11 August 2011

Committee Secretary
House of Representatives Standing Committee
on Social Policy and Legal Affairs
PO Box 6021
Parliament House
CANBERRA ACT 2600

Via email: spla.reps@aph.gov.au

Insurance Australia Group (IAG) welcomes the opportunity to make a submission to the Committee’s Inquiry into the operation of the insurance industry during disaster events.

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 and paid around $5.5 billion in claims per annum. It employs more than 12,700 people of which around 9,000 are in Australia. Across Australia, IAG insures 5.5 million cars, 2.2 million homes, 73,400 farms, 145,000 employers and 207,500 businesses. IAG insures approximately one in three motor vehicles, and one in four homes, in Australia.

IAG’s Direct Insurance business provides personal insurance products as well as business insurance packages targeted at sole operators and smaller businesses are in NSW, ACT, Queensland and Tasmania primarily under the NRMA Insurance brand. SGIO is the primary brand in Western Australia, and SGIC in South Australia. In Australia, IAG also has a distribution agreement with RACV (underwritten by Insurance Manufacturers of Australia – owned 70% IAG; 30% RACV) in Victoria. Products are distributed through branches, call centres, the internet and representatives.

IAG’s intermediated insurance products are sold nationally, 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.

As an insurer, we are committed to assisting our customers manage and reduce their risks and, in the event of unexpected loss, we support customers and communities in recovering and rebuilding.

Through its Australian businesses IAG is currently expanding its flood insurance products and aims to offer flood cover to its home and contents customers in Australia during 2012.

The decision by IAG’s operating businesses to offer flood insurance in home and contents policies addresses the community’s feedback that it wants greater clarity around insurance for different types of water damage. Flood cover will provide all our customers with absolute certainty and confidence that they are covered for both stormwater and flood damage.
IAG welcomes the Federal Government’s initiative to introduce a workable standard definition for flood.

We look forward to working with the government and other stakeholders on the development of the most appropriate options to achieve the social and economic policy objectives, and to support a move towards a more sustainable and comprehensive approach to managing the impact of natural disasters on the community.

Section 1 of this submission addresses a number of the broad areas relevant to future policy directions in relation to natural disasters and relevant to all IAG operating brands.

As operating brands are responsible for their own customers and claims handling, IAG operating brands address the claims processing elements of the Inquiry’s Terms of Reference in Sections 2 and 3 of this submission.

Details of IAG’s claims numbers arising from recent natural disasters are outlined in confidential appendix 1.

If you wish to discuss the issues outlined in the submission or make further inquiries please contact David Wellfare, Senior Adviser, Economics & Policy on (02) 9292 8593 or me on (02) 9292 9291.

Yours sincerely,

Michael J Wilkins
Managing Director &
Chief Executive Officer
Section 1

1.1 INTRODUCTION

Recent natural disasters have understandably generated a national discussion of how we may reduce our vulnerability to natural hazard threats.

This discussion provides us with a unique opportunity to develop a more sustainable and comprehensive national approach to managing natural disasters, and the outcome of the current debate is of critical national and economic importance to governments, businesses and individuals.

We are seeing increases in both the incidence of natural disasters, and our population (particularly around coastal areas which are prone to some types of natural disasters). This combination makes it all the more important that we increase our resilience to catastrophe so we spend less of our limited resources on rebuilding and more on investing in the future.

IAG believes the current circumstances present us with an opportunity to develop a national, long-term approach to managing catastrophe risk, through a co-ordinated response to natural hazards, including:

- building greater awareness among individuals of their own personal risk;
- encouraging a more efficient distribution of these risks via insurance; and
- adapting our built environment to reduce the impact of events when they do occur.

Such an approach will not only be of benefit in regard to flood, but will help make the community more resilient to a range of risks including bushfire, land subsidence and sea water damage. These and other natural hazards should be included in the approach which is ultimately adopted.

IAG appreciates that the Federal Government is mindful of a general policy, adopted by successive Australian Governments in recent times, to the effect that where commercial markets, including insurance markets, operate efficiently and effectively on their own, the government should be reluctant to intervene.

1.2 BACKGROUND

1.2.1 IAG’s Interest in the Inquiry

Flood is a persistent risk in the Australian community. It historically accounts for one third of natural hazard damage (Bureau of Transport Economics 2001).

The 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.”

Flood remains a significant and complex community issue, and floods are likely to become more common according to 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.

1.2.2 How the Industry is Responding

The insurance industry is currently working in conjunction with the State and Federal Governments on a number of initiatives designed to address flooding in Australia. These initiatives vary from improved disclosure to improved community infrastructure, as there is no simple, single solution to flood risk mitigation.
A national policy approach is needed to better deal with a number of challenges presented by floods in those communities at risk.

The key objectives of the Australian insurance industry’s plan are:

1. Standard definition of flood
2. Improved disclosure
3. Provision of adequate flood data
4. Removal of insurance taxes
5. Improved land-use planning
6. Improve building standards
7. Improve community infrastructure
8. Education and financial literacy campaign
9. Measure effectiveness of disaster relief payments
10. Better advice to consumers


1.3 A HOLISTIC SOLUTION – MITIGATING THE RISKS

Most importantly, the policy response to recent natural perils must go beyond insurance. More flood products will not prevent floods from occurring in future. To truly build the resilience of our communities and reduce their exposure to significant natural peril risk, a broader response is required. IAG advocates:

- Higher quality planning standards must be required of local government, to ensure no further development is allowed in areas of unacceptable risk. In addition, existing owners of property in high risk areas should be provided with incentives to relocate to areas with less risk. The New Zealand Government’s initiative in reclaiming land in Christchurch is an important example in this regard;
- Building standards must reflect the need to protect property against the risk of flood and other natural hazards in certain locations, in addition to the current focus on protecting lives – the two go hand in hand;
- All levels of government – led by the Federal government – must significantly boost their low investment in mitigation infrastructure (such as levees and barrages) that will protect assets like homes and businesses, and lower the cost of risk. IAG is offering to work with local governments that experience natural hazards to assist in understanding the vulnerability of the risks and examine cost effective mitigation measures; and
- There must be greater availability of and transparency around the mapping and information which will help householders and businesses understand the flood risk in their location. This information has significant economic value, as it reduces risk, will benefit planning authorities, banks, financiers and developers, and allow insurers to underwrite the risks with maximum certainty. Again, IAG is developing a community awareness program that will assist Australians in understanding the risks they face in their environment and possible options for reducing that risk. IAG would support moves by the Federal Government to have:
  - All States and Territories take urgent steps to ensure the flood mapping data produced by local governments in their jurisdiction is made available to the insurance industry and other relevant stakeholders, including if necessary by legislation; and
  - The Federal Government in collaboration with States and Territories progress longer term issues and develop a proposal for Government on a national approach to flood modelling, with costed options.

1.3.1 Measuring Flood Risk

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 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 (such as understanding the flood risk of a property they are buying and purchasing appropriate insurance cover). A flood database would make decisions about mitigation measures, planning and building standards easier for local councils and ensure consumers were more aware of the likely impact of their geographical location on costs such as land value and insurance premiums.

It would be inappropriate and impractical for insurers to take on the role of communicating this risk to the public, which is properly the domain of local government. In addition, under existing laws, only licensed advisers can provide financial advice.

