

31 March 2011

Queensland Floods Commission of Inquiry

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Introduction

[Insurance Australia Group \(IAG\)](#) welcomes the opportunity to make a submission to the Commission of Inquiry into the Queensland Floods.

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, 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 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 Inquiry?

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.

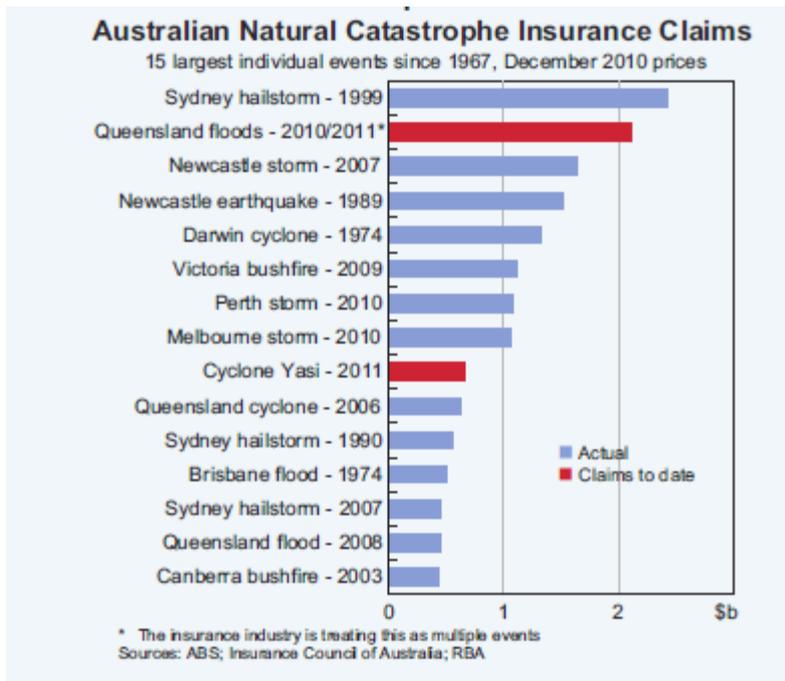
The Reserve Bank of Australia (RBA) noted in the March 2011 *Financial Stability Review*:

"..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)

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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 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.”

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 to recover and rebuild from the hardship.

Section 1 of this submission outlines issues raised under the *Terms of Reference* “All aspects of land planning through local and regional planning systems to minimise infrastructure and property impacts from floods.”

IAG’s response to the *Terms of Reference* dealing with “the performance of private insurers in meeting their claims responsibilities” is outlined in Section 2 of this submission.

Australian General Insurance Industry

According to the Australian Prudential Regulation Authority (APRA) latest data gross premium revenue Queensland accounted for around 20% of total Australian gross premium revenue. APRA reports there were 132 insurers licensed to conduct general insurance business in Australia (i.e. insurance other than life and health insurance) at 30 June 2010. Of these there were 118 direct insurers and 14 reinsurers. Details of IAG’s market share in Queensland are outlined in **confidential** attachment 1.

An overview of the general insurance in Australia is outlined in the Table below.

Gross Premium Revenue- Financial Year ended 30 June 2010 \$ million

Class of business	NSW/ACT	VIC	QLD	SA	WA	TAS	NT	Total Australia
Houseowners/householders	1,918	1,122	1,115	331	473	98	15	5,071
Commercial motor vehicle	630	414	265	126	203	29	9	1,676
Domestic motor vehicle	2,469	1,674	1,197	389	632	101	17	6,478
Travel	314	59	44	48	35	4	1	505
Fire and ISR	1,305	816	428	197	283	51	12	3,091
Marine and aviation	267	96	96	32	60	10	7	568
Mortgage	372	234	275	59	115	16	11	1,082
Consumer credit	103	67	83	22	39	8	3	325
Other accident	360	218	169	100	112	16	5	979
Other	191	134	128	34	56	7	3	554
CTP motor vehicle	1,547	0	1,060	0	0	0	0	2,607
Public and product liability	889	451	284	126	187	27	7	1,971
Professional indemnity	567	286	166	66	122	12	5	1,223
Employers' liability	275	49	7	13	680	110	52	1,185
Total direct business	11,203	5,622	5,315	1,542	2,996	489	147	27,314

Notes:

Gross premium revenue in this table is reported according to the location of risk.

