

# Suncorp Group Response to National Disaster Insurance Review



The Suncorp Group (**Suncorp**) is pleased to respond to the National Disaster Insurance Review Inquiry into flood insurance and related matters. The format of Suncorp's response is in line with the format of the paper. Conclusions have been made through out each Chapter due to the diverse nature of the subject matter covered. Recommendations are also provided for the NDIR's consideration.

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Suncorp would be happy to provide further information and insight to the NDIR at any stage if further clarity about the key arguments in this submission is required.

# Contents

Executive Summary	4
Recommendations	5
Response to the National Disaster Insurance Review Issues Paper - detail	7
Chapter 2 – Home insurance cover for flood – mandated cover	7
Chapter 3 – Identifying the homes with high flood risk	7
Chapter 4 – An insurance system for homes with high flood risk	9
Chapter 5 – Flood Cover for Contents Insurance	10
Chapter 6 – Flood Cover for strata title and other residential property	11
Chapter 7 – Flood cover for small business insurance	11
Chapter 8 – Natural disasters other than flood	12
Chapter 9 – Measuring flood risk	12
Chapter 10 – Risk mitigation and insurance	13
Chapter 11 – Non-insurance of homes: should home insurance be compulsory?	13
Chapter 12 – Under-insurance of homes	14
Chapter 13 – Non-insurance and underinsurance of contents	15
Chapter 14 – The role of lending institutions	15
Chapter 15 – Consumer awareness of risk and insurance	15
Chapter 16 – Processing of claims	17
Chapter 17 – Resolution of claims disputes	19
Appendix 1 – Costings for the establishment and running of a flood pool as suggested by NDIR	21

# Executive Summary

## Flood mitigation – long-term sustainable solution

- Insurance helps communities recover – it will never stop floods from occurring.
- The ongoing availability and affordability of flood insurance is critically dependent on an increased investment in risk mitigation.
- Resilience = reduced impact = reduced natural disaster costs. Without a robust and properly funded mitigation strategy, the cost of flooding will continue to increase.
- The benefits can be seen today in forward thinking communities such as Goondiwindi in south-west Queensland. The town's levee saved the community from January's floods and has kept average insurance premiums down by 33%.
- Suncorp recommends the establishment of a national inquiry into disaster mitigation and the adequacy of today's infrastructure to withstand and respond to future events. Such an inquiry and its subsequent response should address disaster warning, mitigation, risk assessment and education.

## No market failure

- Flood insurance is readily available in the market place for those who wish to purchase it.
- Market provision of flood cover is accelerating with 54% of policies selected by consumers currently providing cover, this is expected to exceed 84% in the next 18 months.
- By early next year, Suncorp's national insurance brand, AAMI, will have launched flood cover. That means all home and contents policies (other than those designed for low income earners) within Suncorp's 11 personal insurance brands will have flood cover as standard, opt out or optional.
- The Suncorp Group is expected to pay out more than \$900 million in claims from the recent summer of disasters.

## Cross-subsidisation of flood risk requires a new, inequitable tax

- If the cost of insurance for households in high risk areas needs to be subsidised, it should be funded by State or Local Governments and encourage mitigation.
- If such a cost is passed onto the community through insurance, it potentially creates a new insurance tax. This could exacerbate existing cost of living pressures on the wider population and potentially lead to a greater incidence of noninsurance and underinsurance.
- The subsidy would distort the important price signal that encourages appropriate risk management and mitigation.
- Affordability is linked to the taxes, duties and levies on insurance. For example, 44% of the cost of home/building policies in NSW are taxes, duties and levies at present. This issue needs to be re-examined and understood.

## The proposals are over-engineered, wasteful and impractical

- The focus is on the 7% of households (approx) who are at risk of riverine flood.
- However, some of the proposals in the Issues Paper are over-engineered. The extent of investment and administration costs to implement mandatory cover is not commensurate with the size of the problem. Full scale risk assessment would be required for all flood and non-flood perils.
- Suncorp estimates the costs of this at \$200-300m – funds which would be much better invested in mitigating rather than measuring risk.
- If a solution to flood insurance issues is required, it must be commensurate with the size of the issue; these proposals essentially stop just short of nationalising home insurance.

## Suncorp supports the following:

- Implementation of a standard definition of flood across residential buildings and contents policies.
- Introduction of a "key facts statement" to support better consumer understanding of product coverage.
- The establishment of a national inquiry into disaster mitigation and the adequacy of today's infrastructure to withstand and respond to future flooding events.
- Investment in complete, accurate and consistent flood mapping across all of Australia, coordinated through a central Government organisation (such as the Bureau of Meteorology).
- Provision of this flood risk information to all interested stakeholders to ensure accurate assessments of flood risk can be made and appropriate risk management steps taken.
- Reconsideration of the advising regime under the Corporations Act to encourage insurers to move from a no advice model to a model which provides greater clarity to customers about their risks.
- Changes to the disclosure regime to enhance the ability of insurers to inform consumers about their risk and how their insurance products can help them manage that risk.
- It's recommended that flood data be made completely available to the Insurance industry to allow them to price risk correctly.

# Recommendations

## Home insurance cover for flood

1. The private sector is best placed to continue to evolve the flood product offering and there is no need to mandate forms of riverine flood cover.
2. Rather than spending millions of taxpayers' dollars in establishing this type of cover and the recommended premium subsidy model in the paper, Australians would be better served by improved access to flood risk data and better strategies and funding in relation to risk mitigation for natural perils, including flood.
3. Flood risk data should be made available to all consumers, via their vendor statement or their rental agreement, to allow them to make an informed choice in regards to the type of cover they require.
4. Suncorp recommends that before the NDIR proposals are considered in more detail, a comprehensive analysis of insurance affordability should be undertaken by the Productivity Commission.

## Identifying the homes with high flood risk

1. Suncorp recognises insurance affordability issues may exist for a small number of people in high flood risk areas. These require further examination by Government, but any response needs to be commensurate with the size of the problem and solutions funded in a way that encourages mitigation.
2. Any solution that is developed as a result of this research must be targeted, focussed solely on affordability, encourage mitigation and be efficient to administer.

## An insurance system for homes with high flood risk

1. If a set of premium discounts/subsidies are required to assist with affordability concerns, the structure of any Pool should be as light touch as possible and the mechanics tailored to suit the size of the issue being dealt with.
2. In particular, the method for determining the size of the discounts should be kept as simple as possible.
3. The mechanics of any Flood Insurance Pool should avoid any transfer of risk from insurers into the Pool and rather allow for funding of any discounts/subsidies given to be provided from the Pool directly to the Insurer.
4. The funding of any premium discounts/subsidies should not be imposed as another tax on insurance policyholders.
5. The funding of discounts should align with those responsible for the mitigation and reduction of risk, namely local councils and State Governments.
6. Some restrictions should apply to who is eligible for any subsidies to limit the number of households that receive them, ensure the requirements are reduced over time, and target them at those who need them most.

## Flood cover for Contents Insurance

1. Insurers should be able to choose (according to market demand and their own appetite to underwrite) the types of cover provided in contents cover. Flood cover for contents insurance should not be mandated.

## Flood cover for strata title and other residential property

1. Using the wholesale definition of strata title from the Corporations Act 2001, Suncorp does not support mandated automatic or opt out cover for commercial strata.
2. For caravans and motor homes, these policies are managed in a similar way to motor policies and already have riverine flood cover incorporated into them. Therefore, there is no need for government intervention.
3. For retirement villages, these policies (assuming they are seen as residential building policies) are seen in a similar fashion to home building and contents. As per previous discussion, there appears to be no need for mandated cover – it is already readily available in the market.

## Flood cover for small business insurance

1. There is no need for government intervention for small business. Riverine flood insurance is available to small businesses. It is a complex area, as the nature of the cover needs to be individualised, depending on the type of business. It is not recommended that any form of mandatory or opt out flood insurance be expanded to small businesses, including business interruption insurance, mandated insurance will increase insurance costs to all small business operators when only a small percentage of them actually face a flood risk.

## Natural disasters other than flood

1. Rather than trying to underwrite all perils into automatic cover, which would cause premiums to rise significantly, funding should be invested in making Australia's coastlines more resilient to sea levels and major weather events.
2. If any type of solution, such as automatic cover for all perils, is recommended, this should be carefully examined by the Productivity Commission prior to any further development – due to the major cost it would have on Australian tax payers.

## Measuring flood risk

1. A government organisation needs to be, tasked with flood mapping Australia – for example the Bureau of Meteorology.
2. This government organisation can work with the insurance industry to access the NIFD and to understand where the gaps and inconsistencies are.
3. Funding can be mixed, as there are many users. However to fund, the corporate sector can access the data for a fee (as the NIFD is now). Obviously seed funding from the Federal Government will be required to undertake mapping.
4. An agreed standard for flood mapping needs to be established. Additionally, the extent of it should be agreed.
5. It must be understood that the flood data will need to be updated regularly, as characteristics of local areas change – for example mitigation occurs via infrastructure.
6. Building owners and tenants need to be informed of the risk that they face to allow them to make an informed choice in regard to actions they may wish to take, whether it to insured, self mitigate or relocate.
7. Vendor statements for home purchase should state what the risk is in a clear and consistent way across the country.
8. Planning laws need to clearly link into the flood risk to ensure developments are not on inappropriate high risk land and dwellings are built to withstand natural hazards.