Ultimately, the goal is to ensure that communities, planners, emergency services, individuals, property owners and insurers understand the flood (and indeed other natural peril) risks that they face, and that effective risk mitigation measures can be undertaken.

As the Attorney-General’s Department outlined in its submission to the Senate Standing Committee on Environment and Communications Inquiry into emergency communications (2011):

“Providing communities with information empowers them to make more informed judgements. Key to this is the availability and accessibility of transparent, accurate and trusted information sources in various forms and providing the tools to help communities understand and act on the material provided. While providing information and warnings is important, educating people how to respond is equally important.” (p. 7).

As the ICA notes in their submission to the NDIR:

"Without a national repository of publicly funded flood maps, where it can be guaranteed that all possible information has been made available, a gap analysis completed, and a national standard for future mapping established, there will always be an unknown element regarding the level of property risk nationwide. This unknown risk is a complicating factor for insurance companies when allocating capital and reinsurance to cover potential losses and to establish an appropriate risk premium." (ICA Submission to NDIR p.7)

1.3.1.1 Flood Risk Data/Mapping

In responding to this issue the insurance industry has argued that the provision of flood insurance relies largely on the availability of adequate flood mapping and other information to enable the underwriting of risks. In partnership with each of the State Governments, the general insurance industry has developed and licensed the National Flood Information Database (NFID). NFID is an address database containing property addresses, overlayed with the known flood risk according to Government flood mapping. NFID is used by insurers to determine the flood risk to individual properties. Presently, not every flood prone area in Australia is covered by the NFID.

IAG is an active participant in the general insurance industry’s considerable work towards developing greater access to residential flood products for Australian communities. Through the ICA, the industry is developing a national flood mapping tool to support better understanding of the risks to the community. Cooperation and data sharing with government is essential to ensuring that the risks can be mapped and understood, and significant solutions are yet to be implemented.

IAG contends that flood maps represent information that is of significant public interest and importance and that it would be inappropriate for governments to restrict in any way public access to flood map data. All parties with a legitimate interest in a property – including potential purchasers, tenants, residents, developers and insurers – should have access to up-to-date flood risk mapping data.
1.3.2 Areas of Government Responsibility

IAG is working with the ICA and governments on how to develop more effective and sustainable responses to disasters in Australia. IAG suggests that key areas of government responsibility include building standards and planning codes.

1.3.3 Risk Mitigation

IAG recognises the crucial role of government in providing a comprehensive and clearly-defined regulatory framework that promotes community resilience to risk and facilitates more affordable premiums and more predictable claim costs. Government has a particular role in encouraging and regulating risk-appropriate development of the built environment and providing an appropriate emergency services framework.

To further mitigate against risk, IAG believes there is a need for greater emphasis by government on community adaptation to extreme weather events, including stronger building codes to protect structures from extreme weather hazards; more risk-appropriate use of land; and greater emphasis on hazard mitigation infrastructure.

Moreover, individuals and communities need to take personal responsibility to understand what risks they are insuring against and individuals need to financially protect themselves against loss. As the COAG National Strategy for Disaster Resilience (February 2011), highlighted:

"Underpinning a disaster resilient community is knowledge and understanding of local disaster risks. We all share responsibility to understand these risks, and how they might affect us. By understanding the nature and extent of risks, we can seek to control their impacts and inform the way we prepare for and recover from them".

1.3.3.1 Building Standards

IAG’s post-event analysis of building damage after a number of major natural disasters indicates there is a crucial role for government to support community resilience by ensuring that new buildings in “at-risk” areas are constructed to withstand hazards such as flood, cyclone, hailstorm and fire.

Until now, building code standards have focused in principle on protecting life and safety. IAG suggests there is scope to enhance building standards so that they also cost-effectively protect the property itself, and its owner’s financial interest, without sacrificing safety performance.

Some of the strategies focusing on protecting life and built property are achieved through land use planning and zoning instruments. Strategies include:

- Minimum floor heights and structural requirements for foundations;
- Deep setback of buildings from rivers/shorelines;
- Relocation of buildings or infrastructure (including capacity for emergency relocation of demountable buildings); and
- Monitoring, emergency warning and evacuation procedures.

Examples of additional measures available include:

- Investment in permanent engineering structures such flood barriers, canals, dykes, pumps, levees, and importation of fill;
- Plantings (such as dune grasses, mangroves) to absorb water and/or stabilise erosion-prone surfaces;
- Sacrifice of land; and
- Land buyback schemes.

Improving the resilience of the built environment to severe weather and natural disasters, will also enhance the community’s economic and social resilience.
IAG notes that severe weather events can cause significant and costly physical damage to ancillary structures such as fences and sheds that are not currently covered by building standards. There is scope for further data analysis and research in this area to inform a review of the current situation.

1.3.3.2 Planning Codes

Government has a crucial role to play in risk-appropriate land use planning and zoning. Land that is, or becomes, at unacceptable risk from hazards such as bushfire, flood or coastal inundation should not be zoned for residential or commercial use. Without sound and consistent government controls, there is little to prevent ongoing building in locations of extreme vulnerability.

This is a particular challenge for Local and State Government if not supported by a consistent Federal Government approach to such matters.

The example of the New Zealand Government offering to purchase land in the “red zone” of Christchurch is particularly relevant.

1.3.3.3 Impact of Non-insurance

IAG believes individuals electing not to insure their assets place a burden on the community when governments, in the absence of private insurance, are faced with the position of taking on the responsibility of insurer of “last resort”. While there may be an equity argument for individuals who are financially disadvantaged to access government assistance, open-ended assistance is inequitable when it is provided to individuals who are able to responsibly insure, but choose not to do so.

Open-ended government assistance further reduces the incentive for private insurance. Clearly there is a role for governments to ensure appropriate risk management policy settings do not crowd out the private insurance market. Governments need to avoid interventions that promote dependence on government assistance and reduce incentives for self-reliance and personal responsibility. Indeed, as the Productivity Commission’s Draft Inquiry Report into Government Drought Support (2008) noted: “It is also important that governments do not blur the boundaries between risk management and equity objectives” (p.165).

If governments see a need to provide financial support to non-insureds, IAG considers that a counter-balancing policy setting, possibly using an income tax measure, is required to ensure there remains continued incentive for individuals to exercise prudent risk management by taking out private insurance.

The Australian Attorney-General has recently stated:

“Put simply it is counter-productive if government assistance acts as a disincentive to people taking steps to build their own resilience – such as taking out insurance. I believe we need to be more strategic and more ambitious than just getting people back on their feet – only to be knocked down again.”

“…disaster relief and recovery assistance should not supplant, or operate as a disincentive for, cost effective insurance or disaster mitigation. The Commonwealth is also working with the insurance industry on the identification of priority flood mapping needs. This has informed work that my department is undertaking with the states and territories to look at improving flood mapping. This will not only help with insurance coverage but also with better land use planning and emergency response.” (16 May 2011)

1.3.3.4 Taxation Reform

Australian Bureau of Statistics (ABS) data indicate that nationally, taxes on insurance totalled $4,505 million in 2008-09, up $255 million or 6.0% on 2007-08, and accounted for 1.3% of total taxation revenue collected in Australia in 2008-2009.

State taxes have an impact on insurance affordability and, in turn, non-insurance. The impact of combined Federal and State Government taxes and charges on insurance premiums is to increase an insurance premium in metropolitan areas by up to 77.9% for business insurance, and up to 44.0% for home insurance. In rural Victoria the impost is even higher. (IAG submission to the New South

Details of taxes on insurance are outlined below.

