Inquiry into insurers' responses to 2022 major flood claims

Submission by the Australian Securities and Investments Commission

December 2023

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Executive summary

1 ASIC welcomes the House of Representatives Standing Committee on Economics' Inquiry into insurers' responses to the 2022 floods and we look forward to attending a public hearing in early 2024.

2 ASIC conducted a review of home insurance claims handling in June 2022 (2022 review) and the findings were published on 16 August 2023 in Report 768 *Navigating the storm: ASIC's review of home insurance claims* (REP 768). Most of the claims covered by our 2022 review (some 40% of the more than 218,000 home insurance claims) were due to the February-March 2022 floods in Queensland and New South Wales (CAT221).

3 We provided a copy of REP 768 to the Inquiry on 16 August 2023 and it is also attached to this submission with the related media release (see: Media release (23-221MR) *ASIC review finds insurers can and should improve claims handling* (16 August 2023)). We note that the Inquiry will take into consideration the findings from our 2022 review and the findings from Deloitte's 31 October 2023 Report *The New Benchmark for Catastrophe Preparedness in Australia*, commissioned by the Insurance Council of Australia (ICA).

4 This submission outlines ASIC's remit regarding insurance, provides an overview of our 2022 review and the actions that insurers have told us they are taking since the 2022 floods. While our 2022 review had a different scope to the Deloitte review, many of the findings were similar. As such, we generally support the Deloitte Report's recommendations.

> We suggest the Inquiry examine what further action by insurers is needed to implement the recommendations and a timeframe for doing so.
>
> We also suggest the Inquiry consider insurers' plans to improve resourcing for both claims and complaints handling, their level of investment in remediating (systems and data) deficiencies revealed by CAT221 and the issue of 'wear and tear' exclusions.

A ASIC's remit and priorities in relation to general insurance

Key points

ASIC licenses general insurance companies under the Australian Financial Services licensing regime: paragraphs 5–7.

During the 2022-23 financial year, ASIC focussed on pricing promises, the design and distribution obligations and claims handling: paragraphs 8–9.

Claims handling and internal dispute resolution are priorities for the 2024-25 financial year: see paragraphs 11–12.

ASIC also receives notifications of systemic issues from AFCA: paragraphs 14–17.

ASIC's remit

5 ASIC licenses general insurance companies that carry on business in Australia under the Australian Financial Services (AFS) licensing regime. AFS licensees have a general obligation to provide financial services efficiently, honestly and fairly (s912A(1)(a), *Corporations Act 2001*). General insurers must comply with the conditions of their AFS licence and the Corporations Act. For example, as holders of an AFS licence, insurers must have a dispute resolution system that complies with ASIC's standards and covers complaints made against the insurer by retail clients in connection with the provision of all financial services covered by their AFS licence (s912A(1)(g) 912A(2), *Corporations Act*, Regulatory Guide 271 *Internal dispute resolution* (RG 271)).

6 Since 1 January 2022, claims handling has been a financial service and therefore must be provided efficiently, honestly and fairly. Information Sheet 253 *Claims handling and settling: How to comply with your AFS licence obligations* (INFO 253) at Table 4 explains how s 912A(1)(a) applies to claims handling and settling. In short, insurers generally need to handle and settle insurance claims:

(a) in a timely way

(b) in the least onerous and intrusive way possible

(c) fairly and transparently, and

(d) in a way that supports consumers, particularly those who are experiencing vulnerability or financial hardship.

7 The General Insurance Code of Practice (Code) is an important complement to general insurers' regulatory obligations under the Corporations Act. It

provides for important prescribed consumer protections (as outlined in Table 1. ASIC notes the Code is subject to a comprehensive review in 2024 by a panel appointed by the ICA.

Priorities for 2022–23 financial year

8 ASIC has a dedicated team supervising general insurers' compliance with their regulatory obligations. During the 2022–23 financial year, ASIC focussed on three key areas: general insurers' pricing promises, design and distribution obligations and claims handling. We publicly reported on these issues in reports released across three consecutive months (June, July August 2023), see Report 765 *When the price is not right: Making good on insurance pricing promises* (REP 765), DDO findings and REP 768. The industry wide imperative to 'get the basics right' was detailed by ASIC's Deputy Chair, Karen Chester, in her speech, *'The princess and the pea': Getting the basics right in insurance*, at the ICA Annual Conference on 12 October 2023.

