

Queensland Floods Commission of Inquiry

Submission on behalf of Suncorp Group Limited

This submission is written in response to the Commission's invitation for submissions relating to "the performance of private insurers in meeting their claim responsibilities". Suncorp Group (Suncorp) is pleased to respond to that invitation. Suncorp understands this term of reference to relate to both the willingness of insurers to offer cover for flood events, and the manner in which insurers assess and manage claims in such events, in particular the flood events which occurred in Queensland in the 2010/2011 summer season.

This submission should be read in conjunction with Suncorp's first submission to Commission, sent on 11 March 2011, relating to other terms of reference.

1. Contents

1.1. This submission will:

- provide a brief outline of the 2010/2011 events which have occurred and the impact of those events in an insurance context as involving Suncorp;
- by way of background, provide an overview of Suncorp's general insurance brands, many of which were at the epicentre of Queensland's recent natural disasters;
- give specific details regarding Suncorp's widespread response to the Queensland floods and Cyclone Yasi in terms of claims numbers and customer service;
- provide a snapshot of how insurance works in the context of a major natural disaster and the particular process used by Suncorp in such an event;
- discuss some of the unique challenges of this event; and
- present recommendations to the Commission on public policy matters that could improve disaster resilience as well as insurance outcomes for Queenslanders living in vulnerable communities.

1.2. Please note that the figures contained in the schedule to this submission in relation to claims are commercial-in-confidence. Suncorp asks that this data remain confidential and that it is excluded from any publication of Suncorp's submission or the findings of the Commission.

2. Introduction

2.1. The extraordinary series of natural disasters during the summer of 2010/2011 have presented insurance companies with unprecedented challenges. Those events impacting Queensland included:

- late December 2010: serious flooding in Emerald;
- late December 2010 through to the first weeks of 2011: further extensive flooding throughout large areas of rural Queensland;
- 10 January 2011: catastrophic flooding in Toowoomba and the Lockyer Valley;
- 12 January 2011: devastating flooding of Ipswich;
- 12 and 13 January 2011: extensive flooding of Brisbane, with the Brisbane river peaking on 13 January 2011; and
- 3 February 2011: Cyclone Yasi's destructive impact on North Queensland.

- 2.2. Insurers, public authorities, businesses and communities know to expect extreme weather events in Queensland during the summer season. What made these events extraordinary was the widespread geographical area affected, the number of successive events, the repeated nature of the events (with some regions experiencing the subsidence of waters from one flood event only to experience another inundation within days or weeks), and the magnitude of the weather extremes experienced.
- 2.3. Shortly after the weather events devastated Queensland, flash flooding caused further devastation in Melbourne on 4 February 2011. Meanwhile northern parts of Victoria were preparing for flooding which subsequently hit and in parts still remains. Concurrently there were bushfires in the outskirts of Perth, then the devastating earthquake in Christchurch, New Zealand. Many of Australia's general insurers, including the Suncorp Group, service a customer base throughout all of these areas as well as in Queensland.
- 2.4. From the Australian events to date, companies within the Suncorp Group have received 41,810 home building and content claims, 4,074 motor claims and 4,947 business insurance claims.
- 2.5. This submission outlines Suncorp's response to these challenges and to addressing the needs of its customers across the country. However, the role of insurance in protecting customers from hardship and financial stress, and the performance of insurers in responding to natural disasters needs to be seen in context. Whilst insurance provides a means of reducing the impact of loss on individuals, families and businesses after an event, the role of other stakeholders, in particular State government and local authorities, is crucial to reducing the damage that these events cause in the first place. This results in lower insurance premiums for customers and, more importantly delivers broader financial and emotional benefits to Queenslanders, their families and their businesses because regardless of insurance, the prevention of loss is always more effective than repairing the damage. There are many losses that no amount of money can make good.
- 2.6. In that regard, the management of natural hazard risk such as flood is the collective responsibility of governments, businesses, communities and individuals. State and local governments must supplement insurance with strategies and programs that improve disaster resilience.
- 2.7. Nothing can replace the tragic loss of life from the recent weather disasters, and all stakeholders have a responsibility to continually work to improve the resilience of our communities, homes, businesses, public infrastructure and physical environment, and to protect lives and personal assets through robust weather defence measures as well as through insurance.
- 2.8. Accordingly, this submission will close with Suncorp's recommendations as to initiatives which Suncorp considers are necessary to supplement insurance as a measure for mitigating the effects of weather events.

3. Suncorp's exposure to Queensland flood events

- 3.1. The Suncorp Group was at the epicentre of Queensland's summer floods through a range of insurance products under a variety of brands including Suncorp, GIO, APIA, Vero, Shannons, Just Car and AAMI in Australia.
- 3.2. Suncorp, to date, has received well in excess of 50,000 individual claims arising from the recent string of natural disasters.
- 3.3. Many of these claims were received at a time when Suncorp premises from which insurance services, including claims call centres, were closed due to flooding or power

- all 10 Suncorp Brisbane CBD premises;
 - 2 call centres at Milton; and
 - 21 branches,
- 3.4. In addition, flooding impacted communications and data links of our two telecommunications providers, and more than 3000 of our staff were unable to attend their usual place of work.
- 3.5. Suncorp is Australia's largest general insurance group by gross written premium, and despite the constraints caused by these closures, was well prepared to handle the insurance outcomes of the major weather events which occurred. These are described in detail later in this submission.
- 3.6. This submission outlines how Suncorp's response to what have been some of Australia's most devastating weather events, has been and continues to be prompt, responsible, appropriate and consistent with industry best practice.

