



28 February 2024

Dr Daniel Mulino MP
Chair, House of Representatives Standing Committee on Economics
Department of the House of Representatives
PO Box 6021
CANBERRA ACT 2600

By email: floodinsurance.reps@aph.gov.au
economics.reps@aph.gov.au

Dear Dr Mulino MP

I refer to RACQ's attendance at the House of Representatives Standing Committee on Economics – Inquiry into insurers' responses to 2022 major floods public hearing on 9 February 2024. The following are answers to questions RACQ took on notice during this hearing. I hope this information further assists the Committee in its deliberations.

1. Claims Management

1.1. It would be great if we could get some measurables on ways in which we can get some clarity on ways in which you can demonstrate that things have improved? (Dr Mulino)

RACQ conducts post-event reviews after each designated 'CAT' event to reflect and capture learnings to continuously improve our event preparedness and response. As stated during the hearing, following the 'Halloween Hail' event in South East Queensland in 2020 (CAT204), RACQ conducted a rigorous assessment of performance and took action to strengthen our operational response and preparedness to future weather events. We had a particular focus on improving our initial and early stage response, to reduce the time to claim assessment and completion. This placed RACQ in a stronger position to respond to the 2022 flood event.

Table 1 provides a comparative view of RACQ's member performance metrics during the Halloween Hail event in 2020 and the 2022 flood event.

| RACQ Member Outcomes | CAT204 (Hail) | CAT221 (Flood) |
|--|---------------|----------------|
| Claimant satisfaction | 75.4% | 82.2% |
| Net promotor score (NPS) | 41.7 | 58.1 |
| Complaint resolution rate within 14 days | 46.7% | 63.5% |

Table 1: Member performance metrics for CAT204 and CAT221

Table 2 provides RACQ's household closure rate versus the industry average for CAT204 and CAT221 at key milestones. Industry data is provided by the Insurance Council of Australia (ICA).

| Closure Rates | CAT204 (Hail) | | CAT221 (Flood) | |
|---------------|---------------|----------|----------------|----------|
| | RACQ | Industry | RACQ | Industry |
| 3 months | 22.5% | 21.9% | 10.9% | 9.1% |
| 6 months | 41.1% | 41.5% | 41.0% | 39.5% |
| 9 months | 64.0% | 60.2% | 70.4% | 66.5% |
| 12 months | 83.5% | 81.9% | 87.2% | 82.8% |

Table 2: RACQ Household closure rates versus industry for CAT204 and CAT221

RACQ has performed better than the industry average in terms of speed to closure for our members' claims across both our motor and household products for recent events.

Our key focus areas for improvement of supply chain management, member (claimant) service, and event planning are detailed below.

Fundamental changes to managing our supply chain

- **Greater insourcing of property assessments:** Approximately 90% of on-site assessments during CAT221 were completed by RACQ assessors.
- **Supply chain management:** Investment in human and technology resources, strengthened governance and quality assurance frameworks, supported by a material uplift in management information and reporting. We now measure speed of response to make safe requests and have more granular performance metrics related to claim timeframes. This is reflected in improvements in closure rates versus industry.
- **System integration:** Post CAT221 and in July 2022, we further invested in system integration between our core claims system and repairer platforms to improve communication between all parties. We also enhanced online lodgement including automated bookings for motor hail assessments with our service provider at the point of lodgement. These changes helped deliver faster claims approvals and better communication back to members (claimants) regarding the current status of their claim in the events that followed including recent cyclones and the Gold Coast storms at Christmas.

Member (claimant) service

- **Group LOBO (lodge on behalf of):** Launched in December 2021, RACQ can now leverage its non-claims staff across the Group to lodge claims using an internal version of our online lodgement platform. This initiative is in response to observing many members who are reluctant to complete an online claim form and prefer to talk to someone at time of lodgement. It significantly speeds up the lodgement phase, reduces telephone wait times and allows claims staff to focus on more complex and vulnerable claims management. Overall, 70% of CAT221 claims were lodged via the online form and we estimate that nearly half of these were lodged using the LOBO initiative.
- **Vulnerability:** A formal 'high risk' claims process was introduced shortly after CAT204 (Halloween Hail). This included an overview by senior RACQ leaders from various parts of the organisation through fortnightly meetings and appropriate monitoring of a high-risk register report.
- **Complaint Management:** RACQ integrated its customer relationship management (CRM) platform with core systems in September 2022 to deliver improvements in complaint resolution and handling timeframes. Our complaint resolution training was overhauled and

delivered to all claims staff in 2023 as an annual course, further improving our handling of complaints. For the December 2023 quarter, 44% of all claims related complaints were resolved within 24 hours and 78% were resolved within 14 days.

Event planning

- **Resource modelling:** We have increased focus on pre-season recruitment to ensure RACQ is adequately resourced for event season. We also use resource modelling tools to prepare and respond to catastrophes, ensuring we have the right roles in place. To support this, RACQ has strong relationships with recruitment agencies.
- RACQ has a dedicated team which is responsible for planning, testing, and coordinating our event readiness and response execution, and this team plays a key role in the post event reviews. Scenario planning, weather briefings and simulation testing is conducted annually on a range of event types and sizes to test the effectiveness of our plans and modelling.

2. Internal Dispute Resolution (IDR)

2.1. How many staff – you talked about all these staff you got or put on. How many of those are allocated to the IDR process – the internal dispute - and how many have been allocated to the external dispute process? (Mr Neumann)

RACQ's Member Relations team consists of 7 FTE staff dedicated to EDR and 9 FTE staff dedicated to IDR. In addition, the claims division has two Escalated Management Teams (EMT) which assist in the management and resolution of complaints prior to escalating to IDR. EMT is staffed with 18 substantive FTE staff but will scale up as required during catastrophes, as does the IDR team. For example, during CAT221, the IDR/EDR teams scaled up to 27 FTE staff at its peak and EMT increased to 26 FTE.

3. External Dispute Resolution (EDR)

3.1. What is your rate of success at EDR? In a sense that's trying to give a sense of those people that go to EDR, how many is the insurer winning and how many are being overturned? (Dr Mulino)

3.2. What was the most common reason that claims are overturned during the EDR process? (Mr Neumann)

In total, 244 cases were referred to Australian Financial Complaints Authority (AFCA) as of 20 February 2024. These include 53 'preliminary assessments' or 'determination outcomes' by AFCA and 191 other cases that were referred to AFCA, however, resolved by RACQ, discontinued, or remain open. See terms defined in Appendix 1.

Of the 53 cases that progressed to a formal review and outcome by AFCA, 17% of cases were resolved in favour of the member (complainant) and 83% in RACQ's favour.

Table 3 represents the outcomes of cases which progressed to a 'preliminary assessment', or a binding 'determination' issued by AFCA.

| Preliminary Assessment and Determination Outcomes | | |
|---|-----------|--------|
| In Favour of Complainant | 9 | 16.98% |
| In Favour of RACQ | 44 | 83.02% |
| Total | 53 | |

Table 3: AFCA preliminary assessment and determination outcomes.

The majority of the 9 overturned cases were at the preliminary assessment stage. These cases largely related to declined claims (either partial or full), scope disputes or where delays or the dispute itself led to further damage incurred by the claimant and compensation was awarded by AFCA.

The remaining 191 cases were instances where AFCA did not issue a preliminary assessment or determination, were either resolved between RACQ and the complainant, were discontinued or remain open. There are a number of cases where the complainant escalates their complaint directly to AFCA, who then refer them back to RACQ for an opportunity to resolve the complaint in the first instance. This can provide mutual benefits to both RACQ and its members, as well as enable AFCA to focus on those complaints the parties have not had success in finalising.

Table 4 provides a breakdown of the 191 cases (out of 244) that were referred to AFCA for CAT221.

| All Other AFCA Referral Outcomes | | |
|---|------------|-------|
| Resolved by RACQ with no change in decision | 78 | 40.9% |
| Resolved by RACQ with full acceptance of disputed item | 40 | 20.9% |
| Resolved by RACQ with a partial acceptance of disputed item | 24 | 12.6% |
| Discontinued or outside of rules | 32 | 16.7% |
| Currently open at AFCA | 17 | 8.9% |
| Total | 191 | |

Table 4: EDR complaints not determined by AFCA.

The 40 cases resolved by RACQ with full acceptance consisted of the following:

- the full claim or a portion of the claim was accepted by RACQ (20 cases),
- a customer service failure had been remedied, for example acknowledged a repair delay or a service not meeting member expectations (12 cases), or
- amendments to a scope of works or the amount of settlement offered (8 cases).

The 24 cases resolved by RACQ with a partial acceptance consisted of the following:

- a negotiated resolution to accept a portion of the disputed item (10 cases),
- a minor service-based remedy (9 cases) where, for example an excess is waived, or
- a partial adjustment to a scope of works (5 cases).

RACQ may also resolve a complaint by acknowledging the failure or contributing to a loss which the product coverage does not respond to. For example, RACQ may provide an ex-gratia payment to resolve the complaint, which may consider our member's individual circumstances.

We may also resolve a complaint in the member's favour where additional information has been provided to clarify a position; a claim has since progressed; and/or the repair process has commenced and is meeting the member's expectations to resolve the initial complaint.

3.3. Once you were resolving cases, did you, for instance, decide to change your practice? Did you use the decision of AFCA as a precedent to then accept cases in future? How did RACQ change as a result of that decision making? (Mr Neumann)

RACQ considers the outcomes of all AFCA cases, and all determinations are shared with our Insurance leadership team to consider learnings, possible product changes or enhancements, or any changes to claims handling processes.

For example, these processes have resulted in changes to RACQ's household product where, following an AFCA review, RACQ issued a supplementary product disclosure statement (SPDS) in November 2023 to better articulate the policy coverage under our accidental damage benefit.

4. Cash Settlements

4.1. Setting aside cash settlement for food spoilage, how big a role have they played in recent floods that we're examining, for your customers? (Ms Templeman)

RACQ's standard approach and preference is to repair homes through our quality-assured building panel, which provides members with a lifetime guarantee on the workmanship of the repairs. While this is our preference, we do not force members into having repairs completed by our service providers should the member prefer or request a cash settlement.

In some circumstances, a cash settlement may be the most suitable method, for example where the property has underlying issues that would compromise the success or warranty of the insurance repairs, or where a cash settlement provides our member with flexible options, for example, if completing renovations.

Where RACQ chooses to cash settle, the amount paid is the cost to reasonably complete the repairs or alternatively, includes an uplift to the settlement to compensate for the transfer of risk to the member in managing the repairs themselves.

During CAT221, RACQ provided cash settlements for 50.1% of building claims. The vast majority (90%) of both our building claims and cash settlements were for claims under \$20,000 and within this number, the majority are for amounts under \$5,000. We had 44 members with very large claims (\$100,000 and over) opting to cash settle.

Often, those seeking a cash settlement for large claims do so because they decide to take the opportunity presented by the damage incurred to undertake a fuller program of work on their property, so the claim funds form part of the total cost of the project, or because they have relationships (including potentially their own vocation) with the trade(s) required to undertake the work.

Members (claimants) are provided with a Cash Settlement Fact Sheet (CSFS - see Appendix 2) to inform them of their rights and the opportunity to review the terms of the cash settlement. The CSFS states the claimant *"should consider obtaining financial or legal advice before agreeing to the cash settlement offer to ensure it best suits your needs"* and includes information on how to raise a complaint if they are not satisfied. The member must respond either electronically or verbally to accept the offer.

RACQ recognises the additional risk of homeowners managing complex repairs when cash settled and whilst this is often at our member's request, we acknowledge this is an opportunity to improve how we support vulnerable members who have received a cash settlement even after the claim has been finalised.

Where we identify that our member has engaged a third-party representative to assess, manage and repair the damage under their claim, RACQ educates our members on the risks involved when requesting a cash settlement, informing them of the risks of entering into unknown contracts or works completed by unlicensed builders. During catastrophe events, where this risk increases, RACQ also provides educational awareness of the risks of unlicensed builders through media activity and social media platforms.

5. Training for Vulnerability

5.1. In relation to training provided, would you be able to send the committee examples of those modules and materials? (Mr Gee)

RACQ utilises three tiers of competency and specialisation to support vulnerable members, which is outlined in Table 5.

| | Tier 1 | Tier 2 | Tier 3 |
|----------|--|---|--|
| Role | All claims, retail, and contact centre staff. | Dedicated specialist vulnerability team (Hypercare) and all Team Managers and Managers. | Two designated Member Relations consultants (Vulnerability Specialist). |
| Purpose | Identify, record, and assist members experiencing vulnerability by being attentive, flexible, and responsive. May refer to Tier 2 staff. | Deal with more complex scenarios including referrals for additional support. | Manage more complex, sensitive or multi-product holding members, or situations beyond the skillset of Tier 2 staff. |
| Training | Customers Experiencing Vulnerabilities e-learning course. General Insurer Code of Practice (GICOP) e-learning module by Australia & New Zealand Institute of Insurance & Finance (ANZIIF) | All Tier 1 training plus: Additional ANZIIF e-learning module. Vulnerability training by external provider, The Workshop Lab. An extensive two-day mental health training course by external provider Mental Health First Aid Australia. | Tier 3 staff are Member Relations staff who complete all Tier 2 training and are also trained in dispute resolution. |

Table 5: RACQ's three-tiered competency model for managing vulnerability.

RACQ provides the following specific vulnerability training courses to staff, copies of the training modules are provided in appendices 3 and 4.

Customers Experiencing Vulnerabilities

A one-hour e-learning module designed by RACQ, which is mandatory to complete annually by all insurance staff (including managers) and all insurance servicing staff across RACQ (all tiers). Approximately 2,135 staff completed this course in 2023.

This course enables staff to identify and assist members who are experiencing vulnerability. The course is intended to provide an understanding of the types of vulnerabilities and provide information on available support services. The course is not intended for frontline staff to diagnose a vulnerability but rather to have a better understanding of what our members are going through and where to refer members internally or externally for additional professional support.

A copy of this e-learning content is provided in Appendix 3.

ANZIIF General Insurance Code of Practice (GICOP)

A 3-hour e-learning module developed by ANZIIF, which is mandatory to complete annually by all personal insurance staff and leaders across all tiers. In 2023, 1,080 staff completed this training.

This e-learning provides an overview of the GICOP and explains obligations under the Code. It provides the knowledge and skills needed to assist members experiencing vulnerability, which is the key focus of the Code. Claims and contact centre staff complete additional modules within this training.

An additional module "leader guide for supporting conversations with staff" is required to be completed by all Tier 2 staff.

This training content is owned by the Australia and New Zealand Institute of Insurance and Finance (ANZIIF) and RACQ is not permitted to provide a copy of this training content. However, ANZIIF has offered to assist the Committee by arranging a demonstration of the content.

The Workshop Lab (Vulnerability Training)

A 2-hour face-to-face or virtual training course facilitated by the Workshop Lab for Tiers 2 and 3 staff across RACQ.

In August 2023, RACQ engaged the Workshop Lab to provide specific training to Tier 2, Tier 3 and nominated Tier 1 frontline staff in vulnerability-related matters to provide staff with the necessary skills to interact with vulnerable people effectively and safely. The Workshop Lab specialises in employee health and wellbeing training.