## Risk mitigation and insurance

1. The Federal Government should set up an inquiry to examine mitigation in Australia to ensure that strategies and implemented outcomes are sufficient to meet future requirements.
2. Mitigation strategies need to be viewed at a national level. Any strategy needs to be coordinated nationally with local level implementation by councils.
3. The Federal Government needs to continue to fund local risk mitigation.
4. Mitigation funding needs to increase – \$27.5 million a year from Federal funding does not appear to be adequate.

## Non-insurance of homes

1. There should be no move to make home building insurance compulsory.

## Under-insurance of homes

1. When examining the issue of affordability in domestic and commercial insurance, the NDIR Panel needs to fully consider the effect of taxes, levies and duties on insurance.
2. As recommended by the Henry Tax Review, state duties and levies should be removed from the cost of a domestic insurance policy.<sup>1</sup>
3. Insurers should be able to continue to offer the scope of cover that they have the appetite for, whether that be a sum insured, sum insured with 'top up' or Total Replacement Cover.

## Consumer awareness of risk and insurance

1. The disclosure regime should be reviewed in full for its effectiveness, not just the oral component.
2. FOFA should revisit the practical issues surrounding personal advice for direct insurers to see if there is a legislative solution (other than scaled advice) that would encourage insurers to offer personal advice to consumers.
3. There should be a consumer awareness campaign (the recent floods have helped) to raise the profile and importance of insurance and what types of cover are available. This should include the concept that consumers need to read their Product Disclosure Statements and listen to disclosure when it occurs during a telephone sale.

## Resolution of claims disputes

1. There is no need to legislate a mandatory timeframe for Internal Dispute Resolution [IDR] following a natural disaster. Timeframes already exist with the General Insurance Code of Practice and for IDR under RG165. RG165 is mandatory for General Insurers to comply with.
2. Monitoring and supervision processes are already in place for IDR by the FOS and by ASIC (if they so choose). Results of the FOS monitoring process are publicly released.<sup>2</sup>
3. There is no need to increase access to information and disclosure of IDR, as this area is already heavily regulated; more regulation will cause layering and duplication of legislative requirements.

1. Australia's future tax system, Report to the Treasurer, December 2009, Part Two Detailed Analysis, Volume 2, p474

2. [http://www.fos.org.au/centric/home\\_page/publications/general\\_insurance\\_code\\_of\\_practice\\_yearly\\_overview.jsp](http://www.fos.org.au/centric/home_page/publications/general_insurance_code_of_practice_yearly_overview.jsp)

# Response to the National Disaster Insurance Review Issues Paper - detail

## Chapter 2 – Home insurance cover for flood – mandated cover

The availability of riverine flood insurance is becoming increasingly widespread.

Insurance Council of Australia [ICA] figures show that 84% of home and contents policies selected by consumers will have riverine flood cover within the next 18 months. At Suncorp, the vast majority of our personal and commercial insurance brands have a flood cover component under three options:

1. Automatic cover – Suncorp, GIO, Apia, Shannons, Vero (Home), AAMI Business@Home and Landlords, and via our relationship with AMP.
2. Opt-out cover – AAMI Buildings & Contents (in the process of development, first policies will be available within 12 months).
3. Optional – available as an option for business insurance.

Our flood product offering will be further expanded next year when it's made available to AAMI home and contents customers. This will mean all Australians, regardless of where they live, will have access to flood insurance by early next year through at least one of Suncorp's personal insurance brands.

We see no benefit from mandating flood insurance given there are a myriad of options available to consumers today. The consequences of introducing mandatory flood cover include:

- **Competition will be diminished** as smaller insurers shy away from the cost of establishing the systems to accurately price flood risks. Suncorp's own experience in establishing a sophisticated pricing engine backs this point.
- **Premiums will rise** as insurers are forced to cross subsidise premiums from those who are a flood risk with those who are not. Such an approach would see most Australians subsidise the insurance premiums of the 7% of Australians who live in high flood risk areas.
- **Consumer choice will be compromised** as customers are forced to purchase insurance cover with a mandatory flood component even if they don't live in a flood zone. This could potentially increase the incidence of non-insurance in the community. Insurers such as Suncorp may also be forced to wind back existing flood product offerings in the market to comply with the market norm.
- Low income earners would have **reduced accessibility** to low "fire and theft" insurance products that are specifically designed to reduce the incidence of non-insurance for risks which are far more commonly faced by home owners.
- **Reinsurance issues would arise** if insurers were unable to develop a detailed pricing model to give reinsurers a detailed understanding of risk concentration. An insurer cannot offer flood cover unless their reinsurers are prepared to underwrite it as well. The reinsurer's appetite to do so will ultimately depend on their confidence in the risk model the insurer employs to accurately establish the correct price of the individual risk.

## Chapter 3 – Identifying the homes with high flood risk

### Availability and affordability

The NDIR's terms of reference include the following statement, which is relevant to this chapter and the following chapter:

*"Government intervention in private insurance markets is justifiable only where, and to the extent that there is clear failure by those private markets to offer appropriate cover at affordable premiums."*

There is no question that the availability of flood insurance has increased significantly in recent years. Suncorp believes this should no longer be an issue that concerns policymakers.

The NDIR Issues Paper puts forward the proposition that affordability may still be an issue for a small proportion of houses in some high flood-risk areas, and this may necessitate the introduction of some form of premium discount/subsidy for those above a "high-risk threshold".

Suncorp agrees that a very small minority of the population who live in high risk flood areas may experience affordability issues relating to flood insurance. From analysis of Suncorp's home insurance portfolio and insights from our pricing analysis, high flood premiums would only apply to less than 1% of households in Australia.

It must be pointed out that the notion of affordability is dependent on individual circumstances. Suncorp's own analysis of flood pricing highlights that while some flood risks are concentrated in lower socio-economic areas, there is also a substantial representation in more affluent suburbs. Serious consideration needs to be given as to whether a \$3,000 flood premium in relation to a \$2m house should be classified as being "unaffordable" and therefore eligible for a premium "discount". This would be seen as middle class welfare.

Most of the discussion around the affordability of flood insurance is based on anecdotal information and/or theoretical models of what flood premiums "might" be. To Suncorp's knowledge, there has not been any robust analysis done to understand the size of affordability issues, including the extent to which these are specific to flood insurance or are more general in terms of the consumer's willingness and ability to purchase insurance.

As the scope and scale of any solution should be commensurate with the size of the problem, Suncorp recommends that before the NDIR proposals are considered in any more detail, a comprehensive analysis of insurance affordability should be undertaken by an appropriate Government agency, such as the Productivity Commission. In Suncorp's view, the proposals put forward in the NDIR Issues Paper are premature and provide little evidence to demonstrate the extent and scale of the affordability problem.

It also needs to be understood that this assessment will need to be ongoing, as risk profiles and income levels change.

A scheme providing premium subsidies to address affordability issues must be based on the following principles:

- funding of subsidies must come from those with responsibility for risk mitigation, such as state government and local councils;
- targets should be set to reduce the level of subsidies over time and no new entrants to the subsidy arrangements should be allowed;
- access to subsidies must be based on affordability (ability to pay), not just high premiums;
- the solution must be targeted specifically to those with affordability issues and, in line with the review's terms of reference, prevent any intervention beyond that; and
- the administration of the subsidy arrangements must be simple, easily understood and efficient.



## Affordability is Linked to the Taxes, Duties and Levies on Insurance

This issue is examined in Chapter 12 of this response, in line with the NDIR Issues Paper. However it needs to be recognised that the imposition of these charges on insurance has a dramatic effect on the total cost of the policy. For example, 44% of the cost of home/building policies in NSW are taxes, duties and levies at present.

## Risk thresholds

The paper puts forward two solutions for determining a high-risk threshold – an “engineering threshold” and a “price threshold”. Suncorp is of the opinion that neither approach is practical.

### Engineering threshold

The science of flood mapping and engineering is a very complex area.

In preparing this response to the Issues Paper, Suncorp has discussed the proposed engineering threshold with flood engineers, who have expressed significant concerns regarding its feasibility. Suncorp recommends that the NDIR Panel engage in detailed discussions with experts in the field to ensure their concerns are well understood before making any final recommendations concerning an engineering threshold.

Suncorp’s specific concerns around the engineering threshold are as follows:

- an engineering approach only considers the likelihood of various flooding scenarios happening and not the cost involved should they happen. There is no link to affordability solutions.
- whilst there would be a requirement for a large initial investment to develop such a threshold, it would also require regular and ongoing maintenance to ensure it reflects changes to the risk due to mitigation, new developments and longer term trends such as climate change.
- the engineering approach may not accurately identify the individual risk characteristics of properties within the threshold – for example properties which have been raised. This will require individual risk data that may not be available or accurate enough for the purposes of the engineering threshold.
- the flood definition used in development of the engineering threshold must be consistent with the riverine flood risk being covered and does not incorporate any other elements of “flooding” such as stormwater run-off (typically covered) and actions of the sea (typically not covered).

