CGU Insurance
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13 May 2011

By Email: [redacted]

Mr [redacted]
Senior Specialist, Deposit Takers, Credit & Insurers
Australian Securities & Investment Commission
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BRISBANE QLD 4001

Dear Mr [redacted],

Assessment of Home & Contents Insurance Claims following recent (Qld) extreme weather events

I refer to your letter dated 20 April 2011, requesting information about CGU's assessment process undertaken during the recent QLD flood events.

CGU takes great care to provide its customers with accurate and timely confirmation of policy coverage when lodging a claim. During the recent QLD flood events, our primary concern was to avoid unnecessary delays in evaluating all claims and more specifically, communicating claim decisions where it was clear in the circumstances that a particular loss was caused by flood (as defined under the policy terms).

Section 4.4 of the General Insurance Code of Practice (of which CGU is a signatory), states as follows: *"We will establish our own internal processes for responding to Catastrophe/Major Event and disasters."* The Code clearly recognises that insurers may need to adopt different measures in catastrophe / major event or disaster situations.

Due to the catastrophic scale of the QLD flood events and the limited number of hydrologist resources available[1], CGU established a process to expedite claims decision making, whilst continuing to maintain the integrity of the process (Desk Top Triage Process)

The Desk Top Triage Process was designed by CGU to allow for consideration of various reliable sources of information to reach an objective and timely decision during a catastrophe event.

[1] Hydrology assessments were booked at least 3 months in advance in the aftermath of the Qld flood events. The delay in hydrology assessments has been cited as a major cause of concern and customer complaint in other forums including the National Disaster Insurance Review (NDIR), Queensland Flood Commission and the Federal Assistant Treasurer, Minister Shorten's office.

The sources of information used in this process included:

- **Aerial Photography** – for each individual customer, CGU utilised a web based aerial photography service (NearMaps) to assist in determining whether a customer's property had been inundated by flood water. NearMaps provided before, during and after photography for the majority of impacted customers in Brisbane and Ipswich.

- **Flood Extent Mapping** – for each individual customer, CGU referred to flood extent mapping provided by the Insurance Council of Australia as a guide to determine the likelihood of flood water inundation on the customers property.

- **Area Hydrology Reports** (including impacted suburbs and rainfall data) – CGU referred to area reports prepared by expert hydrologists. These reports included rainfall data which assisted in establishing the likelihood of damage caused by storm water vs. flood water.

- **Customer Question Set** – CGU's Claims Technical Counsel in conjunction with an expert hydrology company, developed a customer question set (15 questions) which was designed to help establish the cause of damage. Specifically, this question set was used to establish whether the damage was a result of storm water/storm water run off, or flood. The list of questions used in this process is annexed to this letter.

Where the information obtained during the desk top triage process clearly established that the cause of loss resulted from flood (as defined in the policy), CGU would advise the customer of the decision to deny coverage without the need for a site assessment. If coverage was unclear or where the customer disagreed with the outcome of the desk top assessment, CGU would refer the claim for further assessment to collect further information. When a decision is made to deny coverage, CGU always confirms this decision in writing and advises the customer of their review rights should they wish to escalate their claim.

Currently, of approximately 3500 claims received for the recent QLD extreme weather events, 117 customers have elected to have the claim denial reviewed via our Internal Dispute Resolution (IDR) process. As part of the IDR review process, CGU ensures that all claims are site assessed. The majority of these assessments were undertaken by independent hydrologists. To date no QLD flood claim denied using the desk top triage process has been overturned by the IDR department following the site assessments. We believe this clearly supports the rigour and objectivity of the desk top triage process.

Prior to initiating the desk top triage process, CGU consulted the Financial Ombudsman Service (FOS) for its opinion. Our office was advised that under the circumstances, this approach was reasonable and that the FOS' expectation was that insurers should determine claims based on the "best available evidence". FOS noted that it was impractical to site assess all claims within a reasonable timeframe for the insured. Furthermore, we note recent

commentary from The Hon Bill Shorten MP supporting timely assessment of flood claims and that Minister Shorten is currently proposing legislative timeframes to expedite the claims decision making process.

CGU met with customers shortly after the Queensland floods, to listen to their feedback about the claims process. A few customers felt unclear about the options if they disagreed with CGU's initial finding on their claim, specifically the option of an individual site assessment. Customers also reported finding some information hard to absorb, due to the understandably traumatic circumstances they had experienced.

In light of this feedback, CGU immediately spoke to it's claims staff about this issue, giving staff guidance to double check that the option to site assess claims had been communicated and understood by our customers. This message was reinforced early in the claims processing for this event and CGU is confident that all customers who would benefit from an individual site assessment have received one.

Throughout the development and implementation of the Desk Top Triage Process CGU has followed all its risk and compliance procedures to ensure that that it provides fair and efficient processing of claims that gave customers clarity on the outcome of their claim as soon as possible. In doing so we believe we have complied with each relevant policy in particular our obligations to act in good faith and deal with claims fairly and promptly. CGU considers that the Desk Top Triage process not only complies with its obligations under all applicable legislation and the General Insurance Code of Practice but also meets our customers' overarching needs to have their claims dealt with efficiently and fairly.

I trust this addresses the queries raised. I would welcome the opportunity to meet with you should you wish to discuss the matter further.

Yours Sincerely,

[redacted]

Dion Gooderham
General Counsel, CGU

CC Peter Harmer, Chief Executive Officer, CGU
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