The course was attended face-to-face or virtually by 608 frontline staff and leaders. A copy of the training content has been provided in Appendix 4a and 4b.

Mental Health First Aid

A 12-hour training course, designed and delivered by Mental Health First Aid Australia.

RACQ engaged Mental Health First Aid Australia to deliver a 12-hour course to all Tier 2 and Tier 3 staff in 2023. This provided further training about the signs and symptoms of common and disabling mental health problems in adults, how to provide initial help, where and how to get professional help, what help has been shown by research to be effective, and how to provide first aid in a crisis situation. Successful completion of an exam provides a Mental Health First Aid qualification and certificate. In 2023, 64 staff attended this training.

This training content is owned by Mental Health First Aid Australia and RACQ is not permitted to provide a copy of their training module.

New Starter Training Presentation

This is a one-hour presentation by RACQ's dedicated vulnerability specialists, which is mandatory for all new claims and contact centre staff being onboarded with RACQ.

RACQ's dedicated Manager of Hypercare Operations (a specialist Tier 2 team within the Claims division) or the Tier 3 vulnerability consultant provides a vulnerability presentation during induction of all new claims and contact centre staff. This introductory presentation covers the importance of identifying vulnerability, and how and when to refer members to the support services available to assist them further. The sessions also include tips on how to have conversations and respond to vulnerable members effectively.

6. Cyclone Reinsurance Pool

6.1. Can you particularise for us, (because I think you have got some very good suggestions in the area of fixing up the cyclone pool), can you come up with some suggestions and put that to us in writing about what you think? (Mr Neumann)

RACQ supports a Cyclone Reinsurance Pool (the Pool) for North Queensland as an effective way to provide some insurance cost relief to people in the absence of any notable large-scale disaster mitigation that has occurred in this highly vulnerable part of Australia. RACQ has raised concerns at various times over the past two years about the way in which the current pool has been designed and implemented. RACQ's key concerns go to operational complexity and the almost certain outcome that premiums would not reduce in line with community expectations.

Please see Appendices 5, 6 and 7 for RACQ's previous submissions on the Pool that were provided in December 2021 and November and March 2022. Other submissions were provided to Treasury during separate consultations such as draft regulations.

RACQ supports bringing forward the planned review of the Pool to 2024, given recent cyclones in the region.

Cyclone Jasper is an important case study for the Pool and in particular the '48-hour rule' which adds complexity and cost. RACQ is expecting the Pool to cover only 10% of home claims, leaving 90% of costs to be borne by insurers directly themselves or through reinsurance arrangements.

RACQ believes the greatest opportunity to achieve maximum benefit to homeowners is to consider four key changes that we have previously advocated, namely:

1. Challenge the principle that the Pool must be budget-neutral and investigate opportunities for government subsidisation of the Pool, or direct subsidisation to homeowners.
2. Expand the Pool to cover all types of floods as flooding has emerged as a more frequent, higher risk, and a significantly more costly peril for Queensland and Australia.
3. Replace the "48-hour claims period" with a 7-day provision, in line with commonly accepted definitions in current reinsurance contracts with the global market (noting that Number Two may make the "48-hour claims period" less of a concern if adopted).
4. Expand the Pool to cover motor insurance because the exclusion of motor has added uncertainty, complexity, and cost to the system.

The Pool is not a "silver bullet" and must sit alongside other measures that reduce risk and the tax burden on insurance.

Future proofing much of coastal Australia to prepare for growing impacts of climate change is also necessary. Significant investment in private and public mitigation and resilience initiatives must be made to achieve sustainable and affordable insurance premiums into the future.

Retrofitting homes to make them more resilient, as well as more public infrastructure such as flood levees are practical initiatives that work.

Northern Australia has benefitted from stronger building standards since the 1980s. Low category cyclones now pose relatively low risk to communities as it relates to wind risk. However, the flooding, from a combination of rain and tidal surge is more typically the driver of cyclone related damage to communities. Building standards need to be better supported by more responsible land use planning and development along our coastline.

Addressing the burden that taxes impose on affordability is also important. Stamp duty and GST add almost 20% to the total premium for Queensland homeowners. Our members who have higher risk properties and higher premiums pay more in taxes and this is unfair. We join with the industry in calling for the removal of stamp duty or at minimum, redirecting this revenue to fund mitigation projects.

In Brisbane, the average premium is currently \$2,062 for an average sum insured of \$573,766; and in North Queensland, the average premium is \$3,624 for an average sum insured of \$386,526. So North Queenslanders are paying about one and half times more premium than Brisbane homeowners.

Because GST and stamp duty are charged as a percentage of premium, this same average North Queensland homeowner is paying is \$302 GST and \$299 stamp duty on their premium while the average Brisbane homeowner is only paying \$172 GST and \$170 stamp duty. The North Queensland homeowner pays 70% more in tax for a sum insured that is 30% lower - much more tax for less asset value insured.

With premiums more or less doubling over the last 6 years, GST and stamp duty revenue to state and federal governments is growing much faster than CPI over the same period. Governments should also focus affordability efforts on this double tax on insurance.

Thank you for the opportunity to further explain RACQ's responses and activities during the 2022 floods. Please feel free to advise us of any further questions or clarifications you might have by contacting Vanessa Fabre, Head of Government Relations, and Policy at

Yours sincerely

David Carter
Managing Director and Group CEO

APPENDIX 1: Definitions of AFCA Preliminary Assessment and Determination

Preliminary Assessment

AFCA may provide a preliminary assessment verbally or in writing. A preliminary assessment includes:

- an overview of the facts of the complaint
- the issues raised in the complaint and AFCA's preliminary assessment
- how AFCA thinks the complaint should be resolved and why
- when the parties must tell AFCA whether they are willing to settle the complaint in line with AFCA's preliminary assessment.

Determination (a binding decision)

A determination is the final stage in AFCA's complaint resolution process. For complaints not relating to superannuation and a regulated superannuation fund, complainants may choose to accept the decision AFCA makes or not. Other than by reference to the courts, it is not possible to appeal a determination.



RACQ Insurance Limited ABN 50 009 704 152

Agent for the RACQ Group

2649 Logan Road, Eight Mile Plains, Qld 4113

PO Box 3004, Logan City, Qld 4114

13 7202 racq.com

Assistance Banking Insurance Lifestyle

Date

cc:18227063

Full name

Address

Claim Details

Claim number

Policy number

Product type

Household Insurance

PDS version

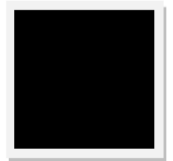
RHHB2 03/21

Home sum insured

\$

Dear

Review settlement offer



Cash Settlement Fact Sheet - Home

The purpose of this Cash Settlement Fact Sheet is to let you know of the options for settlement that are available to you under your policy.

Your options are:

Option A We will pay you the cash settlement of \$.

This amount is made up of:

| | |
|----------------------------|-----------|
| Home | \$ |
| Net cash settlement | \$ |

If you received an emergency payment for your claim you would have received a separate cash settlement fact sheet relating to that payment. We have deducted that emergency payment amount from your total settlement offer above.

Option B Repair, Rebuild and/or Replace, as per our previous discussion with you regarding the available settlement option/s applicable to your claim.

Previous Cash Settlements

When considering this offer, please note that the below cash settlement/s also form part of your home claim:



RACQ Insurance Limited ABN 50 009 704 152

Agent for the RACQ Group

2649 Logan Road, Eight Mile Plains, Qld 4113

PO Box 3004, Logan City, Qld 4114

13 7202 racq.com

Assistance Banking Insurance Lifestyle

| Date | Amount | Status |
|------|--------|--------|
| | \$ | |

Next steps

To advise us of your preferred settlement option please either:

- If you received this offer via email click the 'Review settlement offer' link
- Scan the QR code located on this Cash Settlement Fact Sheet
- Call us on 13 7202. We are available 7am – 7pm Monday to Friday and 8.30am – 5pm on weekends.

You should consider obtaining independent financial or legal advice before agreeing to the cash settlement offer to ensure it best suits your needs.

We're here to help

We aim to provide a high standard of service to all of our customers. However, if you're not happy with the way we managed or settled your claim, then you can make a complaint and ask for the matter to be reviewed. The enclosed Customer Information Sheet provides more details about our internal dispute resolution process.

If you have any questions or need more information, please do not hesitate to contact us.

Regards

Name

Claims Management Officer



Cash Settlement Information Sheet

Why am I receiving this Information Sheet?

We are offering you the option to receive a cash settlement for your insurance claim. This information sheet will support you to understand how cash settlements work, why a cash settlement may be offered, and things to keep in mind about cash settlements.

How cash settlements work

In some circumstances, RACQ may determine that it is appropriate to offer you an amount of money to settle your claim; this is called a 'cash settlement'. We may settle part or all of your insurance claim using a cash settlement. In this instance, RACQ are deciding to pay you an amount of money to settle your insurance claim.

We will explain the basis for the dollar amount of the cash settlement we offer to you.

You are free to get your own quotes to estimate how much it would cost to repair, replace, or rebuild the items/damage accepted under your insurance claim and provide them to us for consideration as part of the cash settlement process.

How decisions are made on cash settlements

We assess the individual circumstances of your claim in accordance with your insurance policy and the Product Disclosure Statement to decide whether and to what value you are entitled to a cash settlement.

Why is a cash settlement being offered to me?

There can be a number of reasons for this including:

- You have directly asked for it
- It is unsafe to repair or rebuild
- The replacement product is no longer available, or
- There are no alternative settlement methods/options available.

What should you keep in mind about cash settlements?

You should ask us questions or seek independent legal or financial advice about whether the cash settlement is a fair and reasonable amount, and whether accepting the cash settlement suits your individual needs and circumstances. A range of agencies who may be able to support you are listed on our website. You can contact us on 13 7202.

If you have a complaint about the cash settlement

If our services don't meet your expectations, it's important we know about it as soon as possible, so we can work with you to resolve the issue. We have a complaints process. You can contact us if you have a complaint about the cash settlement on 1300 851 381. More information about making a complaint is on our website at racq.com/contact-us/feedback-and-complaints including how to access the Australian Financial Complaints Authority if you are unhappy with our response.



Complaints Process Customer Information Sheet

Our complaints process is free and can be accessed through our website, webchat, email, telephone or mail. You may also wish to have a representative help you lodge and manage your complaint.

We are here to help

If you make a complaint, make sure you give us a phone number that we can reach you on during the day.

| Call us | Online or Email us | Write to us |
|--|---|---|
| 13 1905 or 13 7202 for Insurance Claims | Submit your complaint online www.racq.com.au/contact-us/feedback-and-complaints Or email us racqidisputeresolution@racq.com.au | RACQ Insurance Member Relations PO Box 3004 Logan City DC QLD 4114 |

Once we have received your complaint, we will acknowledge it as soon as we can. We will attempt to resolve your complaint as quickly and fairly as possible.

We have a dedicated internal dispute resolution process where we will work with you to resolve your complaint within 30 days.

RACQ understands some people may experience vulnerability at some point in their lives and may require special help or care. Our team are trained to support you, please visit our website for more information www.racq.com.au/support/supporting-vulnerability.

External Support

If we have not provided a resolution to your satisfaction, or we exceed the timeframe specified above, you can refer your complaint to the Australian Financial Complaints Authority (AFCA).

The Australian Financial Complaints Authority provide an independent external dispute resolution service.

Australian Financial Complaints Authority

- Online: www.afca.org.au
- Email: info@afca.org.au
- Phone: 1800 931 678
- Mail: Australian Financial Complaints Authority
GPO Box 3,
Melbourne VIC 3001

Customers Experiencing Vulnerability

1. Customers Experiencing Vulnerability

1.1 Welcome



Notes:

Welcome to the customers experiencing vulnerability.

This module relates to subject matter of a sensitive nature that may have a relevance to a current or previous circumstance in your life.

Part of the module covers support and tools available to our staff who assist our vulnerable customers, and we encourage self care.

This module will help you to understand what vulnerability is, how to identify it and what you can do to assist our customers who are experiencing it.

1.2 New Regulation



Notes:

Regulations that came into effect in July 2020 require us to respond to consumers who are experiencing vulnerabilities with a greater level of support and care."

Now more than ever, with so many of our customers facing tough times, it's important we know how we can identify, respond to, and support customers in potentially vulnerable circumstances.

Giving a helping hand to Queenslanders when they need it most is part of our DNA as a Club, so we have taken these changes as an opportunity to provide a consistent approach across all RACQ business lines and to make sure that we are caring for vulnerable customers in every possible way.

1.3 What is Vulnerability

What is vulnerability?



Vulnerability looks different for different people

It can happen to anyone at any point in their life

These impacts of vulnerability are strong

Stress can affect the customers state of mind

Notes:

What is vulnerability

Vulnerability looks different for different people. It can be temporary, sporadic or permanent in nature.

It can happen to anyone at any point in their life.

Many people experiencing vulnerability would not label / diagnose themselves as 'vulnerable'.

Vulnerability is not just to do with the situation of the customer. It can be caused or exacerbated by the actions or processes of organisations.

These impacts of vulnerability are strong and many people are trying to cope with difficult situations with limited resources, energy and time.

Stress can affect the customers state of mind and their ability to manage their affairs effectively.

1.4 Types of Vulnerability



Notes:

Here are some examples of vulnerability – however you may come across cases that are not listed here

Age - Elderly, elder abuse, neglect

Disability - Intellectual disability, hearing or vision impairment

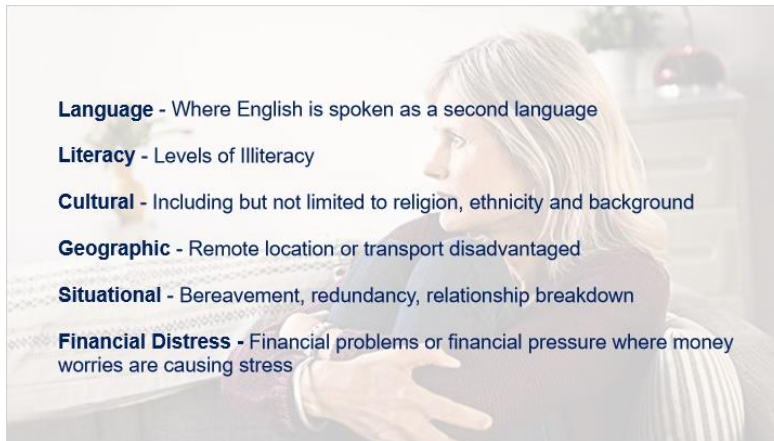
Mental Health Conditions - Mental illness, drug, alcohol and/or gambling addiction

Physical Health Conditions - Physical injury or limitation

Family Violence - Physical, emotional, financial control, property damage

Financial Hardship - Difficulty in making repayments on debt owed to RACQ

1.5 Types of Vulnerability



Notes:

Language - Where English is spoken as a second language

Literacy - Illiteracy

Cultural - Including but not limited to religion, ethnicity and background

Geographic - Remote location or transport disadvantaged

Situational - Bereavement, redundancy, relationship breakdown

Financial Distress - Financial problems or financial pressure where money worries are causing stress

1.6 A *Vulnerable Customer*

A vulnerable customer, when compared with the average/typical consumer is less able to protect their interests and more likely to suffer harm

They need to be in a good space to feel stable, to understand what information is available to them in order to make good decisions about their interests



Notes:

A vulnerable customer, when compared with the average/typical consumer is less able to protect their interests and more likely to suffer harm.