### Price threshold

Suncorp in no way supports the introduction of a price threshold model.

The price threshold is specified as an insurance premium relative to a nonflood insurance premium, for example 140 per cent or 150 per cent of the nonflood premium, and if no insurer is willing to offer a lower premium, the home owner would be eligible for a discounted premium.

A relative measure of two premiums (full flood vs. no flood) is not an accurate way of identifying potential areas with affordability issues. For example, some properties may pose both a high flood and cyclone risk, which could make the premium unaffordable. This could lead to an unintended consequence of a low income property owner in North Queensland being disqualified from receiving a subsidy, while a high income earner living on the Brisbane River would receive government assistance. Affordability is best measured in absolute dollar terms, and lined up against individual homeowners’ ability to pay.

Furthermore, the threshold relies on “*premiums that are established by a flood risk pricing vehicle*”, presumably to prevent possible manipulation by insurers of either/both of the flood or non-flood premium. Whilst not specifically addressed in relation to determining the high-risk threshold (it is in the following Chapter and Appendix 3), the implication is that the Flood Insurance Pool would set both of these premiums and they would be common across the industry.

This solution is totally unworkable for the following reasons.

- The administrators of the Flood Insurance Pool would need to determine the non-flood premiums for perils such as theft, fire, storm, accidental damage, just to name a few. Essentially, the Pool would become a centralised pricing department for all aspects of home insurance for all insurers and all properties in Australia.
- There are a multitude of product variations that are in the market at present and potential changes or introduction of new covers which would need to be considered. Not all factors would be available to the Pool, even if their analysis was restricted to determining a flood premium. Sum insured is one key example.
- This analysis would need to take into consideration the multitude of product variations that are in the market at present, and respond to any changes or introduction of new covers over time. If the analysis was performed on a “standard” product offering then this would diverge from the true premiums offered by the insurer and/or encourage a lack of competitive product offerings and innovation in the market. This would be a bad outcome for consumers given the need for different products in the market to support different price positions and to align with individual’s risk needs and appetite.
- The premiums an insurer charges must take into consideration other factors such as expenses (including commissions), reinsurance premium funding and profit margins. The administrators of the Pool could not take these factors into consideration as they are insurer-specific.
- The analysis would need to be performed for all houses in Australia because the purpose of the exercise is to identify those within the high-risk threshold.

The determination of a price threshold almost certainly requires a level of investment that is totally disproportionate with the aims of the exercise and inconsistent with the terms of reference. Based on our knowledge of the investment required to support a pricing approach that has flood cover, Suncorp estimates that this approach would require an initial investment of at least \$200m-\$300m and an ongoing amount of in excess of \$100m per annum please see Appendix 1.

If such sums were directed to flood mitigation, which could be directed an low socio-economic areas first, with high risk, then premiums would drop dramatically, please see the example given in Chapter 10 - Goondiwindi where recent mitigation has meant premiums have fallen by 33% on average.

This solution is sustainable over the long term and would actually help prevent the dramatic effects of large events on households rather than pay for a subsidy for insurance.

Affordability of flood insurance premiums may be an issue for a very small minority of households. However Suncorp does not believe this is a well understood issue and views are typically based on anecdotal evidence or theoretical modelling of likely flood premiums.

The size of any solution to affordability issues must be commensurate with the size of the problem. A comprehensive review of this is required by the Productivity Commission before any solutions are developed in more detail. The risk thresholds outlined in the NDIR Issues Paper only serve to create more problems for insurers and will ultimately require significant ongoing taxpayer investment to solve a problem that has not undergone a rigorous examination.



## Chapter 4 – An insurance system for homes with high flood risk

The NDIR Issues Paper identifies two significant issues associated with offering premium discounts for homes with high flood risk – moral hazard and inequities. Both of these issues are very relevant to this chapter and highlight the need to keep any intervention in the private market to a minimum and focussed solely on specific areas where there may be clear, evidence-based affordability issues.

Given the small proportion of households in Australia that may have such issues, it's important that any intervention is limited to those households, and that the practical workings of such intervention are designed to limit the wider impacts on the private insurance market.

The issues paper discusses four related, but somewhat independent elements of any flood funding arrangement:

1. How discounts for eligible high-risk homes are determined?
2. How the mechanics of cash flows and/or transfer of risk between insurers, individuals, the Pool, and other stakeholder groups occur?
3. How these discounts are funded?
4. What restrictions there might be on eligibility for the discounts?

Each of these components will be considered in more detail below.

### Determining the discounts

The paper considers that under both the engineering and price high-risk threshold approaches, the determination of premium discounts would be based on an approach similar to the price threshold described in the previous chapter, whereby the ratio of the full-flood premium to no-flood premium is the key driver.

Most of the issues highlighted in the previous section are still relevant here:

- A relative measure of full-flood to no-flood premiums can't accurately measure affordability.
- The Flood Insurance Pool would need to determine the premiums for all non-flood perils – at great expense.
- There are many factors that influence premiums which would not be available to the Pool.
- It is hard to see how product variations could be adequately reflected in these calculations.
- Insurer-specific expense, reinsurance and profit assumptions could not be factored in.

There are also additional issues with the proposal outlined in Chapter 4 and Appendix 3 of the paper, namely:

- If the engineering threshold were to be used to determine eligibility for a discount, there is a disconnect between who is eligible and what premium discount they might receive. The paper says the pricing basis (150%) "*would need to be a price that is not less than the highest price for full flood cover for homes that are outside the high-risk zone*". In practice this would be very unlikely. It seems almost certain that there would be properties outside of the engineering threshold where the ratio was 200% (for example) and others within the engineering threshold where the ratio is 120% (for example).
- This issue can be illustrated in terms of figure 3 in the Issues Paper – while intended to be illustrative only, the full-flood premium relative to non-flood premium (y axis) will almost certainly not be a strictly increasing function of flood risk (x axis) if the risk is ranked by the engineering threshold.
- The description of the operation of the price relativity also suggests that insurers would have some control over the two premiums (full-flood and non-flood) which is at odds with other sections, where the Pool is described as setting both premiums (paragraph 4.10 for example – "*prices would therefore be common across the industry*"). The reference to no

quotes being available below 150% after approaching insurers suggests that this ratio is determined by the insurer – if determined by the Pool then the ratio would be the same regardless of which insurer they approached. Similarly, in paragraph A3.16 there is reference to insurers wanting to "*try to offer a price below the threshold if they can reasonably do so*" due to the penalty of retaining less premium should they pass it to the Pool. This also implies that each insurer is in control of the premiums that make up the ratio.

- It is also unclear whether under that scenario an individual would have to approach all underwriters of house insurance in Australia to ensure none were prepared to offer below the threshold. That seems totally impractical given the number of underwriters in the market.
- The proposal says the insurer is "obliged" to offer the cover for a discounted premium. It is not clear whether they can choose not to do this on the basis of other underwriting criteria that might make that particular risk unacceptable to a given insurer.

In general, Suncorp is of the views that anything that requires the Pool to determine the non-flood and full-flood premiums, (even if it is just for risks within the already defined threshold) to be a significantly over-complicated way of delivering the intended outcome. The level of investment required to do achieve this, and the unintended consequences of such an approach, render it totally unwarranted.

### The mechanics of the funding

Appendix 3 of the Issues Paper discusses in more detail a number of possible funding mechanisms between the insurer, the Pool, those funding the discounts, and possibly the property owner. These can be broadly split into:

1. Transferring the flood risk to the Pool;
2. Transferring all the risk to the Pool; or
3. The Pool subsidising insurers for any discounts given.

Under (a) and (b) the Pool essentially becomes an insurer/reinsurer. Such an approach would introduce additional and unnecessary layers of complexity and do little to solve affordability problems that may exist.

Issues to consider include:

- The Government would need to provide appropriate capital support for the fund to reflect the fact the year on year performance of the fund will depend on the flood events that take place (which can vary significantly between El Nino and La Nina years for example).
- It is not clear who would manage the claims. Would the Pool have a staff of claims people to manage claims when a flood happens?
- There is the high likelihood of disputes between insurers and the Pool over flood vs. other water damage if just the flood risk is transferred to the Pool.
- A dispute resolution process between the Pool and insurers would be required.
- If all the risk is transferred to the Pool (in exchange for the bulk of the full-flood premium) then the Pool is funding claims from all perils, including theft, fire, accidental damage, motor burnout etc. Not only does this significantly increase the workload of the Pool for no gain, it also means the Government is bearing the underwriting risk with associated capital and reinsurance requirements – essentially becoming the default insurer for certain segments of the market.
- By transferring some/all of the claims to the Pool, consumers may not understand who they are insured with and for what, who manages their claims, and how that relates to other insurances they might have which are not eligible for the Pool (motor insurance for example).