4. Suncorp Brands Overview

- 4.1. Suncorp is the largest general insurance group of companies in Queensland, insuring approximately 37% of Queensland households and 17% of Queensland businesses. Among Suncorp's stable of brands are some of Australia's most recognised and reputable insurance names including Suncorp Insurance, AAMI, APIA, Shannons, Just Car and Vero.
- 4.2. More than one in three Australian homes have a policy with Suncorp and in many places, including Tropical North Queensland, Suncorp is one of the only companies willing to offer home and contents protection
- 4.3. Annually the company receives more than 300,000 home insurance claims and 600,000 motor insurance claims, reinvesting more than \$2.4billion in rebuilding, replacing and repairing customer's property.
- 4.4. From an operational perspective, Suncorp General Insurance is divided into two streams, Personal Insurance (retail customers) and Commercial Insurance (wholesale customers/business, and statutory classes, compulsory third party motor and workcover. The distinction is referred to later in this submission.
- 4.5. Suncorp has an extensive claims network that includes local repairers and suppliers that are utilised to assist Suncorp's more than nine million customers when they need to make a claim.

5. Suncorp's Flood Insurance Products

- 5.1. The manufacture, distribution and sale of general insurance policies in Australia is governed by the Insurance Contracts Act and by Chapter 7 of the Corporations Act with the Australian Securities and Investment Commission (ASIC) responsible for regulation of the provision of financial services by general insurers.
- 5.2. The Insurance Contracts Act and the Insurance Contracts Regulations 1985 provide that for home building policies and contents policies, the following events are "prescribed events":

"storm, tempest, flood, the action of the sea, high water, tsunami, erosion or land slide or subsidence"

- 5.3. Section 35 of the Insurance Contracts Act provides that home building policies and contents policies include cover for these prescribed events unless, prior to commencement of the policy, the insurer has clearly informed the customer in writing that insurance cover for the prescribed event is not provided by the contract.
- 5.4. The Explanatory Memorandum to the Insurance Contracts Bill stated that:
- “An insurer should be free to market policies which offer less than the standard cover provided the insured’s attention is drawn to the limitations or a reasonable person in the circumstances could be expected to have been aware of them.”*
- 5.5. Insurers, including Suncorp, comply with this requirement by clearly stating the terms and exclusions in the Product Disclosure Statement (PDS) and providing a copy of the PDS to the insured prior to the policy being issued or within 5 business days if the purchase of insurance is time critical (eg.via a call centre). There is also a cooling off period (minimum 14 days) after purchasing a retail insurance product, as additional consumer protection.
- 5.6. Customers are further protected by the provisions of Part 7.9 of the Corporations Act, in particular Subdivision C. Section 1013C(3) provides that:
- “The information included in the Product Disclosure Statement must be worded and presented in a clear, concise and effective manner”*
- 5.7. It is Suncorp’s experience that ASIC specifically reviews PDSs issued by general insurers for compliance with this requirement, including:
- (a) whether the language and format of the PDS is such that the content can be understood by customers; and
 - (b) whether benefits and exclusions are sufficiently and clearly disclosed.
- 5.8. Different insurers have defined the limits of flood cover and/or flood exclusions differently. However it should be noted that:
- (a) an insurer which fails, in its PDS and other customer information, to clearly and adequately explain the scope of cover and the exclusions applicable to the policy risks substantial penalties from ASIC;
 - (b) ambiguities in policy wording are generally resolved in favour of the customer by operation of the contra preferentum rule;
 - (c) customers who are disgruntled by an insurer’s decision on a claim have access to a free dispute resolution service through the Financial Ombudsman Service (FOS), which provides the customer with an independent review of the insurer’s decisions regarding a claim (which is binding on the insurer). There is no cost to the customer and the insurer cannot seek legal or other costs from the customer even if the insurer’s position is upheld, so a customer can seek review without the risk of having to pay legal costs if unsuccessful; and
 - (d) for the reasons outlined above, the existence of different levels of cover in the market delivers to consumers the benefit of customer choice.
- 5.9. Over a period of many years, Suncorp has refined the language and format of its PDSs specifically with the intention of ensuring that customers are able to understand the cover on offer without the need for specialist knowledge or advice.
- 5.10. Suncorp provides customers with a choice from a portfolio of brands, each offering different products based on the differing insurance needs of our customers. Across the Suncorp Group consumers can choose among a range of insurance cover options in

- 5.11. Suncorp considers it is in the best interests of customers for this choice to be available in the market. Customers are the ones best placed to assess their own individual risks, and the level of protection they may require in relation to those risks.
- 5.12. Across its portfolio of brands, therefore, the Suncorp Group offers different products, with different levels of cover, which enables customers to choose the cover best suited to their needs and their budget.
- 5.13. The Suncorp Group continues to include the few domestic general insurers who automatically provide cover for flood. Customers who purchase flood insurance will typically pay significantly more premium than those who don't, particularly if they live in high flood risk areas.
- 5.14. This necessarily reflects that if insurance is to be offered for a particular risk, the risk must be capable of being priced, and must be priced.