Their interests are the things that are important to them.

Want they want, what makes them feel safe and makes them happy.

They make life good for them.

Their interests include things like their health, their relationships, their finances and their inclusion in society.

A good decision helps them to protect their interests.

They need to be in a good space to feel stable, to understand what information is available to them in order to make good decisions about their interests.

1.7 Why is it Important



Notes:

Why is it important?

From a human perspective – you want to treat the customer with dignity, respect, care and compassion.

It's just the right thing to do.

From a business perspective – if we get it wrong when engaging with a vulnerable customer, the customers problems can increase which draws on additional resources to course correct

From a legal perspective – if we are found to have taken advantage of a vulnerable consumer, there can be significant legal consequences

1.8 RACQ's Vulnerability Principles



Notes:

RACQ is committed to follow the key principles and requirements set out in our 'Group Vulnerable Consumer Policy'.

We will:

Identify

Assess

Manage

and Govern

To understand more about the key principles click on each of the icons.

Untitled Layer 1 (Slide Layer)

RACQ is committed to follow the key principles and requirements set out in our 'Group Vulnerable Consumer Policy'

Click each on each icon to learn more
Note: You must view the information to continue



The image shows a navigation interface with two main icons: 'Assess' (represented by a magnifying glass over a document) and 'Govern' (represented by a classical building with columns). A yellow arrow points to the 'Govern' icon. A speech bubble above the icons contains the text 'Click each on each icon to learn more' and a note: 'Note: You must view the information to continue'. The word 'Assess' is partially visible above the magnifying glass icon, and 'Govern' is partially visible above the building icon.

1.9 Govern

Govern

RACQ have developed a number of procedures, processes and tools to facilitate the effective handling and support of customers experiencing vulnerability

This includes partnerships with specialist support providers, specific business line processes, system updates and management capability, and the proactive capture and analysis of feedback



The background of the slide features a large, light gray graphic of a classical building with a triangular pediment and several columns, resembling a government or institutional structure.

Notes:

Govern - RACQ have developed a number of procedures, processes and tools to facilitate the effective handling and support of customers experiencing vulnerability. This includes partnerships with specialist support providers, specific business line processes, system updates and management capability, and the proactive capture and analysis of feedback.

1.10 Manage



Manage

To the best of our ability, RACQ will support customers experiencing vulnerabilities in a way that is specific to their needs

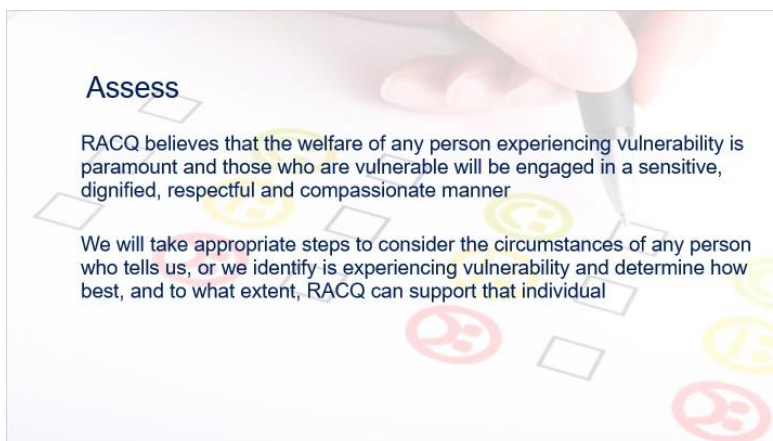
We will empower staff to be flexible in their decisions in order to do the right thing for the customer

We will consider making adjustments to the way we communicate with members and we will apply any special considerations to the delivery of our products and services to the customer

Notes:

Manage - To the best of our ability, RACQ will support customers experiencing vulnerabilities in a way that is specific to their needs. We will empower staff to be flexible in their decisions in order to do the right thing for the customer. We will consider making adjustments to the way we communicate with members and we will apply any special considerations in the delivery of our products and services to the customer

1.11 Assess



Assess

RACQ believes that the welfare of any person experiencing vulnerability is paramount and those who are vulnerable will be engaged in a sensitive, dignified, respectful and compassionate manner

We will take appropriate steps to consider the circumstances of any person who tells us, or we identify is experiencing vulnerability and determine how best, and to what extent, RACQ can support that individual

Notes:

Assess - RACQ believes that the welfare of any person experiencing vulnerability is paramount and those who are vulnerable will be engaged in a sensitive, dignified, respectful and compassionate manner. We will take appropriate steps to consider the circumstances of any person who tells us, or we identify is experiencing vulnerability and determine how best, and to what extent, RACQ can support that individual.

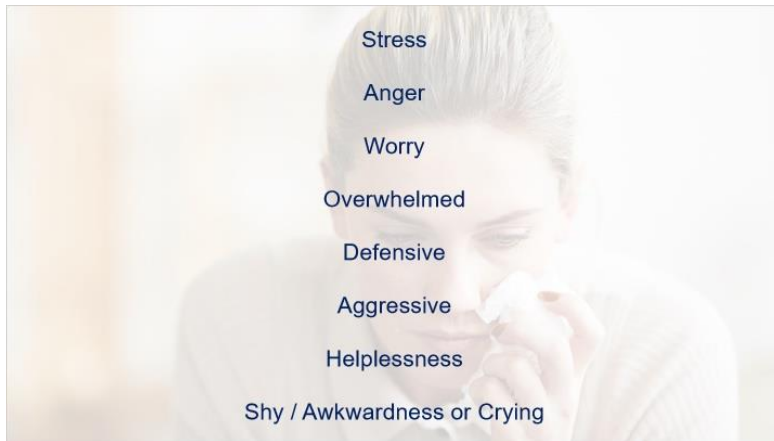
1.12 Identify



Notes:

Identify- RACQ takes the management of customers experiencing vulnerabilities seriously and as such we are committed to sufficiently training all customer facing staff to identify signs of potential vulnerability and how to support those experiencing vulnerability.

1.13 Signs of Vulnerability

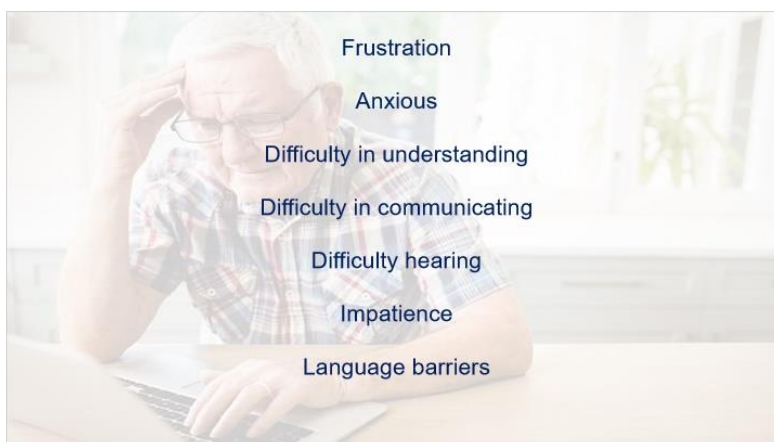


Notes:

Signs you may experience from a customer suffering from Vulnerability are:

stress / anger / worry / overwhelmed / defensive / aggressive / helplessness / shy / awkwardness or crying

1.14 Signs of Vulnerability

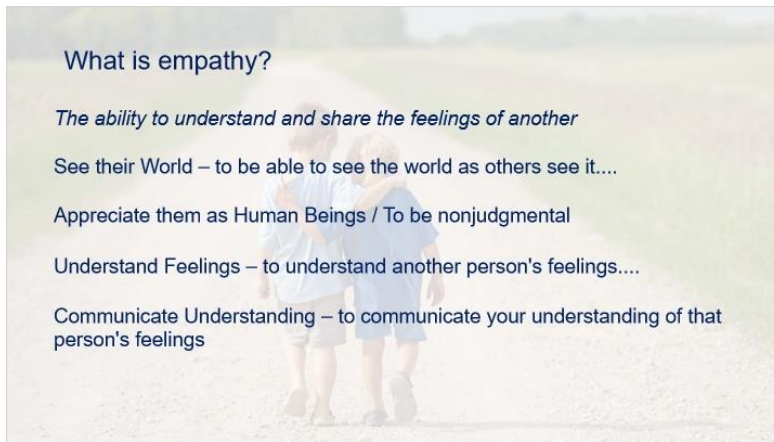


Notes:

frustration / anxious / difficulty in understanding / difficulty in communicating / difficulty hearing / impatience and language barriers

Remember signs are not always visible

1.15 What is Empathy



Notes:

What is empathy?

The ability to understand and share the feelings of another”


See their World – to be able to see the world as others see it. ...

Appreciate them as Human Beings / To be nonjudgmental. ...

Understand Feelings – to understand another person's feelings. ...

Communicate Understanding – to communicate your understanding of that person's feelings.

1.16 What is Empathy



There are basic support principles that we can ensure that we use

Empathy is important when engaging with others because it helps us to understand how others are feeling

Most of us are really good at reading peoples emotions, but for others it doesn't come so naturally

Notes:

Empathy is the ability to share and understand the emotions of others.

There are basic support principles that we can ensure that we use

Empathy is important when engaging with others because it helps us to understand how others are feeling, so that we can respond appropriately to the situation.

Most of us are really good at reading peoples emotions, but for others it doesn't come so naturally.

The good news is we can all learn to master this skill.

1.17 What is Empathy



Notes:

To empathise with others, it is important that we show unconditional positive regard, listen actively and be able to take the perspective of others.

Unconditional positive regard means to not judge others but to accept them for who they are, both positive and negative elements.


Active listening means sincerely listening to the speaker and being able to reflect feelings and thoughts of the speaker accurately.

Perspective taking means to enter the world of the other and experience the feelings, personal meaning and thoughts of the other person.

RACQ expect all staff members to provide excellent customer service and treat **every** member with the utmost respect. This is particularly important when supporting customers experiencing vulnerabilities.

1.18 What more can we do to help

What more can we do to help?



Encourage them to call 13 19 05

Or call the Assistance Contact Centre

The Assistance Contact Centre can then assist the customer in the best possible manner

Notes:

If you do go to a customer that you think may be suffering from vulnerability and is in need of assistance.

You can encourage the member to call 131905 or call the Assistance Contact Centre.

The Assistance Contact Centre can then assist the customer in the best possible manner

1.19 Assessment

Draw all questions randomly from Assessment

1.20 Assessment Results

(Results Slide, 0 points, 1 attempt permitted)

Assessment Results

Your Score: %Results.ScorePercent%% (%Results.ScorePoints%
points)

Passing Score: %Results.PassPercent%% (%Results.PassPoints%
points)

Result:

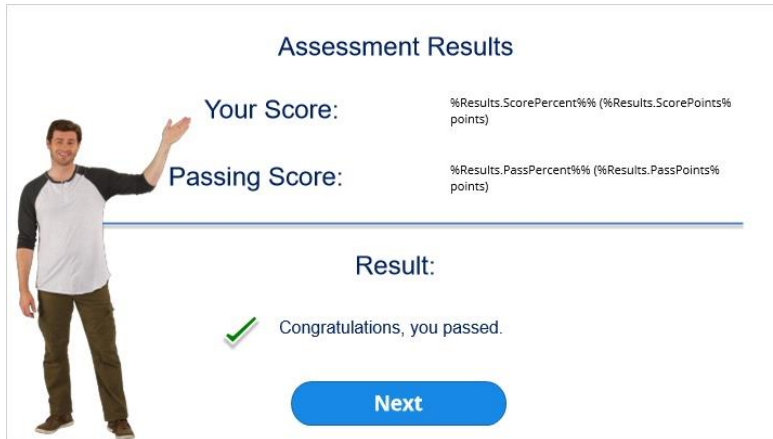
| |
|-----------------|
| Results for |
| 1.19 Assessment |

Result slide properties

Passing 100%

Score

Success (Slide Layer)



Assessment Results

Your Score: %Results.ScorePercent%% (%Results.ScorePoints% points)

Passing Score: %Results.PassPercent%% (%Results.PassPoints% points)

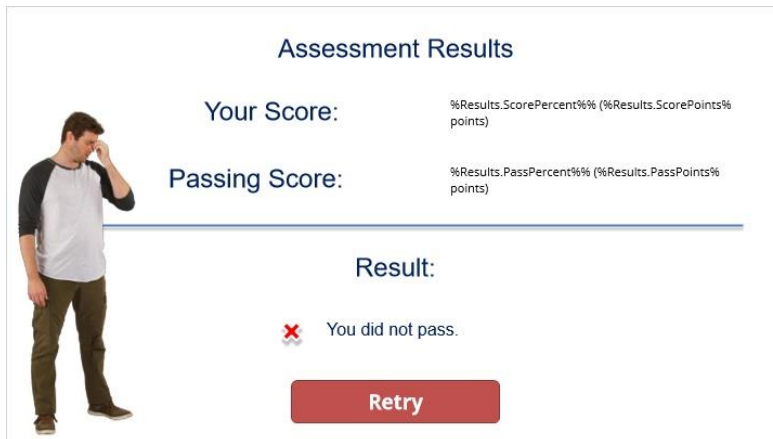
Result:

✔ Congratulations, you passed.

Next

The slide features a man on the left in a white and grey baseball-style shirt and dark trousers, gesturing towards the right. The background is white with a light blue horizontal line separating the score information from the result. A blue button labeled 'Next' is positioned at the bottom right.

Failure (Slide Layer)



Assessment Results

Your Score: %Results.ScorePercent%% (%Results.ScorePoints% points)

Passing Score: %Results.PassPercent%% (%Results.PassPoints% points)

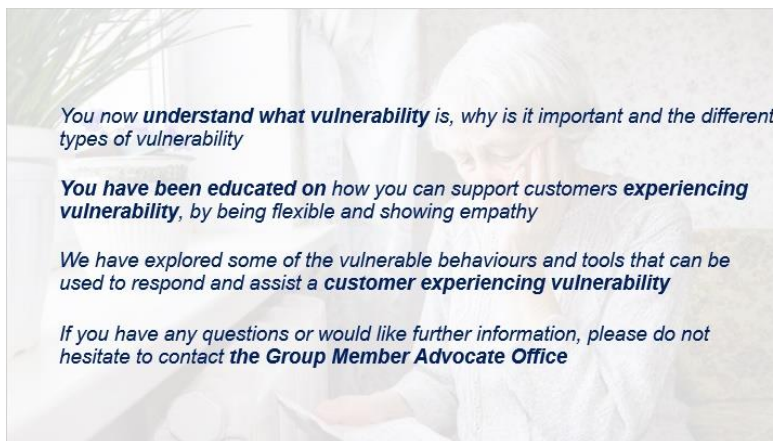
Result:

✘ You did not pass.