On that basis, Suncorp does not support any funding mechanism which results in the transfer of claims to the Pool. Claims management should remain with the insurer.

Therefore, if a funding mechanism is required to support premium discounts, Suncorp could only support an approach where the premiums are subsidised. We are also of the view that this would not require the creation of a Flood Insurance Pool and that simpler funding arrangements should be investigated – the less money spent on bureaucracy the more money there is for better flood mapping and mitigation.

### Paying for the discounts

The paper discusses many potential providers of the premium discounts to high flood-risk property owners, including Commonwealth Federal Government, State Governments, local councils, and insurers.

It is worth pointing out that any tax on any group to fund the risk of others is inequitable. On that basis, if any of the NDIR proposals are implemented, there is no good outcome – it is merely a case of determining the “least worst” outcome and one that drives the appropriate mitigation behaviour.

Suncorp would strenuously oppose applying another tax on insurance policyholders. This would drive a predictable set of outcomes – increased non-insurance and under-insurance from those segments that do not pose any flood risk. Insurance in Australia is already highly taxed. Further, it would be somewhat ironic to consider applying a new tax on insurance policies at the same time some States are moving to remove the Fire Services Levy.

Whilst Suncorp is opposed to the proposals put forward in the Issues Paper, we agree that if any form of premium subsidy is introduced:

- There should be targets set to reduce the level of discounts provided over time in line with the investment in mitigation;
- There should be conditions with regard to risk mitigation initiatives and building standards;
- New homes built in the high-risk threshold should not be eligible for any discounts;
- Those with higher value homes should receive lower discounts as their ability to pay private market flood premiums is higher.

## Chapter 5 – Flood Cover for Contents Insurance

As highlighted in our response to proposals in the previous chapters, Suncorp does not support the proposals put forward with regard to home building insurance. Many of the issues raised in relation to those proposals are just as relevant to home contents insurance and therefore we would not support any move towards automatic mandatory flood cover for contents insurance (with or without opt-out). The comments below are in addition to those raised already.

Currently, contents insurance is often bundled currently with building insurance. If flood cover is available in the building policy, it's also available in the contents. It's highly impractical to apply different approaches to buildings and contents insurance without creating significant confusion and additional disputes. Like building insurance, flood cover is widely available under contents insurance and therefore there is no need for automatic flood cover to be mandated.

Further, there are other products in the market (for example AAMI's Renters Insurance<sup>3</sup>) which are low-frills, minimum cover policies that are designed specifically for low income earners. This product was designed developed in response to the paper by the Brotherhood of St Lawrence "Access to General Insurance for People on Low Incomes"<sup>4</sup>, released in 2006, which identified that there was a clear gap for low income earners in relation to product type and features. Having mandatory cover built into this type of policy will increase its price for those living in flood prone areas, essentially further limiting access to these types of products for that segment.

There are other issues to consider, such as how flood risk would relate to Portable Valuables Cover and situations where multiple tenants live in one dwelling.

3. <http://www.aami.com.au>

4. [http://www.bsl.org.au/pdfs/risk\\_&\\_reality\\_insurance\\_report.pdf](http://www.bsl.org.au/pdfs/risk_&_reality_insurance_report.pdf)

## Chapter 6 – Flood Cover for strata title and other residential property

### Strata

Strata is a somewhat unique product in that it can be wholesale or retail in its appearance. This distinction needs to be made early, as a few units on subdivided land is a very different risk from a block of flats with shops at the bottom.

Our response to this paper has assumed this distinction and will be referring to the products as wholesale and retail strata using the definitions in the Corporations Act.

In terms of retail, Suncorp is of the view that no Government intervention is required to mandate flood cover. Suncorp already provides for this type of cover in some of its policies. By their nature, these risks are not dissimilar to “standard” buildings risks and therefore we would support the current approach where, with the support of good data, insurers are able to offer a product that bodies corporates can choose to cover their flood risk

However in terms of wholesale, however, Suncorp does not support mandatory automatic flood cover. By their very definition these risks tend to be more complex, often involving businesses as well as residents. The buildings tend to be more sophisticated, with complex wiring, and equipment (such as lifts), which need to be assessed and valued by specialists. In terms of underwriting, a full assessment will need to be undertaken to understand the risk fully. This is complicated by the fact that the Body Corporate purchases the insurance rather than each individual.

### Caravans and Mobile Homes

Flood insurance is already available for caravans and mobile homes (motor homes) – in most cases they are treated in a similar way to motor insurance. At times, there will be qualifications on the policy, such as no cover if the loss/damage occurs when the caravan is unable to be towed or was left unattended for more than seven days.

However, it should remain the choice of the insurer how it underwrites flood in this instance and how it prices the risk. There is no evidence of the need for Government intervention.

### Retirement Villages and Aged Care Facilities

Retirement villages are similar to strata in that there are different types, which may be classified as retail or commercial depending on their characteristics. Some retirement villages require that each individual unit is insured (as a retail product); others will have a commercial policy. This is dependent on the structure of the retirement village.

The commercial policies are specialist policies which that are typically sold via brokers to the retirement villages/aged care facilities. Again, these have specialist characteristics, for example structural plus equipment. They are complex to price and the risk is individually assessed, cover will be for a myriad of risks, – for example, building, equipment, public liability, D&O etc. This type of policy is classified as wholesale under the Corporations Act 2001. Therefore they should be outside any discussion for automatic mandatory flood insurance for domestic buildings.

In terms of retail products, riverine flood insurance is available for retirement villages where each unit is individually insured for both building and contents (as it is seen as a residential building). For example, Apia offers this policy. Once again, there is no need for intervention for this type of cover with respect to mandatory automatic flood cover.

## Chapter 7 – Flood cover for small business insurance

### Premiums

For small businesses, the make up of the premium is more complex than for a domestic home building and contents policy. Factors in premiums include occupation, equipment type, use of building as well as the more traditional building and contents factors. There can be two small businesses next door to each other (for example a cafe and a veterinary practice), who have very different types of coverage needs. Commercial insurers underwrite these needs on an individualised basis, normally through brokers to ensure that the desired and required cover is issued. Small businesses also often choose to limit their cover (due to competing requirements for costs in a small business), this choice should be able to remain.

There will be no desire by the small business community to have increased premiums, which automatic mandatory flood cover will require, as this risk would need to be priced. Additionally, taxation issues would be complex. If a subsidy had been received by an insured, the process of how this expense would be offset against taxation would need to be solved. This does not include the complexity of how FSL and Stamp Duties would be treated by a pool and the State and Federal governments.

If flood cover were mandatory for business interruption insurance, premiums would rise significantly, which would cause fewer small businesses to purchase this type of cover.

### Distribution Mechanisms

Business insurance is mainly distributed via brokers. There are a few direct providers, (e.g. AAMI Business), however these products tend to be simple in their cover and are designed for “standard” small business types, such as home-based businesses.

There are already adequate protections within the law for small businesses in relation to the relationship between the broker and the insured. There is an existing fiduciary duty and Treasury, via the Future of Financial Advice review, [FOFA] are also looking to introduce a “Best Interests Test” which is intended to increase this protection. If at a later date the broker had not fulfilled his/her duty, the consumer compensation scheme, which exists under the Corporations Act 2001, allows the business to access compensation via the broker’s professional indemnity insurance.

Research shows that SME’s understanding of the types of insurance and the levels they can purchase can be improved. This includes under insurance and business interruption insurance. There would be benefit in the insurance industry becoming more actively involved in educating SME business owners on these topics.

## Chapter 8 – Natural disasters other than flood

As mentioned in the Issues Paper, insurance cover for most natural peril events are included as standard. There are no issues with availability of cover for bushfires, cyclones and earthquakes. On that basis, and in line with the review's terms of reference, we see no need for any government intervention in the provision of disaster insurance covering multiple perils.

One area where availability of coverage may not be universal is with regard to storm surge. However, once again, however, many of our Suncorp's brands have invested in the data, analysis and technology required to provide cover for this peril. Thankfully, the level of storm surge damage that resulted from Cyclone Yasi was not as high as had been predicted in the days preceding it hitting landfall.

In many regards the nature of the risk and the issues faced by insurers in providing cover for storm surge are similar to riverine flood. In particular, it is likely that the collective level of risk has been exacerbated by poor land use planning decisions that did not fully factor in the risk of storm surge. Further, availability of information in relation to storm surge risk has not always been made available, or made available in a form that allowed insurers to consider how they could price or underwrite the risk.

On that basis, Suncorp would submit that the primary focus of the NDIR in relation natural perils other than flood is to enforce the same sort of mitigation activity, land use planning and risk mapping exercises in relation to storm surge, as has been recommended for riverine flood.

## Chapter 9 – Measuring flood risk

### Why should flood mapping occur?

There is an undeniable case for consistent, accurate and transparent flood mapping across Australia.