Source: APRA (2010)

Gross Incurred Claims by State Year ended 30 June 2010

Class of business	NSW/ACT	VIC	QLD	SA	WA	TAS	NT	Total Australia
Houseowners/householders	797	1,103	623	218	540	72	10	3,362
Commercial motor vehicle	524	377	198	114	187	26	7	1,433
Domestic motor vehicle	1,866	1,956	955	366	916	90	18	6,166
Travel	150	*	13	*	*	*	-1	210
Fire and ISR	429	556	107	96	181	21	4	1,394
Marine and aviation	157	57	51	13	38	6	2	322
Mortgage	100	61	37	10	18	2	2	230
Consumer credit	31	16	24	6	8	2	1	88
Other accident	161	115	66	49	50	5	2	448
Other	152	104	74	10	25	2	1	368
CTP motor vehicle	1,631	*	1,318	*	*	*	0	2,961
Public and product liability	593	236	107	23	30	6	56	1,051
Professional indemnity	436	305	76	26	111	6	2	961
Employers' liability	176	14	-3	-4	329	128	35	675
Total direct business	7,201	4,922	3,646	944	2,449	372	139	19,671

Notes:

Gross incurred claims in this table is reported according to the location of risk.

Source: APRA (2010)

The Australian general insurance industry is viewed as having low barriers to entry in short-tail classes of insurance - limited to the national regulatory requirements, including APRA's minimum capital and solvency requirements and Australian Securities and Investment Commission (ASIC) licencing requirements.

Regulation of the Australian General Insurance Industry

General insurers are subject to the corporate regulatory regime that applies to Australian incorporated businesses generally. This includes the legislative regimes of the *Corporations Act 2001*, the *Competition and Consumer Act 2010* and, for public listed companies, the requirements of the Listing Rules of the Australian Securities Exchange.

General insurers are also subject to a range of industry specific regulations at Federal (eg *Insurance Act 1973*, *Insurance Contracts Act 1984*), State and Territory levels. These regulations subject insurers to prudential supervision. They also deal with aspects of market conduct and consumer protection and the various statutory insurance schemes, which operate in each State and Territory. A detailed analysis of the regulatory arrangements associated with providing insurance in Australia was outlined by the HIH Royal Commission - <http://www.hihroyalcom.gov.au/finalreport/index.htm>.

The general insurance industry also adopts the Insurance Council's *General Insurance Code of Practice*. Industry self regulation provides a benchmark standard. Once this standard is set, there is a strong incentive for individual companies to exceed the benchmark in order to attract customers and expand market share.

Flood Insurance

As outlined in the ICA's application to the Australian Competition and Consumer Commission (ACCC) in 2008 for authorisation to adopt a common definition of flood. Flood insurance is:

"... a type of natural disaster insurance which provides cover for damage arising where properties are inundated with water. Recovery under flood insurance is typically subject to exclusions specifying the source and proximate cause of the inundation."

"...For insurance purposes, flood damage generally refers to the inundation of a property by water which overflows from a natural watercourse, while storm and tempest damage refers to the inundation of a property by water as the result of a storm"

Most home and contents insurance policies cover storm coverage but exclude the following types of damage:

- *Tidal inundation caused by the action of the sea, erosion landslide or tsunami; or*
- *Damage caused by mingled waters from a storm and the overflow of a natural watercourse; or*
- *Damage the proximate cause of which is another phenomenon, such as earth movement, even though this may itself have been caused by water from a storm".*

The ICA's application to the ACCC in 2008 also highlighted:

"Understanding the distinction between damage caused by storm and damage caused by flood is important to enable consumers to appreciate the true extent of their insurance cover, at the time they are purchasing it. Variable definitions for common words (particularly the word 'flood'), and technical meanings for otherwise commonly used words (such as 'watercourse'), are not readily understood by consumers and often come to the forefront when claims are made after major flooding."

