise that we're now having a public discussion of how we increase our resilience to such threats.

This discussion will play out in forums like the National Disaster Insurance Review, the Queensland Commission of Inquiry into the circumstances around the recent floods and the ongoing COAG discussion on the national strategy for disaster resilience. IAG has a significant interest in this national conversation and we welcome the attention these issues are receiving.

As a large general insurer, responding to such events is central to our purpose. In Australia alone, we insure more than 5.5 million cars, 2.2 million homes and 200,000 businesses. As a Group we have around 34 million risks in force around the globe, covering \$1.2 trillion worth of property.

However the outcome of this debate isn't just of interest to us as an insurer – it is of critical national importance to all of us – individuals, governments, and businesses. For its ongoing economic health, Australia must build its national resilience to severe weather events – the sorts of events that are expected to increase in the coming years.

As the Committee for Economic Development of Australia is aware, there are no easy solutions to such complex issues. It's therefore important we avoid the temptation to indulge in a national 'window dressing' exercise that may provide a short-term political fix but ultimately leaves us with the same systemic vulnerabilities to the next major disaster.

I do have concerns about the quality of the public debate we've had to date and worry that we risk travelling down this very path – and I will outline some of these today.

However, I also want to detail a positive approach for a solution that will enable us to build our resilience in a sustainable, fair and economically efficient way.

Naturally I see the private insurance industry playing an important role, however there are also significant responsibilities for governments, planning authorities, builders, developers and for each of us as private individuals.

ROLE OF INSURANCE

First, let's look at the role of the insurance industry.

I've worked in insurance for over 25 years and it's an industry I've always been proud to be associated with. Insurance is the ultimate community product and a key part of the nation's economic infrastructure, underpinning much of our national economic activity, from building a skyscraper to purchasing a family car.

When the worst does happen, insurers step in to help families and businesses quickly get on with their lives, minimising disruption and economic fallout. Recent events have demonstrated this again, and I'm proud of the role played by all our people in IAG and workers across the entire industry to provide certainty and assist their customers.

To illustrate, in Australia, general insurers pay out an average of \$80 million in claims each and every working day.

About \$20 billion worth of claims payments flow each year to Australians in their time of need.

A financial injection of this scale removes a substantial burden from government and taxpayers – freeing up funds to be dedicated to essential public services and other more productive enterprises.

IAG expects to pay the vast majority of the 35,000 claims its NRMA Insurance and CGU brands have received from the severe weather events this year, which includes the floods. In general, over 98% of insurance claims are paid without dispute, according to figures provided by the Financial Ombudsman Service.

Yet if you were to believe some of the more sensationalist coverage in the aftermath of the flooding in Queensland in particular, you'd be left with the impression that insurers were actually trying to avoid paying legitimate claims.

The idea insurers would seek to avoid paying valid claims makes no logical sense. Every sensible insurer seeks to pay claims in a responsible way, because that ultimately helps our businesses. Paying claims is core to our economic purpose. It's always been my experience that if there is any doubt about a claim, insurers will err on the side of the customer.

If they did not take this approach to paying claims, the industry would cease to exist because its customers would quickly desert it. Governments would be forced to find an additional \$20 billion in the budget to fill the gap.

However, insurers must act with accountability and in the interests of all their customers – we all remember the pain caused by the collapse of HIH. Knee-jerk calls for insurers to pay for an event for which they had not been collecting premiums were reckless.

Uncovered payouts would drain the Australian insurance industry of billions of dollars, presenting a solvency issue and endangering the cover of the millions of other Australians who pay premiums for other risks like bushfire or hail, and justifiably expect their insurer to be able to cover these.

Some of you may be thinking: that's all very well but why weren't more insurers offering cover for flood in Queensland? Why do most insurers cover flash-flooding or the sudden excess run-off of stormwater, but they don't cover riverine flood? After all, isn't all water damage the same?

From an underwriting perspective the difference is significant; they are two completely different types of risk. Stormwater run-off, or flash flooding, is a risk that applies more or less evenly to the vast majority of properties around Australia. If you get enough rain in one place, the water has to go somewhere and it will often go inside a house. This sort of general risk can be fairly and evenly distributed through a large insurance pool.

On the other hand, riverine flood – caused by water rising out of a river or body of water bursting its banks, often quite some time after the rain has stopped – is a certainty that affects less than 3% of all properties in Australia – a miniscule proportion.

In some locations – on floodplains or around watercourses, such riverine flooding is not a risk; it is a guaranteed event every few years. The Bureau of Meteorology's records for the Bremer River in Ipswich, for example, show there have been 11 major floods of over 15 metres there over the past 170 years.

Let me explain the consequences of this in more detail, using a specific example. Consider a house on the Bremer River flood plain and let's conservatively assume that the cost of significant repair to the house's structure and total loss of contents after each of these major floods is about \$150,000 in today's terms.

Nominally, the annual expense of the flood risk alone for this conservative example is well over \$5,000. And this doesn't include theft, fire, state government taxes or other considerations.