9 Our intervention on pricing promises required 11 general insurers (representing 68% of the market) to undertake comprehensive reviews to find, fix and repay (compensate) consumers for broken pricing promises. This intervention culminated in $850 million being repaid to 5.6 million consumers.

10 ASIC will also take enforcement action against insurers who fail to comply with financial services laws. Recently, the Federal Court of Australia ordered a civil penalty of $40 million against a general insurer for failing to honour discount pricing promises made to consumers (see Media Release (23-179MR): *IAL penalised $40 million over pricing discount failures* (30 June 2023)). This is currently the largest penalty imposed by the court against an insurer for breaches of the financial services consumer protection laws.

Priorities for 2023–24 financial year

11 ASIC is continuing to actively monitor claims handling to improve practices. General insurance claims handling is an ASIC enforcement priority. We have several investigations underway, including investigations that relate to 2022 flood claims.

12 This financial year, we are also undertaking supervisory work to identify and address inadequate internal dispute resolution arrangements. This will focus on insurers' implementation of Regulatory Guide 271 *Internal dispute resolution* (RG 271).

Australian Financial Complaints Authority (AFCA) general insurance complaints and systemic issues

13 ASIC oversees AFCA, which is the external dispute resolution (EDR) scheme authorised under the Corporations Act to deal with complaints about licensed firms, including general insurers. AFCA's submission to the Inquiry dated October 2023 indicates that they have had a significant increase in general insurance complaints since CAT221, and that the main increase to complaint volumes was due to 'business as usual' complaints rather than catastrophic events. We found in REP 768 that insurers redeployed resources from other teams to accommodate the surge in CAT221 claims, however this contributed to delays in other claims.

14 In addition, AFCA must report certain matters to ASIC, including serious contraventions, failures to give effect to determinations and systemic issues. In the 2022–23 financial year AFCA reported 105 systemic issues (SI) to ASIC—including 17 that related to general insurance. AFCA's SI work resulted in the remediation of over 378,000 consumers and secured more than $100.5 million in refunds.

15 All AFCA notifications received by ASIC are assessed by our Misconduct and Breach Reporting team. ASIC took further action in relation to 11 of the notifications received in the 2022–23 financial year and merged two notifications with existing matters. The remaining matters form valuable intelligence that informs ASIC's regulatory decision making.

16 The SI matters that ASIC took further action on in the 2022–23 financial year included (but were not limited to):

(a) incorrect denial of insurance claims

(b) claims handling processes (such as poor communication and delay), and

(c) failure to give effect to determinations relating to insurers.

17 There are several reasons why ASIC may not take further action on an SI notification. For example, AFCA may have already resolved the issue with the firm and it may have minimal general deterrent benefit, or the issue may fall outside of our regulatory remit.

B ASIC's 2022 review of home insurance claims: REP 768

Key points

In June 2022, ASIC commenced a review of home insurance claims: paragraphs 18–31.

We observed good and poor practices across all participant insurers and identified several areas for improvement: paragraphs 32–43.

Insurers say they have taken measures to respond to our findings: paragraphs 49–58.

We remain concerned that internal dispute resolution is under-resourced: paragraphs 59–60.

18 For consumers in the unfortunate situation of needing to claim on their insurance policy, timely and fair claims handling is crucial. REP 768 shows that claims handling generally is under strain—while there are some aspects outside insurers' direct control, there are many aspects where insurers can and should improve their claims handling practices. Matters within the insurers' 'sphere of influence' were the focus of our report and findings.

19 Since 1 January 2022, insurers who provide claims handling and settling services have been obligated under their Australian financial services (AFS) licence to provide those services efficiently, honestly and fairly. Insurers handling claims were already obliged to act consistently with the duty of utmost good faith. Recent law reform was intended to lift claims handling standards and enhance ASIC's ability to act where obligations are breached.

20 In June 2022, ASIC commenced a review to better understand the consumer experience in home insurance claims and assess the current state of claims handling from the start of the new regime and how this compares to insurers' regulatory obligations.

What we did in our 2022 review

21 In June and July 2022, we met with the ICA and the following six insurers who participated in the review:

- AAI Limited (Suncorp) (AAI)
- Allianz Australia Insurance Limited (Allianz)
- Auto & General Insurance Company Ltd (A&G)

- Insurance Australia Group (IAG), which includes Insurance Australia Limited and Insurance Manufacturers of Australia Pty Limited
- QBE Insurance (Australia) Limited (QBE), and
- Youi Pty Ltd (Youi).