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Source: ABS (2010), Taxation Revenue Australia 2008-09, Cat.No. 5506.0, April 2010.

Taxes on Insurance 2008-09

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Source: ABS (2010), Taxation Revenue Australia 2008-09, Cat.No. 5506.0, April 2010.

Governments should recognise the essential benefits of insurance to the economy and community generally and implement a taxation system which does not penalise insurance relative to other more discretionary purchases.

IAG therefore argues that there is a clear social and economic case for eliminating, or at least reducing, state insurance taxes and charges as a priority for any reform agenda.

1.3.3.5 Compulsory Insurance

While appearing to offer a simple solution to a complex problem, any compulsory scheme would present its own policy challenges. Compulsion requires an enforcement regime. Statutory compulsion mandates extensive regulatory intervention in pricing, distribution and service delivery.

Compulsion may result in a desire by government to include cross subsidies in the flood pricing structures to spread the costs away from a pure risk basis, to the broader community thus improving affordability in flood prone areas. This could reduce the awareness of the appropriate extent of risk across the community. Mandated minimum cover would reduce the incentive to understand risks and take out the appropriate form of insurance, which would be a major disadvantage. In this way, the community would potentially be less likely to take steps to reduce risk around their own properties.

Furthermore, compulsion is a disadvantage as it could risk smothering the innovation that comes with the drive for difference in a highly competitive insurance market. IAG via its operating brands is continually striving to improve the way in which we respond to each event, lifting the bar each time to surpass our competitors in terms of the quality of our disaster response and during claims time. Claims time for insurers is the moment of truth, and is arguably the most significant and important point of contact we have with our customers.

1.3.3.6 Cash Settlements

Following a natural disaster, customers can choose to rebuild their home and have their insurer take care of the rebuilding of the property, using its reliable suppliers and tradespeople to complete the rebuild as quickly as possible.
Customers also have an option of going through a process in their own time and in their own way. This can be facilitated by cash settlement. Cash settlement puts the onus on the customer to source whichever suppliers they would like to use, to conduct repairs now or later, rebuild the home or move elsewhere as they see fit, without the need to further consult with their insurer. A cash settlement figure would be a negotiated form of claim settlement.

For instance, following the Victorian bushfires, it took some customers many months before they felt able to face starting repairs to their home and some wanted to move or rebuild elsewhere. To combine financial certainty with the flexibility to make these decisions in their own time, some customers wanted a cash settlement.

While customers can be offered cash settlement as an alternative, IAG’s businesses will not try to influence the customer’s take up of this offer and customers are always very welcome to work with us to rebuild their home if that is their preferred option. Customers’ priorities, individual circumstances and preferences dictate how claims are settled. IAG believes it is important to retain this flexibility.

1.3.3.7 Accurate Levels of Cover

IAG continues to improve its ability to accurately identify risks at a geographical, suburb and even individual household level. NRMA Insurance, SGIC and SGIO, for example, have implemented a Home Buildings Sum Insured Calculator which enhances their ability to provide customers with a more accurate sum insured – or a dollar value to replace their home buildings. The calculated sum insured is based on data provided by an external supplier (Cordell Information) and is updated quarterly.

All customers taking out new policies are required to go through the calculator process. To help prevent underinsurance, we use our knowledge and years of claims experience to check that customer’s sum insurance falls within a range that would be accurate for their type of building. If it looks like a customer may be at risk of underinsurance, they will need to go through a process of providing more information. If an accurate level of insurance cannot be agreed, we will consider declining to provide cover.

Sum insured policies provide clarity on values for the consumer, limiting insurers’ potential loss, keeping the exposure stable for reinsurers and therefore keeping products more affordable for consumers. Furthermore, price signals are an important factor in consumers’ aware of their risk.

NRMA Insurance has also recently introduced a new home and contents product called “Home Plus”. Home Plus provides customers with a higher level of cover than the standard home product and gives them simple and flexible options to choose from when protecting their home and contents. We recognise that widespread disasters can lead to a high demand for building services which can increase rebuilding costs, as well as contents replacement costs. So, along with other key policy features, NRMA Insurance’s “Home Plus” product offers a safety net of up to 25% on top of the sum insured for both the buildings and general contents sum insureds.

1.3.4 Consumer Awareness of Risk and Insurance

IAG and its operating businesses work proactively to educate the community on the risk of natural perils. Across the country we 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. As part of this, we encourage consumers to check their level of insurance cover and participate with our organisation in ways other than just at sales and claim time.

IAG’s product documents are explicit about what is and is not included in the cover being sold. Indeed, policy terms and conditions, including coverage and exclusions are clearly outlined in Product Disclosure Statements and communicated to customers. Importantly, IAG supports the industry commitment to simplify and improve insurance product disclosure statement summary arrangements to enhance consumer understanding of insurance cover. IAG also supports reform efforts to include a common definition of flood in the Insurance Contracts Act for reference by insurers that offer flood insurance.

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.

1.4 IAG PROCESSING OF CLAIMS AND DISPUTE RESOLUTION

As companies which operate under separate brands and business models, it is appropriate for the IAG businesses to respond individually to the claims handling element of the Inquiry.

The operating businesses have different customer bases, distribution models and processes and each are responsible for their own customers and claims handling.

While differences in approaches exist, reflecting the needs of two different businesses, the principles underpinning the approach are consistent across IAG.

In all IAG businesses, customers are our priority and claims time is viewed as the most important part of the insurance cycle. IAG’s businesses have extensive experience in handling claims, both day to day and after catastrophes.

All IAG businesses employ claims handling processes which are designed to be the most effective in any given scenario. No catastrophe is the same and each has its own set of unforeseen challenges. IAG businesses build on their extensive experience to respond decisively and flexibly to events as they unfold and use resources in the most efficient way possible, while putting customers first.

IAG’s internal dispute resolution processes follow the guidelines established by the General Insurance Code of Practice (GICOP), and are in line with the Financial Ombudsmen Services (FOS) Terms of Reference, and ASIC Regulatory Guidance.

IAG considers that the timelines in the GICOP already meet reasonable consumer expectations and in the vast majority of cases IAG’s operating businesses meet or indeed exceed these timelines. GICOP continues to work well and provides an effective self regulatory framework that delivers confidence to consumers.

However, IAG businesses acknowledge that review is necessarily an ongoing process. IAG businesses have been working with the Insurance Council, consumer advocates, FOS and ASIC on GICOP amendments regarding time limits on claims and the right to make a claim. The industry is hopeful that agreement will be reached soon on the wording of the proposed changes.

The unpredictable nature of catastrophes means resourcing can be a challenge and demands on insurers, assessors, hydrologists, builders, materials and other trades are high, which inevitably has an impact on timelines for some claims. Storm and flood events present a particular set of challenges which are not relevant to other events.

Sections 2 and 3, address these issues and the Terms of Reference in further detail for IAG’s operating businesses.
Section 2

2.1 CGU INSURANCE - CLAIMS PROCESSING ARRANGEMENTS AND THE CONDUCT OF EXTERNAL DISPUTE RESOLUTION PROCESSES FOR CLAIMS ARISING FROM THE 2010-2011 EXTREME WEATHER EVENTS

2.1.1 Policy Coverage and flood

CGU’s standard home and business insurance policies provide cover for storm, hail, wind, fire and cyclone damage, as well as a range of other events, but do not provide cover for damage caused by flood. This is clearly stated within the ‘exclusions’ section of our policies.