How does the vast majority of the community, that has no flood risk at all, feel about cross-subsidising risks like these – when they have arisen from poor planning decisions?

When floodwater enters and remains in a house it causes extensive damage, and the cost of the damage increases rapidly according to the depth of the water from the floor – that's the difference between replacing just carpets, to replacing entire kitchens, contents and having to do a substantial structural rebuild.

From this one example you can see why it is so important for insurers to have detailed riverine flood mapping and data – including information on the depth of floodwaters for different events – before they can accurately price a product in a way that is fair to all customers.

Yet in Queensland, this data – which is the responsibility of local councils – has largely been unavailable, despite the industry seeking access to it over many years.

For over 90% of Queensland catchments little or no data is made available. While some local governments have been proactive and forthcoming with the data, unfortunately there are many that simply do not have it and others who have not been willing to provide it.

This is a serious abrogation of responsibility and must be addressed as a priority if we are to build resilience to flood – particularly in Queensland.

IAG has made a clear commitment: once we are provided with the data we will deliver flood cover.

This commitment is borne out by the fact that we already do provide flood cover in states where this information has been made available – such as NSW and others.

The insurance industry recognises that we have a role to play in increasing understanding of what is included in a premium and we actually proposed a standard definition for flood to address the issue of confusion three years ago. Unfortunately it was rejected following protests from consumer campaigners who felt it may lead to collusion.

At IAG we are careful to be explicit in all our documents about what is and isn't included in the cover and we are always open to considering other initiatives that will improve clarity for our customers. Along with the industry we welcome the renewed support for a standard definition and we commit ourselves to working constructively with the government on achieving these positive outcomes.

It shouldn't be assumed, however that a common definition will lead to universal flood cover. Unfortunately there will always be a very small number of risks that are simply unaffordable and people may opt out – I'll come back to this point.

AFFORDABILITY OF INSURANCE

I mentioned earlier that the private insurance industry injects \$20 billion in claims payments annually, directly to the neediest points of the economy. Clearly it is in our national economic interests to create the conditions to encourage Australians to take responsibility for their own personal risks via insurance.

The broader the uptake of insurance, the lower the burden on the taxpayer in times of need.

Yet underinsurance remains a chronic problem in Australia. Almost two million Australian households are thought not to have any cover and it is likely that a larger number are under-insured. This is evidenced by clear and consistent numbers of uninsured after each disaster.

This leads to a clear economic risk: when there is a major bushfire, hailstorm or flood, there is a strong expectation that the government or taxpayer will step in to help those who do not have cover.

This reaction is understandable to a point – none of us likes to see our neighbours suffering. However, wouldn't it be a far better long-term proposition to ensure that more people and businesses had taken the decision to cover themselves in the first place?

“Bail-outs” quickly become a negative cycle. Each time the government steps in; it reduces the imperative for people to take responsibility for their own personal risks and increases the likelihood of major diversion of taxpayer funds next time around.

For this reason the affordability and accessibility of insurance is a key issue – the lower the price the higher the uptake and the more effective the national cover.

Tax is a major contributor to the cost of insurance policies and Australians pay more tax on their insurance than just about any other nation – about \$4.25 billion in total (a figure that has been rising rapidly). In some states, home and contents or business policies are taxed on a similar level to gambling or tobacco.

In particular, inefficient state levies – such as insurance stamp duty and NSW's fire services levy – need to be replaced as a priority with more equitable revenue measures. In NSW, taxes can add a crippling \$40 to every \$100 of premium. The Victorian Bushfire Royal Commission clearly recognised the impact of state taxes on levels of insurance in danger areas and numerous other independent reviews, including the Henry Review, have made similar findings.

However, even with the right tax reform, the affordability of private insurance is likely to remain an issue for a very small proportion of properties where poor planning decisions have placed those properties at an extremely high risk – just think back to that house on the Bremer River floodplain I mentioned earlier.

Community rating has been suggested as a solution, but it would involve significant cross-subsidisation. There is considerable moral hazard involved with people in areas with very low risk or zero risk subsidising the high costs of those who live in areas of high risk.

This is why IAG does not support the concept of a national disaster pool. Not only does it lead to people paying for risks that are not theirs, but the cost of such a scheme to government would also balloon significantly as the incidence of catastrophes and the expense of the contents in our homes increases. A national pool would inevitably become a huge drain on government resources. These pools are only appropriate where there is no private solution available – such as with the terrorism pool. This is not the case for natural disasters and such a pool would ultimately hamstring our economy.

While there may be a limited role for governments in assisting those in financial need or on low income, there must be great care that this does not send the wrong price signal and lead to people building in dangerous areas or choosing to rely on government bail-outs. If assistance were to be provided, it would need to be accompanied by a counter-balancing policy setting (possibly via an income tax rebate similar to the private health rebate) to ensure the incentive for self-responsibility remained.

By far the most sustainable way to manage the cost of risk in the longer term is to ensure that our community is adequately prepared and is adapting to the changing nature of its risks.