22 All six insurers are subscribers to the General Insurance Code of Practice (Code) and comprised 63% of the general insurance market in Australia, by annual gross written premiums as at March 2022: see Australian Prudential Regulation Authority (APRA), Quarterly general insurance institution-level statistics database, September 2017 to March 2023 (issued 25 May 2023).

23 At the time, insurers were facing pressures due to severe weather events, including CAT221. As at 25 October 2023, insurers had incurred $7.355 billion in total insured losses across more than 302,291 claims arising from CAT221.

Note: CAT221, as declared by the ICA on 26 and 28 February 2022, refers to the February–March 2022 floods in Queensland and NSW. These figures are sourced from the ICA's Data hub

24 Our review focused on three areas, designed to capture a broad range of consumer experiences:

We reviewed **quantitative data** (up to 46 datapoints) from participating insurers for 218,256 home insurance claims (building and/or contents) lodged between 1 January and 31 March 2022 and followed those claims for a further 6 months through the claims process.

We requested **150 claims files** (25 files per participating insurer) from those claims lodged between 1 January and 31 March 2022 for a targeted review to gain deeper insights into the claims life cycle and identify frictions in the claims handling process that can lead to consumer harm.

We commissioned **qualitative consumer research** (not limited to participating insurers) involving 40 consumer interviews and 25 case studies across Australia to capture consumers' attitudes to the claims process, their personal situation, and their experience with their insurer.

25 Insurers must meet their obligations across all claims—for this reason, our 2022 review encompassed both severe weather event and non-severe weather event (other) claims.

Snapshot of insurers' claims data

26 The snapshot below is based on data provided by the six participating insurers for the **218,256 home insurance claims** lodged between January and March 2022, and includes data on the progress of those claims up to September 2022.

27 The data we collected included claims lodged in relation to several events that ICA declared Significant and Catastrophe events. Most claims lodged for ICA declared Significant and Catastrophe events were due to the February–March 2022 floods in Queensland and New South Wales (CAT221). Other ICA declared Significant and Catastrophe events resulting in claims in our collection included the October 2021 severe storm in South Australia and Victoria, and the Mansfield earthquake of September 2021.

28 Because each insurer provided their data to ASIC at different times, this snapshot is point-in-time only and does not account for claims handling actions outside of the sampling window. As a result, this data does not indicate the full extent of complaints, Code breaches, and overall rates of claims decided, receiving first repairs and cash settlements.

Claims lodged and outcomes

29 Data on 218,256 claims lodged was provided by all six insurers:

- **57%** were building claims, **22%** contents claims and **21%** building and contents claims
- **43%** of claims related to severe weather events and **57%** to other events, and
- **76%** of claims were reported as accepted or partially accepted, **8%** declined, **12%** withdrawn and **4%** not yet subject to a decision.

Vulnerability, complaints and Code breaches

30 Data on vulnerable consumers, complaints and Code breaches was provided by five insurers:

- **3,639 (2%)** consumers were identified as vulnerable
- **23,759 (11%)** claims had at least one consumer complaint, and
- **21,550 (11%)** claims had at least one potential or actual Code breach.

Repairs and cash settlements

31 Four insurers provided data on the claims that received a first repair or first cash settlement. We then measured how many occurred within 6 and 12 weeks after claim lodgement: see Figure 1.

Figure 1: Percentage of severe weather event claims and other claims first serviced after lodgement

Note: Table 2 in REP 768 for the data underlying this figure (accessible version).

Key observations from our 2022 review

32 We observed both good and poor practices across all six insurers participating in our review, with areas for improvement identified:

- **better communications** to consumers about decisions, delays and complications
- **better project management** and oversight of third parties
- **better handling** of complaints and expressions of dissatisfaction
- **better identification** and treatment of vulnerable consumers, and
- **better resourcing** of claims handling and dispute resolution functions.

33 Our 2022 review observed that external forces put pressure on claims and complaints handling during CAT221. However, external forces also served to highlight existing deficiencies with insurers' resourcing, systems and processes. For example, the *General Insurance Industry Data Report 2021–2022* (PDF 3.5 MB) shows that poor claims handling was the source of most Code breaches for the past five years and when the 2022 floods occurred, insurers were already grappling with a large backlog of open claims from 2021: See Charts 3.1 and 3.2, Deloitte Report.