2.1.2 Definition of Flood

Under most CGU policies, flood is defined as “the covering of normally dry land by water escaping or released from the normal confines of a watercourse or lake, whether or not it is altered or modified. Flood also includes water escaping from the confines of any reservoir, channel, canal or dam.”

2.1.3 Claims volumes 2010-2011

CGU received an additional 25,000 claims over the summer, as a result of the natural disasters experienced at this time. This was in addition to the large volume of claims received on a daily basis from our customers.

It must be remembered that the variety, scale and frequency of events which hit Australia in early 2011 were unprecedented, as was the subsequent pressure it placed on resources and on the community as a whole.

It is important that any future policy is beneficial in a range of events and scenarios and not solely based around the unique features of the Queensland floods.

2.1.4 Claims Handling

When the storms and floods occurred in Queensland, CGU responded in the following ways to assist customers as rapidly as possible:

- Providing and promoting a 24 hour claims hotline;
- Forming a dedicated local response team in Brisbane, utilising 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;
- Using our staff nationally to support our staff in Queensland with the increased claims volumes. This was especially important when the business’ Brisbane office had to be closed for three days due to the floods;
- Designing a unique process to accurately assess claims and inform customers of the outcome as quickly as possible and removing the need for individual hydrology reports in many cases, significantly reducing timelines for claims assessments;
- Sending our internal assessing teams to the most severely affected areas in the days following events and giving them the authority to settle claims where appropriate, to speed up our response. For instance, a team of carpentry-qualified assessors were in Toowoomba three days after the event and spent two weeks there assessing claims for our customers;
- Forming an internal ‘Flood Panel’, from across the business, to determine more complex claims; and
- Actively seeking local tradespeople to work with to support the areas affected and to support a rapid response.

2.1.5 Claims assessment approach

In the majority of natural disasters (for example, bushfires, cyclones, and hail storms) our customers are covered for the damage sustained to their home. The claims assessment process is more about
establishing the scale of damage as opposed to the cause, however, where there is doubt an
assessor or loss adjuster will assist in determining causation.

In the case of storm and flood events, the priority is to establish the cause of damage (storm or flood)
and therefore whether the damage is covered under the policy.

CGU paid many claims for storm damage in this event but 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.

It is unusual for a high number of our customers to be simultaneously affected by an event which is
not covered by their policy.

CGU pays an average of 98% of the claims it receives each year.

2.1.6 Claims assessment process

As with every natural disaster event, CGU designed an assessment process which enabled claims
from the Queensland storms and floods to be assessed as quickly and accurately as possible.

Anticipating the inevitable pressure on resources, CGU did not request an individual hydrology report
for customers where there was overwhelming evidence from other sources that damage was caused
either by flood or storm water. This meant we were able to conclude many claims more rapidly than
other insurers.

This difference in process was largely as a result of feedback from previous events that customers
who had clearly been affected by flood did not want to wait months for an unnecessary hydrology
report and would rather know the status of their claim sooner.

CGU assesses claims on a case-by-case basis. Accordingly, each claim requires a different level of
information to make an accurate assessment. This has an impact on the time taken to reach a
decision in each case, as more complex claims require more detailed assessment. In the case of
flood and storm damage, this may require the use of external resources such as hydrologists.

In natural disaster events there is intense pressure on these resources, which in turn puts pressure on
timelines.

The process CGU followed to assess claims from the Queensland storms and floods is summarised below:

1. CGU encouraged customers to contact us on our 24-hour Claims Hotline (1800 750 461) or in the lodge a claim
   through their insurance broker or adviser.

2. CGU Claims team reviewed the information relating to the claim before calling the customer back and taking their
   finishing their questions. The information reviewed before making the call may have included ones assessor
   records, aerial photographs, information from customers, weather data ends hydrology reports.

3. In some cases the Claims Team were able to inform the customer of the outcome of their claim on the call or else
   arrange for further investigations to be made to reach a decision on the claim (see 17).

4a. If the claim was accepted as staff then discuss next steps with the customer. This may have included arranging
    make-good repairs, obtaining quotes from builders, appointing an assessor or paying a cash settlement.

4b. 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 (details of the
    Internal Dispute Resolution and Financial Ombudsman Service were provided).

5. 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.

6. The claim was then reviewed and accepted or rejected on the basis of the additional information gathered, and

7. If a customer wished to dispute the outcome of a claim, they were able to refer their claim to an Internal Dispute
   Resolution (CSR) panel. (see "Dispute Resolution Process", section).
Despite the challenges presented by multiple weather events in Queensland and around Australia, CGU resolved over 80% of claims relating to the floods and storms within weeks if not days of the event.

CGU engaged with its customers extensively in relation to the floods and listened to feedback throughout the events in relation to our processes and communication, in some cases making adjustments as a result.

While there is always room for improvement, what became clear in the course of these discussions is that the real issue is one of policy coverage. In other words, the customer is not so concerned about the time taken to assess the claim, or communication around the process, so much as the possibility that the claim may be denied.

This is one of the main factors which led to CGU’s decision to include flood cover in its home and contents policies in 2012.

2.1.7 Timelines

CGU designed a unique process for assessing claims during the Queensland storm and flood events, enabling us to resolve claims more quickly than many other insurers.

While the majority of customers appreciated a more rapid timeline, some were dissatisfied that the process did not have the number of steps they expected, regardless of whether they agreed with the outcome of the claim.

This situation highlights the complexity in meeting customer expectations. Some customers want to know the outcome of their claim as soon as possible and are frustrated if the process takes more time and others expect a more protracted process to satisfy their perception of what a ‘claims assessment process’ should entail.

In light of these differences, CGU follows the process required to make an accurate determination of a claim, in each, individual case. There may be one, several or dozens of steps in the process, depending on the individual claim.

More complex claims may require external suppliers to gather the information. CGU recently built an in-house assessing team to increase our efficiency and rapidity of response, but like most insurers CGU employs external hydrologists to undertake site assessments when required. In a catastrophe environment there is pressure on these resources, which can have an impact on the timeline to assess a claim.

Legislated claims timelines would not present an issue for the majority of claims as the proposed timelines are already met or exceeded in the overwhelming majority of cases. But in a catastrophe environment, where resources are stretched, there may be claims which take more time to assess.

For instance, in the Victorian bushfires insurers were unable to access the areas to make assessments for three weeks whilst the emergency services completed their work. CGU employed aerial photography to speed up the process of assessing claims in this event, but delays to some claims in the absence of access to the site were inevitable.

In the event of the bushfires, some customers deferred submitting their claim due to the trauma they had experienced and many chose to delay the decision of whether to rebuild or move elsewhere, whilst they considered their circumstances more carefully.

In the Melbourne hail storms the scale of damage and number of vehicles affected put an enormous strain on vehicle assessing. Even with international support flown in to assist, there was a delay for some claims due to the volume of affected vehicles going through the assessment and repair processes.

In both of the scenarios above, delays have occurred for valid reasons and legislating timelines would do nothing to alleviate the situation, other than to place further pressure on resources, put pressure on costs and in turn on premiums.
Alternatively, insurers would have to make an initial determination on a claim more quickly, in order to meet the required timelines.