Retry

The slide features a man on the left in a white and grey baseball-style shirt and dark trousers, looking thoughtful with his hand to his chin. The background is white with a light blue horizontal line separating the score information from the result. A red button labeled 'Retry' is positioned at the bottom right.

1.21 Review and Exit



*You now **understand what vulnerability** is, why is it important and the different types of vulnerability*

***You have been educated on** how you can support customers **experiencing vulnerability**, by being flexible and showing empathy*

*We have explored some of the vulnerable behaviours and tools that can be used to respond and assist a **customer experiencing vulnerability***

*If you have any questions or would like further information, please do not hesitate to contact **the Group Member Advocate Office***

The slide has a light grey background with a faint image of an elderly woman reading a document. The text is in a dark grey, italicized font.

Notes:

You now **understand what vulnerability** is, why is it important, the different types of vulnerability.

You have been educated on how you can support customers **experiencing vulnerability**, by being flexible and showing empathy.

You've explored some of the vulnerable behaviours and the tools that can be used to respond and assist a **customer experiencing vulnerability**.

Please remember, the Supporting Customers Experiencing Vulnerability Group Policy and Framework comes into effect from **1 July 2020**.

If you have any questions or would like further information, please do not hesitate to contact **a member of the Group Member Advocate Office**.

1. Assessment

Q1.1 What do you when a Member advises they are vulnerable and require ongoing assistance from RACQ?

(Select the correct response)

(Multiple Choice, 10 points, 2 attempts permitted)

What do you when a Member advises they are vulnerable and require ongoing assistance from RACQ?

(Select the correct response)

- Nothing its not our problem
- Ring your manager and let them know
- Call the Assistance Contact Centre
- Post on social media

| Correct | Choice |
|---------|--------|
|---------|--------|

| |
|-----------------------------|
| Nothing its not our problem |
|-----------------------------|

| | |
|---|-------------------------------------|
| | Ring your manager and let them know |
| X | Call the Assistance Contact Centre |
| | Post on social media |

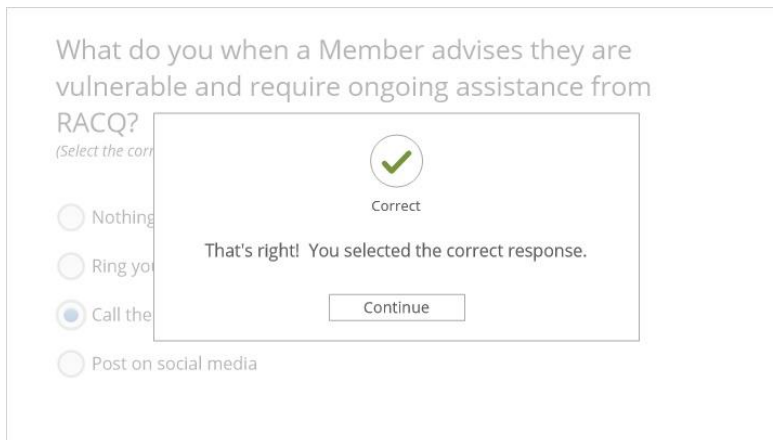
Feedback when correct:

That's right! You selected the correct response.

Feedback when incorrect:

You did not select the correct response.

Correct (Slide Layer)



Incorrect (Slide Layer)


What do you when a Member advises they are vulnerable and require ongoing assistance from RACQ?
(Select the correct response)

Nothing

Ring your local RACQ office

Call the RACQ Member Care Centre

Post on social media


Incorrect

You did not select the correct response.

Try Again (Slide Layer)


What do you when a Member advises they are vulnerable and require ongoing assistance from RACQ?
(Select the correct response)

Nothing

Ring your local RACQ office

Call the RACQ Member Care Centre

Post on social media


Incorrect

That is incorrect. Please try again.

Q1.2 Select the traits that may display signs of vulnerability.

(Select the correct response)

(Multiple Choice, 10 points, 2 attempts permitted)

Select the traits that may display signs of vulnerability.

(Select the correct response)

- Helplessness
- Difficulty communicating
- Impatience
- All the above

| Correct | Choice |
|---------|--------------------------|
| | Helplessness |
| | Difficulty communicating |
| | Impatience |
| X | All the above |

Feedback when correct:

That's right! You selected the correct response.


Feedback when incorrect:

You did not select the correct response.

Correct (Slide Layer)

Select the traits that may display signs of vulnerability.
(Select the correct response)

- Helpless
- Difficult
- Impatient
- All the above



Correct

That's right! You selected the correct response.

Incorrect (Slide Layer)

Select the traits that may display signs of vulnerability.
(Select the correct response)

- Helpless
- Difficult
- Impatient
- All the above



Incorrect

You did not select the correct response.

Try Again (Slide Layer)

Select the traits that may display signs of vulnerability.
(Select the correct response)

- Helpless
- Difficult
- Impatient
- All the above



Incorrect

That is incorrect. Please try again.

Q1.3 Who can vulnerability affect?

(Select the correct response)

(Multiple Choice, 10 points, 2 attempts permitted)

Who can vulnerability affect?
(Select the correct response)

- Only elderly people
- Anyone
- People without access to technology
- People with literacy or language needs

| Correct | Choice |
|---------|--|
| | Only elderly people |
| X | Anyone |
| | People without access to technology |
| | People with literacy or language needs |

Feedback when correct:

That's right! You selected the correct response.


Feedback when incorrect:

You did not select the correct response.

Correct (Slide Layer)

Who can vulnerability affect?
(Select the correct response)

- Only elderly people
- Anyone
- People with pre-existing conditions
- People with low income



Correct


That's right! You selected the correct response.

Continue

Incorrect (Slide Layer)

Who can vulnerability affect?
(Select the correct response)

- Only elderly people
- Anyone
- People with pre-existing conditions
- People with low income



Incorrect


You did not select the correct response.

Continue

Try Again (Slide Layer)

Who can vulnerability affect?
(Select the correct response)

- Only elderly people
- Anyone
- People with pre-existing conditions
- People with low income



Incorrect

That is incorrect. Please try again.

Try Again

Q1.4 A person suffering vulnerability is: -

(Select the correct response)

(Multiple Choice, 10 points, 2 attempts permitted)

A person suffering vulnerability is: -
(Select the correct response)

- Someone who is upset
- Someone who is especially susceptible to detriment or harm
- Someone who doesn't like you
- Someone from another country

| Correct | Choice |
|---------|--|
| | Someone who is upset |
| X | Someone who is especially susceptible to detriment or harm |
| | Someone who doesn't like you |
| | Someone from another country |

Feedback when correct:

That's right! You selected the correct response.


Feedback when incorrect:

You did not select the correct response.

Correct (Slide Layer)

A person suffering vulnerability is: -
(Select the correct response)

Someone
 Someone
 Someone
 Someone



Correct

That's right! You selected the correct response.

Incorrect (Slide Layer)

A person suffering vulnerability is: -
(Select the correct response)

Someone
 Someone
 Someone
 Someone




Incorrect

You did not select the correct response.

Try Again (Slide Layer)

A person suffering vulnerability is: -
(Select the correct response)

Someone
 Someone
 Someone
 Someone



Incorrect

That is incorrect. Please try again.



VULNERABLE CUSTOMERS – TIER 2 TRAINING

About The Workshop Lab

The Workshop Lab specialises in employee health and well-being training solutions for forward-thinking organisations across Australia. As part of the Acacia Connection Group, The Workshop Lab has a strong foundation in wellbeing science and organisational psychology which has been tailored for the unique Australian workplace environment. We deliver industry-leading workshops designed to create well-equipped employees, thriving teams and happier workplaces for a sustainable working future. Our team of national presenters include experienced organisational psychologists, health and well-being practitioners and business experts, all of whom are qualified experts in their field. Beyond the training room, we also offer individual coaching to support effective behaviour change over the long-term in alignment with individual needs.

Workshop Overview

Dealing with Vulnerable People Program

As mental health concerns become more prevalent across the country, many employees are experiencing more frequent interactions with potentially highly vulnerable members of the community. Without the right skills in place, these interactions can be distressing for even the most robust employees.

During this training, participants will learn key communication skills for interacting with those at risk of mental health concerns within their role. This workshop also helps to protect the mental health and wellbeing of employees, by teaching them to how to establish healthy boundaries and practice effective self-care strategies following difficult conversations.

Having An Effective Conversation with Vulnerable People

This workshop is designed to give employees communication skills they need to interact with vulnerable people effectively and safely.

- Recognise your role in supporting vulnerable people and learn how to identify your personal limitations and establish healthy boundaries.
- Develop an understanding of the psychology behind anger, upset and distress.
- Recognise the hidden psychological needs of distressed people and how you can meet them in any situation.
- Learn highly effective and proven techniques for having a conversation with someone in distress using the *5 R's Framework* (Recognise, Respond, Refer, Reconnect, Refresh).
- Cornerstone conversational skills include:
 - o empathetic statements and reflective listening
 - o de-escalation techniques



- o conversation control techniques
- o understand how to exit unsafe conversations.
- Apply the framework to common workplace scenarios.
- Gain a list of helpful resources to refer vulnerable people to professional support.
- Learn proven self-care techniques and coping strategies for protecting personal wellbeing and building resilience following difficult conversations with vulnerable people (time permitting).
- Gain insight into support and resources available for RACQ employees (EAP).

--ooOOOoo--



WORKBOOK

How to Have a Conversation
with Vulnerable People
WORKSHOP

2 Hours

INTRODUCTION

As mental health concerns become more prevalent across the country, many employees are experiencing more frequent interactions with potentially highly vulnerable members of the community. Without the right skills in place, these interactions can be challenging for even the most experienced employee.

This training is designed to provide the necessary skills required to have a safe and effective conversations with someone who may be vulnerable. This session also shines a light on the importance of establishing healthy boundaries and practicing effective self-care following difficult interactions with vulnerable people.

Learning Objectives

1. Develop an understanding of vulnerability and the various ways it can impact people.
2. Recognise the important role we play in supporting vulnerable people in the workplace.
3. Explore how to identify personal limitations and establish healthy boundaries during interactions with vulnerable people.
4. Learn highly proven techniques for having an effective conversation with someone using the 5 R's Framework (Recognise, Respond, Refer, Reconnect, Refresh).
5. Apply applying the framework to common workplace scenarios.
6. Gain a list of helpful resources to refer vulnerable people to for professional support.
7. Learn proven self-care techniques and coping strategies for protecting personal wellbeing and building resilience following difficult conversations with vulnerable people.
8. Gain insight into support and resources available for RACQ employees (EAP).

Warm Up

What are you hoping to learn from the workshop?

#1. Understanding Vulnerability

Question

What comes to mind when you think about the term 'vulnerability'?

Definition

A vulnerable person is someone who, due to their own personal circumstances, is able to be easily harmed, influenced or exposed to loss.

In the context of customer relationships, vulnerability typically arises from various factors such as limited knowledge or experience, emotional or psychological factors, power imbalances, or external circumstances. When customers are vulnerable, they may be more prone to making poor decisions, being taken advantage of, or experiencing negative consequences.

Customer vulnerability can be caused or exacerbated by organisations that are not acting with appropriate levels of care.

The Impact of Customer Vulnerability On Organisations

The impact of customer vulnerability on an organization can be significant. Here are a few ways vulnerability can affect your organization:

1. **Trust and Reputation:** If customers perceive that your organization exploits their vulnerability or fails to address their needs appropriately, it can damage trust and harm your organization's reputation. Negative word-of-mouth and online reviews can spread quickly, affecting potential customers' perception of your brand.
2. **Customer Loyalty:** When vulnerable customers feel unsupported or mistreated, they are more likely to switch to competitors or abandon your products or services altogether. Failing to address their needs can result in a loss of customer loyalty and long-term revenue.
3. **Legal and Regulatory Compliance:** Depending on your industry and location, there may be legal and regulatory requirements to protect vulnerable customers. Failing to comply with these obligations can lead to legal consequences, fines, or other penalties.
4. **Ethical Considerations:** How your organization treats vulnerable customers speaks to its ethical values and social responsibility. Neglecting or taking advantage of vulnerable customers can be seen as unethical and may lead to public backlash, affecting your organization's overall image and relationships with stakeholders.
5. **Customer Experience and Satisfaction:** Addressing the needs of vulnerable customers contributes to an overall positive customer experience. Failing to recognize and address their vulnerabilities may result in poor customer satisfaction, which can impact customer retention and future business opportunities.

To mitigate the impact of customer vulnerability, organizations should prioritize customer-centric approaches, ethical practices, and policies that promote inclusivity and fairness. This may include identifying and addressing customer vulnerability, providing accessible support, transparent communication, and implementing safeguards to prevent exploitation or harm. By creating a supportive and empathetic environment, organisations can build trust, enhance customer loyalty, and protect their reputation.