6. Insurance, Risk-assessment and Re-insurance

- 6.1. Insurance companies use actuarial analysis to predict what percentage of insured people or businesses actually suffer a loss and lodge a claim. This analysis helps determine the amount of the premium. Other factors such as location of the risk, propensity to natural disasters of that risk (e.g. fire, flood, cyclone etc.), value of the property being insured, construction techniques and materials (e.g. bricks, tiles, tin, wood, age of the building), and previous claims are also taken into consideration. Naturally, the lower the risk, the lower the insurance premium.
- 6.2. When individuals or companies purchase insurance policies, the money from the premium is combined into what is called the insurance "pool".
- 6.3. An insurer is required to have enough capital/reinsurance in the "pool" to be able to pay out potential insurance claims. In Australia, the capital and reinsurance requirements of general insurers are governed by the Australian Prudential Regulation Authority (APRA).
- 6.4. Reinsurance is insurance that is purchased by an insurance company (insurer) from another insurance company (reinsurer) as a means of risk management - it transfers some of the risk from the insurer to the reinsurer.
- 6.5. The reinsurer and the insurer enter into a reinsurance agreement which details the conditions upon which the reinsurer would pay the insurer's losses (in terms of excess of loss or proportional to loss). The reinsurer is paid a reinsurance premium by the insurer.
- 6.6. For example:
 - Assume an insurer sells one thousand policies, each with a \$1 million policy limit. Theoretically, the insurer could lose \$1 million on each policy – totalling up to \$1 billion, and;
 - The insurer passes some risk to a reinsurance company (reinsurer) to minimize the insurer's risk.
- 6.7. Therefore, in order for insurers to offer insurance to customers, and to acquire reinsurance, it is necessary for both the insurer and the reinsurer to be able to:

- assess the frequency and severity of a particular risk event based on historical data (statistics) and estimations of future events (such as information from the Australian Bureau of Meteorology);
 - understand and assess the effect of risk mitigation strategies (such as flood mitigation strategies, e.g. dams and flood levies, or land clearance for bushfire risk);
 - assess the level to which risks are ameliorated by local planning laws and other regulatory requirements for buildings (e.g. restrictions on the kinds of buildings and the areas where buildings can be constructed under local Planning Schemes and building safety requirements under the Building Act 1975, the Building Fire Safety Regulation 2008 and the Building Code of Australia) and other insurable interests; and
 - appropriately price the risk .
- 6.8. Without an ability to make the assessments referred to above on an informed basis, a general insurer's ability to obtain prudentially sound reinsurers willing and able to accept a transfer of part of the risk at an appropriate cost, in accordance with APRA prudential regulation and approved reinsurance management strategy, is impugned.

7. Pricing Risk

- 7.1. For an insurer to be able to price a risk appropriately, the general insurer and the reinsurer need access to information that enables them to:
- accurately define the insurance events to which the policy responds;
 - calculate the probability of the insurance event occurring; Calculate the potential liability for compensation if the event occurs; and
 - assess the extent to which the risk can be discounted due to any mitigating factors for example dam management.
- 7.2. In relation to flood, information used includes local authority flood maps, reports on water management and flood mitigation strategies for the local area, such as dams or levees and historical data on weather and flood patterns. Therefore fair pricing absolutely depends on the information that is available being accurate, transparent and independently verifiable.
- 7.3. In the particular case of the Queensland floods, it needs to be noted that Suncorp prices each risk individually (including building) rather than on a postcode level. That means in a street with a watercourse, the insurance premium for a house on a hill would be priced lower than a house near a creek in the same street.
- 7.4. To be able to do this effectively Suncorp has invested heavily in the acquisition of flood data, which allows it to automatically include cover for flood (all types) in some of its policies and to price the risk accordingly. This investment is a commercial decision that makes it possible to provide products that suit the risk profile of many different Queenslanders. Suncorp's flood information database was addressed more fully in its first submission to the Commission submitted on 11 March 2011.
- 7.5. The availability and accuracy of this flood data means that Suncorp's reinsurers are also willing to take on part of that risk. If the reinsurers were not able to underwrite flood, then the likelihood is that this cover would have to be removed.

8. Regulation of the Insurance Industry

- 8.1. The insurance industry is highly regulated. The Insurance Contracts Act 1984, Corporations Act 2001, Insurance Act 1973, ASIC Act 2001 and various other Commonwealth laws such as the Privacy Act 1988 regulate the provision of general insurance in Australia.
- 8.2. Insurers are required to obtain an Australian Financial Services Licence issued and administered by the Australian Securities Investment Commission (**ASIC**) as well as a authorisation to carry on insurance business from the Australian Prudential Regulation Authority (APRA).
- 8.3. Additionally the general insurance industry has a very comprehensive General Insurance Code of Practice (the Code)^[1] which clearly sets out the requirements on general insurers in relation to claims management.

Suncorp's Response to the Queensland Flood Events

9. Claims Process

- 9.1. The typical claim process for home building and contents policy is as follows:
- (a) The customer contacts the insurer and lodges a claim.
 - (b) The claim is allocated to a case manager.
 - (c) The claim is assessed by the case manager and the customer is contacted.
 - (d) If required, an on-site assessor is appointed to assess the damage and in some events the cause of the damage. (Where identifying the cause of a loss requires expert opinion, an appropriate expert would also be engaged. For example, in dealing with claims arising from the recent floods, AAMI has also appointed a hydrologist to assess the cause of damage due to the riverine flood exclusion in its policy in some parts of Queensland.)
 - (e) The assessor's report and any expert report is reviewed by the case manager and the necessary action is determined.
 - (f) A builder/contractor or supplier is appointed to manage the claim and to restore the customer to their prior position.
 - (g) The builder commences work/the supplier delivers the goods to the customer.
 - (h) The claim, once finalised (all work completed) is reviewed and closed.
- 9.2. To date the indications are that for the Queensland floods alone, insurers will:
- receive and process 49,400¹ claims;
 - approve almost 90% of total claims; and
 - outlay an estimated \$2.31 billion to affected customers.
- 9.3. In addition to the sheer number of claims involved, there have been enormous practical and logistical issues in seeking to remediate insured properties including:-
- the unprecedented number and geographic spread of impacted customers;

