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Jeff Norris
Committee Secretariat
Standing Committee on Economics

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Dear Mr Norris

Flood Insurance Inquiry: Additional Questions

Allianz Australia (**Allianz**) appreciates the opportunity to respond to the Standing Committee on Economics (the **Committee**) on further questions received on 19 March 2024¹ in relation to its Inquiry into Insurers' Responses to 2022 Major Flood Claims (the **Inquiry**). Our response to the questions for Allianz and all insurers is contained in Parts 1 and 2 of this letter respectively. We also attach separately the additional data requested for claims and complaints in relation to the 2022 flood events.

Part 1 – Additional Questions for Allianz

Cash settlements

1. You say in your submission, pages 6 and 7, that where a customer finds that their cash settlement is insufficient, 'Allianz would generally consider an additional cash settlement to enable the customer to reasonably complete the repairs'. With regard to cash settlements arising from 2022 flood claims, how many requests for additional money did you receive and how many did you agree to pay?

For the 2022 floods, Allianz reopened 523 claims to make additional cash payments to customers who had already received cash payments.

2. Did you pay extra money to those who made such a request more than a month after receiving their cash settlement?

Of the 523 reopened claims, additional payments were made for 475 claims 30 days after the initial cash payment.

Assessors

3. Allianz plans to 'enhance' its internal loss assessing capabilities. Have you started? What will your enhancement involve and what is your goal?

¹ And refined in agreement with the Insurance Council of Australia on 28 March and with the addition of question 21 to all insurers received from the Committee on 20 March.

Allianz is enhancing its internal loss assessing capabilities by significantly expanding resourcing. Our internal loss assessing team for property claims has more than doubled since last year and tripled since the flooding events in 2022. We anticipate this uplift in internal assessing capability will enhance the efficiency of claims handling because there will be a smaller proportion of claims where external loss assessing capability is required and increase the pool of assessors we can draw upon to meet the surge in claims following a catastrophe event.

4. Page 10 of your submission states: 'If damage is covered by a policy, Allianz discusses with the customer the options of having the property reinstated in an Allianz-managed rebuild, or taking a cash settlement.' Why would you offer a cash settlement if a) your preference is to rebuild and b) the sum insured is sufficient to cover the repair?

Under our policy, a claim can be settled by way of a managed repair or cash settlement. Each claim is different, and in some circumstances, it is the customer's preference to be offered a cash settlement. For example, in relation to the 2022 floods, we had claims where the damage was of a more minor nature and the customer preferred to manage or undertake repair themselves (because they are a builder or have personal connections with a builder). For claims that involve more extensive damage, Allianz's preference is always to manage the repair, given the customer benefit from the lifetime guarantee attached to any work we manage. For other claims, a cash settlement may be the customer's preferred option because they want the work to commence at a later time that better suits their individual circumstances or priorities. Many customers recovering from the trauma of experiencing a natural catastrophe may not wish to engage in repair activity immediately or may be considering not rebuilding at all.

In other circumstances, a cash settlement may be the only option, for example, where there is pre-existing damage not caused by the event, but which requires rectification prior to repair. It may not be possible to undertake the work to repair the insured damage until the property owner has undertaken remediation of pre-existing maintenance issues required before work can commence on the insured damage. In some instances, the pre-existing damage could be such that Allianz could not obtain a builder's guarantee on the insurance-related repair. In other cases, the policyholder may wish to combine monies from an insurance payout with their own funds in order to 'build back better' to make their property more resilient to weather events in the future. In such cases, and others, a cash settlement may be the only practical option, or the customer's preference.

5. Where you offer customers the choice, do you recommend to them that they are better served by Allianz doing the work?

Yes, Allianz provides guidance to claims consultants that conversations with customers should include discussion of managed repair options where this option is in the best interest of the customer, for example:

- where customers would benefit from Allianz preferred pricing;
- to provide the customer a guarantee on repairs;
- where a customer may require our support in managing the repair process; and
- to protect them where there is a level of uncertainty about the final repair costs eg driven by post-event building cost inflation.

6. When raising the above options with customers, has the extent of damage been fully assessed, itemised and costed?

Allianz's standard process is to have a detailed discussion about options to settle the claim after the extent of damage has been fully assessed, itemised and costed. In some cases, this discussion may occur at different stages of the claims journey, for example, if we were required to commence aspects of repairs prior to a detailed scope of works being conducted to prevent further damage from occurring. In some circumstances, this discussion may occur after a managed repair had commenced because repair work has uncovered additional damage not detected in the original assessment.