The lack of readily available flood mapping in Australia is a significant contributor to the current challenges facing the provision of flood insurance in some states. Additionally for local councils to be able to properly mitigate and plan, they too will need access to this information where it does not currently exist.

Without proper flood mapping, assumptions need to be made regarding what the risk is how in order to price that risk.

Suncorp currently uses the NFID in its underwriting for the flood component of a large number of its policies. Where there is no NFID information available for a given address, Suncorp employs has developed a number of alternative models Suncorp has developed. While these models are solid, it would be preferable to also have consistent and accurate flood risk information across all of Australia.

### Who should do this?

As the flood data has many uses (not just for pricing insurance risk), the responsibility for the collection, maintenance and publication of this data needs to be allocated to a specific organisation at a Commonwealth Federal level. One option is to give this responsibility to the Bureau of Meteorology [BOM]. Legislative mechanisms already exist in the case of the BOM. The advantage of using the BOM is that they are already established and play other roles in relation to events, such as delivering warnings to communities who may be affected. The data will enable them to give more accurate warnings in relation to flood risk.

### Who would use it?

There are many potential users of this information. Other than the insurance industry, this data would be used by local councils, other government agencies (such as those involved in the National Resilience Strategy), developers and industry (when deciding where to set up manufacturing plants etc.).

It is also suggested that this information should be made easily accessible to all Australian residents, so that individuals will have a better understanding of their personal exposure and can manage that as they see fit.

It has been stated under Chapter 7 that this information would also be useful to small business when they are establishing what they need to insure themselves for.

As there will be many users, there will need to be some understanding of user needs and the appropriate measurement system will need to be defined. Additionally, other types of flooding (not just riverine), should be considered, such as storm surge (as mentioned in the previous chapter).

## Chapter 10 – Risk mitigation and insurance

As noted in the Issues Paper, risk mitigation can take many forms - levees, dams, better planning laws, land management practices to reduce bushfire risk, and improved building standards to withstand natural hazards. Mitigation can also be as simple as updating the operating manuals of dams to better manage outflows during heavy rain periods.

If the natural disasters of the last five years continue to occur without mitigation, the ongoing level of destruction of property will continue. More destruction means more claims. More claims means higher insurance premiums. More claims also means higher reinsurance costs, which in turn lead to higher premiums.

As this paper has continuously demonstrated, the key to affordable insurance for householders in high risk areas is proper effective, well understood risk mitigation. High risk areas need to become low risks areas.

There are numerous examples that highlight the benefits of risk mitigation. In Innisfail, properties that were rebuilt by the insurance industry after Tropical Cyclone Larry withstood the larger category five Cyclone Yasi earlier this year.

In North Queensland, building properties to withstand category 5 cyclones not only improves the long term sustainability of the community, it drives more affordable insurance premiums. This is because Suncorp's pricing is based on "year of construction" tests and robust building standards.

Measures such as those put forward by the Lockyer Valley Regional Council to relocate residents of the flood-affected communities of Grantham and surrounding areas to higher ground are further examples of forward thinking risk management. While this is a voluntary land-swap initiative, it is a clear and positive action to reduce the level of flood risk in the community.

For existing flood-prone properties, another form of risk mitigation is the building of dams or levees in flood prone areas. The paper asks if the building of risk mitigation measures makes a difference to the pricing of the risk. If a levee is built which results in the risk rating to falling in NFID or other flood models, then the subsequent flood premium will fall.

From a Suncorp perspective, Goondiwindi was a good recent example of this approach working.

<p>In Goondiwindi, south west of Brisbane, a rising river no longer means rising insurance premiums, thanks to flood mitigation undertaken by the local council being reflected in Suncorp's flood modelling.</p> <p>The levee shields the town from the McIntyre River and by improving our flood model to better reflect the impact it would have in a flood event, residents paid on average 33% less per annum. Suncorp moved many of its risk ratings from high risk to no risk and in some cases customers saw their premiums reduce by up to \$1,000 per annum.</p> <p>The levee is designed to withstand an 11 metre river peak and ensured the town remained largely unscathed from the biggest flood in its history in January this year.</p>			
	Without Levee	With Levee	Difference
Average premium	\$1053	\$706	\$347

It is worth stressing, however, that levees and dams do not eliminate the risk entirely. In particular, as noted in the paper, the maintenance of levees is critical in determining the level of risk reduction they provide. Unfortunately, in doing the flood analysis to support our provision of flood cover, Suncorp has come across a number of examples where poorly maintained levees are likely to be ineffective in a flooding event e.g. where a gap has been carved into the levee. From Suncorp's perspective it is both unacceptable and unsustainable for insurance to be expected pick up risk that should have been mitigated in such a way.

Many of the examples highlighted in the issues paper are very successful implementations of mitigation measures. Unfortunately, they tend to be in relation to cyclone or bushfire risk and there does seem to be significant opportunity for the mitigation of flood risk to be lifted to a similar level of effectiveness.

Severe weather is becoming increasingly common, as demonstrated in Queensland and Victoria in the early weeks of 2011. With this in mind, Suncorp is calling for a national inquiry into disaster mitigation followed by a properly funded and co-ordinated reform package. Such an inquiry and its subsequent response should address disaster warning, mitigation, risk assessment and education.

If building standards are improved, infrastructure built and planning laws changed to improve community resilience in a nationally consistent way, this would ultimately ensure the community is protected from the social and economic upheaval and also benefit from cheaper insurance premiums.

## Chapter 11 – Non-insurance of homes: should home insurance be compulsory?

**There should be no move to make home building insurance compulsory.**

The major issue in Australia is not non insurance, but underinsurance. This issue is looked at in the next chapter. The paper rightly identifies that non insurance is not a significant issue. There will always be some, as individuals often choose to self insure, for various reasons, including their own risk profile, cost and to a lesser extent knowledge. If they do not have a mortgage over the property they are entitled to do so.

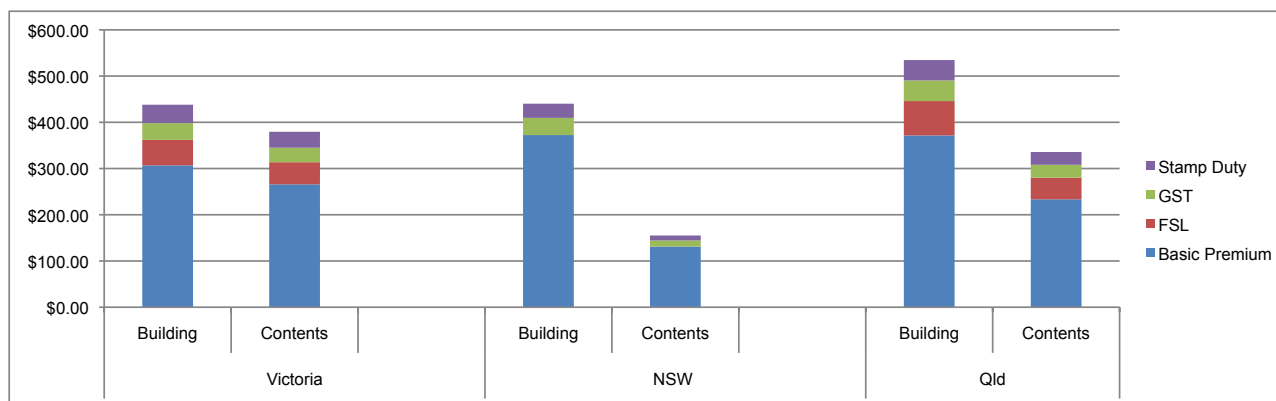
In terms of compulsory insurance in Australia the products are designed to protect third parties, in the instance of injury, rather than the first party. This is because the third party through no fault of their own could sustain an injury which could affect their life. The products provide compensation for that injury to ensure the individual is able to financially cope during recovery and in some cases (where the trauma is severe), for life.

In contrast home building insurance is for the 1st party. There is no concept of a third party. The individual chooses whether or not to protect their own assets. This choice should be allowed to remain.

## Chapter 12 – Under-insurance of homes

### Affordability and State Taxes, Duties and Levies

As highlighted in the paper, the imposition of multiple taxes, duties and levies are a major contributing factor to the un-affordability of home and business insurance. The following graph outlines the effect those duties, levies and taxes have on the total cost of an Apia Home and Contents policy for Victoria, Queensland and NSW.



As the above demonstrates, levies and duties increase the cost of a premium phenomenally. At present in NSW this is a 44% increase in the cost. If affordability and the resulting non and underinsurance is considered to be a major issue, the NDIR should be considering the true consequences of the current tax regime on domestic insurance rather than looking at creating a flood pool to subsidise flood premiums.

### Total Replacement Cover (TRC)

The paper moots the possibility of requiring total replacement cover to be a standard for domestic building insurance to prevent under insurance. Suncorp, under its AAMI brand, is one of the few insurers in Australia to offer this product as standard and does so for strategic commercial reasons. While it will continue to offer TRC for the foreseeable future, Suncorp does not support making it a standard inclusion in home and contents policies. Based on our experience, there are a number of observations we would highlight to the NDIR in relation to TRC.