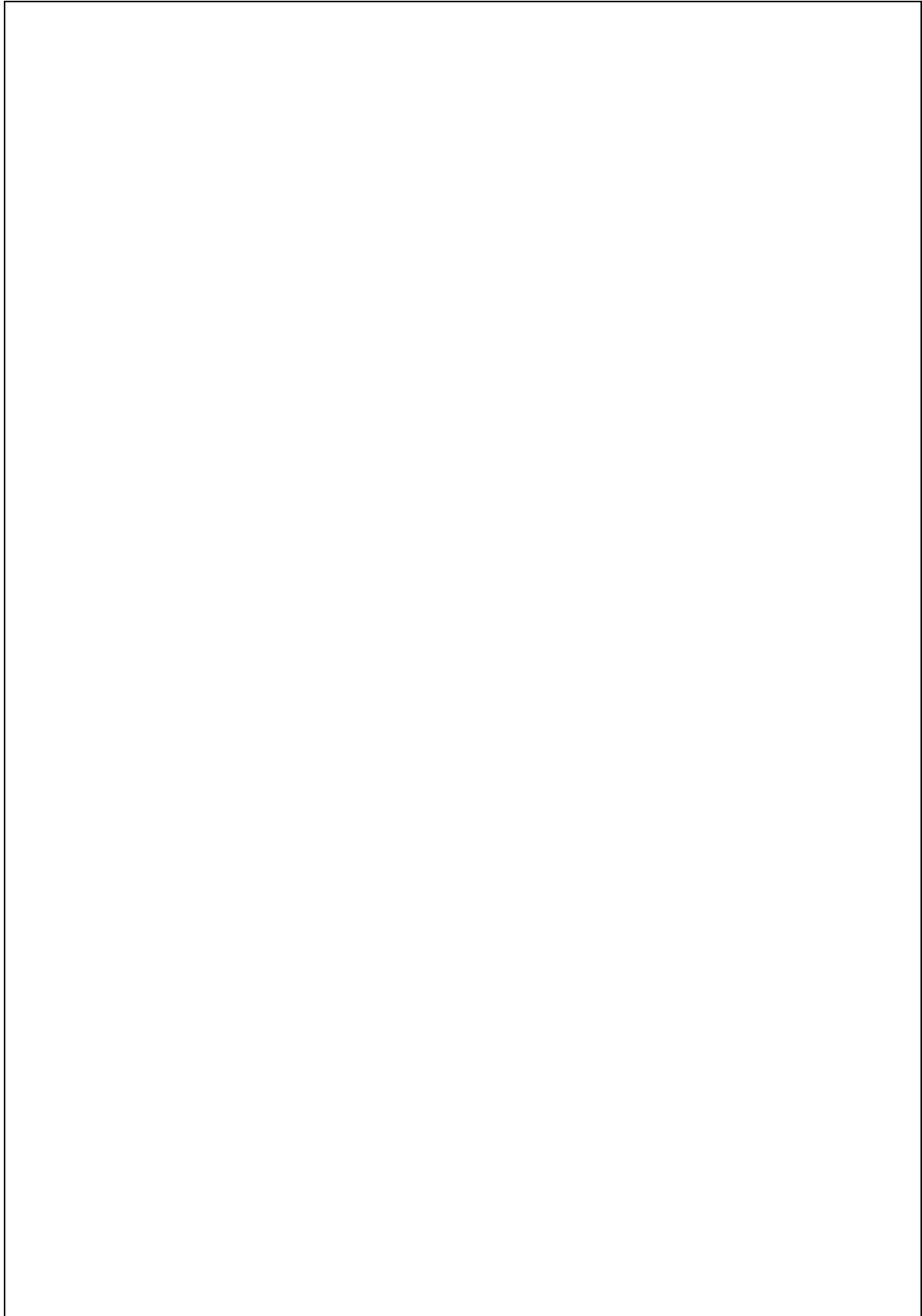
Four Key Drivers of Customer Vulnerability

Vulnerability drivers can come from a variety of underlying challenges. The below lists the four most common factors that driver vulnerability in people.

| | | |
|---|--------------------|--|
| 1 | Health | <p>Conditions or illnesses that affect one’s ability to complete day-to-day tasks, both mentally and physically.</p> <p>These can be illnesses affecting hearing or a visual impairment.</p> <p>They are easier to spot in a conversation when a customer says, “I can’t hear well” or “I cannot read the fine print”. Other conditions are more difficult to identify, such as mental health issues, cognitive disability or addiction.</p> |
| 2 | Life Events | <p>Such as bereavement, job loss or relationship breakdown.</p> <p>This driver includes various circumstances that may negatively affect a person’s life, including but not limited to leaving care, seeking asylum, or getting a conviction.</p> |
| 3 | Resilience | <p>Low ability to withstand and manage financial or emotional shocks.</p> <p>Vulnerable customers in this group often have inadequate or erratic income, low savings and often find themselves in debt.</p> |
| 4 | Capability | <p>Limited knowledge of financial matters, lack of technological savviness or poor ability in areas such as digital communications and language skills.</p> <p>These characteristics, for instance, can be found in foreigners whose English language skills might not be strong enough to understand complex conversations about finances. Additionally, some people find it difficult to operate digital portals, apps and other digital tools and struggle to learn new technology.</p> |

Discuss

What the different types of vulnerable people might you interact with in your workplace?



Common Types of Vulnerable Customers

There are various types of vulnerable customers that organizations should be aware of. Here are some common categories:

1. **Elderly Customers:** Older individuals may be more susceptible to scams, financial exploitation, or difficulty understanding complex products or services due to age-related factors such as cognitive decline, limited mobility, or isolation.
2. **Children and Minors:** Young customers who have limited understanding, decision-making capacity, or ability to advocate for themselves can be vulnerable to deceptive marketing, inappropriate content, or unsafe products.
3. **Individuals with Disabilities:** Customers with physical, sensory, cognitive, or mental health disabilities may face challenges in accessing information, using products or services, or understanding contractual terms. They may require accommodations or additional support.
4. **Financially Distressed Customers:** Customers facing financial difficulties, such as unemployment, debt, or low income, may be vulnerable to predatory lending, exploitative financial practices, or aggressive sales tactics targeting their desperation.
5. **Individuals with Limited Literacy or English Proficiency:** Customers who do not speak the primary language or have limited proficiency in the language used by an organization may have difficulty understanding terms and conditions, receiving adequate support, or making informed decisions.
6. **Socially Isolated or Marginalized Individuals:** Customers who are socially isolated, marginalized, or belong to minority groups may face discrimination, unequal treatment, or limited access to resources and information, making them vulnerable to exploitation or exclusion.
7. **Health-Related Vulnerability:** Customers with serious health conditions, mental health issues, or disabilities that require ongoing care may be vulnerable to misleading health claims, predatory practices, or inadequate support from healthcare or insurance providers.
8. **Temporary Vulnerability:** Customers experiencing temporary life events such as bereavement, divorce, relocation, or other significant changes may be emotionally or financially vulnerable during these periods and require additional support.
9. **Trauma or Violence:** Customers who have experienced trauma or violence.

It's important to note that vulnerability can be dynamic and multifaceted. Customers may fall into multiple categories, and their vulnerability may change over time or in different contexts. Organizations should approach vulnerability with empathy, sensitivity, and a commitment to ensuring fair treatment and support for all customers.

Discuss

What might be some of the challenges experienced by these vulnerable people when engaging with your workplace?

| | | |
|---|---|--|
| 1 | An elderly person | |
| 2 | A young person who is 18 years old | |
| 3 | Someone with a vision impairment | |
| 4 | A person who has experienced recent job loss | |
| 5 | Someone with low literacy | |
| 6 | Someone from Vietnam who can speak English well | |

The Prevalence of Vulnerable People in Australia

Source: Australian Bureau of Statistics (ABS), 2022; Australian Institute of Health and Welfare (AIHW), 2022.

Research indicates that vulnerable people are highly prevalent right across Australia. General statistics provided on vulnerable populations in Australia are shared below.

1. Older Adults

- In 2020, there were approximately 3.9 million Australians aged 65 and over, accounting for 15.4% of the total population.
- 17% of people over 60 have experienced financial abuse.
- The Australian Institute of Health and Welfare reported that around 27% of older Australians experienced some form of disability in 2018-2019.
- Social isolation and loneliness are significant concerns for older adults, with studies indicating that around 1 in 4 Australians aged 65 and over experience social isolation.

2. People with Disabilities

- According to the Australian Bureau of Statistics, in 2018, approximately 4.4 million Australians reported having a disability, accounting for around 18.5% of the population.
- The disability prevalence rate increases with age, with higher rates observed among older age groups.
- The National Disability Insurance Scheme (NDIS) provides support and services to eligible Australians with a permanent and significant disability. As of September 2021, over 455,000 people were participating in the NDIS.

3. Indigenous Australians

- Indigenous Australians face various vulnerabilities, including lower life expectancy, higher rates of chronic diseases, and socioeconomic disparities.
- In 2020, the estimated Indigenous population in Australia was around 798,400, representing 3.3% of the total population.
- Indigenous Australians experience higher rates of unemployment, lower educational attainment, and poorer health outcomes compared to non-Indigenous Australians.

4. People Experiencing Homelessness

- The Australian Bureau of Statistics estimated that on any given night in 2016, over 116,400 people were experiencing homelessness in Australia.
- Homelessness can affect various groups, including young people, families, and older individuals.
- Factors contributing to homelessness include a lack of affordable housing, financial difficulties, domestic violence, and mental health issues.

5. Domestic and Family Violence

- 1 in 6 women have experienced violence by an intimate partner (AIHW, 2018).
- 1 in 16 women have experienced violence by an intimate partner (AIHW, 2018).
- Overall, 1 in 5 women and 1 in 20 men have experienced sexual violence.
- Approximately 2.5 million Australian adults (13%) experienced abuse during their childhood; the majority knew the perpetrator and experienced multiple incidents of abuse.

6. Mental Health

- Mental health issues affect a significant portion of the Australian population.
- In 2017-2018, around 20% of Australian adults (aged 18-85) experienced a common mental disorder in the previous 12 months.
- 45% of Australian people are likely to experience a mental disorder at some point during their lifetime.
- Certain population groups, such as young people, Indigenous Australians, and socioeconomically disadvantaged individuals, may face higher risks and poorer mental health outcomes.

7. Trauma

- An estimated 57% to 75% of Australians will experience a potentially traumatic event in their lifetime.

Question

What insights do you get from looking at these stats?

#2. Understanding Our Role

Question

When it comes to having a conversation with someone who may be vulnerable, what are your biggest concerns?

Discuss ...

Our role is to

The Importance of Establishing Boundaries & Recognising Personal Limitations

Establishing Boundaries

Establishing healthy boundaries are essential for supporting vulnerable people effectively and protecting your own wellbeing. Boundaries can be defined as the physical, emotional, and mental limits you create to protect your wellbeing. Boundaries are the rules we set for ourselves within any relationship.

Brainstorm

What sort of boundaries might be useful in conversations with vulnerable people at work?

Healthy Boundaries

- **Right Mindset:** Am I in the right mindset to provide support?
- **Right Time:** Is it the right time to have this conversation? Ensure you have enough time to talk.
- **Right Place:** Is this a safe space to have this conversation? Relocate to a private space. Look after basic needs (water, tissues).
- **Right level of Support:** Do they really need professional support? Be realistic about your role.

Communicating Boundaries

When it comes to disclosures, it's important to establish and communicate boundaries to ensure a safe and respectful interaction. Here are some examples of boundaries that can be communicated during disclosures with vulnerable customers:

1. Time Limit:

- "I have a limited amount of time for this conversation, so we may need to focus on the most critical aspects."
- "Let's try to keep the discussion within a specific timeframe to ensure we cover everything effectively."

2. Topic Limitation:

- "I'm here to assist with [specific topic], so let's focus on that aspect for now."
- "While I want to support you, I can only provide guidance within the scope of my expertise."

3. Professional Role:

- "As a [role], my responsibility is to provide support and information. I cannot provide mental health support or legal advice."
- "I'm here to listen and offer guidance based on my training, but I cannot make decisions for you."

4. Emotional Boundaries:

- "I understand this situation can be emotional, but it's important for us to maintain a professional and respectful conversation."
- "I want to support you, but I cannot become personally involved in your situation beyond my professional role."

5. Confidentiality:

- "Everything you share with me will be treated with confidentiality within the limits of the law."
- "To ensure your privacy, I will not disclose your personal information without your explicit consent, unless required by law."

6. Referral to Specialised Services:

- "Based on your disclosure, it may be beneficial to connect with a specialized organization or professional who can offer more specific assistance."
- "I recommend seeking advice from [specific service or organization] as they specialize in this particular area and can provide the support you need."

7. Setting Expectations:

- "Please keep in mind that while I'm here to help, there are certain limitations to the support I can provide."
- "I will do my best to answer your questions and address your concerns, but please understand that there may be some things I cannot assist with."

Remember to communicate these boundaries using positive language and in a compassionate and understanding manner to ensure the customer feels heard and respected. By setting clear boundaries, you establish a framework for a productive and professional conversation while safeguarding the well-being of both parties involved.

Notes

#3. The 5 R's for Having an Effective Conversation



01. Recognise

Spot signs & symptoms. Notice possible triggers in behaviour and language.

Question: Going Under the Iceberg

What might be some common signs of vulnerability in customers?

Common Signs of Vulnerability

Recognising signs of vulnerability in customers requires attentiveness and understanding. While each individual's situation may vary, here are some common signs that may indicate a customer's vulnerability:

- 1. Emotional Distress:**
 - Expressing heightened emotions such as anxiety, sadness, frustration, or anger.
 - Exhibiting signs of distress, such as tearfulness, agitation, or difficulty managing emotions.
- 2. Financial Struggles:**
 - Mentioning financial difficulties, job loss, debt, or inability to afford basic necessities.
 - Expressing concerns about affordability or hesitation to make purchases due to financial constraints.
- 3. Physical or Mental Health Issues:**
 - Displaying signs of physical discomfort, such as mobility challenges or visible health conditions.
 - Disclosing mental health issues, past trauma, or recent medical diagnoses.
- 4. Limited Support Networks:**
 - Expressing feelings of social isolation, loneliness, or lack of a support system.
 - Mentioning limited contact with friends, family, or community resources.
- 5. Difficulty Understanding or Navigating Processes:**
 - Demonstrating confusion or frustration with complex procedures, paperwork, or technology.
 - Expressing uncertainty or lack of familiarity with available resources or services.
- 6. Recent Life Transitions or Losses:**
 - Sharing experiences of significant life changes, such as divorce, bereavement, or job loss.
 - Expressing feelings of uncertainty or struggling to adapt to new circumstances.
- 7. Limited English Proficiency or Cultural Barriers:**
 - Having difficulty communicating in the local language or expressing cultural differences and challenges.
 - Displaying confusion or discomfort with local systems, customs, or processes.
- 8. Age-related Vulnerabilities:**
 - Displaying physical frailty or difficulty with mobility, particularly among older adults.
 - Mentioning concerns related to aging, caregiving, or diminished cognitive abilities.
- 9. Personal Disclosure of Vulnerability:**
 - Voluntarily sharing personal challenges, hardships, or vulnerabilities during conversation.
 - Opening up about sensitive topics such as abuse, mental health, or financial struggles.

It's important to note that vulnerability can be subjective and may not always be immediately apparent. Customers may not explicitly disclose their vulnerabilities, so it's crucial to be attentive to non-verbal cues, tone of voice, and changes in behaviour. However, it's equally important to respect individuals' privacy and avoid making assumptions based solely on outward appearances.

When interacting with customers, approach each person with empathy, sensitivity, and a non-judgmental attitude. Treat all customers with respect and provide support and assistance as

appropriate. If you suspect a customer may be vulnerable, ensure they feel heard, validated, and connected to relevant resources or services that can offer further assistance.