Table 1: ASIC's findings on areas for improvement of claims handling practices

Area for improvement	What insurers must do	Reference
Better communications – for transparency and timeliness	Insurers must be clear, proactive and transparent in communications to prevent or overcome confusion of consumers. Insurers should proactively inform consumers of their claim progress and decisions, outlining any further steps in the claims process.	Table 4 in INFO 253 and Pt 8 of the Code
Better project management – for minimum intrusion and burden	Insurers must maintain adequate oversight of insurer-appointed third parties and manage the claims process for consumers. This extends to notifying consumers about the purpose, order and timing of assessors and trades attending their home.	Table 4 in INFO 253 and Pt 8 of the Code
Better handling of complaints – for fairness	Insurers must adequately identify and respond to expressions of dissatisfaction and comply with their obligations for resourcing and resolving complaints. Insurers must ensure that staff are trained to detect and adequately respond to expressions of dissatisfaction at the earliest opportunity.	RG 271 and Pt 11 of the Code
Better treatment of vulnerability – for fairness	Insurers must recognise consumers experiencing vulnerability and tailor their services to consumers who are experiencing vulnerability and treat them accordingly.	Table 4 in INFO 253 and Pts 9 and 10 of the Code
Better resourcing – for timeliness and fairness	Insurers must have adequate resourcing to enable their claims handling and dispute resolution functions. This extends to ensuring that staff are properly trained and skilled to handle claims efficiently, honestly and fairly, as well as to identify expressions of dissatisfaction and vulnerability.	Tables 4 and 5 in INFO 253

Proactive preparation for increased, overlapping insurance events

34 REP 768 observes that general insurers need to proactively plan for more frequent overlapping extreme weather events by starting with what is directly within their control. It is therefore a concern that Deloitte reported that one large insurer no longer saw any value in operational scenario planning due to the increased frequency of events. In our view, the increased frequency of significant events heightens the need for proactive planning.

Resourcing

35 Deloitte found that insurers had to increase their claims workforce between 19–87% in response to CAT221 and this significant reactive recruitment caused its own difficulties. The Deloitte Report says that all insurers have permanently increased their claims headcount in anticipation of continued catastrophic events but the increase is not quantified. In advance of ASIC's REP 768 being finalised, we encouraged the ICA to include further and detailed analysis on the resourcing of claims and complaints handling over

time and its relationship with consumer outcomes in Deloitte's review. We note that the requested analysis is not included in the Deloitte Report.

36 Our 2022 review found that inadequate (quantum and quality of) resourcing was a key problem. REP 768 recommends that insurers should track the following metrics for full-time equivalent (FTE) staff and review these for any impact on consumer outcomes:

- the number of claims and disputes (through both internal and external dispute resolution) handled by FTE staff, and
- the proportion of temporary to permanent FTE staff.

37 Ongoing analysis and transparency of this resourcing and consumer outcomes is important. It is much harder for an insurer to adequately respond if they are under-resourced when an extreme weather event occurs and already struggling with a backlog of claims. Adequate and a well-trained workforce is also critical for ensuring claims are dealt with fairly and efficiently and for supporting new staff needed in exceptional circumstances. This is particularly important in a context of more frequent extreme weather events.

Note: See for example, the Australian Actuaries Climate Index, the Government's Annual Climate Change Statement 2023 at page 9 and Figure SPM.2 (b) in Summary for Policymakers, Intergovernmental Panel on Climate Change, 2022.

> The Inquiry could examine how insurers plan to address in detail resourcing and systems/data issues to deal with claims and complaints in the context of increased frequency and severity of extreme weather events.

Inadequate systems

38 Some frictions in the claims process were caused by inadequate systems. This included systems that failed to accurately record information that was accessible by all relevant insurer staff—meaning that consumers had to repeat details about their claim many times. We also observed that insurers had inadequate systems for recording decisions, and this meant they could not accurately monitor compliance with key timeframes set out in the Code or report contraventions.

39 Inadequate systems were exposed by the surge in claims associated with CAT221 and the difficulty with manually completing tasks in this environment. For example, across claims files, we observed that the handling of temporary accommodation appeared to be a manual exercise for five insurers. In some cases, the lack of automatic updates to arrangements resulted in stress for consumers.

