



30 April 2024

Jeff Norris
Committee Secretary
House of Representatives Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Via Email: floodinsurance.reps@aph.gov.au

Dear Mr Norris

Flood insurance inquiry: Additional questions

I refer to your letter dated 19 March 2024.

Please see, enclosed with this letter, Auto & General's responses to the:

- 8 follow-up questions posed by the Committee to Auto & General (at Part A);
- 20 follow-up questions posed by the Committee to all insurers (at Part B); and
- Flood Insurance - Additional Data Submission (referenced in Response 20).

Please do not hesitate to contact me if you would like to discuss any aspect of Auto & General's responses or if we can be of any further assistance to the Committee.

Yours sincerely,

Mr Ram Kangatharan
Group Managing Director and Chief Executive Officer, Asia Pacific
Auto & General Insurance Company Limited

Part A - Flood insurance inquiry: Additional questions for Auto & General

In your submission you call for 'programs to educate the community about how to maintain properties in good condition and increased awareness about the steps that policyholders can take to mitigate damage or loss to their property from weather events'.

1 Do you advise customers when they buy or renew policies about the level of maintenance you expect, and what they can do to mitigate damage or loss to their property from weather events?

1 A&G provides information to its customers, in its product disclosure statements (PDS), on the level of maintenance expected and what customers can do to mitigate damage or loss to their property from weather events.

2 A&G informs its customers that, as a condition of their cover, they should keep their home, contents, and personal effects in "good condition". A&G provides the following guidance on what good condition means:

"If you're looking around the house and thinking 'I really should fix this or that', it's important to fix it now.

If you haven't fully fixed any faults or damage to your home or contents that you should have reasonably been aware of, damage from an insured event could be worse than if you had fixed it. This means that if your home is not in good condition at the time of the loss, it may affect your cover.

Good condition means your insured home and contents have no defects or faults that pose a risk to what is covered under your policy. Good condition includes but is not limited to the home having:

- *No leaks, holes, damage, rust, or wood rot in the roof, gutters, windows, floors, fences, or other parts of your home*
- *No damage from or infestation of termites, ants, vermin, or other creatures*
- *A sound and solid structure with no damage to foundations, walls, steps, flooring, ceilings, gates, and fences*
- *No broken or boarded-up windows."*

3 Customers are required to confirm that their home, contents and/or personal effects are in good condition prior to purchasing insurance.

4 A&G provides the following guidance to its customers on the steps they should take in a claim situation:

"What you need to do straightaway ...

Make sure you and your property are safe

Take care to prevent more loss, damage or liability"

5 A&G also asks its customers to contact A&G "before arranging repairs or paying anyone to help, unless necessary to prevent further loss".

6 Customers are provided further guidance specifically relevant to their home, contents and/or personal effects during the claims handling process.

7 Auto & General continues to seek improvement opportunities to provide further information to customers to help them maintain their property.

2 Of your claims that went to AFCA, what number and percentage were related to claim denials or partial claim denials due to existing defects or inadequate maintenance?

- 8 71 of the 267 claims (27%) that went to AFCA were related to claim denials or partial claim denials.
- 9 28 of those 71 claims (39%) related to claim denials or partial claim denials due to existing defects or inadequate maintenance.
- 10 In total, 28 of the 267 claims (10%) that went to AFCA were related to claim denials or partial claim denials due to existing defects or inadequate maintenance.

3 Did AFCA overturn any of your decisions in these cases on the grounds that the link between the defect and the claimed damage was not soundly or reasonably established?

- 11 1 claim was overturned by AFCA at the preliminary assessment stage on that basis. There is another unresolved claim before AFCA where this is potentially in issue.

Pages 44–45 of your submission say: 'From 31 January 2023, A&G added a new question as part of the customer's insurance quote journey, related to the elevation of their home. From 21 August 2023, A&G has used this information to calculate and reduce the Cyclone Reinsurance Pool flood component of the customer's premium, where applicable.'

4 Has this question led to a reduction, or reductions, in the CRP component of new, or renewed premiums? If so, how many?

- 12 Yes, for customers who select optional flood cover. The CRP component of new, or renewed premiums has been discounted for approximately 7,500 customers, in line with the CRP rates issued by the Australian Reinsurance Pool Corporation (ARPC). In the absence of other changes (for example, sum insured indexation increases), these policies would have received a reduction in the CRP component.

Page 51 of your submission says that 'AFCA's EDR processes and their associated costs' are ultimately paid for by higher premiums.

5 This suggests you feel no need to reduce the number of cases – and the associated stress for complainants – going to AFCA. Is this the case? If not, why not?

- 13 A&G strives to reduce the number of cases going to AFCA. As described further in 2.1.1 and 9.2.1 of A&G's submission, A&G's policies, procedures and culture are geared towards resolving customer issues at the earliest possible time. Since the 2022 weather events, we have continued to strengthen both the capacity and capability of our internal dispute resolution teams in order to minimise the flow of cases to AFCA wherever possible.