Importantly, 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. Flooding is a complex community issue that can only be effectively resolved through industry and government cooperation and will not be resolved by any one initiative alone.

The Australian insurance industry has developed a 10 point plan containing policy and industry initiatives aimed at developing a more effective and sustainable response to disasters in Australia. **There is no simple, single solution to the flood insurance debate. It requires the development of a national policy approach to better deal with a number of challenges presented by floods in those communities at-risk.** Details of the industry's plan are available at:

<http://www.insurancecouncil.com.au/Portals/24/Media%20Centre/2011%20Media%20Releases/ICA%20Release%20-%20Ten%20Point%20Plan%2027th.pdf>

Australian Prudential Regulation Authority (APRA) Views

It is interesting to note APRA's recent comments before the Senate Economics Committee (24 February 2011). In particular, Dr John Laker, the Chairman of APRA noted:

"APRA does not expect that any general insurer it regulates will have difficulty continuing to operate in the face of the potential losses from these recent disasters. We are confident of the capacity of the general insurance industry in Australia to meet all of its claims and obligations. We do expect, however, that a number of general insurers will incur additional costs to reinstate reinsurance cover that has been eroded and, if required, to buy additional reinsurance cover for the remainder of the year."

Moreover, it is interesting to note APRA's views in relation to the issue of insurers potentially making ex gratia payments:

Senator BUSHBY—".... There is a lot of talk about insurance providers being required to provide cover even if the policies they have written do not actually provide cover in certain circumstances. Is that sort of issue—the issue of the extent to which the policies that are written provide cover—relevant to your prudential calculations and how you look at it? And if there was a whole-scale pressure or requirement for insurance companies to pay out on things that they had not calculated when they did their underwriting, or— that is really in a way what I am talking about—ex gratia payments.

Ian Laughlin (APRA MEMBER)—Ex gratia payments are an interest to us, but the degree of those payments so far has been pretty modest and they have also come, in some cases, from parent companies, not from the insurers.

Senator BUSHBY—I am not saying that there is any suggestion of this, but if there was government pressure or a requirement that ex gratia payments had to be made in certain circumstances, that would be something that you would need to have a pretty good look at?

Mr Laughlin—We would be extremely interested in that and would resist any such imposition, because it would create problems, potentially.

Senator BUSHBY—Yes, it mucks up your calculations in terms of where appropriate solvency levels are and so on.

Mr Laughlin—In simple terms, the insurers set their premiums and their reserves based on a set of assumptions, which is based on the contract."

IAG notes that if a peril is excluded in our policy coverage, then it is also excluded from our reinsurance coverage. If we decided to pay claims outside of our coverage for excluded perils, the payments are considered 'ex gratia'. Reinsurers are not obligated to provide cover for ex gratia payments.

For an event the size and scale of Queensland floods, it is not feasible for IAG to make these payments in circumstances where we cannot recover under our reinsurance. To do so would result in unanticipated significant cost to our business and as a consequence, all our customers.

Reinsurance

IAG's reinsurance programme is an important part of the Group's overall approach to capital management. Reinsurance is used to limit exposure to large single claims and accumulation of claims that arise from the same event or the accumulation of similar events.

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. Each subsidiary that is an insurer has its own reinsurance program and determines its own risk tolerances. To facilitate the reinsurance process, manage counter party exposure and create economics of scale, IAG has established a captive reinsurance operation comprising companies located in Australia, Malaysia and Singapore.

Whilst the global reinsurance market had benefited from surplus capacity and a benign North American hurricane season in 2010, local reinsurance pricing has been affected by an increase in natural peril events during 2010 and the opening weeks of 2011. During the 2011 renewal, IAG observed moderate rate increases for natural perils after allowing for aggregate growth. Recent events in Japan have added to likely upwards pressure on reinsurance rates.

The Group's main catastrophe reinsurance protection was renewed for 12 months effective 1 January 2011, and provides cover for losses up to \$4.1bn. Applicable rate increases were around 10%. The Group retains the first \$250m of each loss under this cover. This catastrophe protection covers all territories and operates on an excess of loss basis.