^[1] www.codeofpractice.com.au

¹ [Figures from the General Insurance Council, as of 29/03/2011](#)

- ongoing inclement weather, which also resulted in some areas being repeated flooded, meaning some customers suffered successive weather events causing losses;
- delays in power being reconnected, which in turn has prevented commencement of repair work;
- delays in obtaining access to some affected areas due to road closures; and
- shortages in availability of tradespeople to perform authorised repairs;

9.4. The magnitude of events such as these necessitates special procedures and resources to be committed in order to deliver for our customers. Details of the procedures and resources Suncorp has in place in this regard are set out below.

10. Corporate Event Response Plan

10.1. Suncorp has a Corporate Event Response Plan that is in place across the business and which is activated when a catastrophe occurs. The following provides a brief outline for the Commission's information about how this works in practice.

10.2. The plan allows Suncorp to effectively manage its response to a major event (such as the Queensland floods or Cyclone Yasi).

10.3. The key principles of the Suncorp Corporate Event Response Plan are as follows.

Principle	Overview
Customers	<ul style="list-style-type: none"> • Rapid response and action at all points of the event management process • Delivery on Suncorp's promise to our customers to rebuild their dreams • Ensure quality of service across general insurance is maintained
Shareholders	<ul style="list-style-type: none"> • Controlled cost balanced with customer experience • Proactive management of public affairs
Staff	<ul style="list-style-type: none"> • Proactive and informed decision making and coordination of the event • Defined roles and responsibilities before and throughout event
Suppliers / Repairers	<ul style="list-style-type: none"> • Controlled volume of work • Simple and efficient engagement • Effective relationship management • Timely and cost-effective reinstatement
Infrastructure	<ul style="list-style-type: none"> • Cost-effective real estate available when required • Remote system access when required • Simple and efficient set up of remote teams when needed • Effective telephony strategy to handle peak demand
Communication	<ul style="list-style-type: none"> • Clear and concise information to all internal and external stakeholders

- 10.4. The Suncorp Corporate Event Response Plan process has been structured around the clear operational phases that a large event tracks through, with each Plan tailored to the specific event. For example, the timeframes specified for each step of the process depend on the type of event that occurs. The following table demonstrates the different phases in event management that Suncorp has defined. This is from an operational perspective.
- 10.5. The event management is overseen by the Suncorp Event Leadership Team (comprised of senior Suncorp management in both operational and support roles).

Event Stage	Operational Phase	Objective
Pre Event	Event Alert	<ul style="list-style-type: none"> • Raise awareness and commence early planning for event • Refresh response models for event type
	Event Imminent	<ul style="list-style-type: none"> • Develop tailored response given current business as usual (BAU) status and likely event impacts
During Event	First Response	<ul style="list-style-type: none"> • Initiate response as planned in line with pre-agreed triggers • Clear communication of immediate actions • Focus on managing call volume surge without compromising customer experience or information quality • Firm up fulfilment phase resource plan once scale of event is clear • Consider segregation of claims to specialist claims service team
	Transition	<ul style="list-style-type: none"> • Effectively moving focus from Lodgement to Fulfilment as the call volumes scale down and the processing load increases
	Fulfilment	<ul style="list-style-type: none"> • Focus on fulfilling claims in with product guidance on PDS coverage • Focus on fulfilling claims quickly while managing claim costs
Post Event	Finalisation	<ul style="list-style-type: none"> • Focus on finalisation of event claims and transition back to BAU • Focus on timely and accurate reporting of event statistics • Conducting a post-incident review to continually improve on Suncorp Group's Event response Management

11. Suncorp Customer Response Teams (CRTs)

- 11.1. As part of its planning for natural disasters, Suncorp has developed an innovative system of self sustainable mobile claims centres staffed by Customer Response Teams (CRTs) which deploy to the site of a natural disaster in the immediate aftermath of an event to enable immediate, on-the-ground claims support to customers.

- 11.2. CRTs have a fleet of dedicated customer response vehicles, which enables them to establish response centres into simultaneous disaster areas anywhere in Australia within 24 hours.
- 11.3. CRTs service AAMI, Suncorp Insurance, GIO, APIA, Shannons, Vero and all other Suncorp Group general insurance brand customers. They provide the ability to rapidly establish on-ground response centres in disaster areas across the country.
- 11.4. The CRTs operate as a coordinated team with immediate decision making abilities to directly service customers face-to-face at the time when they most need Suncorp's assistance and support.
- 11.5. A CRT has the ability to operate entirely independently in the field with mobile generators powering electronics and communications technology enabling complete claims lodgement and customer service capabilities directly from the disaster area.
- 11.6. CRTs also provide field office support for assessors allowing almost immediate lodgement of assessments and generally minimising administrative delays due to event remoteness or isolation.
- 11.7. This means that:
 - Customers can physically attend a CRT in their local area for advice and assistance with lodging a claim and with any queries with assessment or other claim issues.
 - CRTs have the authority to make decisions regarding acceptance of claims and advising customers on claim acceptance rather than the customer having to lodge a claim by telephone or in writing and wait for a response.
 - CRTs appoint local assessors, or assessors brought to the area by Suncorp to assess claims, review the assessor's report and have the authority to then immediately authorise repair or rebuilding work.
- 11.8. During the recent Queensland weather events, Suncorp deployed CRTs in mobile claims centres to more than 14 locations in Queensland including Emerald, Rockhampton, Theodore, Toowoomba, Bundaberg, Chinchilla, Dalby, Cardwell, Tully, Cairns, Brisbane and Ipswich, in the immediate aftermath of each event as it occurred, with some units remaining on site in affected communities for up to four weeks. This enabled Suncorp to receive and process claims for customers who would otherwise have faced difficulties due to disruption or destruction of local telecommunications, and to operate notwithstanding the temporary closure of Suncorp's flood-affected premises elsewhere.