- 14 A&G recognises AFCA's impartial and independent role in assisting consumers to reach agreements with financial firms and resolve their complaints. Reflecting this important role within a healthy financial services industry, A&G is committed to continuing to work with AFCA to find enhanced effectiveness and efficiency in dispute resolution, with the overall objective of this function to not place a greater insurance affordability burden on consumers.

6 What would incentivise you to reduce the number of complaints going to AFCA?

- 15 As discussed above, A&G strives to reduce the number of cases going to AFCA. Resolving customer issues at the earliest possible time, without recourse to AFCA, reduces costs to insurers, reduces stress to customers and helps contribute to A&G delivering affordable and dependable insurance to all Australians.
- 16 A&G is continuously looking at ways to reduce costs to enable it to deliver its mission of providing affordable and dependable insurance to all Australians. Part of this involves A&G seeking to resolve customer issues at the earliest possible time.
- 17 However, not all customer issues can be resolved without recourse to AFCA. In some instances, it is necessary for issues to be resolved via the impartial and independent dispute resolution role offered by AFCA. AFCA plays an important role in ensuring that policies are fairly and correctly applied. Recognising this critical role that AFCA plays, A&G considers that there are ways to make AFCA's processes more cost effective as discussed in 9.3.1 of A&G's submission.

7 Are the costs you incur in the 'untimely' AFCA process not a sufficient incentive to resolve more complaints internally or very early in the EDR process?

- 18 Please see our responses to question 6 above.

You previously provided the average cost of a hydrology report for each of the 2022 flood events (in your response to question 6.3.1).

8 Please provide the average hydrology report cost aggregated for all four events.

- 19 \$3,469.25.

Part B - Flood insurance inquiry: Additional questions for all insurers

Cash settlements

- 1 What is the proportion of house and/or contents 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?**

- 1 The proportion of home building claims where the building claim was settled with a cash settlement payment of at least \$50,000, and the proportion of home building claims where the building claim was settled with a partial cash settlement payment of at least \$50,000, is set out in the table below.

| Year | % cash settlement | % partial cash settlement |
|-------------------|-------------------|---------------------------|
| 2016 ¹ | 0.1 | 0.4 |
| 2017 | 0.1 | 0.7 |
| 2018 | 0.2 | 0.8 |
| 2019 | 0.3 | 1.0 |
| 2020 | 1.0 | 1.4 |
| 2021 | 1.0 | 1.2 |
| 2022 | 1.2 | 1.7 |
| 2023 | 1.5 | 2.3 |
| 2024 ² | 1.4 | 1.9 |

Note: the \$50,000 threshold was advised to A&G by ICA, following direct discussions with the Committee.

- 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?**

- 2 A&G does not capture this data. Our standard process across all claims is that customers are welcome to reopen the claim if they feel the settlement is insufficient.

¹ Earliest available data is 2016, which is a partial year with data available from July 2016 onwards.

² As at 16 April 2024.

- 3 When we issue a cash settlement, we explain the variation process including setting expectations around the information required should this occur whilst the customer is conducting repairs, such as providing their own quote.
- 4 We ensure that any cash settlements we offer the customer when we cannot complete the work are based on actionable quotes (provided by customers) and include all costs that A&G would pay if we had actioned the repairs ourselves (for example, builders margin, catastrophe levies, GST, project management fees and permit fees).
- 5 When we are able to complete repairs but a customer opts for a cash settlement, we issue the customer with a Cash Settlement Fact Sheet (CSFS) to ensure they are informed on their decision and remind them they can seek financial and legal advice.
- 6 Acknowledging that there is sometimes financial risk when large sums of money are paid to a customer, if the settlement is over \$100k we seek signoff from their mortgaging bank (where applicable) as to whether the settlement is paid to their mortgage or to their private accounts.

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?

- 7 A&G is continuously seeking to improve the quality of the expert reports which A&G relies on in considering customers' claims. Recent examples include:
 - (a) We have updated the template we use when engaging hydrologists to make it clearer what information is required to make a claim or policy decision. This was partly informed by conversations held with the industry and AFCA to ensure that our reporting would have sufficient, reliable information.
 - (b) We have also recently rewritten the templates used by our internal assessors and panel builders to make it clearer what information is required to make a claim or policy decision.

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?**

- 8 A&G's third-party service providers across its Home Supply Chain include Property Repairers (Builders), Glaziers, Tree Lopping Providers, Restorers, Building Consultants, Structural Engineers, Hygienists, Hydrologists & Contents Validation and Contents Supply providers.
- 9 The nature of A&G's contracts with its third-party service providers are non-exclusive Service Agreements.
- 10 A&G does not pay retainers to its third-party services providers. They are remunerated per completed service request activity (for example, submission of a report or completion of a repair).