From 1 January 2011, IAG entered into a further three-year arrangement (concluding 31 December 2013) to reduce the Maximum Event Retention (MER) of the Group below \$250m. At the outset of calendar 2011, the MER for a first event was \$150m in Australia, \$115m for New Zealand and \$53m for the UK. The Group also purchases second and third event covers.

In addition, the Group has a property catastrophe aggregate cover of \$150m excess of \$150m, operating on a calendar year basis. This provides protection for accumulated losses arising from events larger than \$15m, across IAG's operations, capped at a maximum of \$50m per event.

Section 1

Terms of Reference:

All aspects of land planning through local and regional planning systems to minimise infrastructure and property impacts from floods

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.

IAG believes that there is a need for greater emphasis by Government on community adaptation to extreme weather events. For example, stronger building codes to protect structures from extreme weather hazards; more risk-appropriate use of land; and greater emphasis on hazard mitigation infrastructure.

Moreover, for individuals and communities there is a need to **take personal responsibility to understand what risks they are insuring against** and the need for individuals 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”.

IAG is engaged with the Insurance Council of Australia and Governments in dialogue on how to develop more effective and sustainable responses to disasters in Australia specifically flood. IAG suggests that key areas of government responsibility include:

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 embody appropriate measures to withstand hazards such as flood, cyclone, hailstorm and fire.

Further, until now, building code standards have focused in principle on protecting life and safety. IAG suggests that it is desirable 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 protection of life and built property are effected through land use planning and zoning instruments. Strategies include:

- minimum floor heights and structural requirements for foundations;
- deep setback of buildings from rivers/shorelines etc;
- 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 (eg dune grasses, mangroves) to absorb water and/or stabilise erosion-prone surfaces;
- sacrifice of land; and
- land buyback schemes.

It is proposed that such an approach, in **improving the resilience of the built environment to severe weather and natural disasters, would also enhance the community's economic and social resilience to climate change.**

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 in order to inform a review of the current situation.

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.

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, overlaid 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 Insurance Council of Australia, 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. For all parties with a legitimate interest in a property – including potential purchasers, tenants, residents, developers and insurers – flood risk mapping data should be up-to-date and transparently accessible.

Natural Disaster Relief Framework

IAG supports the Insurance Council's recommendation for a review of present funding levels and arrangements for the National Disaster Mitigation Program, with a view to adapting funding levels and mechanisms to suit the nature of the increasing hazard. Many public infrastructure and structural hazard mitigation projects take years to design and construct and therefore must be commenced well in advance of the hazard becoming a reality.

IAG welcomes the Council of Australian Government's (COAG) 2011 recommendations to improve Australia's ability to withstand and recover from future disasters. IAG notes COAG adopted the National Strategy for Disaster Resilience and agreed to take immediate steps to implement it. The Strategy focuses on the shared responsibility of governments, business and communities in preparing for, and responding to, disasters. IAG particularly welcomes the following measures:

- Heads of Treasuries will report to the National Emergency Management Committee (NEMC) on strategies for maximising the role of insurance in fostering greater community and individual resilience.
- NEMC will review all funding arrangements associated with relief in the resilience context, including the delivery of individual grants, public appeals and insurance, in shaping recovery policy, including provisions for betterment and mitigation.

Government Assistance in Times of Disaster

IAG believes individuals electing to not 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". Arguably, while there may be an equity argument for individuals who are financially disadvantaged to access government assistance, open ended assistance is inequitable when provided to those individuals who are able to do so but choose not to responsibly insure.

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).

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

Importantly, IAG does not believe that evidence has been provided to suggest there is market failure in the provision of flood insurance in Australia. In relation to the impact or likely impact of any Government intervention in the provision of disaster insurance in Australia the views of Ken Henry, former Secretary of the Australian Treasury are of note:

"...the fact that your industry won't insure certain things does not, in most cases, provide an argument for the government stepping in to do so. Yet it is the failure to appreciate this simple point that underlies most calls on the government to subsidise various forms of activity. For that reason, most such calls will be resisted."