40 REP 768 recommends that insurers permanently enhance their claims handling and dispute resolution systems. This is important for delivering

consumer outcomes, especially during severe weather events where human resources are likely to be overwhelmed.

'Wear and tear' confusion

41 Our 2022 review found that consumers did not understand 'wear and tear' exclusions or their obligation for property maintenance. This can lead to consumers lodging a claim for damage, only for their insurer to partially or totally decline their claimed damage on the basis that it was caused by 'wear and tear'. This results in frustration and dissatisfaction as consumers are not aware of, or poorly understand, these exclusions when lodging a claim. Overly broad terms that are poorly understood by consumers also increase the potential for complaints and disputes. REP 768 therefore recommends that insurers:

- clearly explain 'wear and tear' or 'maintenance' terms to consumers at policy inception and renewal;
- provide clear reasons supported by adequate evidence if a claim is denied based on these terms; and
- ensure overly broad and open-ended obligations do not amount to unfair contract terms.

42 Deloitte's community engagement identified that the terms 'wear and tear' and/or 'maintenance' terms were a significant problem (although it was outside Deloitte's scope to assess how products are designed, policy terms or exclusions). AFCA's submission to the Inquiry at page 26 also states that consumer organisations consistently highlight consumer dissatisfaction and disputes arising from insurance claim denials based on 'wear and tear' exclusions.

43 In July 2023, the General Insurance Code Governance Committee (CGC) found 55% of denied home claims relied on 'wear and tear' and/or 'maintenance' exclusions and that when over 10,000 policyholders complained, half of the denials were overturned, see *Making better claims decisions* (PDF 548 KB). The CGC said the findings may indicate systemic issues and the ICA planned to review 'wear and tear' and/or 'maintenance' terms as a priority area for focus, see *ICA reviews use of wear and tear exclusion* (20 July 2023) on the insurancenews.com.au website.

> The Inquiry may want to follow up progress of the ICA review into 'wear and tear' and/or 'maintenance' terms and examine whether insurers have an adequate process for denying claims pursuant to these terms. The

> Inquiry could also consider the viability of standard 'wear and tear' and/or 'maintenance' terms and an implementation timeframe.

Poor claims handling data

44 Participant insurers voluntarily provided their claims handling data to ASIC for the purposes of REP 768 because we do not have recurrent claims data collection from general insurers and it would have been inefficient to seek the information under statutory notices. None of the participant insurers were able to easily access and provide structured data from within their claims systems on the date the decision was communicated across all relevant claims.

45 The insurers who participated in our 2022 review also met with ASIC to discuss how they record and store their claims data. We found that this was different for each insurer. Industry standard definitions and data recording would make insurance data more reliable and easier to use.

46 Deloitte found that insurers' data limitations meant:

(a) some insurers' ability to make strategic decisions during CAT221 was impacted by a lack of data and information, particularly from third party suppliers [Finding 8.17]; and

(b) the impact of various factors on claims timelines could not be quantified because insurers do not collect information in a way that can be analysed [Finding 8.5].

47 Deloitte's Recommendation 5 is that insurers should improve data capture, modelling and reporting to assist with identifying and mitigating against factors that impact their ability to progress catastrophe claims. Deloitte also recommend that the ICA should develop a data dictionary to enhance industry-wide reporting.

48 On 12 October 2023, APRA and ASIC published two joint discussion papers on plans to enhance data collections for the life and general insurance industries as part of the Insurance Data Transformation project. The *General Insurance Discussion paper – Insurance Data Transformation* seeks feedback to develop the depth and breadth of future data collections that will be practical and fit for purpose. It is clear from the Deloitte Report and REP 768 that general insurers will need to do a lot of work to be ready for enhanced data collection.

As with other recommendations, the Inquiry may wish to examine insurers' readiness to implement Deloitte's data recommendations in a reasonable timeframe, including the merit in transparency around that data.

Insurer responses to our 2022 review findings

49 In November 2022 and in parallel to our analysis for REP 768, we sent a letter to general insurers setting out ASIC's expectations that insurers be prepared, proactive, transparent, consumer-centric, and responsive in meeting their claims handling obligations. This letter also set out our expectation that insurers review whether they are allocating adequate resourcing to claims handling.