**Reinsurance** - Reinsurers may not be willing to provide reinsurance cover for total replacement policies across the industry. Pricing of total replacement cover is complex, costly and requires a very deep understanding of all of the factors that build up the risk and subsequent price. This includes an understanding of post events claims inflation and predicting whether building codes might change after an event that increase rebuilding costs. If the insurer does not have the capacity to do this, it is unlikely that reinsurers will cover them.

**Choice** - Feedback from our customers suggests that many of them don't want total replacement cover. Many prefer a sum insured product, possibly with a "top up" cover. Customers value the ability to choose the product that best fits their needs.

**Disclosure of Cover** - Some customers prefer to have the comfort of knowing the exact amount of cover they have purchased. AAMI Complete Replacement Cover does not show this, as the value used to determine the premium is an internal figure not disclosed to the customer. This does require an element of trust between the customer and the insurer, however some customers prefer to know what the replacement value might be in a total loss.

**New Zealand** - In the New Zealand market, total replacement cover is the standard cover for residential buildings policies. It is our understanding that the ongoing provision of this cover is being examined in New Zealand following on from the recent earthquakes in Christchurch. The insurance industry is in serious disarray with some insurers becoming insolvent and reinsurers reviewing their appetite to reinsure, or are doing so at far higher premiums. Total Replacement Cover may no longer a viable option in New Zealand.

**Top Up Cover** - Suncorp offers Top Up Cover of 25% as an automatic feature in its GIO Classic product and as an optional feature under the Suncorp Classic product. Both are well received and well understood by customers and there is evidence in our claims data where the existence of the "safety net" has ensured the customer is not underinsured (particularly when it is automatically built into the product).

It is worth stressing, however, that the main purpose of the benefit is to provide additional cover in post-event situations where "demand surge" can drive up claims inflation well beyond what was estimated in a normal replacement scenario.

As for total replacement cover, we see this product benefit as adding value on the basis that customers are able to choose a suitable level of cover for themselves based on their own circumstances. Suncorp sees no need for any of the product options to be mandated to all types of cover in the market.



## Chapter 13 – Non-insurance and underinsurance of contents

As noted in the paper, the level of non-insurance and underinsurance in contents is certainly higher than it is for buildings insurance. Many of the drivers are similar to those covered in previous chapters in relation to buildings insurance, particularly the impact of taxes on premiums making them less affordable to those segments more prone to noninsurance and underinsurance.

In Suncorp's view, dealing with non-insurance and underinsurance is a difficult task and requires a coordinated approach across a range of stakeholders.

Historically, Suncorp has tried to improve the penetration of insurance in low income segments through the introduction of innovative products such as the AAMI Renters product (a "fire & theft" contents product sold for less than \$5 per week). Other product variations will continue to be explored by the Suncorp Group in an effort to provide suitable insurance options for a wider cross-section of the Australian population.

The availability of such products should not be put at jeopardy through mandated flood cover or other determinations on what the products should cover. On that basis, care needs to be taken to ensure that any government intervention does not have unintended consequences on the non-insurance and underinsurance of contents.

## Chapter 14 – The role of lending institutions

70% of Suncorp Bank mortgage customers have flood cover and Suncorp will continue to encourage its customers to protect their properties with such comprehensive insurance. However Suncorp believes (from a banking perspective) there will be significant unintended consequences for consumers and industry of any move toward mandatory flood cover on mortgages in Australia.

These consequences would include removal of consumer choice and onerous administrative burden and cost associated with attempting to ensure consumers maintain their insurance, let alone flood cover, on a month to month basis. It should also be noted that potential implications on capacity to repay and serviceability will need to be clearly understood prior to any thought of changing the current standard processes.

## Chapter 15 – Consumer awareness of risk and insurance

**What measures could improve consumer understanding of their insurance cover, particularly if purchased over the telephone?**

Suncorp submits that any lack of consumer understanding about their insurance cover is principally and primarily due to consumers not reading PDSs. The only way a consumer can be fully informed about their insurance cover is for them to read the PDS.

Whilst general insurance PDSs are generally of a high quality and are easy to read and understand - being subject to the existing obligation that they must be "clear concise and effective" - we believe the existing disclosure regime has resulted in an increase in both the size and number of documents being provided or made available to customers with the result being that consumers view the amount of information they receive as overwhelming and unapproachable.

By way of example, recent developments have required insurers to amend already lengthy PDSs to comply with the dollar disclosure requirements (including providing worked dollar examples of benefits where relevant) and to introduce wording about the Financial Claims Scheme.

As a consequence, PDSs often contain a lot of extraneous information that must be given to the consumer to comply with the relevant legislation.

Recently Key Facts Sheets [KFS] have been seen to the answer to clogged up PDSs. Although this move should help provide some information about the product to consumers in a simplified form, there remains the risk that such documents will be of limited use to consumers given that only very little product specific detail will be able to be included on a single page. For this reason we urge the government to consider the value of a KFS as part of a broader review of the general insurance disclosure regime.

From an oral perspective, given that telephone sales of general insurance products are already cluttered with verbal notices from a variety of different sources of legislation, Suncorp submits that adding an additional requirement to summarise the cover and the exclusions of a particular product would be of limited value – customers are already suffering information overload and are likely to 'tune out' if faced with longwinded oral scripts in this regard. Imposing a requirement for an insurer to explain the cover in detail when transacting business over the phone would be frustrating for the consumer and impractical and costly for the insurer and is unlikely to result in any real change in the current level of consumer understanding.

One thing that is apparent is that in an attempt to "fix" this system we continue to layer legislative requirements (band aid solutions). More oral disclosure, key facts sheets, schedules and renewal notices, cancellation notices, PDSs and SPDs and in some instances FSGs and incorporation by reference material. It is hardly surprising that consumers do not absorb the amount of information being given to them.

It has been over 10 years since the inception of the FSR regime. Suncorp submits it would be prudent and timely for a review to occur of the entire FSR disclosure regime (not just the oral component) as it applies to general insurance to see if it has met its objectives from a consumer perspective .

### Consumer Education

Additionally a consumer education program regarding insurance should be examined. Although large steps have been taken in the area of financial literacy in the last few years, one of the ongoing criticisms of insurance by consumers after the floods is that they did not understand it. Work has been done on education initiatives at an industry level, and internet sites for insurers are informative and educative. ASIC has relaunched its website [www.moneysmart.gov.au](http://www.moneysmart.gov.au), however it appears more needs to be done. Therefore it would seem prudent that the government consider some form of public education program about the importance of self management of risk and the need for insurance and the role it plays. Information about basic levels of cover and what to consider when purchasing insurance would help consumers understand what they need to think about when buying insurance.

**How would consumers benefit from being provided with personal advice that takes account of the insurer's assessment of the consumer's risk?**

Obviously the more educated a consumer is about their own risks, the better they are able to purchase insurance that covers these risks. Being provided with personal advice that takes account of a consumer's particular needs and circumstances would improve the consumer's ability to select an insurance policy suitable for these needs.

However, the increased compliance obligations and other costs associated with the provision of advice make it difficult for direct insurers to provide cost effective personal advice. This will be further exacerbated by the Best Interests Test, under the FOFA Review and its subsequent recommendations. Despite continued calls for general insurance to be excluded from the personal advice regime (making simple product advice on insurance be seen as general advice), general insurance continues to be governed by it.

Although scalable advice is being strengthened as a concept under FOFA, it is unlikely that this will deliver the confidence necessary for insurers to implement a personal advice model. Regulatory requirements will still exist, and general insurers will continue to adopt a very conservative view of



compliance, as they will not wish to be found wanting by the Regulator, or indeed the Financial Ombudsman Service [FOS].

**What are the benefits for consumers being provided with scaled advice? What, if any, are the impediments for insurers and insurance brokers providing it?**

For personal lines insurance, the bulk of insurers in the industry operate on a 'no advice' model. Impediments for insurers in providing financial product advice include:

1. Onerous training obligations required by ASIC under the AFS Licensing regime which apply when employees of insurers give financial product advice but which do not apply in a "no advice" structure. Training staff to the level required by RG146 is expensive and time consuming for insurers, compounded by the fact that call centre environments have high staff turnover.
2. Additional compliance documentation (e.g. FSGs and SoAs for some GI products) which add to insurer costs of doing business.
3. Additional compliance obligations (e.g. General advice warnings, incomplete/inaccurate information warnings, oral FSG disclosures) complicate sales scripts already cluttered with compliance statements.
4. Liability exposure for insurers when providing advice, specifically, the potential for an insurer to be liable to pay a claim that would not be payable on the terms and conditions of the policy because of statements made by staff providing advice.
5. Confusion surrounding insurer obligations when providing advice. For example, does the provision of personal advice require the insurer to compare its product to the customer's current product? Insurers would not practically be able to comply with such an obligation.