7. Is the amount of the cash settlement always the same as the quoted rebuild cost, or higher?

In offering a cash settlement, Allianz will assess if a contingency uplift in building costs has or needs to be factored into the builder's quote. Further, it is standard practice for builders' quotes to include an additional margin of 10 percent but Allianz can, and often does, increase the margin if deemed appropriate in the circumstances. Allianz actively encourages customers to come back to us after a cash settlement has been made if a reassessment of costs is required.

Flood cover

8. Your evidence to the inquiry suggested that hydrologists' reports were done for all properties without flood cover but for which a claim had been lodged. Is this correct?

Allianz obtained hydrology reports for all properties without flood cover where the customer made a claim for flood damage. We did not obtain hydrology reports for claims for storm damage only, or for claims where the customer was not exposed to riverine flood risk and damage was clearly caused by stormwater runoff. Our process for obtaining hydrology assessments is consistent with guidance provided by the Australian Financial Complaints Authority (AFCA).

9. Do you contact all policyholders without flood cover in the flood-affected region to encourage them to make a claim – just in case some damage was not caused by flood? Or do you wait for these policyholders to make a claim?

In our experience, our customers that have damage caused in natural weather events will lodge a claim, and we always encourage customers to lodge a claim even if, for example, they have been impacted by a riverine flooding event but know they have opted out of flood cover. Our Disaster Recovery Team attended the various disaster recovery hubs established during the 2022 floods and we deployed over 50 field staff to provide on-the-ground support during the floods. Customers identified as not having flood cover were encouraged by field staff to lodge a claim to assess whether cover was available for stormwater runoff or storm damage and were generally provided emergency payments and temporary accommodation benefits while we assessed their claims.

Since the 2022 floods, Allianz has invested in our data capabilities to enable us to use data in a more proactive way, including to assist customers before a catastrophe has even hit by identifying potentially impacted households and businesses. This information meant that during the recent Cyclone Jasper, we made twice as many outbound calls to customers than we ultimately received in claims, and our claims teams were in place nearby and ready to be deployed before the cyclone hit.

10. Allianz said it relied on desk-top flood analysis. Was this fair? How is it possible to soundly identify the source of water damage to a home from aerial pictures and desk-top flood surveys? AFCA has said that site visits are far preferable.

With respect, this question appears to be based on a misunderstanding of comments made when Allianz appeared before the Committee. Allianz does not rely on desk-top flood analysis. For the 2022 floods, Allianz obtained over 2,000 individual property hydrology assessments which required site assessments. For CAT 221, Allianz worked with AFCA to obtain agreement to obtain area-wide hydrology reports for Lismore, Casino, Broadwater, Woodburn and Mullumbimby to expedite the claims process for over 1,000 customers. However, customers still had the option to have an individual property hydrology assessment undertaken, and most customers elected to have this done. Even for area-wide hydrology assessments, hydrologists were required to conduct area site visits.

Part 2 – Additional Questions for All Insurers

Cash settlements

1. What is the proportion of home building claims you have settled with:
 - a. A cash settlement (min \$50,000) in each year in the past 10 years?
 - b. A partial cash settlement (min \$50,000) in each year in the past 10 years?

	Cash settlement	Partial cash settlement
2014	15%	32%
2015	11%	33%
2016	11%	37%
2017	12%	38%
2018	9%	48%
2019	13%	41%
2020	16%	40%
2021	16%	52%
2022	19%	52%
2023	29%	51%

The data in the above table is for home building claims exceeding \$50,000. For many claims, even where Allianz manages the repair, there is some component of the claim where a cash payment is made including payments for emergency accommodation or addressing urgent financial need, and this is reflected in the data under the “partial cash settlement” column. Data has been categorised according to the year in which the first cash payment was made, and not by the year of loss. For each year, the remaining proportion of claims not reflected in the table relates to claims that were settled by way of repair only (ie no cash payments were made directly to claimants).

When comparing cash settlement data between insurers, the Committee should take into account the different flood cover home insurance products in the market. For example, unlike most other insurers, Allianz currently offers optional cover for damage caused by ‘riverine’ flood (ie in accordance with the Standard Definition), whereas most insurers’ home insurance products cover flood as standard. Allianz’s home insurance product, however, provides cover as standard for damage caused by rainwater runoff. As a result, Allianz often provides a cash settlement to a claimant whose property has been partially inundated by rainwater runoff, before inundation from riverine flooding, for which they aren’t covered because they opted out of flood cover. In these instances, a cash settlement is the only option as the customer is not fully covered for the damage incurred. As a result, all things equal, Allianz may have a higher proportion of cash settlements for flood events compared to insurers who provide flood cover as standard, or whose home insurance product’s optional flood cover encompasses both riverine and rainwater runoff flooding.