"The second thing that should be emphasised is that the best policy response to an instance of market failure depends on a range of circumstances. Rarely will the best response involve government provision, even government underwriting." (Ken Henry, Address to the Insurance Council of Australia Conference, 22 August 2002).

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 that spreads the costs away from a pure risk basis to the broader community thus improving affordability in flood prone areas. This can 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 retail 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.

Taxation Reform

Insurance Council research shows that nearly 25% of all Australian households do not have any form of home or contents insurance (*The Non-Insured: Who, Why And Trends*, May 2007, available at <http://www.insurancecouncil.com.au/The-Non-Insured-Who-Why-and-Trends/default.aspx>).

IAG contends that this imposes an unwelcome burden on government when catastrophes occur and that a major contributor to this situation is the current taxation arrangements which directly increase the cost of insurance.

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 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 Wales Independent Pricing and Regulatory Tribunal (IPART) Review of State Taxation, 20 November 2007*. This document is available at http://www.iag.com.au/news/gov_submissions/docs/20071123a.pdf).

Details of taxes on insurance are outlined below.

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Change 2007-08 to 2008-09	Contribution to total taxes 2008-09
	\$m	\$m	\$m	\$m	\$m	\$m	%	%
Taxes on Insurance	3 231	3 502	3 550	3 684	4 250	4 505	6.0	1.3

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

Taxes on Insurance 2008-09

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	TOTAL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Insurance companies contributions to fire brigades	575	437	-	-	-	16	-	-	1 028
Third party insurance taxes	128	132	60	48	-	4	-	-	371
Taxes on insurance nec	1 215	667	431	279	397	39	27	50	3 106
TOTAL	1 919	1 235	491	327	397	58	27	50	4 505

nec not elsewhere classified
na not available

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

IAG 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. This case is based on recognition of the essential benefits of insurance to the economy and community generally and of the role of the tax system in encouraging insurance coverage.

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.

Consumer Education – Natural Perils

As an organisation, IAG and its retail brands 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 and through a variety of campaigns/events, we encourage consumers to check their level of insurance cover and participate with our organisation in ways other than just at sales and claims time.

IAG is careful to be absolutely explicit in all our documents 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.

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

Disaster risk awareness and risk reduction education are effective when the public, private, education, and community sectors collaborate. In order 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.

The OECD has developed a comprehensive guidance paper for the development of a national education framework in respect of natural perils. Details of the OECD Paper are outlined in Attachment 1.

Section 2

Terms of Reference

The performance of private insurers in meeting their claims responsibilities

Claims

Details of IAG (NRMA Insurance and CGU) claims numbers arising from the Queensland floods are outlined in **confidential** attachment 1.

CGU

Policy Coverage

CGU's standard home and business insurance policies provide cover for storm, hail and wind damage, but not for damages caused by flood. This is clearly stated within the 'exclusions' section of our policies.

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."

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 our 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 us on our 24-hour Claims Hotline (1800 252 461) or to lodge a claim through their insurance broker or adviser;
2. 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. 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');
- 4a. If the claim was accepted our 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;
- 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;
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 our Internal Dispute Resolution (IDR) team (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 six 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 two weeks, visiting customers, making assessments and completing paperwork so that claims could be concluded as soon as possible.

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

CGU 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, CGU accepted the storm proportion of the claim.

In other cases, CGU 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, 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. CGU proactively provide information and support to help them do this.

NRMA Insurance

Definition of Flood

NRMA Insurance Queensland provides cover for storm damage including damage caused by a sudden, excessive run-off of water ("storm water run-off") as a direct result of storm in the local area refer page 15 of the *NRMA Home Insurance Product Disclosure Statement (PDS) and Policy Booklet* available at <http://www.nrmaqld.com.au/documents/policy-booklets/home-policy.pdf>. This is sometimes referred to colloquially as flash flooding.

NRMA Insurance Queensland does not cover damage caused by flood which is defined to mean:

"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."