50 In May 2023, as a follow-up to the November 2022 letter and an insurance roundtable with the AFCA in April, we wrote to six large general insurers who attended the roundtable seeking further information on resourcing efforts to deal with significant issues and delays with claims handling and dispute resolution. We also sought data on how the insurers' resourcing had changed for each year since 2019 and total number of claims, internal dispute resolution (IDR) cases and external dispute resolution (EDR) cases for the previous four years. In early November 2023, we sought an update on these numbers to 30 June 2023, and the steps that insurers have undertaken to uplift resources. The data that we received in response is set out in Tables 2 and 3 in the Appendix and in Figures 3–5 below.

51 The responses to our queries showed an overall increase in the resourcing of claims handling, albeit with a significantly increased reliance on temporary staff. This reliance is not ubiquitous, with some individual firms being more heavily reliant on temporary staff than others—either employed by the firms directly or through a third party administrator or a legal firm. Likewise, the aggregate increase in claims handling staff is not shared equally between firms, with some firms increasing their claims resources significantly more than others.

52 Importantly, the responses also revealed that, overall, increases in dispute resolution resourcing were not commensurate with increased complaint volumes. This indicates that general insurers' under-resourcing of dispute resolution remains an issue.

The responses from insurers about the steps that they have undertaken to uplift resources were fairly high level. The Committee may want to seek further detail on the steps insurers have taken to uplift resources for claims

and complaints handling, and their investment in systems/data, to improve claims and complaints handling outcomes.

Figure 2: Volume claims and total claim loss due to ICA declared events from 2016– 2022

Source: ICA-Historical-Normalised-Catastrophe-October-2023.xlsx (live.com)

53 Figure 2 shows that the volume of claims lodged due to ICA declared events and the total claimed loss due to ICA declared events has been trending up since 2016. The major events that have driven this are the 2019/20 Bushfires (CAT195), January 2020 hailstorms in Victoria, Australian Capital Territory, Queensland and New South Wales (CAT201), February 2020 storms and flooding in Queensland and New South Wales (CAT202) and CAT221 in 2022.

Figure 3. Changes in claims resourcing since 2019

Note 1: Figure 3 shows percentage increase in Permanent and Total Claims FTE for each year compared to the 2019 baseline. 2023 represents resourcing for the period 1 January 2023–30 June 2023.

Note 2: See Table 2 in the Appendix for the data underlying this figure (accessible version).

54 Figure 3 shows that in response to increasing claim volumes due to ICA declared events, the insurance industry has increased their total full-time equivalent (FTE) claims handling staff. However, the level of permanent FTE claims handling staff has only marginally increased since 2019, while the proportion of temporary FTE claims handling staff has increased greatly. This means that insurers have relied on increasing their temporary claims handling staff to meet surges in claims due to ICA declared events and have only marginally increased their permanent handling claims handling staff.

Figure 4: Percentage change in IDR resources and IDR cases lodged compared to 2019

Note 1: Chart shows percentage increase in IDR FTE and cases for each year compared to the 2019 baseline.

Note 2: See Table 2 and Table 3 in the Appendix for the data underlying this figure (accessible version).

55 Figure 4 shows that insurers have increased their total IDR resourcing since 2019. This increase in resourcing did not keep pace with the increase in IDR cases lodged in 2022. For 2023, IDR cases lodged to 30 June are already 100% higher than IDR cases lodged in all of 2019, so there is a risk that IDR resources will again not keep pace with the increase in IDR cases lodged in 2023 (see Table 2 and 3 in the Appendix for data covering the period 1 January 2023 to 30 June 2023).

Figure 5: Percentage change in EDR resources and EDR cases lodged compared to 2019

Note: See Table 2 and Table 3 in the Appendix for the data underlying this figure (accessible version).

56 Figure 5 shows percentage increase in EDR FTE and cases for each year compared to the 2019 baseline. Insurers maintained their EDR resourcing over 2020, 2021 and 2022. In 2022 EDR cases increased significantly compared to the previous years with no increase in EDR resourcing. While insurers have increased their EDR resourcing in 2023, EDR cases lodged as at 30 June 2023 were already 30% higher than EDR cases lodged in all of 2019, so there is a risk that EDR resources will again not keep pace with the increase in EDR cases lodged in 2023.