Investigations such as hydrology reports are undertaken to find ways of paying a claim. If insurers were not given the time to undertake a thorough assessment of a claim this would disadvantage customers. While customers would prefer timelines to be as short as possible, in reality the resulting impact on claims determinations would not be welcome by customers and CGU believes the thoroughness of the assessment process is the most important factor to consider.

2.1.8 Assessing

2.1.8.1 Communication with Customers

CGU aims to provide our customers with regular, timely and relevant information about their claim. Customers vary considerably in what they consider to be an appropriate frequency of communication.

In light of this difference, and considering the challenges of communicating with the large volume of customers who lodge claims in the event of a natural weather disaster, CGU's policy is to contact customers when there is a specific need. For example we may communicate with customers when new information becomes available, or is required of the insured, or when there is an action required on behalf of the customer or CGU.

The nature of the claims process means that this communication is likely to be very frequent, although there may be pauses when there is a wait for information, such as an assessor or hydrology report.

CGU also provides updates in line with the General Insurance Code of Practice (see extract below). A SMS alert can be provided to our customers every three days and soon our technology will support automated email updates to customers.

CGU does not believe it is of value to provide generic updates to consumers as customers want information which is relevant to their own claim.

Any obligation to provide more frequent generic communications to customers would place further pressure on resources in a catastrophe environment, without providing benefit to customers.

CGU’s conversations with its customers suggest that frustration about frequency of communication is a policy coverage issue and largely driven by anxiety about the possibility of the claim being denied. CGU will address this issue by including flood cover in its home and contents policies during 2012.

CGU believes the timelines set out in the General Insurance Code of Practice (GICOP) are adequate and urges the Review to focus on enabling insurers to include flood within their policies, through access to high quality flood mapping data.

If flood was a standard inclusion in insurance policies, CGU believes that most of the frustration felt by customers in relation to this type of event would be greatly diminished. However, insurers should not be forced to offer cover, as this may actually work to reduce competition in the insurance market.

2.1.8.2 Dispute Resolution

CGU provides customers with the details of both its Internal Dispute Resolution (IDR) and External Dispute Resolution (EDR) process through the Financial Ombudsman Service (FOS) when it advises customers of the outcome of their claim, if that claim is denied.

The outcome is communicated verbally (by telephone) as well as in writing. 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.

CGU’s IDR department functions separately to the department where claims processing is managed. A dedicated team is tasked with undertaking a fresh review of the claim on an objective basis.

The IDR process provides the customer with a review of their claim independent of the original decision maker and the opportunity to present any additional information they feel may add to the
outcome of their claim. The customer has access to all documents and material in their file which is reviewed by the IDR team and also invited to submit additional information if they wish.

Claims are sometimes overturned through IDR because new information comes to light or there has been an oversight in the process. The majority of claims are not overturned because the original determination on a claim was correct. If insurers overturned a high number of claims at IDR there would be serious concerns about the claims assessment process.

IDR is helpful to customers who want to contest the cause of damages (e.g if a customer is certain damage was caused by storm water not flood) and are an effective forum for discussing whether a claim is valid under a customer's policy.

It must be noted that IDR is not designed to support customers who are unhappy that an event is not covered by their policy, or unaware of their policy coverage.

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

The following table shows IDR and EDR results for CGU Insurance.

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>No. IDR disputes</th>
<th>No. of EDR disputes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victorian Bushfire</td>
<td>February 2009</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Victorian Hailstorm</td>
<td>March 2010</td>
<td>22</td>
<td>0</td>
</tr>
<tr>
<td>Perth Hailstorm</td>
<td>March 2010</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Queensland Floods</td>
<td>Dec 2010-Jan 2011</td>
<td>171</td>
<td>20</td>
</tr>
<tr>
<td>Victorian Floods</td>
<td>February 2011</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Cyclone Yasi</td>
<td>February 2011</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

2.1.9 Summary

- The frequency and scale of natural disasters experienced this summer were unprecedented in terms of their impact on the community and the pressure they placed on the resources of insurers and other parties, including government;
- More complex claims do require a higher level of investigation. Some of these investigations require the use of external suppliers, such as hydrologists, and these resources come under significant pressure in a catastrophe environment, in turn putting pressure on timelines;
- Legislated timelines would place further pressure on resources and therefore costs, which would in turn be reflected in premiums;
- Shorter timelines may impact an insurer’s ability to thoroughly assess claims, which would be to the detriment of customers;
- There are significant variations in terms of what customers feel is appropriate in terms of process, timelines and communication;
- There is no communication or process which makes bad news more palatable and many concerns about timelines and communication are ultimately about policy coverage and anxiety about the possibility of a claim being denied;
- This is why the industry has received criticism over the floods, but not over equally large events which are more broadly covered under policies, such as Cyclone Yasi; and
- CGU will address this issue by providing flood cover in its home and contents policies in 2012.
Section 3

3.1 NRMA INSURANCE, SGIO AND SGIC\(^1\) - CLAIMS PROCESSING ARRANGEMENTS AND THE CONDUCT OF EXTERNAL DISPUTE RESOLUTION PROCESSES FOR CLAIMS ARISING FROM THE 2010-2011 EXTREME WEATHER EVENTS

NRMA Insurance (New South Wales, ACT, Tasmania, Queensland), SGIO (Western Australia) and SGIC (South Australia) and through our joint venture with RACV Insurance\(^2\) in Victoria are responsible for developing, underwriting, selling and managing claims for personal insurance products that are sold directly to customers.

Our products include comprehensive motor insurance, home and contents insurance, CTP, home security, and business insurance. We also offer lifestyle and leisure insurance products including; veteran, vintage and classic car, boat, caravan and travel.

3.1.1 Policy Coverage and Flood

NRMA Insurance, SGIO and SGIC standard home and contents insurance policies provide cover for weather events including, bushfire, earthquake, storm, hail, wind, and cyclone.

Customers in New South Wales, ACT and Tasmania can choose to “opt-out” of flood cover and retain home and contents cover, and for customers in South Australia and Western Australia flood cover is optional.

Flood is currently not covered in Queensland at the point of sale, our customers are verbally advised that the Queensland home contents, home buildings (and landlords) policies do not cover flood. The NRMA Insurance Home Insurance Buildings and Contents PDS for Queensland policy clearly stipulates that flood is not covered\(^3\).

3.1.2 Definition of Flood from Queensland NRMA Home Insurance Product Disclosure Statement and Policy Booklet

Flood is the covering of normally dry land by water escaping or released from the normal confines of a watercourse or lake, whether or not it is altered or modified. Flood also includes water escaping from the confines of any reservoir, channel, canal or dam. Flood is not covered by this policy.

3.2 THE CLAIMS PROCESSING ARRANGEMENTS

3.2.1 Claims handling

The service standards we aim to adhere to during major events are detailed below:

- Claims lodgements available 24 hours a day, 365 days a year;
- On average, four out of five claims are accepted immediately;
- For the one out of five of claims where we require more information, we aim to contact them within 48 hours;

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\(^1\) Insurance Australia Group licensed entities:
- Insurance Australia Limited (IAL) distributes insurance under many leading brands including, NRMA Insurance, SGIO and SGIC.
- Insurance Australia Limited is the issuer of certain RACV commercial branded insurance products. The products are issued under a referral arrangement with RACV Insurance Services Pty Ltd. This means that the above mentioned IAG retail brands, and through our joint venture with RACV provide unmediated insurance direct to home, motor and small business customers. As part of this, we provide claims service for millions of customers across, NSW, ACT, TAS, QLD, SA and WA.