NRMA Insurance Queensland will cover damage by storm water run-off which happens at the same time as a flood. For example, water flow from a river mixes with overland run-off caused by local torrential rain and causes damage to a customer's property. It does not cover riverine flooding where floodwaters have flowed downstream from upper catchments outside the local area. This is advised during the telephone sales process and it is stated in our Product Disclosure Statement which is sent to all customers. NRMA Insurance Queensland reinforces this at other customer communication points, including claims lodgement, assessment and through claims progress calls we make to our customers.

Policy Coverage

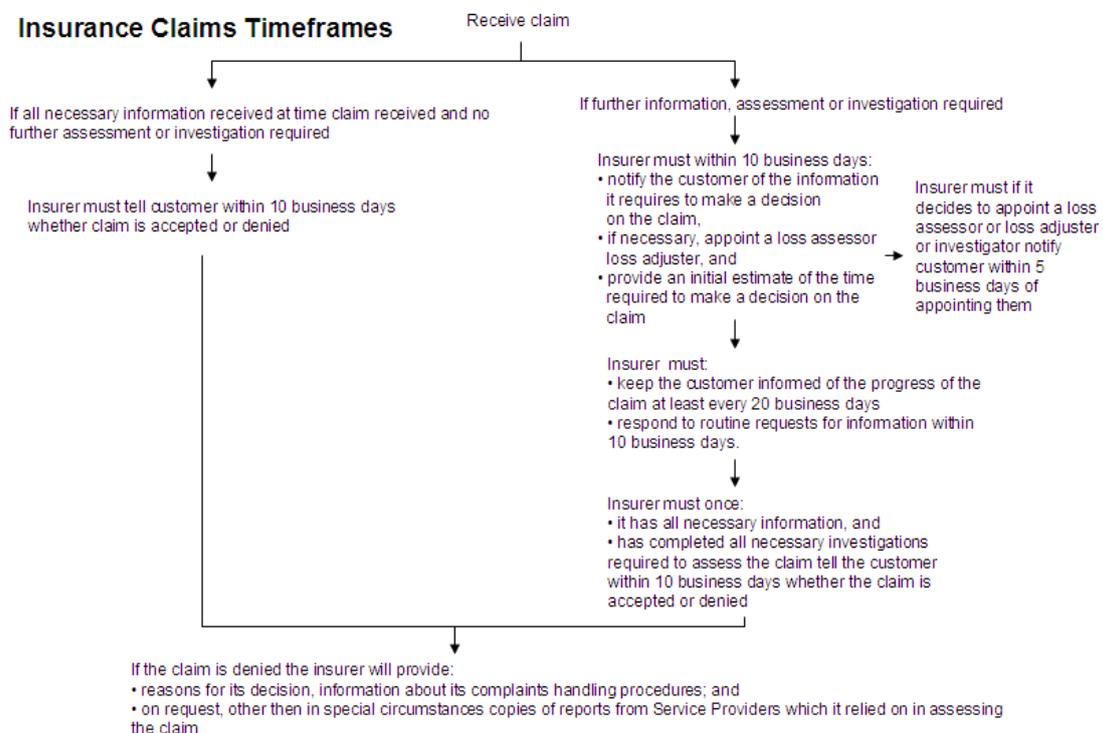
Within four days of the first flood event, NRMA Insurance Queensland began making contact with impacted home customers to inform them of their coverage under our policy. Since then, NRMA Insurance Queensland has completed all assessments. NRMA Insurance Queensland is covering the vast majority of claims under our policy.

As is our standard emergency response for all claims situations, our priority was to help all customers lodge claims and provide those who needed it with emergency accommodation. As soon as NRMA Insurance Queensland could gain access to impacted areas across Central and South East Queensland, assessors visited properties to inspect damage and receive a customer's account of events.

Within 24 hours of the Toowoomba and Lockyer Valley events NRMA Insurance Queensland established a catastrophe team to assist in the urgent processing of claims. All customers' home claims in the region were accepted just days after the events because they were clearly covered under our policy.

Claims Assessment

In line with the *General Insurance Code of Practice (2010)* 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.