This is reflected in the relatively higher proportion of full and partial cash settlements in the last few years. We note that more than half of the full cash settlements captured in the data for 2023 were for claims lodged in 2022, including the four flood events that year.

2. In what percentage of your cash settlements, in relation to the 2022 flood-related claims, did customers return saying the amount of money was inadequate to cover the required work? In what percentage of these cases did you agree to increase the cash settlement?

As noted in our response to Question 1, Part 1, Allianz reopened 523 claims to make additional cash payments

to customers who had already received cash payments. We reviewed a sample of these claim files and found around 17% of these reopened claims were in relation to the customer indicating the initial cash payment was insufficient. More commonly, the reason for Allianz making additional payments was that the scope of work had changed because more damage was subsequently identified.

Claim denials

3. What are you doing and what have you done to improve the quality of the 'expert' reports on which you rely to deny or partially deny claims?

Allianz has significantly invested in its oversight of third parties, including the introduction of a third-party supplier management framework. This framework governs how claims service suppliers are selected, onboarded and monitored, as well as how incidents and issues are escalated. A digital Supplier Governance Platform enables Allianz to track the workflow for each service supplier, customer complaints and other performance metrics. A dedicated team within Allianz is responsible for the oversight of our external claims provider network. For our largest service suppliers, including external loss assessors, we meet monthly to discuss performance alongside any identified areas of concern and identified opportunities for improvement.

Specifically in relation to expert reports, we continue to reinforce to claims staff the importance of rigorous scrutiny of the content of reports to ensure that they provide an appropriate basis to support claims decisions.

Third-party service providers

4. Describe, in detail, the nature of your arrangements with your third-party service providers. For example:

- a. If contracted, what is the nature of the contract?
- b. Can they work for other insurers as well?
- c. Are they paid retainers?

The nature of our contractual arrangements with a third-party service provider would depend on the type of service provided by the third party. Our governance framework applies a tiering structure to each claim service provider, applying the most rigorous onboarding, ongoing monitoring and contractual management arrangements to service providers we consider require the most governance (for example, because we have given the supplier authority to make decisions on some aspects of claims). For these service providers, contractual arrangements would cover a comprehensive range of matters to enable Allianz to maintain ongoing monitoring of the provider's compliance with legal and regulatory obligations and extensive reporting against Key Performance Indicators (**KPIs**). For all service providers, at a minimum, Allianz would require appropriate reporting of incidents and customer complaints.

Allianz does not impose arrangements on any provider prohibiting them from working for other insurers or pay retainers to any provider.

5. How many assessors (damage/building/cost) do you employ directly, i.e. full-time and part-time? Please provide these numbers for all years since 2019.

The number of individual full time equivalent (**FTE**) assessors employed directly by Allianz to assess property claims is provided in the table below. These figures reflect a decision to transition our assessing model away from a primary reliance on third-party loss assessors in favour of a greater use of internal assessors, specifically in response to the 2022 floods.

Year	FTE Internal Assessors
2019	16
2020	19
2021	21
2022	37

2023	50
2024	112

6. Please provide the number of employed vs contracted assessors for each year since 2019.

Allianz does not contract individual external assessors to assess claims. In addition to individual assessors employed directly by Allianz (as outlined in our response to Question 5, Part 2 above), we also have four large loss assessing firms on our panel (Crawford, Sedgwick, ANA Chartered Loss Adjusters and YDR) who we engage to provide loss assessing services as required. We have engaged all four firms since 2019. Between 2021 and 2023, Allianz also used six other loss assessing firms (MK3, Johns Lyng Group, AJ Grant Group, Pattersons Build Group, Townsend Building Services and Lynch Scott) previously engaged by Westpac following Allianz's acquisition of their general insurance property portfolio.

Transparency

7. Do you always provide external experts' reports to customers when asked, as you are obliged to under the General Insurance (GI) Code?

Yes, Allianz provides external experts' reports to customers when asked, as required by the GI Code. Where Allianz relies on an expert report to deny or partially deny a claim, we also provide a copy of the report without the customer having to ask for it.