As a consequence, most insurers avoid the giving of advice. "Scalable" advice may be of assistance to insurers in providing advice if it would mean:

1. Training compliance costs could be scaled down to reflect the practical realities of the insurer call centre environment.
2. Liability of insurers for advice given by their staff could be better managed and scaled back to reflect the high-level nature of any advice that could be given by a call centre staff.
3. Insurers could have certainty that in providing advice they do not need to take responsibility for all client needs as would be the case for brokers and also that the insurer does not need to compare its product to competitors.

However the concept of scalability already exists in the advice regime but insurers find it difficult to be confident that they are implementing this as required. Even with the proposed clarification of scaled advice, this will remain a problem.

**Is there a particular need for unfair contracts laws to protect policyholders in natural disaster insurance?**

Although Suncorp is continuing to participate in the discussions regarding the unfair contract terms law, and looks forward to the RIS being released by Treasury on this matter in July 2011, it would like to make the following observations.

The key concern for insurers in regards to the unfair contract terms laws is inferred in the question. What is an unfair term in relation to insurance?

Before an insurance contract is entered into the risk of providing the insurance is assessed by the insurer and an appropriate premium determined. To do this insurers need certainty as to the scope of cover being provided under the relevant policy terms. If an insurer chooses to exclude an event from cover, for example riverine flood, and following such an event this

exclusion is found to be unfair, insurers will be required to pay claims on a risk for which the true premium was not collected and for which the risk not properly assessed (for example the insurer may not have had the capacity to take that risk on). This scenario could very quickly destabilise the insurer's prudential base and in the worst case scenario it could result in the insurer's collapse.

We understand that reinsurers have also expressed concerns with the application of unfair contract terms laws to insurance contracts. If Section 15 of the Insurance Contracts Act is altered and/or the ASIC Act in relation to the unfair contract terms apply, it is foreseeable that reinsurance costs could rise and/or the cover offered by reinsurers could be limited. This is a matter of serious concern.

However, if any term of an insurance contract which defines the scope of the cover were to be designated as the 'main subject matter' of the contract and hence excluded from the possibility of review under the unfair contracts law, and this position had legislative backing, then Suncorp would be far more comfortable with the unfair contracts law being applied to insurance contracts. We understand that a similar position has been adopted in the UK regime.

Additionally, given the potential impact of the regime which is peculiar to insurers, Suncorp submits that should the unfair contracts law apply, only certain authorities, such as ASIC, should be able bring an action seeking to void a provision in an insurance contract - rather than every consumer using the law if they have a claim denied. This position has already been explained to Treasury.

Suncorp would like to make the following observations in addition.

1. There is no evidence of systematic reliance on unfair terms by insurers to deny claims. Most claims are paid without dispute and where a dispute arises consumers already have access to low cost dispute resolution processes.
2. The Insurance Contracts Act already contains robust protections for insureds, e.g. the doctrine of utmost good faith. Section 35 already requires the insurer to clearly inform in writing about derogations from standard cover and Section 54 restricts an insurers ability to rely on exclusions to the extent the relevant act or omission of the insured did not contribute to the loss or where the insurer cannot show any actual prejudice. The Insurance Contracts Act should remain the primary source of regulation of insurance contracts rather than adding an additional layer of regulation.

## Chapter 16 – Processing of claims

### General Claims Management Process

The typical claim process for building and contents is as follows.

1. The customer contacts the insurer and lodges a claim.
2. The claim is allocated to a case manager.
3. The claim is assessed by the case manager and the customer is contacted.
4. If required, an on-site assessor is appointed to assess the damage and in some events the cause of the damage (please note during the recent flood event AAMI has also appointed hydrologists to assess the cause of damage due to the riverine flood exclusion in its policy in some parts of Queensland).
5. The assessor's report is reviewed by the case manager and the necessary action is determined.
6. The builder/contractor or supplier is appointed to manage the claim and to restore the customer to their prior position.
7. The builder commences work/the supplier delivers the goods to the customer.
8. The claim, once finalised (all work completed) is reviewed and closed.

### Suncorp Catastrophe Process – Corporate Event Response Plan, Customer Response Teams

#### Corporate Event Response Plan

Suncorp, as one of Australia's major general insurers, has a Corporate Event Response Plan that is activated when a catastrophe occurs. The following provides a brief outline for the Commission's information about how this works in practice.

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

The design of the Suncorp Event Response process has been structured around the clear operational phases that a large event moves through. The timeframes attached depend on the type of event that occurs. The following table demonstrates the different phases in event management that Suncorp has defined.

The event management is overseen by the Suncorp Event Leadership Team, which comprises of senior Suncorp management in both operational and support roles.

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

#### Suncorp Customer Response Team (CRT)

Suncorp has CRTs which are sent into the affected area as quickly as possible (at times safety and access are an issue) as part of its Corporate Event Response process.

The CRT is a team of claims staff who are able to set up a mobile claims centre remotely in an affected area.

In the immediate aftermath of the Queensland floods and Cyclone Yasi, the CRTs were deployed to Emerald, Rockhampton, Theodore, Toowoomba, Bundaberg, Chinchilla, Dalby, Cardwell, Tully, Cairns, Brisbane and Ipswich. This process was again repeated in Victoria during the floods.

The CRTs have a fleet of dedicated customer response vehicles, which enables them to deliver the capability to establish response centres into simultaneous disaster areas anywhere in Australia within 24-hours of deployment.

The CRT, which are based in key state locations, service AAMI, Suncorp Insurance, GIO, Apia, Shannons, Vero and all other Suncorp Group General Insurance brand customers.

They deliver the capability to act on the ground as a coordinated team with immediate decision making abilities to directly service customers face-to-face at the time when those customers most need Suncorp's assistance and support.

The 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 any disaster area.

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.

### **What have been the causes of delays in processing claims other than delays caused by the need to determine whether damage was caused by storm of flood?**

**Areas being cut off due to flooding and damage to infrastructure** – there were initial delays in being able to get CRTs into certain areas, such as Emerald. This meant that teams either drove around the floods (which took an extra 3 days) or they flew in where possible – e.g. Toowoomba. There were times where it was too unsafe to send assessors in, which delayed assessments as well, for example in Rockhampton.

**Evacuation of Brisbane** – the evacuation of Brisbane meant that no staff in Brisbane were able to get to work. Suncorp has several call centres in Brisbane for both the bank and the insurers. This was complicated by the fact that call centres in Milton and Toowoomba were also closed for periods of time. Suncorp was able to reroute calls to other call centres (e.g. Newcastle), however customers experienced delays in being able to lodge claims (due to call volumes and resources). To respond Suncorp had dedicated staff purely dealing with the events claims. This approach has been mirrored for IDR to ensure all timeframes are met.

**Cyclone Yasi** – the weather prevented Suncorp from starting repairs etc. Additionally, engineers had to be brought in to check the structural integrity of buildings, to ensure they were safe and repairable, which also delayed starting work.

**Hydrologists** – initially it was agreed that the FOS and the ICA would contract hydrologists to produce reports for insurers to use. Although this seemed like a good idea initially, as the intention was to speed things up, and have a consistent approach, unfortunately the Hydrology Reports were not granular enough. Therefore hydrologists had to be contracted, which many were reluctant to do (due to adverse media coverage).

For the AAMI brand and some business policies, each claim was assessed twice, and a hydrology report was required. This was done to ensure that the policy conditions were absolutely met and if partial payments were appropriate (where the damage is from more than one source), they were made. At this time, there are 25 claims waiting to be finalised which Suncorp hopes to complete within the next few weeks.

**Geographical spread** – another issue was the sheer geographical spread of the events. For Suncorp there were claims across Queensland (as far south as Mount Isa), Victoria, Perth and New Zealand.

**Resources** – due to the geographical spread and the number of claims which needed to be assessed, resources were stretched. Suncorp responded by contracting 22 American assessors to help, in addition to its own team of 128 assessors. Additionally more than 680 call centre staff worked across

four call centres during the peak of the events. Extra staff were also rostered on to cater for the large claims volume.

**Number of claims** – due to the sheer volume of claims Suncorp decided to categorise the claims. If the value of the claim is under \$2,000, the customer could replace or arrange for repairs using a local builder/supplier. For claims up to \$5,000, customers were able to get a single quote from a local builder or supplier and submit them to Suncorp for quick approval. To communicate this, Suncorp ran a publicity campaign in affected areas via local media. Additionally this approach was communicated to local mayors, MPs, legal aid and other community organisations..

### **Communications**

From a communications perspective Suncorp did the following.

As the events unfolded Suncorp ran advertisements for its brands in local media (newspapers and on radio), encouraging customers to lodge a claim. For the majority of Suncorp's brands, customers were also informed that their policy covered riverine flood. Where events were predicted (such as the Brisbane flood), communications were run prior.

Suncorp met with local MPs and mayors as soon as possible to explain what Suncorp was doing in relation to claims management and the fact that customers were covered in vast majority of cases. This communication has subsequently been ongoing and stakeholder updates are being regularly sent to key stakeholders including financial counsellors, consumer representatives (legal aid), advocacy groups, regulators and local MPs and mayors. Face to face briefings are also continuing.