Use BRUCE

BRUCE is another useful acronym for identifying customers in vulnerable circumstances, it stands for the following:

| | |
|----------------------------------|---|
| Behaviours | Consider the things a customer says or does. These may be triggers that suggest they're struggling with decision making. |
| Remembering | Does your customer appear able to retain the information you are giving them? / Can they recall details or are you having to repeat? "Would it be helpful if I went over that again?" "Would it be helpful if I put that in writing?" "Is there someone that usually helps you with your XYZ?" |
| Understanding | Is your customer able to follow and understand the discussion taking place? "Do you want to tell me what you've understood so far and I can fill in gaps." "Would it help if I explained that again?" "Is there any part of what I am saying still unclear?" |
| Communicating | Is your customer able to communicate their intended message easily? "Is there another way you'd like us to communicate with you?" "Is there another time when it would be better to have this conversation?" "Take your time." |
| Evaluate (access options) | Is the customer able to evaluate options and make decisions in their best interest? "Would it be helpful to go through each option again?" "Do you have someone you normally talk these things through with?" |

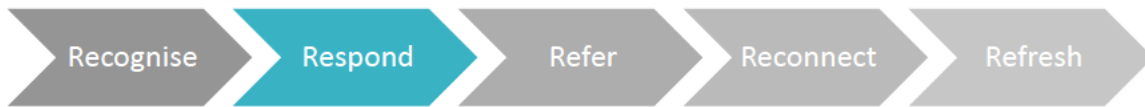
Examples

Within BRUCE above, there are a number of "prompts" that the customer may give. For example:

- The customer asks unrelated questions and make irrelevant points
- The customer consistently repeats themselves
- The customer says "yes" in response to each of your questions, when it's clear that they haven't kept up with the conversation
- The customer doesn't talk much and takes a long time to answer your questions
- The customer becomes distressed during the contact
- The customer sounds flustered, indicating that they may have an illness
- The customer says things like "My partner dealt with all these things for me"

Question

Write down examples of how you can use BRUCE in your role



02. Respond
Show empathy and listen actively. Find ways to support vulnerable people.

Question

When it comes to having a conversation with someone who may be vulnerable, what are some important 'do's' and 'don'ts' to be mindful of?

| Do's | Don'ts |
|------|--------|
| | |

Common Mistakes

When speaking to vulnerable customers, it's crucial to approach the interaction with care, empathy, and sensitivity. However, there are common mistakes that organizations and individuals can make when communicating with vulnerable customers. Here are some examples:

1. **Lack of Patience and Empathy:** Failing to demonstrate patience and empathy can make vulnerable customers feel dismissed or disregarded. It's important to listen actively, acknowledge their concerns, and show understanding and compassion.
2. **Using Jargon and Complex Language:** Using technical terms, industry jargon, or complex language can confuse or intimidate vulnerable customers. Clear and simple communication is essential to ensure they understand the information being shared.
3. **Rushing or Pressuring:** Pushing vulnerable customers to make quick decisions or rushing them through the process can lead to poor choices or feelings of being manipulated. Allow them sufficient time to process information and make informed decisions at their own pace.
4. **Insufficient Explanation or Information:** Providing incomplete or vague explanations can leave vulnerable customers feeling uncertain or confused. It's important to provide detailed and transparent information, answering their questions thoroughly.
5. **Ignoring Emotional Needs:** Focusing solely on the transactional aspects and disregarding the emotional needs of vulnerable customers can leave them feeling unheard or unsupported. Showing empathy, compassion, and addressing their emotional concerns is crucial.
6. **Assuming Knowledge or Understanding:** Assuming that vulnerable customers have the same level of knowledge or understanding as others can lead to miscommunication or overlooking their specific needs. Always check for comprehension and provide additional explanations if necessary.
7. **Lack of Accessibility:** Neglecting to provide accessible communication options for customers with disabilities, such as visual impairments or hearing difficulties, can create barriers and exclude them from important information. Ensure communication channels are inclusive and accommodate different needs.
8. **Failure to Identify Signs of Exploitation or Abuse:** In some cases, vulnerable customers may be subject to exploitation or abuse. Failing to recognize the signs or report suspicions can perpetuate harm. Training staff to identify and handle such situations appropriately is crucial.

To effectively communicate with vulnerable customers, organizations should invest in staff training, establish clear communication guidelines, and foster a customer-centric culture that prioritizes empathy and understanding. By avoiding these common mistakes, organizations can provide better support and meet the needs of vulnerable customers more effectively.

Guidelines on How to Respond to Vulnerable Customers

When talking with customers who are vulnerable, it's essential to approach the conversation with empathy, patience, and sensitivity. Here are some guidelines on what to say:

- 1. Show empathy and understanding:**
 - Begin by expressing empathy and acknowledging their situation. For example: "I understand that this may be a challenging time for you, and I'm here to help."
 - Use phrases that convey empathy and support, such as "I can imagine this might be difficult for you," or "I appreciate your strength in dealing with this."
- 2. Provide reassurance:**
 - Assure the customer that you are there to assist them and that their concerns are valid.
 - Use statements that offer reassurance, such as "We're committed to helping you through this process" or "Rest assured, we'll work together to find a solution."
- 3. Active listening:**
 - Give the customer your full attention and actively listen to their needs and concerns.
 - Use verbal cues like "I understand," "I hear you," or "Please tell me more" to show that you are engaged and attentive.
- 4. Use clear and simple language:**
 - Avoid using jargon or complex terminology that may confuse or overwhelm the customer.
 - Use plain language and break down information into manageable, easy-to-understand segments.
- 5. Tailor communication to their preferences:**
 - Adapt your communication style to meet their needs. For example, if they have visual impairments, provide written information in larger fonts or offer audio alternatives.
 - Take into account any language or cultural barriers they may have and provide appropriate support or resources.
- 6. Provide information and resources**
 - Ask the customer if there is any specific support they require or if there are any accommodations that can be made to meet their needs.
 - Provide written materials or access to online resources that they can refer to at their own pace.
 - Explain complex processes or procedures in a step-by-step manner, and be available to answer any questions they may have.
- 7. Respect their autonomy and choices:**
 - Recognize and respect the customer's ability to make decisions for themselves.
 - Offer options and provide relevant information, but avoid being pushy or making decisions on their behalf unless explicitly requested or necessary.
- 8. Maintain confidentiality:**
 - Assure the customer that their information and circumstances will be treated with strict confidentiality where lawful to do so.
 - Explain any privacy policies or procedures that are in place to protect their personal information.
- 9. Encourage them to seek support**
 - Offer to provide information about available resources, such as helplines, support groups, or community services that can further assist them.
 - Encourage them to engage in self-care.
- 10. Offer follow-up and ongoing support:**

- If appropriate, offer to follow up with the customer after the conversation to ensure their needs were met or to provide additional assistance.
- Provide contact information, such as a dedicated helpline or an email address, where they can reach out if they have further questions or concerns.

Remember, every customer is unique, and it's important to adapt your approach based on their individual needs and circumstances. The key is to demonstrate empathy, actively listen, and offer support in a compassionate manner.

Case Study

Background:

ABC Insurance is a reputable insurance company with a call centre dedicated to assisting customers with policy inquiries, claims, and other related matters. The call centre handles a diverse range of customers, including vulnerable individuals. One such incident involved a vulnerable customer named Sarah, who had recently experienced a traumatic event and sought assistance from the call centre.

Scenario:

Sarah, a 65-year-old widow, contacted ABC Insurance's call centre to report a claim for damages to her home caused by a severe storm. Sarah had been emotionally distraught since the storm, which exacerbated her existing anxiety disorder. She was unfamiliar with the insurance claim process and sought reassurance and guidance during the call.

The call centre representative, Jake, prides himself on his prompt service and professionalism. When Sarah called it was clear she was extremely distressed and emotional when talking about the storm. She was holding back tears as she spoke about all of the precious family photos, she lost which will never be replaced. Jack didn't know what to say and didn't want to upset her so he ignored her distress and jumped straight into asking her for the details he needed to process the claim as quickly as possible.

Jake found Sarah frustrating as he had to keep asking her the same questions for what he thought was basic information (e.g., how long she had lived at the address, what date and time the storm was etc). Sarah mentioned she had never made a claim before and feels like her anxiety is through the roof.

Jake quickly rushed through the explanation of the claims process, assuming Sarah's understanding. He used complex insurance jargon and failed to break down the steps in a clear and understandable manner. As far as Jake is concerned, it is important that he sticks to stating the policies as written so people don't try and twist things. As a result, Sarah felt overwhelmed and confused, unable to comprehend her rights and responsibilities.

Jake ended up telling Sarah she will need to visit the website if she can't understand what he is saying and ends the call feeling annoyed.

Discuss the case ... what went well? What didn't go well? What could have been done instead?

Video Review: Brene Brown – Empathy vs Sympathy

What insights did you get from the video?

Common Myths About Empathy

1. It's not about agreement.

If you state that you don't agree it often triggers your own defensiveness which shuts people down. You can acknowledge, validate, and normalise without agreeing. This stage simply lets the person know you understand their perspective.

2. You don't have to fix things

You can show empathy to someone without feeling like you have to fix or solve the issue for them.

3. You won't make it worse by talking about it (pain)

By validating people's deepest, darkest pain makes them feel acknowledged, validated and normalised in their pain. It doesn't worsen things. It is important to acknowledge, validate, and normalise but the key is to energy match.

The Core Elements of Showing Empathy

1. Show interest by asking if they are ok.
2. Ask open-ended questions.
3. Clarify what they are saying to demonstrate your understanding.
4. Show Empathy: Acknowledge their emotions.
5. Show gratitude that the person opened up.
6. Be encouraging & supportive.

This is important because it allows the other person to feel heard and understood.

In this stage these three key things occur:

1. Transformation happens in connection.
2. The emotional consequences are trust, safety & calmness.
3. Provide space for new thinking which allows awareness and positive change to take place.

What Empathy Sounds Like

1. **Show Interest:** I've noticed you don't seem yourself lately, is everything ok?
2. **Ask:** Open-ended questions
 - "Do you mind if I ask - what's been happening for you?"
 - "Would you like to talk about what you're going through? If not, is there someone you feel comfortable talking to?"
 - "Have you spoken to anyone about how you are feeling?"
3. **Clarify:** "So you are feeling completely overwhelmed about X?"

4. **Empathise:** "I'm sorry to hear you are feeling that way".
5. **Show Gratitude:** "Thank you for telling me."
6. **Support & Encourage:** "What helps?"; "I'm keen to explore ways I can help"; "Have you thought about reaching out for some help?"

Basic Reflective Listening Technique

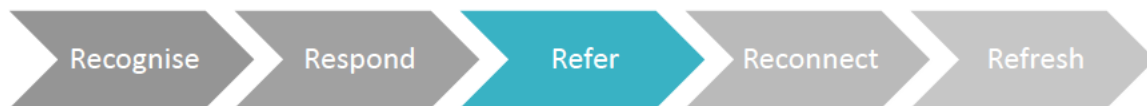
| Tentative Check | + Feeling (Emotional state) | + Thought (about / because / when) |
|---------------------------|--------------------------------|---------------------------------------|
| It sounds like | you feel angry | about |
| I hear you saying that | you feel sad | because of |
| If I hear you correctly | you feel happy | when |
| I think I hear you saying | you feel afraid | about |
| I'm not sure if I follow | you feel confused | because of |
| Am I hearing you say | you feel ashamed | when |

Top Tips:

- Limit it to one emotion.
- Aim for the strongest emotion.
- Avoid the advice-giving traps! "You are doing the best you can", "What an awful manager", "Have you tried asking her for feedback".
- Your goal is to get to 'your first yes' – this confirms your understanding and creates connection.

Match | Mirror | Pace

If someone shares something important to them match the level of importance even if you don't necessarily agree (e.g., trivial matters). Likewise, if someone shares something you find highly emotive or disturbing, but they don't respond with the same intensity you would, then it's important to match their energy appropriately.



03. Refer

Encourage people to seek professional support and engage in self-care.

Guidelines

1. Encourage people to seek help if they are not coping or are feeling stressed, anxious, or depressed.
2. Encourage them to seek professional support.
3. Offer to send them a list of professional support options.
4. Ask them what has helped in the past (self-care activities etc).
5. Offer workplace support where available to assist them (e.g., interpreter).

Examples

- "I'm not sure if you're aware but there are some excellent support options available so you can speak to someone about what's going on for you. It's often really helpful to talk. Can I send you a list of options to have a look at?"
- "It sounds like you've been doing everything on your own recently. Do you think it may help to speak with someone for some help?"
- "Have you thought about speaking to a professional or going to the GP just to check everything is okay. You have a lot on your plate at the moment so may help to take the pressure off and let someone make sure you're ok."

Resources & Support Options

Here are some support options available in Australia for vulnerable customers:

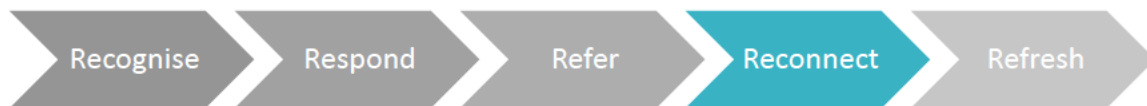
1. Lifeline Australia:
 - Phone: 13 11 14 (24/7 crisis support and suicide prevention)
 - Website: <https://www.lifeline.org.au/>
2. Beyond Blue:
 - Phone: 1300 22 4636 (24/7 mental health support)
 - Website: <https://www.beyondblue.org.au/>
3. Kids Helpline:
 - Phone: 1800 55 1800 (24/7 counselling and support for children and young people)
 - Website: <https://kidshelpline.com.au/>
4. Headspace:
 - Phone: 1800 650 890 (mental health support for young people aged 12-25)
 - Website: <https://headspace.org.au/>
5. Domestic Violence Hotline:
 - Phone: 1800 RESPECT (1800 737 732) (24/7 support for individuals experiencing domestic or family violence)
 - Website: <https://www.1800respect.org.au/>

6. National Debt Helpline:
 - Phone: 1800 007 007 (free financial counselling and support for individuals experiencing financial difficulties)
 - Website: <https://ndh.org.au/>
7. National Sexual Assault, Domestic Family Violence Counselling Service:
 - Phone: 1800 RESPECT (1800 737 732) (24/7 counselling and support for individuals impacted by sexual assault, domestic, or family violence)
 - Website: <https://www.1800respect.org.au/>
8. Carers Australia:
 - Phone: 1800 242 636 (support and information for carers)
 - Website: <https://www.carersaustralia.com.au/>
9. Elder Abuse Helpline:
 - Phone: 1800 353 374 (support and advice for individuals experiencing or concerned about elder abuse)
 - Website: <https://www.elderabusehelpline.com.au/>
10. National Disability Abuse and Neglect Hotline:
 - Phone: 1800 880 052 (report abuse and neglect of people with disabilities)
 - Website: <https://www.disabilityhotline.org.au/>

Please note that these are some examples of support options available in Australia, and there may be additional local or regional services specific to certain areas or communities. It's important to consider the specific needs and circumstances of the vulnerable individual and connect them with the appropriate support services accordingly.

Question

Write a Refer statement in your own words below.



04. Reconnect

Where possible always go back and check in. Enquire about their coping ability.

Guidelines

1. Make a specific plan to check-in and stay connected.
2. Confirm the details of your next meeting.
3. "I'll send you a message tomorrow to check-in with you".
4. Ask if action steps have been taken and whether or not they are working effectively?

Examples

- "In just wanted to see how you've been and let you know I'm here to help anytime."
- "I'm following up with how you've been feeling. Last time you said (x,y,z) and I wanted to see if you've managed to get some support."
- "I know the other day when we spoke, there was a lot going on for you. I wanted to check in again and see whether there was something I could do to help?"
- "Sounds like you've got some good things in place. I'll check in with you next week to see if you're okay. Even if you feel it's not necessary, it will make me feel better knowing I checked in."

Question

Write a Reconnect statement in your own words below.

Practice Scenario 1: Lucy (customer) and Jenny (employee)

Lucy appears to be very stressed when she calls to discuss an update on her claim. Usually she is a happy-go-lucky, friendly person. However, today she does not seem to be her usual self. Lucy discloses that she is going through a separation with her abusive partner and that managing work and finances along with looking after her two children is becoming very overwhelming.