12. Access to additional resources

- 12.1. Suncorp has access to a large pool of assessors whose services are used in large scale events. In the case of the Queensland floods, more than 150 loss assessors were allocated by Suncorp and worked throughout affected regions. The unusually high number of flood affected properties and the extent of damage to be assessed meant that the whole of the insurance industry faced a shortage of locally available assessors. Suncorp addressed this by engaging, in addition to assessors from its usual pool in Queensland, assessors from interstate, New Zealand and the United States.
- 12.2. In order to quickly respond to the overwhelming number of customer claims and enquiries, Suncorp also sourced and deployed additional call centre, claims and assessment staff as well as implementing its own business continuity and crisis management strategies to manage the flood impacts affecting Suncorp's own premises.

13. Treating Customers Individually

13.1. Importantly, the insurers in the Suncorp Group treat customers individually. For example, AAMI policies exclude riverine flooding. AAMI did not commission area-wide hydrology reports with a view to treating customers within a geographical area on a grouped basis. It did not rely upon reports of this kind that were commissioned by the Insurance Council of Australia. Unlike some insurers, it did not issue “form letters” advising customers that their claim was or was likely to be rejected because of a riverine flood exclusion in the policy. Rather, for any AAMI customer lodging a flood claim, AAMI appointed a hydrologist to review the customer’s individual circumstances. As a result a large number have been found to have mixed reasons for damage caused, e.g. storm and riverine, which leads to partial payments on policies. It has been important to take the time to source the expert reports and consider the claims on a case by case basis so that accurate decisions could be made on the best available information as to causation of the damage claimed.

14. Customer response - How it happened

14.1. The following provides an overview of how Suncorp mobilised itself in response to the Queensland Flood events.

23/12/2010 –Suncorp’s Corporate Event Response Team (an internal team who monitors the likelihood of events and organises responses) identified through weather monitoring including information from the Bureau of Meteorology that major weather events were imminent and there was a likelihood of customer exposure in major regional Queensland centres. In accordance with Suncorp’s standard procedures, CRTs were mobilised and call centres were briefed to prepare for increased claims.

24-26/12/2010 - Daily phone hook-ups and monitoring of weather events saw activation for Corporate Event Response Plan and despatch of CRTs to affected areas.

Once the seriousness of the situation was realised the Suncorp General Insurance Public Policy and Corporate Affairs teams activated their own Emergency Response Process. This included preparation of media releases and twitter accounts supported by placement of local newspaper and radio advertisements informing customers of claims processes and CRT locations.

Key regional stakeholders were quickly identified and a briefing process commenced.

31/12/2010 - Suncorp’s Event Leadership Team (which is part of the Suncorp Corporate Event Response Plan), met to ensure an immediate group wide response to the Central Queensland flooding.

Suncorp began issuing media releases and advertisements informing customers of claims lodgement issues and encouraging all customers to lodge their claims immediately regardless of brand or cover. This helped in speeding up the response process.

Once claims are lodged they must be dealt with in accordance with the timeframes and standards required by the General Insurance Code of Practice requirements in regards to claims management.

03/01/2011 - Suncorp’s CRTs were activated in Bundaberg and Chinchilla to lodge claims and to provide emergency funding to customers across all brands.

Suncorp representatives addressed media to advise customers where and how to make claims. Suncorp also provided briefings to local State and Federal MPs and gave a presentation to the Bundaberg Chamber of Commerce to assist the Chamber of Commerce to assist its members.

Suncorp also issued radio and newspaper advertisements to inform customers of the support that was available from Suncorp Insurance and Suncorp Bank for affected customers.

04/01/2011 – A CRT was dispatched to Rockhampton and, as further flooding occurred, a third CRT was dispatched to Emerald. Road access to Emerald was cut by flooding so in line with Suncorp's Corporate Event Response Plan, the CRT was dispatched via an emergency charter flight into Emerald. Suncorp commended damage assessments immediately and provided briefings to State MPs and local government officials. Customers were briefed one-on-one where needed at the evacuation centre.

05/01/2011 - Other forms of communication started including updating regulators (APRA and ASIC), press interviews designed to inform the community about levels of cover under Suncorp Group policies and what customers needed to do, and regular Webcast updates for insurance brokers for the Suncorp Commercial Insurance division.

Suncorp also commenced (and is still engaged in) briefings and updates to Commonwealth Treasury and Federal Minister Bill Shorten's office in relation to the events and issues that were arising as a result (e.g. concerns regarding disclosure in regards to insurance cover).

06/01/2011 – Suncorp initiated make safe provisions for affected customers in regional Queensland. This meant certain activity necessary to make a property safe such as electrical inspections, removal of destroyed contents and materials and sanitation treatments were undertaken prior to inspection by assessors. The ongoing weather prohibited assessors accessing parts of Emerald and Rockhampton and it was not possible for repair work to commence until flooding/rain eased as roads were cut off by dangerous flood waters.