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 insurers 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

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 has confirmation on the cause of damage, the consultant will make a determination and we'll inform the customer of our 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 our 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 our 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 *General Insurance Code of Practice*, 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.

NRMA Insurance has given customers the benefit of extensive review before making a decision. This review includes 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.

NRMA Insurance – Retail Business Insurance (RBI)

Separate to NRMA Insurance's personal insurance, NRMA Insurance's Retail Business Insurance arm provides a number of business related products. These are tailored to individual customer's needs and include; small to large business insurance, farm insurance, insurance for at home businesses, tradesperson insurance, motor trade insurance, and commercial motor insurance.

Definition of Flood

NRMA Insurance's Retail Business Insurance provides cover for storm damage including damage caused by a sudden, excessive run-off of water (Rainwater run off) as a direct result of storm in the area. (Rain water is defined as water falling from the atmosphere in the form of rain including rainwater run off over the surface of the land or which has escaped from public roadside gutters, **but not** inundation of normally dry land areas by the overflow of water from:

- (a) the normal confines of any natural watercourse or lake whether or not altered or modified; or
- (b) any reservoir, canal, dam, water tank, apparatus, or pipe.

Retail Business Insurance **will not cover damage caused by flood** which is defined to mean:

- (a) A general, temporary condition of partial or complete inundation of normally dry land areas by the overflow of water from the normal confines of any natural watercourse or lake (whether or not altered or modified), or of any reservoir, canal, or dam; or
- (b) A mud slide or mud flow which is caused or precipitated by an accumulation of water on, or under, the ground.

Refer to the definitions sections of NRMA Insurance's Business Insurance policy booklets available at: <http://www.nrma.com.au/business-insurance/policy-booklets.shtml>

Claims Assessment

NRMA Insurance claims are mainly lodged over the phone through the teleclaims lodgement centre. Claim forms are available if the customer does not wish to lodge their claim over the phone. At lodgement, the teleclaims team will request the required information for further consideration of the claim. They will appoint an external loss assessor where necessary.

Claims Determination

NRMA's Retail Business Insurance has a similar claims determination process to NRMA Insurance personal customer lines.

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 [REDACTED] Senior Adviser, Economics & Policy on [REDACTED] or me on [REDACTED]

Yours sincerely

Michael J Wilkins
**Managing Director &
Chief Executive Officer**

Attachment 1

Natural Peril Education Strategies

The OECD has developed a comprehensive guidance paper for the development of a national education framework in respect of natural perils. Below are some key points which IAG wishes to bring to the attention of the Commission (reference: *Draft Policy Handbook on Natural Hazard Awareness and Disaster Risk Reduction Education 2009, OECD*).

Government initiatives

Leadership and Coordination

The public sector should take a leading role in establishing a national framework and strategy for action and in coordinating the development of coherent national hazard awareness and risk reduction education programs and policies.

Assessment of Needs and Identification of Priorities

In order to identify priorities for action, an assessment should be performed of national circumstances and specific needs in respect of disaster risk awareness and risk reduction education. The initial assessment should also cover:

- The natural hazards to which Australia is exposed;
- The exposures, vulnerabilities and risks of Australia;
- The existing awareness and education initiatives and their efficiency in providing reliable and relevant information and knowledge on risk and risk reduction strategies and in changing public perceptions and behaviours regarding risk and risk reduction measures;
- The current risk perception of the population and concerned audiences, the extent to which appropriate risk reduction measures have been undertaken in society, and factors possibly contributing to any passive behaviours; and,
- The priority attached to risk awareness as part of national policies and economic strategies, and the appropriateness of the level of this status in light of current risk exposures, global developments such as climate change, and available resources.

Public Awareness Campaigns and Events

The most systematic public education efforts are often built around widespread campaigns. The chief features of these campaigns are a series of messages and materials that are distributed through a wide variety of print, radio, television and internet outlets. Preparedness events must be repeated annually, so as to create public recognition, anticipation and to reinforce what was learned during previous events.