8. Do you provide all information related to a claim decision if a customer requests it? If not, why not?

As required by the GI Code, where Allianz has denied or partially denied a claim, Allianz provides information relied on when assessing the claim to customers. In practice, Allianz would provide such information if requested by a customer, regardless of whether Allianz had made a decision to deny or partially deny a claim.

9. Consumer groups want insurance companies to CC the customer in on emails between their insurer and contracted third parties. Would you be prepared to do this? If not, why not?

Allianz is of the view that copying customers in on all email correspondence between insurers and contracted third parties would not result in a positive customer experience. We understand the desire to ensure the claims process is as transparent as possible, however, we would caution against providing information without careful consideration about whether the information would actually inform customer decision-making. In our experience, overwhelming customers with too much information is likely to confuse rather than inform them.

Through a customer's claims journey, particularly for complex property damage claims, there could be a large number of correspondence between Allianz and a range of third party providers, including external loss assessors, builders, flooring specialists, experts such as hydrologists and engineers, restoration specialists, content providers and temporary accommodation providers. Most of the vast amount of correspondence is unlikely to inform customer decision-making. Importantly, email correspondence would only capture a portion of communications, and would exclude for example information provided by suppliers to Allianz through our claims management portal nor would it capture information relayed verbally between insurers and providers.

10. Do you record all information relating to a claim, whether assessment reports, case notes, or details of communications with customers, on one site or platform? If not, why not?

Allianz currently operates two main systems to capture information relevant to a claim. Our claims management system is used to capture information about the customer's claim (including assessment reports, case notes and file notes containing details of communication with customers) and a separate complaints handling system stores information about any complaints made by the customer (which includes all complaints made by customers, not just complaints about claims).

11. If a case manager is away, can another staff member quickly and easily access all information relating to a customer's claim should the customer seek information?

All claims staff would have access to our claims and complaints data systems to enable a claims consultant who is not the assigned claims manager to assist a customer where required.

12. Would it be a good idea for customers to be given, when they buy a policy or renew it, an abridged form of the GI Code of Practice, so they know what is expected of insurers with regard to claims handling and disputes?

Allianz would be open to exploring any benefits an abridged version of the GI Code would have to aid consumer understanding about the claims and complaints process. From our experience, it is important that the provision of information is of sufficient proximity to any customer decision-making in order for it to be useful. Rather than providing additional information about the GI Code at the purchasing/renewing point of the policy lifecycle, it is likely that information about claims handling would be more effective when provided at the point that a customer makes a claim.

Identification of vulnerability

13. Given the significant under-identification of vulnerable claimants, should consumers be asked to nominate/identify any vulnerabilities when they buy or renew policies? (i.e., tick a category, or provide details.)

Allianz recognises that all customers may be vulnerable at different points in their lives and may fall in and out of vulnerability over time. This is particularly relevant in the context of natural catastrophes, which may exacerbate or create vulnerability.

From our experience, it is unlikely that many customers would self-identify as vulnerable if we were to seek to collect this information when they buy or renew policies. Assessing customer vulnerability is sometimes a subjective process, and many customers (who may meet our criteria for vulnerability) may not see themselves as vulnerable or would want to be identified as vulnerable.

'Stormchasers'

14. Regarding 'storm-chasers', those who approach people following a natural disaster offering to manage their insurance claim for a fee:
- How prevalent are such storm-chasers?
 - Do they encourage policyholders to opt for cash settlements?
 - Should these people be regulated?

As this is an industry-wide issue, the below answer has been provided by the Insurance Council of Australia (ICA).

Disaster chasers typically offer services to disaster affected property owners ranging from repair and assessment to end-to-end claims management. Disaster chasers have been consistently present and highly active during the last five years, with the first organised examples appearing around five years before that. The ICA estimates the current number of claims under the management of disaster chasers to be in the several thousands based on market intelligence and outstanding claims portfolios.

ICA's members have reported instances of disaster chasers approaching consumers at their home, including elderly Australians or those from culturally and linguistically diverse backgrounds. The ICA has generally issued alerts to consumers and media about disaster chasers following declared Insurance Catastrophes and Significant Events.

Examples of the types of practices observed involving disaster chasers are outlined below.

- Representing they have been sent by an insurer (when they have not) to inspect the customer's home to assess damage and provide a quote.