10/01/2011 - With the Central Queensland repair stage hindered by ongoing weather, Suncorp's Event Leadership Team was again convened to discuss the devastating Toowoomba – Grantham flood events, and anticipated Brisbane flooding. The Event Leadership Team was operating in conjunction with Suncorp's Crisis Management Team, which was focused on the Suncorp Group's own real estate, staff impact and business continuity as Suncorp had to evacuate its own buildings in Brisbane and Milton and Suncorp's Toowoomba call centre (which mainly deals with claims) was flood affected. This meant that for a short period Suncorp's own operations were affected (insurance, banking and wealth management) and the company's NSW call centres assisted with local claims calls.

A CRT team was dispatched to Toowoomba and stakeholder consultation commenced.

12-13/01/2011 – Suncorp commenced preparations and activated contingency plans first in anticipation of and then in response to Brisbane flooding. This included implementation of staff safety/evacuation procedures and activation of additional customer support from Suncorp's southern state offices. By this time, call centre operations had been diverted several times as successive flood events occurred. First, local call centre capability was diverted to Toowoomba when regional floods occurred. Then, Toowoomba call centre operations were diverted to Brisbane when the Toowoomba flood occurred. Then, with Brisbane flooding, capacity was again diverted to other states, in particular Suncorp's NSW centres.

15-16/01/2011 - Claims call centre demand peaked with 680 staff processing claims through four national call centres.

Suncorp secured the services of assessment teams of 150 assessors. With unprecedented demand by all general insurers, local supply of assessors was grossly insufficient to enable prompt assessment of claims. Suncorp therefore retained assessors from interstate and overseas, including through the use of its related companies and other industry contacts in New Zealand and the United States.

17/01/2011 – Additional Suncorp's CRTs and assessing teams were deployed to Brisbane City, Toowoomba & Ipswich to focus on immediate customer needs.

These teams operated throughout the region for a 4 week period with 80% of assessments completed within approximately 2 weeks.

The scale of national events were assessed and planned out to ensure the fastest and best possible management of major rebuild program. Queensland based project manager, Bovis Lend Lease, was engaged to assist Suncorp in its recovery efforts.

Local purchasing and supply policies were confirmed and communicated.

Suncorp's Event Leadership team continued to meet discussing ongoing response, policy coverage, assessment progress and the reinstatement (repair) programs.

15. The claims assessment process

- 15.1. Suncorp is a signatory to the General Insurance Code of Practice. The Code of Practice is voluntary and establishes a set of standards for signatory insurers in relation to claims management and other issues. The Code is endorsed by the Commonwealth Government through the Minister for Financial Services, Superannuation and Corporate Law.
- 15.2. The Code establishes timeframes for the management of claims. It specifically provides that in the event of catastrophes and disasters resulting in large numbers of claims, the usual timeframes established by the Code may not be met, but signatories to the Code recognise that they will *"respond to catastrophes and disasters in a fast, professional and practical way and in a compassionate manner"*.
- 15.3. Some of the issues faced by companies in the Suncorp Group in ensuring that claims arising from the Queensland floods to date are dealt with quickly, include:
 - inability to immediately access some insured properties, as rural properties, suburbs or entire towns were cut off due to flooding;
 - delays by power authorities in re-establishing electricity supply to individual properties or areas due to the extent of work necessary to ensure that electricity supply could safely be restored;
 - in some cases, customer reluctance to return to the damaged property due to the extreme trauma resulting from loss of family, friends or community members, and/or the emotional impact from loss of treasured possessions and the destruction of the home;
 - the nature of some losses, which are not capable of being quickly calculated because loss is ongoing for a period following the event. For example, for many commercial insurance customers, business interruption losses may not be

- In relation to AAMI brand policies, which exclude damage caused by riverine flood, an assessment of each claim on a case by case basis as to the likely cause of the loss. As outlined above, AAMI has not commissioned or used area-wide hydrology opinions, but rather has assessed each affected property according to its own particular circumstances. In many cases this has led to acceptance or part or all of a claim which would have been rejected had a ‘whole-of-area’ approach been taken. However the commitment to this approach has resulted in some delays due to a critical shortage of appropriately qualified and experienced hydrologists to cover the flood affected properties which, within a very short period of time, covered areas from Cairns to Melbourne.

15.4. Some of the measures taken by Suncorp to minimise delay are discussed next.

16. More flexible proof of loss requirements

- 16.1. It is usual industry practice that, following acceptance that a claim falls within the cover provided by a policy, the claim is reviewed by the insurer, usually by the appointment of an assessor or, at the least, by reviewing two quotes provided by a customer and approval prior to repair or replacement by acceptance of one of those quotes.
- 16.2. When large scale natural disasters such as the 2010/2011 floods occur, a risk arises that the volume of claims to be assessed slows down the process of approval of individual claims. Suncorp recognises that claims must be processed in acceptable timeframes to give customers financial security, to enable them to repair and replace physical assets necessary for daily living and to assist customers to get back to ‘normal’ life.
- 16.3. At the same time, it is in the best interests of all stakeholders including customers, shareholders and reinsurers, that there are robust processes in place for assessing and managing claims to ensure that legitimate claims are paid and non legitimate claims denied.
- 16.4. The unfortunate reality is that after events such as the 2010/2011 floods, there can and will be attempts by a small minority to capitalise on the loss of others and make non-legitimate claims.
- 16.5. If insurers paid claims without appropriate scrutiny or paid claims arising from risks not covered by the insurance policy there could be significant public policy implications. It could promote inappropriate or fraudulent customer behaviours such as exaggerating loss or claiming for non existent property. This would result in increasing the cost of insurance for the majority of customers.
- 16.6. Therefore, it is critical to maintaining a prudentially sound insurance industry that both customers and insurers be required to fulfil their duty of good faith under the terms of the insurance policy.
- 16.7. Loss assessments have uncovered the following inappropriate claims:-
- (a) claims on cars parked away from the place of residence or employment of the insured in streets known to flood.
 - (b) people posing as assessors to gain unauthorised work.
 - (c) people claiming damage to property they did not own including providing photographs of property damaged elsewhere.