\(^2\) Insurance Manufacturers of Australia Pty Limited (IMA): is the issuer/underwriter of certain personal lines insurance products branded RACV. RACV Insurance Services Pty Ltd distributes these products to members of Royal Automobile Club of Victoria (RACV) Ltd. This means that the above mentioned IAG retail brands, and through our joint venture with RACV provide insurance direct to home, motor and small business customers.

• On average, claims not accepted immediately are resolved within 48 hours;
• Once lodged and accepted, claims are prioritised based on criticality according to the level of damage to their property;
• High priority customers are those who cannot stay in their homes due to extensive damage - we provide emergency accommodation, shopping vouchers, emergency payments;
• Appointed builders service level agreement is to contact customers within one business day, with the aim of doing any urgent, “make safe” works as soon as practicable;
• Assessors and builders are required to submit their reports to us within three business days of attending clients premises or inspecting their vehicle; and
• We actively seek local tradespeople to support the areas affected ensuring a rapid response.

3.2.2 Claims Volumes

NRMA Insurance, SGIO and SGIC have extensive experience in managing disaster events. In the last 18 months the business has received over 80,000 lodgments with the majority settled and completed.

NRMA Insurance, SGIO and SGIC have the capability to manage the different extremes of claims volumes received during natural disasters, while also managing business as usual demands. The graph below shows lodgements received since July 2005 and demonstrates major weather events generate large numbers of claims, in short periods of time, in localised areas.

Graph: Flexibility of Business Response to usual lodgements, plus disaster lodgements

<table>
<thead>
<tr>
<th>State Monthly Lodgement Patterns since July 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Includes BAU &amp; Storm</td>
</tr>
<tr>
<td>NSW/ACT</td>
</tr>
</tbody>
</table>

- BAU + QLD TC Yasi Feb 2011
- BAU + Perth Hail - Mar 2010 400% incr on prev mth
- BAU + VIC Bushfires
- BAU + Western Sydney Hall Storm (Newcastle) Jun 2007
- BAU + QLD Hail Mar 2010 240% incr on prev mth
- BAU + Brisbane Storm - Nov 2008

3.2.3 Major Event Response Plan

The business has a strategic event response plan, triggered as soon as a major event occurs. Resources are mobilised to respond to large numbers of claims as soon as they come in, usually just hours after the event. This strategic response enables business as usual to continue, while additional resources are directed to support customers affected by the event. For example, Major Event Rapid Response Vehicles (MERRVs) are deployed to affected areas to provide on the ground assistance to customers. Fitted with satellite dishes, computers and other technology, these vehicles become mobile claims offices and were used as part of our response to recent cyclones, hail storms and bushfires.
Key principles of our major event response:

- **Customer based approach** – the aim is to be the first on the ground to help customers in affected areas that need us most.
- **National network** – the business has capacity to leverage interstate resources to help support customers quickly. Assessors and frontline employees are flown from interstate to provide additional support during disasters, customers calls can be redirected to interstate call centres when massive volumes of customer calls are generated.
- **Well planned but flexible** – No disaster is ever the same. The business draws on years of experience to respond flexibly and quickly to events as they unfold.
- **Encouraging our customers to lodge claims** – including the small number of claims where coverage is unclear.
- **Making the right decisions quickly** – balancing speed of response with the desire to make accurate decisions for customers when coverage may be unclear.
- **Informing customers and keeping them updated** – information we’ve relied upon to make claims decisions is provided to our customers with the final decision letters.
- **Innovating** to assess damage, pay claims and undertake repairs quickly.
- **Listening** to our customers to improve the experience they have with us and measuring our business performance based on customer feedback.
- **Resolving complaints**. We think the best way to manage a complaint is to deal with it at first point of contact. If the Manager recognises the complaint cannot be resolved to the customer’s satisfaction, the customer is referred to Customer Relations. Customers are provided with an independent review of their claim. 97.5% of complaints are resolved in our Internal Dispute Resolution process.

Below is a snapshot of the response to some of the significant weather events by region that have occurred in the last five years.

**Cyclone Yasi, QLD 2011:**
- Cyclones are disasters that often afford considerable warning. Therefore we prepared our claims response in advance.
- After Cyclone Yasi, in 2011, we didn’t wait for our customers to come to us; we went to them before they had lodged claims. The day after the Cyclone, we sent assessors to the most
affected regions to assess our customers’ property provide information and help them lodge claims.

- The vast majority of claims were lodged and accepted as soon as access to all regions was granted.
- We received over 1,000 claims in total and we were able to complete assessments within two weeks of gaining access.
- If customers had safety concerns such as roofs & pool fences, make-safe repairs or temporary accommodation was organised within 24 hours, and we deployed our Major Event Rapid Response Vehicles.

Queensland Floods 2010 - 2011:

- We received nearly 3,000 claims, and the majority of assessments were completed within six weeks of obtaining access to sites affected.
- During the South East Queensland floods the Southbank office was evacuated for a week. We utilised our national resources to redirect customer calls and claims processing to our centres in other states.
- All customers were reminded at lodgement that flood is not covered by their policy, but that the claim would be lodged for consideration. Claims were paid in line with our policy coverage, with a small percentage of denials.
- All customers who made claims within weeks of these events have had decisions on whether their claim has been accepted or denied. To date, we have finalised over 80% of claims – meaning that the majority of our customers’ have received payments, and/or building repairs have been completed, or are in the process of being repaired. A number of claims have been lodged only in the last few weeks which have not yet been completed.
- (Note there were some delays experienced in managing claims for this event as hydrologists reports were required to clarify coverage).

Perth Hailstorm, WA 2010:

- We received over 20,000 home and motor claims, equivalent to more than six months worth of claims in one day.
- Employees were flown in from interstate. Also, temps and contractors were also engaged to help manage the number of claims.
- The vast majority of claims lodged were accepted on the same day.
- We set up three hail centres for cars, brought staff in from interstate and New Zealand.
- We inspected 9,000 cars in two months and assessed all the houses damaged in three months.
- We deployed Major Event Rapid Response Vehicles to help our customers lodge claims and get the support they needed.

Melbourne Hailstorm, VIC 2010:

- Nearly 40,000 claims were received, equivalent to a year’s worth of storm claims in just two days.
- We moved quickly to establish six hail centres at various locations to assess cars. Just days after the event, we were assessing up to 550 cars per day and were able to assess over 10,000 vehicles in eight weeks.
- Employees were flown in from interstate. Also, temporary employees and contractors were also engaged to help manage the number of claims.
- The vast majority of claims lodged were accepted immediately.
- We deployed Major Event Rapid Response Vehicles to help our customers lodge claims and get the support they needed.