ADAPTATION

Adaptation measures are at the core of the solution we propose for building community resilience – and this is an area in which IAG is already playing an active role.

Prevention is always preferable to cure and as a community we must recognise that we are confronting changing and growing risks.

Adaptation offers a long-term “win-win”, as it reduces the exposure to risks and reduces the cost of claims. In turn, this helps to keep the cost of insurance down.

There are five areas of adaptation we believe would significantly enhance our resilience for the benefit of all:

1. First, planning authorities must be a lot tougher and more transparent about their **planning and zoning decisions**. Development simply shouldn't be allowed in areas of unacceptable danger.

In those few areas where the risk is extreme and the cost of cover or other protective action is simply uneconomic, governments may need to look at the difficult decision to resume land.

This is not just a cost issue – it is a moral issue when the lives of residents and emergency workers may be at stake.

It is also unacceptable that local governments should withhold information about these risks simply to protect land value or themselves from legal action. Quite simply, this information is too important to our national safety and economic health. It must be freely available to every Australian who wants it.

It stands to reason that where an individual has a greater understanding of their personal risks, they will take action to minimise that exposure. Across a community this can have a very powerful effect and transparency would be a great step towards encouraging this.

2. Related to this point, government should invest in highly detailed **digital elevation mapping** for the country so that our exposure to flood and bushfire can be more adequately understood. The Bureau of Meteorology should be made the central repository for all national flood information and data. Flood information is of use to a range of stakeholders beyond the local councils, including planners, developers, builders, architects, banks, building societies, residents and, of course, insurers.
3. Third, in those areas where questionable planning decisions have been made in the past, there needs to be investment in adequate **mitigation infrastructure**. This will provide a solution where decisions have resulted in major development that simply cannot be reversed – for example, in heavily populated areas like Brisbane and around other towns susceptible to flood, changing tides or bushfire.

Protective works could include barrages for unusual tides, levee banks, sea walls, properly maintained fire breaks and access trails, improved drainage and dams.

Infrastructure investment is not only a down-payment for future resilience – it generates economic activity and it would keep the price of insurance down in places like Ipswich.

4. Fourth, **building standards** must be strengthened to ensure we are adequately prepared for changing risks. The improvement to building codes in cyclone-prone areas in north Queensland following Tropical Cyclone Larry contributed significantly to resilience of homes hit by Yasi.

IAG is playing a role here by providing our claims data to research and academic bodies such as the cyclone testing station at James Cook University. This data is used to recommend refinements to building standards in areas of higher risk. Our world-recognised research centre has also examined the impact of hailstones on different roofing materials and this information has been shared with industry bodies to help them educate their members.

However, developers, builders and planners must also ensure building standards are appropriate. In certain areas of extreme risk, building standards may need to involve:

- Construction from fire-resistant materials.
 - Higher up-lift in flood plains – old Queenslanders were built on stilts for a very good reason.
 - The use of under-roof sarking to prevent the entry of water in cyclone areas – and reinforcement for features like garage doors that often break loose, causing significant additional damage, cost and potentially injury.
5. Finally, there needs to be a focus on **community education** and understanding of the importance of taking responsibility for ourselves.

Australians have always been proud of our national qualities of independence and self-reliance. If we want to maintain the relative economic advantage we've enjoyed recently, we must do everything we can to resist any drift towards a compensation culture where people simply rely on "hand-outs". This attitude would hamstring our ongoing competitiveness.

As I've mentioned, an important first step in building community awareness will be ensuring local communities understand the risks that apply to their area. Too many people are simply not aware that they live in an area that has been subject to flood or fire many times in the past.

IAG is also playing an active role in this space. Our businesses use their understanding of risks developed from claims data to partner with organisations like the SES and Salvation Army Emergency Services to conduct seasonal customer and community education campaigns in the peak bushfire, cyclone, storm and flood seasons.

The OECD has developed a comprehensive guidance paper for a national education framework on natural perils. These include public awareness campaigns such as those I've just mentioned, grass-roots campaigns, informational websites,

cross sectoral partnerships to introduce risk awareness into education programs and action by employers to educate their employees.

Investing in a combination of these adaptation measures will help us to be more resilient to the next major bushfire, hailstorm or flooding event; and will help keep the costs of cover down.

CONCLUSION

To conclude, recent months have been a tragic and challenging time for many Australians.

We value our lifestyle and we increasingly choose to live clustered along the coast or in bush-fringed towns and suburbs – yet our environment presents us with a series of real risks and some of these risks are becoming more severe as our population density increases. The possible effects of climate change add an additional layer of uncertainty.

Despite the temptation to believe otherwise, there is no “silver bullet” that will address these complex challenges. Rather than seeking the silver bullet, as a community we must accept we have a shared responsibility to work together on the solution.

In particular, I welcome COAG’s recent commitment to building our resilience and look forward to working with all levels of government to realise this outcome.

The current national discussion is the perfect opportunity for us to take real strides towards building our national resilience. Let’s make sure the next time we are confronted by such an unusual concentration of natural disasters, we have grasped that opportunity and extracted maximum value from this discussion.