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.

11 Please refer to the table below.

| Year (FY) | Number (FTE) |
|-------------------|--------------|
| 2019 | 12 |
| 2020 | 16 |
| 2021 | 16 |
| 2022 | 27 |
| 2023 | 41 |
| 2024 ³ | 70 |

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

12 A&G does not use contracted assessors. The number of directly employed assessors is stated in the response to question 5 above.

Transparency

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

13 Yes.

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

14 Yes.

³ As of February 2024.

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?

15 A&G communicates with its third-party services providers by a tailored communication platform, not email. This platform allows, among other things, numerous A&G staff members to access that information where required to ensure the timely progress of the customer's claim. The platform does not permit copying the customer.

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?

16 Yes.

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?

17 Yes.

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?

18 Yes.

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.)

19 A&G places considerable focus on identifying, and supporting, vulnerable customers – particularly so since CAT 221. These steps are described in further detail in 3.1 of A&G's submission.

20 A&G is continuously looking at ways to improve in this area and, recently, introduced a pro-active prompt in its claims management processes requiring the person registering the claim to pause and consider whether the person may be a vulnerable customer.

21 A&G is open to exploring options for customers to identify vulnerabilities when in contact with us, including at the time of buying or renewing policies. A&G notes that a customer's vulnerable status may evolve during the time they are with A&G – for example, a customer may not necessarily be vulnerable at the time they buy or renew a policy but may become vulnerable at claims time (including due to the circumstances giving rise to the claim). The policies and processes that A&G has in place, as described above, are aimed at ensuring these vulnerable customers are also identified.

'Stormchasers'

14 Regarding 'storm-chasers', those who approach people following a natural disaster offering to manage their insurance claim for a fee:

- (a) How prevalent are such storm-chasers?**
- (b) Do they encourage policyholders to opt for cash settlements?**
- (c) Should these people be regulated?**

- 22 Disaster chasers typically offer services to disaster affected property owners ranging from repair and assessment to end-to-end claims management.
- 23 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.
- 24 The Insurance Council of Australia (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.
- 25 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.
- 26 The ICA has generally issued alerts to consumers and media about disaster chasers following declared Insurance Catastrophes and Significant Events.
- 27 Examples of the types of practices observed involving disaster chasers are outlined below.
 - (a) Representing that they have been sent by an insurer (when they have not) to inspect the customer's home, assess damage and provide a quote.
 - (b) 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.
 - (i) 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 chaser.
 - (A) 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.
 - (c) 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. 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.
 - (d) 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.

- 28 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 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?

- 29 As discussed in 2.1.1 of A&G's submission, A&G seeks to resolve all complaints at the earliest possible time.
- 30 A&G's customer service team (referred to as the 'frontline' team or the 'Level 1' team in A&G's submission) aims to resolve all complaints within 5 business days.
- 31 The Level 1 team can escalate the complaint to A&G's IDR team (referred to as the 'Customer Disputes Resolution' team or the 'Level 2' team in A&G's submission) at any point within those 5 business days, if necessary.
- 32 All complaints not resolved within 5 business days are automatically escalated to the Level 2 team.

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

- 33 Customers are advised in writing that they have the option to take their case to AFCA:
- (a) on Day 1 of the complaint being lodged by A&G customer service teams;
 - (b) on Day 1 of escalation to the A&G Level 2 IDR team (usually Day 6), as part of the escalated complaint acknowledgement correspondence; and
 - (c) in A&G's Final Response Letter.
- 34 In all scenarios, A&G provides the telephone, email and mail contact details for AFCA.

Post-flood clean-ups

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 an assessor to visit, which resulted in more damage and more stress. They say that this response is wrong and unfair.

17 What is your policy with regard to accepting photographic/video evidence of damage where there are delays in damage assessments?

- 35 It is our standard practice to review photographic and video evidence where appropriate and we are unable to attend to collect evidence ourselves in a timely manner, providing that the evidence submitted by the customer clearly supports the event that occurred and the resultant damages.

- 36 All evidence is reviewed against our policy to support the claim with consideration given to circumstances particularly when in relation to a catastrophe.

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

- 37 Not applicable.

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

- 38 We do not capture this data, however in appropriate circumstances A&G actively encourages customers to provide photographic/video evidence of damage in support of a claim. For example, during the 2022 floods, we included the following message to customers when they called in:

"If you have flood affected contents and carpet you can start cleaning your home. Please take pictures or videos of the damage as evidence of your claim.

You are able to remove water or mud damaged items that might pose a health risk such as saturated carpets and soft furnishings.

If the item may be repairable or you are retaining destroyed items for assessment, please store them somewhere safe that does not pose a health risk."

Additional data

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

- 39 Please see the completed spreadsheet provided separately.