Victorian Bushfires, VIC 2009:

- Over 2,000 claims were received, with the vast majority of home claims being total losses.
- Due to safety reasons, insurance assessors were not provided with access for some time. We developed a unique process which used aerial photography to enable us to assess and settle over 85% of houses in Marysville weeks before access was granted.
- Again the vast majority of claims were lodged and accepted immediately.
- We deployed Major Event Rapid Response Vehicles to help our customers lodge claims and get the support they needed.
- Employees were flown in from interstate, and many of our claims employees worked remotely at affected areas.
Blacktown Hail Storms, NSW 2007:
- We received in the vicinity of 30,000 claims following this storm.
- Employees from interstate were flown in; Temps and contractors were also engaged to help manage the number of claims.
- We would usually assess hundreds of claims weekly; in this case we saw a ten-fold increase to a couple of thousand claims weekly.
- Majority of claims were lodged and accepted on the same day.
- We committed to having customers’ roofs repaired within 90 days.
- It rained continuously just after the hail storms, so we developed large, crane-borne canopies. These were hoisted over damaged roofs to protect them from rain so repairs could continue, helping customers return to their homes quickly.
- All claims have been finalised.

Cyclone Larry, QLD 2006:
- We received nearly 700 home and motor claims.
- We transported 200 tarpaulins from interstate the next day, and deployed Major Event Rapid Response Vehicles to help our customers lodge claims and get the support they needed.
- Claims were lodged and accepted straight away.
- Just eight weeks following the event, we led a “Help Expo” to help our customers and the community get practical information on repairing or rebuilding their homes.
- All claims have been finalised.

3.3 OUR CONSUMER INFORMATION

Overarching aim is to make our insurance products easy for our customers to use. This involves:
1. Clarity of disclosure at point of sale;
2. Fast, straightforward claims processing service, with regular updates provided to customers; and
3. Clear information on how to make a complaint or entitlement to external dispute resolution.

3.3.1 Disclosure

When customers visit our branches, or take out a policy over the phone, we have standard verbal disclosures that are provided to them. For example, in Queensland where our home policy does not currently include flood, we ensure customers are advised of this at the point of sale. Customers can also access information online through our websites. We reinforce this at other customer communication points, including claims lodgement, assessment and through claims progress calls we make to our customers.

All customers receive Product Disclosure Statements which clearly outlines:
- What is covered
- What is excluded
- Unambiguous definitions which are easy to locate
- Detail on 21 day cooling off period from the date of the policy being issued
- How to make a claim
- How to resolve a complaint or dispute
- Entitlement to external dispute resolution
- Information on the General Insurance Code of Practice and
- How to access our Helpline for trauma counseling

3.3.2 Processing claims – regular communication with customers

The business employs highly qualified and professional claims and assessing teams who receive extensive training.

We have a team of nearly 250 frontline employees to lodge claims, and over 1,250 assessors and support employees.

To process claims efficiently employees are trained to prioritise claims based on criticality. This allows quick response to customers most in need.
For example, critical customers can include those whose homes have been deemed non-liveable, or which have major structure damage, no water supply, safety or asbestos issues. Critical customers also include the elderly or disabled. These claims need to be actioned immediately or as soon as practicable. The provision of temporary accommodations, shopping vouchers and emergency payments direct to customer’s bank accounts is organised.

Customers, who are semi-critical, will be contacted weekly to fortnightly, depending on their needs. These customers have significant damage, but their homes can be made liveable with temporary repairs. Most customers do not want to leave their homes, so in these situations we’ll undertake make-safe repairs until full repairs can be completed.

Non-critical customers usually have minor damage to their homes. This can be external damage, such as a broken window, damaged clothesline or garage. Many customers do contact us, and we endeavour to deal with their query on the spot, or if additional information is required, we aim to get back to them within two days.

3.3.3 Information on resolving Complaints and Disputes – Promoting Access to External Dispute Resolution

IAG’s retail businesses aim to resolve complaints at the first point of contact. See the summary below which is an extract from the Queensland PDS.

Each complaint is treated on a case by case basis and the majority (97.5%) are resolved internally. The Internal Dispute Resolution (IDR) process provides the customer with a review of their claim, and enables them to present any additional information they feel may be relevant. The IDR and External Dispute Resolution (EDR) process is communicated verbally to customers, in our Product Disclosure Statement, and in writing through letters, brochures and on our website. This information is also available in a variety of different languages. More detail on this process is provided in the the internal dispute resolution section below.

Extract 1: Information on how to resolve a complaint or dispute

3.4 TIMEFRAMES

Advice to Customers on Claims during major events

Our standard process is to encourage customers to lodge claims

- Consultants are trained to encourage customers to lodge claims for consideration where there is uncertainty of coverage, insufficient information, the claim type is ambiguous, or the claim needs further investigation.
- The business supports the proposed General Insurance Code of Practice amendments regarding the Right to Claim clause.
On average, four out of five claims are accepted immediately

- Customers contact us by phone to lodge their claims. Generally, the majority of the claims are accepted during the phone conversation.
- These claims go through the immediate acceptance and recovery process. Our aim is to pay, authorise repair and finalise claims as soon as practically possible.

Around one in five claims require more information but are generally accepted within 48 hours of receipt of information

- When a customer calls to lodge a claim for an incident/event that is not covered under their policy, we advise them directly that the policy does not provide cover. If there is uncertainty of cover or insufficient information, consultants encourage customers to lodge a claim for consideration.
- These claims are deemed critical to ensure the quickest response time possible.
- On average, claims covered but not accepted immediately are resolved within 48 hours.

A claim is only denied where the event is not covered under the policy terms (or in very limited circumstances, where there is fraud).

Assess, Pay and Repair

In the last 18 months the business has received over 80,000 lodgements with over 81% settled and completed.

- Accepted claims are managed to help restore customers’ belongings – including repairs, replacement or cash settlements.
- Where the amount of damage needs to be quantified, an assessor will undertake further scoping.
- For those customers who want to manage their own repairs, we provide cash payment at the customer’s request.
- The remaining 19% of claims are in progress for a variety of reasons.
- Other reasons claims are in progress include; pending decision from customer to cash settle or rebuild, major building works, files under fraud investigation, awaiting coroners reports, and legal proceedings.

Completed claims

- Most customers are back in their homes or cars well within six months of the initial claim.
- Less than 15% of customers’ repairs or replacements take longer than six months to conclude due to complexity or exceptional circumstances.
- Due to internal tracking processes the claim is reported as outstanding until we receive all final invoices etc.

Exceptional circumstances

There are exceptional circumstances relevant for consideration as part of managing the response to extreme weather events.

In the aftermath of a disaster, customers may require a reasonable period of time to fully consider their decisions over replacement of their property, repair or a cash settlement following a major loss. In some cases, they need time to properly consider whether they wish to remain living in the same location (such as after a bushfire, cyclone, or flood), especially after loss of life.

For example, after the Victorian bushfires, some customers made the conscious decision not to pursue their claim until 12 months after the event.

The need to maintain flexible approach to claims handling timeframes is highlighted by these experiences.

3.5 ENGAGEMENT OF THIRD PARTIES

Engagement of third parties for the majority of claims is not required as the policy coverage is clear.

For a minority of claims the business is reliant on third parties for further information including: Police, Coroners, medical practitioners, and hydrologists (for flood claims).
Claims processing can be delayed because consultants are waiting on information to be provided by third parties. In some cases, the business can also be waiting for the customer themselves to provide additional information.

In large scale events where there is a need to engage a third party (usually a flood event) our process is detailed below.