- Taking advantage of the customer's vulnerability and belief they are dealing with a representative from an insurer, including by asking customers to sign a blank consent form or entering into a contract with the disaster chaser which is unlikely to include a cooling-off period, and on terms that might be unfavourable to the customer.
- Examples of unfavourable terms include the customer having to pay the disaster chaser a percentage of the value of repairs if the customer receives a cash settlement payment from the general insurer or uses the disaster chaser's preferred repairer (also requiring a cash settlement). This percentage can be up to 20% or equivalent to \$20,000 and can leave the consumer with insufficient funds to undertake the necessary repairs or owing an amount to the disaster chaser².
- Where a customer has given written authorisation to the disaster chaser, the actions taken by disaster chasers might prejudice a customer's rights under the policy terms and conditions in the general insurer's Product Disclosure Statement (**PDS**). For example, the ICA has been informed of instances where a disaster chaser prevents the general insurer's access to the customer's property, or the disaster chaser has authorised a replacement or rebuild to their associated repairer without the general insurer having an opportunity to assess and authorise the customer's claim.
- If a customer commits to the repair work with the disaster chaser, the customer may not realise they will lose the general insurer's quality of repair guarantee and that any customer complaints about repair defects or issues would need to be progressed through court instead of accessing the free and independent Ombudsman, AFCA.

Disaster chasers are already covered under the auspices of standard consumer protection and financial services laws. The ICA understands some disaster chaser businesses became licensed and regulated by ASIC when claims handling became a financial service. The ICA and insurers continue to bring deleterious disaster chaser examples to the attention of regulators. We are not aware of any regulatory enforcement action being contemplated, however enforcement action under the current regulatory regime may be useful in discouraging this activity.

Complaints process

15. For how long are complaints dealt with by your customer service teams before they are moved (if unresolved) to internal dispute resolution (IDR) teams?

Currently, Allianz does not have time-based criteria in its escalation process to move unresolved complaints from the frontline claims team to the dispute resolution team. The objective for our frontline claims consultants is to seek to have complaints resolved as quickly as possible and to exhaust all possible avenues to resolve a complaint directly. We will shortly be making changes to our complaints management process whereby all complaints which frontline staff have been unable to resolve will automatically be escalated to our dispute resolution team after five days.

16. For how long are complaints managed by IDR teams before customers are advised that they can take their case to AFCA?

Customers are advised early in the complaints process about the ability to make a complaint to AFCA. Where a complaint is not resolved within five days, Allianz writes to the customer to acknowledge their complaint and to provide information about our IDR process as well as the availability of the AFCA process. Similar communication about AFCA is provided if the complaint is further escalated to our dispute resolution team and when our IDR response is provided.

Post-flood clean-ups

17. Consumer and legal-rights advocates have told the inquiry that many consumers were informed by their insurer that they could not begin a clean-up until an assessor inspected the damage. Yet people often waited weeks for

² Note that (as per part b of the question), either option above will involve the disaster chaser encouraging the customer to opt for a cash settlement.

an assessor to visit, which resulted in more damage and more stress. They say that this response is wrong and unfair. What is your policy with regard to accepting photographic/video evidence of damage where there are delays in damage assessments?

For the 2022 floods, Allianz provided guidance to all claims consultants that customers should be advised to begin clean-up and remove contents if they were willing and able to undertake this task. We recognised that, given the volume of claims, particularly following CAT 221, there was likely to be a delay with having an assessor inspect damage. Customers were encouraged to provide photographic/video evidence where possible to fast-track progression of their claim.

18. If you don't accept such evidence, why not? In what circumstances would you accept it?

Allianz always accepts photographic/videographic evidence.

19. In what percentage of your claims arising from the 2022 floods did you accept photographic/video evidence of damage?

Records of photographic/videographic evidence provided by customers are contained in file notes within our systems, and extracting this data would require an extensive manual review process for each individual claim.

20. Please complete the attached spreadsheet (Flood insurance – additional data, March 2024.xlsx) of additional data requests, covering:

- a. Flood-related claims categories
- b. Complaint numbers
- c. Number and percentage of claims initially denied or partially denied
- d. Complaints to IDR, and IDR decisions
- e. Referral to the Australian Financial Complaints Authority (AFCA)
- f. Decisions at AFCA
- g. Main sources of disputes referred to AFCA
- h. Claims-handling staff numbers
- i. IDR staff numbers

See attached completed spreadsheet.

21. Please provide the average cost of a hydrology report for each of the 2022 flood events (i.e. for CAT 221, SE 222, CAT 223 and CAT 224 separately).

	Average cost of hydrology reports
CAT 221	\$5,255
SE 222	\$6,033
CAT 223	\$5,149
SE 224	\$6,232