Jenny finds this situation very confronting and difficult to deal with. After hearing Lucy's comments, she says "Oh my god! That is terrible. I could never be with someone like that". Jenny then reassures Lucy that she will do everything she can to process the claim as fast as possible but that's all she can do for her.

Discuss:

Using the 4R's come up with some ways this could have been handled better. What steps were done well? What could be improved?

1. Recognise:

2. Respond:

3. Refer:

4. Reconnect:

Practice Scenario 2: Jim (customer) and Kelly (employee)

Jim visit his local RACQ branch to enquire about purchasing car insurance. He tells Kelly (employee) through very broken English that he has just purchased a car and needs insurance right now.

Kelly starts asking him questions and all he keeps saying he doesn't understand despite being simple questions. Kelly grabs a brochure and says "read this, it has all the info you need in there. Come back to me when you know what you want".

Jim starts getting agitated and angry. He says he is from overseas and needs car insurance now. Kelly tells Jim he can't assist without the right information and that's final!

Discuss:

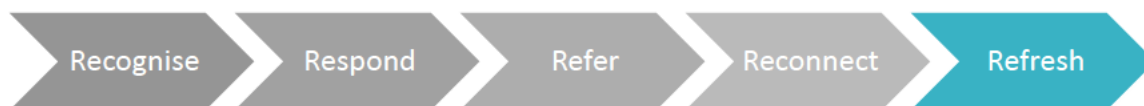
Using the 4R's come up with some ways this could have been handled better. What steps were done well? What could be improved?

1. Recognise:

2. Respond:

3. Refer:

4. Reconnect:



05. Refresh

Take care of your own wellbeing following challenging conversations.

Actions Following Interactions with Vulnerable people

Following a difficult conversation with a vulnerable customer, here are some actions you can take to ensure their well-being and address any concerns:

1. **Reflect and Debrief:** Take some time to reflect on the conversation and your own emotions. Discuss the situation with a supervisor, colleague, or support person to process your own feelings and gain perspective. This can help prevent burnout and ensure your own well-being.
2. **Document the Conversation:** Make detailed notes about the conversation, including key points discussed, customer concerns, and any commitments made. Accurate documentation can help provide a reference for future interactions and ensure continuity of support.
3. **Follow-Up Communication:** If appropriate, follow up with the customer to check on their well-being and address any outstanding concerns. This gesture shows that you genuinely care and are committed to providing ongoing support. It also allows you to address any unresolved issues or provide additional assistance if needed.
4. **Referral or Connection to Resources:** Based on the customer's needs and concerns expressed during the conversation, provide appropriate referrals or connect them to relevant resources or support services. This can include sharing contact information, websites, or information about local organizations that specialize in addressing their specific needs.
5. **Seek Supervisory Guidance:** If the conversation raised complex or challenging issues, seek guidance from a supervisor or a designated person within your organization who can provide further support or advice on handling such situations effectively. They may have additional insights or strategies to help address the customer's concerns.
6. **Continuous Learning and Improvement:** Use the experience as an opportunity for personal and professional growth. Reflect on the conversation and consider what could have been done differently or more effectively. Seek additional training or resources to enhance your skills in supporting vulnerable customers and managing difficult conversations.
7. **Advocate for Systemic Changes:** If the conversation highlighted systemic issues or gaps in support, consider advocating for changes within your organization or the broader community. This could involve raising concerns with management, suggesting policy improvements, or participating in initiatives that address the needs of vulnerable customers more effectively.
8. **Practice Self-Care:** Engage in self-care activities to ensure your own well-being. Difficult conversations can be emotionally draining, so make time for activities that help you relax, recharge, and maintain your own mental and emotional health. This can include hobbies, exercise, spending time with loved ones, or seeking support from your own support network.

Remember, each situation and customer is unique, so it's important to adapt your actions to the specific needs and circumstances. Your intention should always be to provide support, learn from the experience, and continuously improve your skills in assisting vulnerable customers.

Self-Care - Types of Coping Strategies

There are many ways to reduce stress during difficult times. Most healthy coping strategies fall into four broad categories:

1. Problem-focused coping strategies
2. Emotion-focused coping strategies
3. Social Support
4. Meaning Making

Question

Brainstorm ways you can support your own wellbeing considering the above coping strategies.

Self-Care Strategies

Engaging in self-care activities is crucial after distressing conversations to help manage and process your own emotions effectively. Here are some self-care options you can consider:

1. **Take a Break:** Allow yourself some time to decompress and step away from work-related stress. Take short breaks throughout the day to engage in activities that help you relax and recharge.
2. **Practice Deep Breathing:** Deep breathing exercises can help calm your mind and body. Take a few minutes to focus on your breath and allow yourself to unwind and let go of tension.
3. **Engage in Physical Exercise:** Physical activity, such as going for a walk, practicing yoga, or participating in a workout, can help release stress and promote overall well-being. Find an exercise routine that suits your preferences and schedule.
4. **Connect with Supportive People:** Reach out to friends, family, or colleagues who can provide emotional support and understanding. Talking to someone you trust about your feelings can be cathartic and help alleviate emotional distress.
5. **Engage in Hobbies or Activities You Enjoy:** Dedicate time to activities or hobbies that bring you joy and relaxation. It could be reading, listening to music, painting, cooking, or any other activity that allows you to engage in self-expression and find solace.
6. **Practice Mindfulness:** Engage in mindfulness techniques to stay present and grounded. Focus on the sensations in your body, notice your surroundings, and let go of negative thoughts. This practice can help you manage stress and maintain a sense of balance.

7. **Get Sufficient Rest and Sleep:** Prioritize getting enough restorative sleep each night. Quality sleep is crucial for your overall well-being and helps you process emotions more effectively.
8. **Seek Professional Support (EAP):** If you find it challenging to cope with distressing conversations or if you're experiencing persistent emotional difficulties, consider reaching out to a mental health professional (EAP). They can provide guidance and support tailored to your specific needs.
9. **Engage in Self-Reflection and Journaling:** Reflect on your feelings and thoughts by journaling or engaging in self-reflection. Writing can help you process emotions, gain insights, and identify any patterns or areas for personal growth.
10. **Set Boundaries and Practice Self-Compassion:** Establish healthy boundaries to protect your well-being. Recognize that it's normal to have emotional responses after difficult conversations and be kind to yourself. Practice self-compassion by offering yourself understanding and self-care during challenging times.

Remember that self-care is an ongoing practice and may require a combination of different strategies. Prioritize your well-being and choose activities that resonate with you personally.

Discuss

Brainstorm ways you can create a supportive team environment.

Strategies to Create a Supportive Team Environment

When teams encounter difficult conversations, it's important to foster a supportive environment where members can rely on each other for assistance and understanding. Here are some ways teams can support each other during challenging discussions:

1. **Active Listening:** Encourage team members to practice active listening during conversations. This means giving their full attention, maintaining eye contact, and showing empathy through verbal and non-verbal cues. Active listening helps team members feel heard and validated.
2. **Emotional Support:** Create a safe space where team members can express their emotions and concerns openly. Encourage individuals to share their feelings and provide support without judgment. Validate their emotions and offer reassurance to help alleviate stress.
3. **Respectful Communication:** Foster an atmosphere of respect and courtesy within the team. Remind members to use constructive and non-confrontational language during discussions. Encourage open dialogue while discouraging personal attacks or dismissive behaviour.
4. **Collaboration and Perspective Sharing:** Encourage team members to contribute their perspectives and insights during difficult conversations. By valuing diverse opinions, the team can gain a more comprehensive understanding of the situation and explore different solutions collectively.
5. **Team Building Activities:** Engage in team-building activities and exercises that promote trust and strengthen relationships. These activities can include team lunches, social events, or

team-building workshops. Building a positive team dynamic helps members support each other during challenging times.

6. **Debriefing and Reflection:** After difficult conversations, conduct debriefing sessions where team members can reflect on the discussion and share their experiences. This allows the team to process emotions collectively, identify areas for improvement, and learn from the experience.
7. **Skills Training and Development:** Offer training sessions or workshops focused on communication, empathy, and conflict resolution skills. Provide resources that enhance the team's ability to navigate difficult conversations effectively and support each other through challenging moments.
8. **Peer Support and Mentorship:** Encourage team members to seek support from their peers or mentor figures within the team. Establish a culture where experienced team members provide guidance and assistance to those who may be less experienced or struggling with difficult conversations.
9. **Recognition and Appreciation:** Recognize and appreciate team members' efforts in handling difficult conversations. Celebrate their empathy, active listening skills, and effective communication. Acknowledging their contributions fosters a positive team atmosphere and encourages continued support for one another.
10. **Flexibility and Work-Life Balance:** Support team members by promoting work-life balance and providing flexibility during challenging times. Encourage them to take breaks, engage in self-care, and seek support outside of work when needed. Demonstrating care for their overall well-being enhances their ability to support each other effectively.

By implementing these strategies, teams can create an environment where members feel supported, heard, and valued during difficult conversations. This promotes collaboration, empathy, and the overall well-being of the team.

#4. EMPLOYEE ASSISTANCE PROGRAM (EAP)

Your Employee Assistance Program (EAP) is a confidential counselling service offered to you by your employer to help all employees deal with personal or work-related issues in a positive way. This is a completely confidential service & is free of charge. Contact Acacia Connections for more information or to book a session with a qualified psychologist.

Phone: 1300 364 273 | Web: acaciaconnection.com | Text / Live Chat: 0401 33 77 11

EAP SERVICES AVAILABLE

- **Employee Assistance**
Counselling for employees and immediate family members.
- **Financial Support Service**
Assistance including budgeting, managing financial stress, managing creditors.
- **Dietician Support**
Advice on diet and nutrition, weight loss etc.
- **Legal Referral**
Referral advice for legal concerns (not against company).
- **Crisis Support – 24/7/365**
Support for issues / incidents of a serious nature. For when employees are experiencing great distress and immediate support is required – available day or night.

EAP COUNSELLING SERVICES

- Face to Face
- Video Link
- Over the phone
- By SMS (text message)
- Crisis Call Support

“Be strong enough to stand alone, smart enough to know when you need help, and brave enough to ask for it.” - Ziad K. Abdelnour



RACQ Insurance Ltd ABN 50 009 704 152
2649 Logan Road, Eight Mile Plains, Qld 4113
PO Box 4, Springwood, Qld 4127
13 1905 racq.com

 Assistance  Banking  Insurance  Lifestyle

11 November 2022

Committee Secretary
Joint Select Committee on Northern Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Submitted via online portal

Dear Committee Secretary

RACQ is pleased to provide its advice and unique insights to the Joint Select Committee on Northern Australia (the Committee) inquiry into the Cyclone Reinsurance Pool (the pool).

Primarily, RACQ urges the Committee to recommend that the Federal Government immediately works to improve the pool through new consultation with individual insurers operating in the north.

RACQ is very concerned the pool in its current form will fail to achieve the policy objectives – improving access and affordability of property insurance in cyclone prone areas. Worse, the pool will fail to meet the expectations of RACQ's 300,000 members in the north.

RACQ understands that this inquiry aims to identify opportunities to enhance the efficiency and effectiveness of the pool, in relation to its operation and implementation. RACQ would have liked to be already offering meaningful premium reductions to our members through the pool. However, policy decisions that imposed complexity and restrictions have held us back from joining from the start date (1 July 2022) and have raised doubts as to whether the pool will achieve the Government's objectives.

More than any other insurer, RACQ has been vocal in its support for a well-designed cyclone reinsurance pool, and we maintain this position. In fact, with every year the disaster risk grows in Queensland, so too does our support for a pool, in the absence of mitigation. However, RACQ has been equally vocal in calling out inadequacies in the pool's design, development and legislation, while also putting forward practical suggestions that would improve the pool.

We have lodged several submissions, participated in numerous forums and meetings with Government agencies, and appeared before a Senate Committee in March this year. However, we are still left with a pool that is unlikely to deliver what was previously promised.

RACQ has examined information released by the Australian Reinsurance Pool Corporation in recent months, including more specific pool pricing information. However, we still cannot see how the pool will drive deep and widespread premium reductions in northern Australia. We are concerned that any benefits will be more than offset by affordability pressures that are already pinching from building inflation, rising claims costs and growing climate impacts.

The pool needs a redesign if there is a serious intent for the pool to work properly. RACQ cannot identify how material improvements can be made to the pool without changing the legislation and regulations. We therefore urge this Committee to consider the below recommendations.

RACQ RECOMMENDATION: The Federal Government should immediately work to improve the pool through new consultation with individual insurers operating in the north. The Government should set its desired level of premium reductions so insurers can consider necessary changes to achieve objectives.



RACQ Insurance Ltd ABN 50 009 704 152
2649 Logan Road, Eight Mile Plains, Qld 4113
PO Box 4, Springwood, Qld 4127
13 1905 racq.com

 Assistance  Banking  Insurance  Lifestyle

Budget Neutrality

RACQ would like the Committee to challenge the “non-negotiable” policy parameter that the pool must be Budget-neutral over time. This was decided early on and immediately restricted the pool’s effectiveness.

As a result, information made available to RACQ does not seem to indicate widespread premium reductions. Any pool benefit that policyholders actually experience is highly uncertain and will be dependent on a number of factors including changes to the cost of non-pool reinsurance next year, the insurer’s current pricing of cyclone risk and underlying claims inflation which is at a record high.

The Assistant Treasurer has already taken steps to moderate community expectation of the level premium relief the pool can deliver. The pool needs to come with a level of subsidy if there is to be any chance for the pool to deliver significant savings to many policyholders.

RACQ RECOMMENDATION: The Committee should explore ways that Government subsidisation of the pool, or direct subsidisation to homeowners, may improve insurance accessibility and affordability in northern Australia.

Claims Period

The legislation and regulations prescribe that the pool provides coverage for claims which commence within the claims period – beginning at the time a cyclone is declared and ending 48 hours after the cyclone has been downgraded.

This so-called “48-hour rule” has been repeatedly raised as a severe limitation, causing much of the pool’s complexity and uncertainty. This will force RACQ to purchase additional cyclone reinsurance cover from the global market to ensure that ex-Tropical Cyclones with a long duration do not leave us dangerously exposed. This type of “spill over” cyclone cover is untested in the global reinsurance market, and reinsurers will certainly add a premium to the cost of this cover to account for the uncertainty.

In addition to the financial impact, we anticipate cumbersome member and staff experiences due to the claims period. We are currently building numerous new processes, reports, and system functionality to enable classification of cyclone claims that fall within the claims period, to ensure we correctly seek recovery of associated costs from the pool. This is all anchored to the precise time the loss commenced. It may not only be impossible in some situations to correctly identify the time of loss, but could be perceived as an overly specific and insensitive question to ask a distressed RACQ member whose home has been destroyed, given they may have been evacuated at the time.

RACQ RECOMMENDATION: The definition of the claims period should be changed to align with standard reinsurance treaties and apply a “168 hours clause” (seven days). However, the seven-day period selected by the insurer must overlap with a point in time when the weather event was still a declared cyclone to meet the Government’s policy objectives.