- 16.8. Having said this, Suncorp does recognise that with the capacity constraints (such as pressures on assessing services) resulting from significant events, there is legitimate reason to relax some of the usual requirements of proof of loss.
- 16.9. For example, as a general rule, customers are required to preserve the damaged property in the state it was in, as a result of the insured event, in order for the assessment process to occur. Where customers are seeking to arrange repairs themselves, or are seeking to replace destroyed items, usually two quotes will be required. For many higher value items, proof of ownership, proof of the cost of the damaged item and/or proofs such as the make, model and serial number of the item would be required.
- 16.10. However in the case of the 2010/2011 floods:
- (a) given the number of impacted properties and potential health and hygiene issues that could arise, Suncorp agreed to allow flood victims to commence the clean up process and the removal of damaged and destroyed items provided that photographic evidence was obtained; and
 - (b) for household items such as whitegoods, televisions and the like, Suncorp did not require the usual proofs used to identify the destroyed item, and encouraged customers to commence clean up ahead of assessors visiting damaged properties.

17. Resourcing the Rebuild Process

- 17.1. Suncorp has partnered with **Lend Lease, Cunningham Lindsay** and **MYI Freemans** to help project-manage major repairs arising from both the Queensland floods and Cyclone Yasi.
- 17.2. Suncorp has a local purchasing policy and always encourages the use of local repairers and suppliers. On an ongoing basis, Suncorp (as part of its purchasing philosophy) has a registered panel of Queensland builders and suppliers, who they use continually. The panel builders also employ local tradesmen where possible.
- 17.3. The personal insurance division of Suncorp is currently using approximately 25 Panel Builders and 10 Non Panel Builders with 76% jobs assigned to Panel Builders.
- 17.4. The commercial insurance division is using approximately 9 Panel Builders and 17 Non Panel Builders with 73% jobs assigned to Non-Panel Builders.
- 17.5. Where additional resources are required, Suncorp's policy is to firstly use other local repairers and suppliers before looking to other regions for additional resources. Suncorp aims throughout this process to balance its support for local trades with its prime objective of restoring customers to their prior position as soon as possible.
- 17.6. In south east Queensland, where Queensland based project manager Lend Lease has been engaged to assist Suncorp in its recovery efforts, it has separately appointed over 30 builders to date, including about 20 builders from Suncorp's Queensland panel. Suncorp has referred over 1000 expressions of interest to Lend Lease from suppliers all over Australia.
- 17.7. From a customer perspective, if the value of the claim is under \$2,000 the item can be replaced or repaired using a local builder/supplier and the customer will be reimbursed. For claims up to \$5,000, customers are able to obtain a single quote from a local builder or supplier and submit that quote to Suncorp for approval rather than the usual process of requiring two quotes.

18. Repair/replacement -v- Cash settling claims

- 18.1. As a general rule, Suncorp will seek to settle claims on the basis that, Suncorp arranges repairs or pays the cost of repairing the insured property. Under our AAMI, Suncorp, GIO, AMP and Vero branded home and contents policies, the quality of materials and workmanship of repairs we authorise and arrange is usually guaranteed for the life of the home.
- 18.2. The alternative process is for Suncorp to “cash settle” a claim. This means that Suncorp simply pays the insured the dollar value of the claim. The customer can then choose to arrange their own repair or replacement, or might use the money for an entirely different use, ie the customer is not obliged to use the funds to repair or replace the insured property. If the customer arranges his or her own repairs/replacement, they do not receive the benefit of the guarantee on the materials and workmanship which would apply if Suncorp arranged the repair.
- 18.3. After the 2009 Victorian bushfires, the majority of customers (95%) chose to cash settle the claim as they had decided not to rebuild. This was for a variety of reasons, including customers being too emotionally effected to return, or making the decision that they no longer wished to live in fire-prone districts. The result of the high number of cash settlements was that claims were finalised unusually quickly. It is obvious that a claim that is cash settled can be finalised more quickly than one that must remain open until repairs/rebuilding, which is often extensive, are completed.
- 18.4. This preference for cash settlements has not been replicated with the Queensland floods. Suncorp’s experience is that the majority of customers want to have their properties repaired. Inevitably, this means that the time required to finalise a claim will be longer.
- 18.5. There have been media reports implying that in the aftermath of the Queensland floods, insurers are benefiting from delaying the payment of claims. There is no financial benefit for Suncorp in doing so. Rather, it is in the interests of Suncorp to process claims as efficiently as possible for a number of reasons:-
 - (a) Open claims tie up resources. The longer it takes to finalise a claim the higher the administrative cost to Suncorp.
 - (b) Suncorp can recover the amount paid from reinsurers. In the event of catastrophes such as the Queensland floods, payments by Suncorp exceeded the amount of Suncorp’s primary exposure to claims, whereupon it draws upon its reinsurance arrangements. As payments are made to customers, funds are drawn from those reinsurance arrangements. Accordingly it is incorrect to state that interest is being earned by Suncorp on pools of money set aside for claim payments.
 - (c) Insurance provisioning and reserves are required to be monitored and reported more frequently during a catastrophe event. The crystallisation and finalisation of claims unlocks reserves and enables Suncorp to deploy capital elsewhere.