CRTs were deliberately set up in high profile areas, such as evacuation centres, to ensure customers could visibly see them if they wished to lodge a claim or communicate with Suncorp.

As Suncorp has a banking network across regional Queensland this was also used to communicate with local populations.

There are also ongoing communications between claims staff and customers on a regular basis to update them of their claims progress and next steps.

Internally event updates are sent to staff on a weekly basis and there are regular operational meetings updating staff of decisions made and next steps.

### **Time limits for decisions regarding claims**

As the Review would be aware, the insurance industry via the ICA have been working on putting a clause in Section 3 of the General Insurance Code of Practice in relation to time limits for a decision on a claim. Section 4 has also been strengthened to comfort consumers that in the case of a catastrophe insurers will strive to meet the Code requirements – (it needs to be noted that this may not always be possible in large scale concurrent events).

To legislate such timeframes in black letter law would be problematic. When insurers receive over 130,000 claims in a short period they will always find it difficult to meet timeframes (for many of the reasons explained above). Therefore there would be a problem with ongoing compliance, with Regulators and FOS giving relief to legislative requirements in extreme circumstances.

It would be uneconomical for insurers to resource to meet legislated timeframes on an ongoing basis, the cost would then be reflected in premiums.

## Chapter 17 – Resolution of claims disputes

### General

Overall, Suncorp was a little surprised by some of the content of the chapter in relation to IDR and external dispute resolution [EDR]. ASIC have just conducted a large research project into motor claims handling and IDR and have indicated to the industry that they have no systemic issues. This report is due to be released shortly.

Suncorp takes compliance with IDR and EDR requirements very seriously. Its systems are set up to comply with RG165 and the General Insurance Code of Practice and these processes are monitored continually to ensure compliance with requirements.

Additionally the AAMI brand publicly discloses its IDR and EDR results via its Customer Charter annually.

### IDR/EDR Results 2011

The following tables show the IDRs received to date by Suncorp in relation to the 2011 events and the associated timeframes.

Queensland Floods						
Brand	Disputes Received	IDR Review Completed	Decision Maintained	Decision Overturned	Dispute Withdrawn	Decision Pending
AAMI	182	151	131	14	6	31
APIA	5	5	4	1		
GIO	1	1	1			
SHANNONS	2	2	2			
SUNCORP	20	19	14	5		1
TOTAL DISPUTES	210	178	152	20	6	32

Cyclone Yasi						
Brand	Disputes Received	IDR Review Completed	Decision Maintained	Decision Overturned	Dispute Withdrawn	Decision Pending
AAMI	7	4	3	1		3
AMP	1	1	1			
APIA	4	3	3			1
SUNCORP	7	6	3	3		1
VERO	1	1		1		
TOTAL DISPUTES	20	15	10	5		5

North West Victorian Floods						
Brand	Disputes Received	IDR Review Completed	Decision Maintained	Decision Overturned	Dispute Withdrawn	Decision Pending
AAMI	43	40	26	12	2	3
APIA	2	2	1	1		
TOTAL DISPUTES	45	42	27	13	2	3

In terms of reasons for disputes, not surprisingly the majority were for declined claims from the AAMI portfolio as there was no riverine flood cover. It should be noted that ourselves and others encouraged consumers to go to appeal, if they felt that the source of the damage had been incorrectly identified.

The following tables, show the EDRs received to date by Suncorp in relation to the 2011 events.

<b>General Insurance – EDR 2011</b>			
<b>Event</b>	<b>Total Volume Received</b>	<b>Number of disputes resolved</b>	<b>Number of disputes currently with FOS</b>
Queensland Floods	42	4	38
Cyclone Yasi	3	1	2

<b>Top 3 Complaint Issues – General Insurance</b>			
<b>Event</b>	<b>Rejected Claims</b>	<b>Service</b>	<b>Settlement</b>
Queensland Floods	37	2	2
Cyclone Yasi	0	3	0

As you can see from the above tables, the actual percentage of consumers using IDR and EDR is very low when considering the number of claims received. All consumers are informed of their right to IDR, via denial letters and orally if a complaint cannot be resolved. IDR procedures are heavily regulated by ASIC under RG165 and also the General Insurance Code of Practice.

Out of the above, Suncorp has five flood/event matters go over 45 days - all Queensland flood claims. Three have now been completed and two remain outstanding. In all cases Queensland Legal Aid is/was acting for the customer and the IDRs were not completed at the request of Legal Aid, until they put in their submissions.

Even in these circumstances Suncorp took it compliance with the Code and RG165 seriously – from a consumer perspective, the process was efficient and effective.

# Appendix 1 – Costings for the establishment and running of a flood pool as suggested by NDIR

## Taxpayer cost summary – compulsory flood insurance scheme

The engineering threshold would require accurate, complete and consistent flood mapping across all of Australia – very beneficial to many parties but likely to take some time at some expense.

NFID	# of Properties	Approx Cost (\$)	
Un-mapped Properties	5,151,259	\$25,000,000	Already incurred
GNAF	6,848,741	\$33,238,190	
	12,000,000	\$58,238,190	

The price threshold would require the Pool “to determine the premiums applicable for insurance with and without flood cover” (emphasis added), to prevent insurers from manipulating either price to get the outcome they want. This is likely to be problematic and impractical for a number of reasons:

- To determine the non-flood premiums would require analysis of all perils, including other natural hazards, working perils and arguably expenses, reinsurance and profit margins.

Activities	Approx Capex Costs	Opex Costs	Total	Comments
Build a full peril (no flood) insurance engine	\$20,000,000.00	\$5,000,000.00	\$25,000,000.00	Rating at address level
Obtain Data to build insurance models	\$10,000,000.00	\$2,500,000.00	\$12,500,000.00	Purchase off ISA
Build full peril models (acturial)	\$60,000,000.00	\$15,000,000.00	\$75,000,000.00	Theft, hail, motor burnout, etc.
Build a premium variation for each product and company	\$60,000,000.00	\$30,000,000.00	\$90,000,000.00	CRC, Safety Net, Fixed Sum Insured, various features and options
Monitoring of changes in industry	\$5,000,000.00	\$6,000,000.00	\$11,000,000.00	
Build a web bot that accurately quotes market premiums (consistent factors)	\$10,000,000.00	\$8,000,000.00	\$18,000,000.00	
<b>Total Costings</b>	<b>165,000,000.00</b>	<b>\$66,500,000.00</b>	<b>231,500,000.00</b>	

- The flood premium is based on many factors such as sum insured, construction type. The non-flood premiums would typically require even more rating factors such as age, previous claims, excess etc. It is hard to see how the Pool could access such information for every risk;
- The product coverage provided by the various insurers can vary significantly (e.g. sum insured vs. complete replacement) – on what basis of coverage would the Pool assess the premiums?

Activities	Approximate Capex Costs (\$)	Opex Costs (\$ p.a)	Total (\$)
Build an accurate Flood model (all Australia)	\$33,238,190	\$8,309,547	\$41,547,737
Align Model with all products and Brands	\$6,000,000	\$2,400,000	\$8,400,000
<b>Total</b>	<b>\$39,238,190</b>	<b>\$10,709,547</b>	<b>\$49,947,737</b>

## The Discount Mechanism

- Once the high flood-risk homes have been identified, the proposal is to provide discounts using either the “engineering threshold” approach or the “price threshold” approach.
- Under both methods, the key measure referred to in the paper is the ratio of full flood premiums to no-flood premiums (as assessed by the Pool), and if this goes above 150% (for example) the insurer will have to offer flood cover for a discounted premium, offset by either transferring some/all of the risk to the Pool, or receiving revenue from the Pool to cover the discounts provided (see below).

Activities	Opex Costs	
Monitoring of 'Threshold'	2,285,714	# of Quotes per year
Per click through Competitor Web Sites	\$11,428,571	
Administration Costs	\$15,000,000	
<b>Total</b>	<b>26,428,571</b>	

## The Funding Mechanism

- The discounts provided to high flood-risk homes need to be funded in some way.
- Two proposals are presented in terms of the flows between the Pool and the insurers:
  - (a) The Pool Funds Claims – insurers transfer most of the premium to the Pool which then pays the claims.
    - Two options are considered within this – either just the flood risk is transferred or the full cover is transferred (for those in the threshold in both cases).
    - The Pool Subsidises Insurers – the Pool uses its funds to pay premiums to insurers to offset the aggregate discounts provided.

	Pool Costs (\$)
Annual Riverine Flood Pool (AAL)	\$400,000,000
Admin Costs (5%)	\$20,000,000
Claims Handling Costs (10% - average)	\$40,000,000
Transaction costs with insurers (5%)	\$20,000,000
<b>Total operating costs (not including claims cost)</b>	<b>\$80,000,000</b>

## Total Costs:

Under either solution the extra costs to Government is significant.

	Capex (\$)	Opex (\$)	Total (\$)
Engineering Threshold	\$39,238,190	\$90,709,547	\$129,947,737
Price Threshold	\$204,238,190	\$183,638,119	\$387,876,309