- Customers need decisions quickly and claim consultants make every effort to get the information from third parties in a timely manner;
- Where there is a question of coverage, our first step is to clarify the circumstances on a case by case basis;
- This can include on site property assessment, aerial photography, river level data and external hydrology assessments;
- Due to the technical expertise involved and detailed requirements of these studies, those engaged can take some time to gather all the facts, and develop models to test accuracy;
- Claims processing can be delayed because we are waiting on information to be provided by these third parties; and
- Customers are kept informed throughout this process and provided a final decision verbally and in writing.

The flow chart below depicts the difference between standard claims processing and the small percentage of claims that require more investigation. After the Queensland and Victorian flood events in 2011, if there was uncertainty on the cause of damage all properties were inspected and we commissioned external hydrology reports for each property. Where we could, we used overarching hydrology reports for particular geographic areas to access claims more quickly. The efficiency of our processes meant that we were able to start confirming our claims decisions just a few weeks after the event.
Flow chart: Process for standard claims processing & claims needing more information

Claim lodged

Non Flood Claim COVERED SO ACCEPTED IMMEDIATELY

Allocate Builder/Assessor for inspection to determine scope of work and arrange settlement

Customer paid and/or repair work carried out.

Claim finalised

Flood Claim LODGED FOR CONSIDERATION

Customer is contacted by Claims unit to reiterate that their claim is lodged for consideration. The process is explained and an Assessor is allocated.

Assessor carries out initial inspection and collects information regarding extent of damage, estimates cost of repairs.

Hydrologist is appointed to determine source of inundation i.e. Flood vs Storm. Extensive data collection from Bureau of Meteorology and other sources to provide comprehensive scientific report Claim lodged

Claim, including all collected information is referred to our "Claims Panel" for review in line with the PDS.

Claims panel reviews claim, with all information and confirms coverage under PDS.

Yes

More information required

No

Claim denied, customer advised of decision verbally and in writing**.

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* Claims Panel consists of Senior Experts from across the business.
** All denied claims communication is delivered by Claims management team representatives
3.6 INTERNAL DISPUTE RESOLUTION

- IAG’s retail businesses aim is to resolve complaints at the first point of contact - 97.5% of complaints are resolved through the Internal Dispute Resolution process;
- The total number of complaints received in the 2010–2011 financial year reflects 0.3% of total number of sales (policies in force) and claims;
- Total number of claims disputes received in the financial year 2010–2011 reflects 0.4% of total number of claims;
- A team of specialist Customer Relations employees are dedicated to managing disputes, operating independently from sales and claims areas, this team has full decision rights; and
- This team receives ongoing training and development to ensure product and process knowledge is maintained, and hold a number of professional memberships.

Level 1 Complaint

- Customer complaints can vary, from basic and easily rectified service issues, to concerns regarding renewal documents, sales, premium amounts, and repairs.
- Complaints not resolved by the next business day and/or complaints referred to a Manager need to be recorded. This process captures customer feedback, which is fed into product, process, and service improvements.
- The business processes are such that complaints must be resolved or the customer is to be offered escalation to Customer Relations as soon as the Manager recognises the complaint cannot be resolved to the customer’s satisfaction. Managers review and attempt to resolve the complaint within 15 business days from the date the business first received the complaint.
- Customers are advised verbally, and at times in writing of the Internal Dispute Resolution and External Dispute Resolution process options available to them at the time of escalation to Customer Relations.

Level 2 Disputes

- The most common customer disputes include settlement amount, liability (motor), and denial of indemnity.
- The customer is referred immediately to Customer Relations by the frontline manager or contacted upon receipt of any written communication to acknowledge the dispute and advise we are reviewing it.
- If the dispute is complex, additional information may need to be provided by the customer, a third party, or via an additional independent review, for example an independent vehicle assessor to inspect the car.
- In relation to the recent flood events, information relied upon to make our decision is provided to our customers with the final decision letters. If a customer requests information from us, which is not relevant to the decision, then we do ask them to complete a form so that we have an audit trail. For the recent Queensland flood events, we have waived any fees associated with this process. Customers can request information at any time through our personal information access request process or under section 3.4.3. of the General Insurance Code of Practice.
- Depending on the complexity of the dispute, some decisions can be made quickly. Regardless, in the majority of cases we call our customers, and also send them a final decision letter outlining the reasons for our decision and the customer’s external dispute options, including Financial Ombudsman Service and seeking legal advice.
- If the customer doesn’t accept our final decision, due within 45 calendar days from receipt of the initial complaint, the customer may escalate their dispute externally, for example to the Financial Ombudsman Service. As mentioned above, we proactively provide information and support to help them do this. This information is readily available in a number of different languages and customer can also request help with interpreters.
3.7 CONDUCT OF THE EXTERNAL DISPUTE RESOLUTION PROCESS

3.7.1 Effectiveness of external dispute resolution

IAG’s retail businesses support the Financial Ombudsman Service (FOS) as the industry’s provider of External Dispute Resolution. There is opportunity for the FOS to consider establishing a strategic response to disaster situations to improve the effectiveness of dispute resolution during this time. A timelier, consultative approach, with regular communication, is essential to minimise stress on customers. It is also important that matters are determined as quickly as possible.

The business is open to working proactively with FOS to make constructive improvements to dispute management processes at a suitable time.

3.7.2 Barriers to participation in the external dispute resolution for consumers – suggestions for improvement

IAG’s retail businesses believe it is critical for the business to have reasonable opportunity to manage customer complaints in the first instance. The external dispute resolution entitlement is actively promoted to customers through a variety of channels.

The following table shows IDR and EDR results for IAG’s retail businesses.

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
<th>No. IDR disputes</th>
<th>No. of EDR disputes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Victorian Bushfire</td>
<td>February 2009</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Victorian Hailstorm</td>
<td>March 2010</td>
<td>152</td>
<td>18</td>
</tr>
<tr>
<td>Perth Hailstorm</td>
<td>March 2010</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Queensland Floods</td>
<td>Dec 2010-Jan 2011</td>
<td>225</td>
<td>41</td>
</tr>
<tr>
<td>Victorian Floods</td>
<td>February 2011</td>
<td>14</td>
<td>1</td>
</tr>
<tr>
<td>Cyclone Yasi</td>
<td>February 2011</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>
4. APPENDIX

Insurance Claims Timeframes

Receive claim

If all necessary information received at time claim received and no further assessment or investigation required

If further information, assessment or investigation required

Insurer must within 10 business days:
- notify the customer of the information if it requires to make a decision on the claim,
- if necessary, appoint a loss adjuster, and
- provide an initial estimate of the time required to make a decision on the claim

Insurer must:
- keep the customer informed of the progress of the claim at least every 20 business days,
- respond to routine requests for information within 10 business days

Insurer must once:
- if has all necessary information, and
- has completed all necessary investigations required to assess the claim tell the customer within 10 business days whether the claim is accepted or denied

If the claim is denied the insurer will provide:
- reasons for its decision, information about its complaints handling procedures; and
- on request, other than in special circumstances copies of reports from Service Providers which it relied on in assessing the claim

Note: Generally:
- a) if the timeframes in this diagram are not practical the insurer must agree to reasonable alternative timeframes with the customer or failing an agreement the customer can access the insurer's complaints handling procedures.
- b) The standards above do not apply if the customer or person entitled to a benefit under the customer's policy have commenced proceedings in any court, tribunal or under any dispute handling process (other than FOS) in respect of the claim.