National-Level Guidelines on Public Service Message Content

While multiple organisations and sectors can be encouraged to develop and disseminate risk awareness and reduction education materials, guidelines on important content will help limit confusion, conflicting messages and disinformation. Organisations and sectors with relevant technical expertise and experience (e.g., local authorities, insurance companies, emergency rescue associations) should collaborate, with the support or possible direct involvement of national governments, in developing standardised material that organisations can take and modify for their particular target audiences.

Distribution of Public Education Material

The mass distribution of printed material outlining major hazards, appropriate emergency responses, and strategies for reducing risks can be used as a risk awareness and risk reduction education strategy. Mass mailings can raise awareness about hazards and be valuable references for the public. Mass distributed education materials are effective when they aim to increase understanding of specific, local risks and list explicit risk reduction strategies. The costs and continued relevance of printed material may be a concern. These concerns may be addressed by targeted measures. For instance, attempts could be made to directly contact those at greatest risk in time for risk reduction or prevention actions to be taken.

Informational Websites

Risk awareness, preparedness, and risk reduction information should be made available on governmental websites. These websites should focus on natural hazard information (including, where relevant, simplified hazard maps), the benefits of collective and individual disaster risk reduction actions, the availability and scope of disaster risk financing, risk-sharing, and risk-transfer tools, such as insurance, as well as on event response and emergency planning for post-event preparedness. Information on suggested risk reduction activities aimed at preventing or lessening the impact of natural hazards should be fully integrated with appropriate and specific risk awareness material or descriptions of risk reduction effectiveness, both necessary components of effective risk reduction education. Special sections of such websites should be devoted to dedicated education and awareness material that targets a range of audiences including children, minority language speakers, policy makers and knowledge disseminators.

Disaster Parks

Locations of past disasters and sites of visible geophysical hazards can be effectively used as risk awareness tools. While interpretive sites are often limited in geographical impact, appropriate sites are plentiful in most communities and can be an immediate and local reminder of hazards and risk reduction. Educational sites can be incorporated into areas where land-use regulations restrict development due to natural hazard risk. They can help reinforce the necessity and importance of zoning laws, a risk reduction strategy often not well understood by the general public. To be effective, they should include not only easy-to-understand descriptions of the hazard, but specific strategies for reducing risk at the individual, household and community level.

Cross-sectoral partnerships for school education

Incorporating risk awareness and risk reduction strategies into school curricula is the strongest method for institutionalising the reach of these messages to the largest percentage of the population in perpetuity. What is learned in childhood becomes incorporated into collective knowledge and carried into future decision-making. Educating children about natural hazards and risk reduction, moreover, is of significant importance since in most countries they are very effective knowledge disseminators at the family level. The task of infusing risk awareness and risk reduction education into curricula is, however, a multi-decade effort.

Private-sector initiatives and sponsorships

The Insurance Sector

The insurance sector should work with the community groups, private, and education sectors to educate current and potential policyholders about risks, insurance, and risk reduction measures. Insurance companies and industry associations can play an important role in designing and providing appropriate, effective, accessible and affordable tools to protect households and the economy against the financial consequences of large-scale disasters. These products can also provide incentives for individuals and businesses to adopt cost-effective risk reduction measures.

The Corporate Sector

Leadership by example can be provided by corporations through the adoption of employee education programs, risk reduction measures and business continuity plans. Hazard and preparedness seminars for workers, school children and local community members can become part of corporate good neighbour policies. The engineering industry and some segments of the construction industries, moreover, can effectively support many risk reduction initiatives, including strict and mandatory building codes, hazard-conscious land-use planning and environmental stewardship as a means of encouraging risk-wise behaviour.

Community sector initiatives and sponsorships

Grassroots Initiatives

Broad community engagement is vital not only in the community sector where it is currently most prevalent, but also in private, public, and educational sector efforts. Communities should be invited to participate throughout the process of program development and message dissemination.

Many excellent risk awareness, risk reduction and advocacy programs have begun with grassroots efforts rather through national initiatives. These programs are often more grounded in the local

physical, cultural, economic and political context of a community than nationally developed programs, and they are able to target vulnerable or marginalised members of a community. These are important not only for the content of the materials they have created, but also for the social networks on which they rely for dissemination.