19. Dispute Resolution

- 19.1. Insurers are required to provide internal and external dispute resolution mechanisms. If consumers are unhappy with decisions made by insurers they are able to raise a complaint through the internal (**IDR**) or external dispute resolution (**EDR**) process. Both the internal and external processes are governed by ASIC under Regulatory Guides 165 (**IDR**) and 139 (**EDR**). The Financial Ombudsman Service (**FOS**)^[2] is the provider of the

^[2] http://www.fos.org.au/centric/home_page.jsp

EDR to general insurance consumers. It is free for consumers and the findings of FOS are binding on the insurer.

- 19.2. ASIC has recently conducted an extensive review of general insurers' performance in relation to claims handling and dispute resolution (comprehensive and third party motor insurance) and has informed the industry that there is no evidence of any systemic issues, and in fact congratulated the industry on its performance. A report to this affect is due to be released by ASIC in April 2011.

20. Summary and Recommendations

- 20.1. Suncorp has a well developed disaster management process for dealing with the large volume of claims which follow such events. As set out above, Suncorp has delivered according to that process in its management of claims arising from the Queensland floods.
- 20.2. Looking forward, there are two key factors which together are essential to lessening the physical losses and the financial impacts of major weather. These are:
- (a) appropriate measures to disaster-proof properties, communities, public infrastructure and the physical environment. These reduce the likelihood of loss; and
 - (b) measures to ensure that insurers are able to continue to offer cover for disasters. In order to maintain a prudentially sound and competitive insurance industry capable of providing customers with a range of products to mitigate the risk of significant financial loss arising from flooding, it is necessary for insurers to be able to appropriately assess, price and reinsure the risks.
- 20.3. To achieve this, Suncorp suggests the following measures are implemented:
- 1. A full audit of risk mitigation programs in Queensland ought be undertaken, which looks at the occurrence of natural hazards in each region and the adequacy of local mitigation programs (e.g. dams, levies, land management strategies etc.).
 - 2. Funding is made available to local councils to implement local risk management strategies identified in the above audit (see case study below).
 - 3. Local authorities ought review planning requirements and impose appropriate building requirements to mitigate the risks of plausible risk scenarios such as flooding, storm surge and/or cyclones.
 - 4. Full public access should be made available in relation to local authority flood maps, reports on the construction, flood mitigation effect and management strategies for water infrastructure such as the Wivenhoe Dam and historical data on weather and flooding dating back to the 1800s. Such data needs to be accurate, meaningful, transparent and verifiable.
 - 5. Consideration could be given as to whether to amend land sales laws to require vendors to provide planning and flood information certified by the relevant local authority to prospective property purchasers as is required in some other States including NSW and Victoria.

6. Suncorp supports appropriate initiatives which will increase the level of awareness of terms and exclusions contained in insurance policies as this will assist insurers to process and finalise claims more quickly.

20.4. At a time where affordability of insurance (with automatic flood cover) is being discussed publically – due to expected reinsurance cost rises and perceived increased risk from the insurers, it is important that the government and the public understand the very clear links between pricing a risk and mitigation measures. These can take many forms depending on the local risks, from effective water management policies, building requirements to land management (especially in relation to bushfire).

20.5. That insurance is directly impacted by these factors is demonstrated by the following case study:

In Goondiwindi, 350 kilometres south west of Brisbane, a rising river no longer means rising insurance premiums thanks to improved flood risk modelling and flood mitigation undertaken by the local council.

Residents found they were paying on average 33% less in annual insurance premiums after Suncorp improved its flood modelling and downgraded the risk rating for many of the town's properties from "high risk" to "no risk". In some cases, customers saw their premiums reduce by up to \$1000 per annum. Over time the local council has continued to strengthen the town flood levee to withstand an 11 metre river peak, ensuring the area remained largely unscathed from the biggest flood in its history in January this year.

20.6. Clearly public policy that provides "disaster proofing" of communities and community assets is a far more productive investment than a singular focus on issues that only serve to replace losses. Basic "disaster-proofing" measures include the construction of levies and other flood mitigation infrastructure, encouraging settlement in areas that are not vulnerable to flood or bushfire, and areas developing building codes intended to withstand level five cyclones, earthquakes and bushfires.

20.7. Public policy measures like these are not only better for the community, but they also improve the insurance options, reduce the cost of insurance premiums and help speed recovery.

20.8. Ultimately the performance of insurance providers in providing low cost premiums and meeting claims obligations will always be primarily dependent on successful risk mitigation by governments. Successful risk mitigation will minimise the insurance burden during periods of unavoidable natural disasters and manifests itself in lower insurance premiums and faster claims processing and resolution.

20.9. Hence Suncorp believes it is vital that the Queensland Floods Commission of Inquiry and the Natural Disaster Insurance Inquiry examine current risk mitigation practices (including inappropriate planning and building codes) as well as land and water management, to be able to advise governments on how Australia – which is prone to natural disasters - can do this better as a nation.

20.10. The General Insurance industry in Australia is a vibrant, competitive industry. Due to the prudential framework it operates under, it is well capitalised and financially stable. The competitive framework enables insurance providers to provide a wide variety of insurance products to suit all reasonable consumer expectations and requirements. Suncorp believes

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