Figure 6: IDR and EDR cases lodged as a proportion of claims lodged

Note 1: 2023 represents IDR and EDR cases lodged as at 30 June 2023.

Note 2: See Table 3 in the Appendix for the data underlying this figure (accessible version).

57 Figure 6 shows that both IDR and EDR cases have increased every year as a proportion of claims lodged since 2019. This means that in every year since 2019 a claim is more likely to have a complaint, either internally or externally, lodged against it.

Individual feedback to participating insurers

58 In August 2023, we provided individual written feedback to the six insurers in our 2022 review. We requested information on the steps that insurers were taking to address the feedback and findings in REP 768. In September 2023, and following further ASIC prompting, insurers responded in writing that they were taking a range of steps, including:

(a) employing more claims handling and dispute resolution staff, both to full-time and temporary roles;

(b) creating specialised teams to support claims related to severe weather events;

(c) creating specialist roles to handle consumers who require high care, through both claims and complaints processes;

(d) enhancing training and induction programs so that staff are appropriately skilled to handle claims—including expedited training suitable for a surge workforce;

(e) implementing arrangements that allow the workforce to be expanded quickly (for example, through agreements with temporary agencies); and

(f) system improvements to make claims handling and monitoring of claims handling more efficient.

59 Measures to address deficiencies exacerbated by CAT221 will take time to implement and assess. Based on information provided to ASIC, there is insufficient detail on resourcing changes, customer outcomes being targeted, investment in systems and data and implementation timelines to inform a view by ASIC at this time. What does clearly emerge from the information we have received is that dispute resolution remains under-resourced.

60 We are also concerned that Deloitte's Report found that, '*Not all insurers … have made substantive changes or aligned future investment to the scale required to adequately address key areas of weakness*'. Deloitte also noted that some insurers had post event reviews still underway 18 months after CAT221. This suggests that insurers need an external deadline and transparency in implementation to ensure improvements are prioritised and delivered in full.

> The Inquiry may wish to ask general insurers for detail on the actions to fully implement the Deloitte recommendations, their planned investment to address areas of key weakness and the timeframe for implementation.

Key terms

Term	Meaning in this document
AFCA	Australian Financial Complaints Authority—the external dispute resolution scheme for which an authorisation under Pt 7.10A of the Corporations Act is in force
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CAT221	'CAT221' as declared by the ICA on 26 and 28 February refers to the February-March 2022 floods in Queensland and New South Wales
Ch 7 (for example)	A chapter of the Corporations Act (in this example numbered 7), unless otherwise specified
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	*Corporations Regulations 2001*
EDR	External dispute resolution
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
FTE	Full time equivalent
ICA	Insurance Council of Australia
IDR	Internal dispute resolution

Appendix—data on resourcing, claims and IDR/EDR

61 In May 2023 we wrote to six large general insurers who attended an insurance roundtable with AFCA in April seeking data on how the insurers' resourcing had changed for each year since 2019 and total number of claims, internal dispute resolution (IDR) and external dispute resolution (EDR) for the previous four years. In November 2023 we sought an update on the data from these six insurers for 1 January 2023 to 30 June 2023.

62 Table 2 contains data on how insurers' resourcing has changed for each year since 2019 and from 1 January 2023 to 30 June 2023. Table 3 shows the total number of claims, internal dispute resolution (IDR) and external dispute resolution (EDR) for the previous four years.

Table 2: Firm resourcing

Year	Claims – Permanent FTE	Claims – Temporary FTE	IDR – Permanent FTE	IDR – Temporary FTE	EDR – Permanent FTE	EDR – Temporary FTE
2019	7,779	173	174	2	119	0
2020	8,071	571	195	5	127	1
2021	7,846	1014	237	18	130	0
2022	7,965	2157	278	18	127	4
1 Jan–30 June 2023	8,349	1,667	292	19	145	2

Table 3: Total number of claims, IDR and EDR cases

Year	Total claims lodged	IDR	IDR cases as % of claims lodged	EDR	EDR cases as % of claims lodged
2019	2,378,018	97,794	4%	7,878	0.3%
2020	2,258,213	118,414	5%	8,234	0.4%
2021	2,285,498	150,672	11%	8,841	0.4%
2022	2,539,411	266,871	14%	13,286	0.5%
1 Jan–30 June 2023	1,337,534	195,661	15%	10,267	0.8%