Motor Insurance

The decision to exclude motor insurance is another complexity because it forces RACQ to “carve out” home from motor – and purchase standalone cyclone reinsurance from the global market just for motor vehicles. This is a practice that we have never been required to do until now, adding further effort and cost to the annual process.

Reinsurers have not previously been required to model and price for cyclone risk for motor insurance alone. This new complexity and uncertainty will be met by additional reinsurance premium charged to insurers, until the risk models mature over time. Put simply, more complexity and more uncertainty will bring more cost to the system, and so the pool has not been set up to succeed.



RACQ Insurance Ltd ABN 50 009 704 152
2649 Logan Road, Eight Mile Plains, Qld 4113
PO Box 4, Springwood, Qld 4127
13 1905 racq.com

 Assistance  Banking  Insurance  Lifestyle

RACQ RECOMMENDATION: The pool should be expanded to also cover motor insurance to ensure efficiency and cost effectiveness.

Price Monitoring Certainty

RACQ acknowledges the important role of the Australian Competition and Consumer Commission (ACCC) as price monitor for the pool. We also appreciate the consultative approach taken to the first data and document request conducted in August-September 2022 which will establish a baseline upon which the effectiveness of the pool can be measured.

However, insurers still lack certainty regarding how the ACCC will price monitor the industry in future years. The nature of detailed data that may be requested remains unclear. We are changing our systems and reporting landscape now to get ready to join the pool, yet we don't know if this work will enable us to provide data in the specific manner required by ACCC in future.

Any additional system or reporting enhancements needed in future to comply with ACCC data and document requests will come at additional costs which ultimately flow through to our members, eroding any premium benefits the pool may generate.

RACQ RECOMMENDATION: The ACCC should provide advance notice to insurers of the specific nature of data it intends to collect in future years, to enable insurers to confidently change their systems and reporting infrastructure.

RACQ, as always, would be pleased to further discuss our positions and recommendations. We attach two of our previous submissions (also publicly available here: [December 2021](#) and [March 2022](#)) which have largely remain unchanged.

Yours sincerely

David Carter
Group CEO

Trent Sayers
Group Executive Insurance



RACQ Operations Pty Ltd AEN 80 009 663 414
Agent for the RACQ Group

2649 Logan Road, Eight Mile Plains, Qld 4113
PO Box 4, Springwood, Qld 4127
(07) 3361 2444 racq.com

 Assistance  Banking  Insurance  Lifestyle

17 December 2021

Mohita Zaheed
Assistant Secretary
Treasury
Langton Cres
Parkes ACT 2600

Dear Ms Zaheed

The Royal Automobile Club of Queensland (RACQ) is pleased to provide the attached submission to the exposure draft legislation regarding the cyclone and related flood damage reinsurance pool.

Although our team has examined the exposure draft to the best of its ability, the short consultation period of 10 business days has made the task very difficult. We have sought to provide a comprehensive view of RACQ's perspective however we would like to reserve the right to provide supplementary comments in the new year should further consideration warrant them.

RACQ has provided input to the Insurance Council of Australia's submission but there are issues on which we differ or have more to say and these are apparent in the attached.

Despite the exposure draft providing more detail on the policy direction the Government proposed to take, there are a lot of factors we still do not know. For this reason, we are not yet able to assess how effective the pool will be in meeting the Government stated policy objective – improving the accessibility and affordability of insurance in cyclone prone areas.

We encourage the Treasury-led Cyclone Reinsurance Taskforce and the Australian Reinsurance Pool Corporation to heighten industry consultation next year to work through the finer detail and the unresolved issues.

I reiterate RACQ's commitment to work hand-in-hand with Government to ensure the pool works for everyone involved – the Government, industry, and most importantly policyholders in the north. For any queries related to our submission, the Taskforce can contact in the first instance Head of Insurance Business Resilience

Yours sincerely

Group CEO



CYCLONE REINSURANCE POOL

RACQ RESPONSE TO EXPOSURE DRAFT
LEGISLATION AND REGULATIONS

December 2021

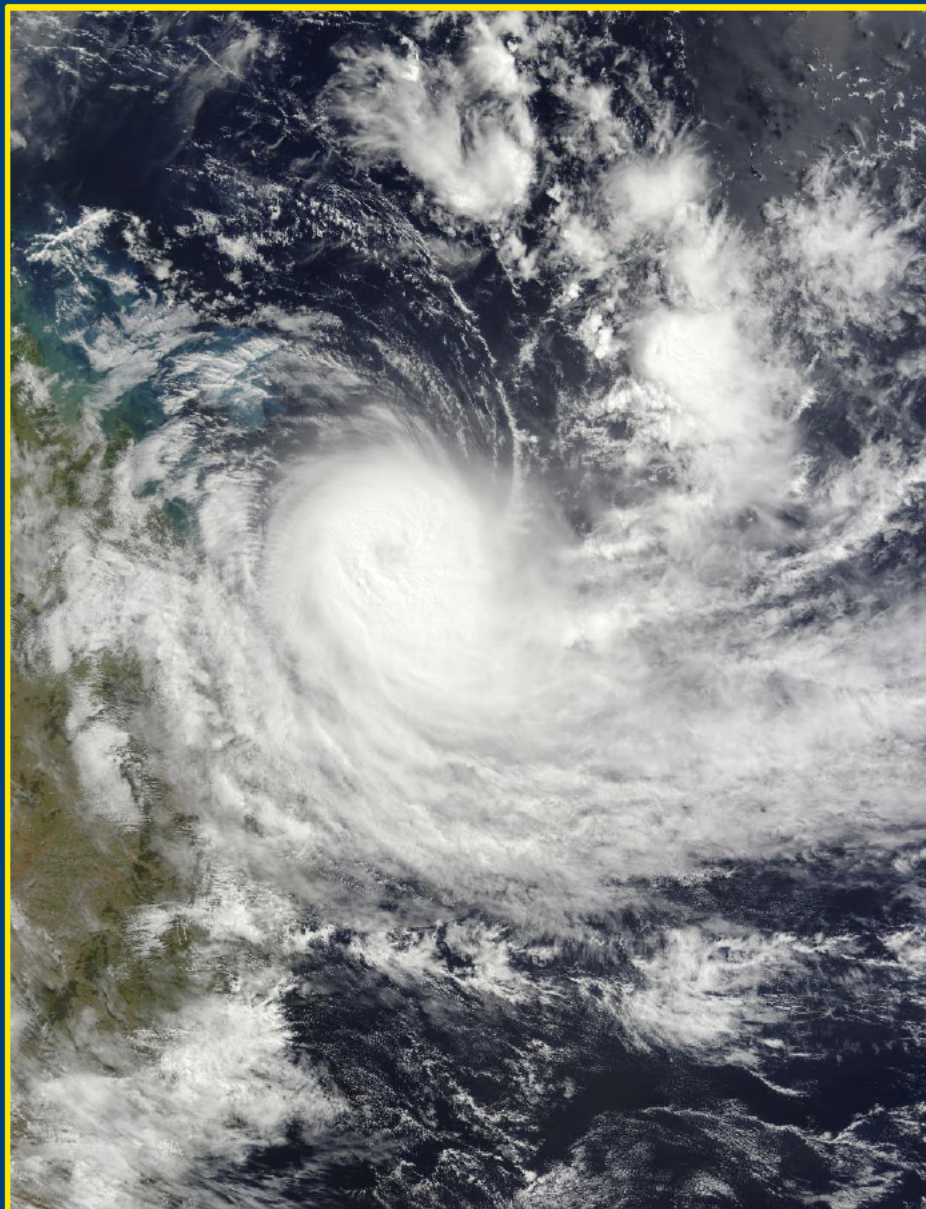


TABLE OF CONTENTS

| | |
|---|-----------|
| EXECUTIVE SUMMARY | 3 |
| Full list of recommendations | 5 |
| INTRODUCTION | 7 |
| SECTION 1: THE POOL'S POTENTIAL | 9 |
| RACQ'S RECOMMENDATIONS ADOPTED | 9 |
| OTHER DECISIONS TAKEN..... | 11 |
| SECTION 2: KEY ISSUES | 14 |
| COST – PRICING FORMULA AND SCHEDULE ISSUES | 14 |
| Premium formula and catastrophe modelling..... | 15 |
| Reinsurer margins | 16 |
| Other cost pressures in general insurance | 16 |
| CAPITAL – PRUDENTIAL REQUIREMENT UNCERTAINTY | 18 |
| COVERAGE | 19 |
| Claims period | 20 |
| Policy and product..... | 23 |
| CLAIMS MANAGEMENT | 24 |
| Current reinsurance event loss recovery process | 25 |
| Recovery from multiple reinsurance panels | 25 |
| Time of loss..... | 26 |
| Primary insurer responsible for categorising losses | 27 |
| SECTION 3: OTHER CONSIDERATIONS | 28 |
| PRICE MONITORING..... | 28 |
| CLAIMS HANDLING EXPENSES | 28 |
| EXCESS AMOUNT..... | 29 |
| SYSTEMS CHANGE | 29 |
| CONCLUSION | 29 |



EXECUTIVE SUMMARY

The Royal Automobile Club of Queensland (RACQ) exists solely for our members who are our only shareholders. Approximately 300,000 north Queenslanders are members of RACQ. We are proud of our history of being on the ground, helping tens of thousands of Queenslanders through some of the worst natural disasters this state has ever seen. Much of the devastation has occurred in north Queensland, a region synonymous with tropical cyclones.

RACQ strives to play our role in keeping general insurance accessible, affordable and sustainable, particularly for our members in high-risk areas.

We strongly advocate for greater mitigation investment, contribute to critical research to fill knowledge gaps, attend industry and Government forums, actively participate in inquiries and, importantly, embed resilience into our business practices.

We have also long acknowledged that insurance in the region is becoming unsustainable but there are well-documented reasons. Disaster risk is increasing, climate impacts are being felt, communities have been put in harm's way, significant resilience investment has been absent, the "double-tax" (GST and stamp duty) on insurance is exacerbating and, more recently COVID-related factors have added to these pressures.

Resilience must remain at the core of keeping insurance accessible and affordable. A cyclone reinsurance pool will work best when it is running alongside significant multi-year investment in resilience and mitigation.

RACQ has supported the Government's cyclone reinsurance policy as it has developed throughout the year.

However, draft legislation released on 3 December 2021 only tells half the picture. We are yet to know a number of factors that will decide the pool's effectiveness, particularly the catastrophe modelling and pricing structure. We also believe the draft legislation contains a number of issues that could run counter to the Government's policy objective of improving accessibility and affordability of insurance in cyclone prone areas.

We remain hopeful that a well thought-out, fit-for-purpose pool can be achieved next year and we look forward to working with the Government on the finer details and resolving several outstanding concerns and challenges.

RACQ was pleased that the Cyclone Reinsurance Taskforce (the Taskforce) adopted into the draft Bill a number of our policy recommendations made in June, specifically:

- 1. Mandatory national reinsurance pool**
- 2. Suitable transition period (at least one year)**
- 3. Includes cyclone related flooding and storm surge**
- 4. Property-level pricing**
- 5. Cover landlords (investment properties for both stand-alone dwellings and strata dwellings)**
- 6. Operate on a continuous basis with no exit date**
- 7. Flexible risk retention**

We also support other decisions taken in the development of the policy and draft legislation. The pool will pay for the entire value of eligible cyclone claims after the policyholder's excess amount. RACQ believes this is a decisive step towards delivering on the policy objective.

Aggregating the premium pool to re-distribute the benefits to those who are in greatest need of assistance is also a positive move. Meaningful benefits can be provided to a smaller cohort of higher risk policyholders by gathering and redistributing the very small gains on the more numerous lower risk policies.

However, there are several unresolved issues. The pool's effectiveness will be predicated on certainty and confidence. The reinsurance market will need certainty in exactly what risks they are writing and confidence that losses believed to be covered by the pool will not leak to them.



Primary insurers dealing with the pool now need certainty in exactly what they are seeking from the reinsurance market – the exposure gaps that are left by the pool – and confidence that the pool provides cover as intended with minimal friction costs.

Any lack of certainty or confidence from either industry will undermine the pool in its policy objective. Greater uncertainty in insurance almost always puts greater cost into the system.

RACQ has identified four key themes that best encapsulate our main concerns.

- **Cost** – The draft legislation was released without a pricing formula or schedule of premium rates so we are not yet able to assess the difference between the “pool rate” and the “market rate” and the associated benefits for our members. A pricing approach that is truly not-for-profit and free of unintended consequences will be critical to the pool’s success.
- **Capital** – APRA has not articulated its intended treatment of the \$10 billion guarantee so RACQ is not yet able to assess the pool’s effect on our prudential requirements, thus we cannot advise the extent to which this will flow through to our members’ premiums. RACQ plans to write to APRA to seek its guidance in this regard.
- **Coverage** – In seeking a “black and white” set of rules to govern the determination of recoverable losses, the pool has limitations that partly offset its strengths. The defined “claims period” is the most obvious example and will restrict the number of cyclone-related claims it covers as will the exclusion of motor. This will lead to only partial transfer of the cyclone and flood-related risk to the pool and require cover to continue to be purchased from the reinsurance market. Further, changes to risk modelling will be required to “carve” out the risk associated with the new definition. As the modelling is uncertain, it is likely to result in additional cost to offset. Other critical factors are uncertain, such as the treatment of product features and the Bureau of Meteorology’s (BoM) cyclone declarations in practice.
- **Claims Management** – The coverage issue can potentially lead to confusion and delay in the management of cyclone claims as well as a different kind of claims experience for RACQ members. Although absent in the proposed legislation, Treasury’s Factsheet states that insurers will continue to manage any claims. This is a sensible step to ensure the primary insurer manages the end-to-end relationship with the policyholder. However, RACQ is concerned certain policy settings related to the pool’s coverage may require additional processes, administration and cumbersome interactions with our members, culminating in extra costs borne by the insurer and frustration for those impacted by a cyclone.

RACQ notes that Government expects the pool to achieve premium savings in two distinct ways:

- 1) The pool will charge premiums to insurers without a commercial profit margin
- 2) The \$10 billion guarantee is available to be drawn down immediately if the premium pool is exhausted at any time.

The resolution of Cost and Capital will inform the effectiveness of each mechanism while questions relating to Coverage and Claims Management are necessary to determine how these factors will offset the benefits.

There are other considerations highlighted in the paper, including price monitoring, claims handling expenses, excess amount and systems change with the Australian Reinsurance Pool Corporation (ARPC).

RACQ commends the Government on moving the cyclone reinsurance pool policy closer to reality through draft legislation. However, we note there is still a lot of work to do on the finer detail, particularly modelling and pricing. The Government must next year heighten consultation that is inclusive of the broad industry.

We remain entirely committed to the interests and wellbeing of our members and the region and so we welcome a pool that will deliver downward pressure on premiums and keep insurance accessible well into the future.

A total of 15 recommendations are featured throughout the submission with explanations, however a full list is provided here.



Full list of recommendations

1. **The Government's values should be adjusted so the legislation makes abundantly clear that the stated policy objective – improving insurance accessibility and affordability – is the overriding priority of the pool.**
2. **The pool's catastrophe modelling should be shared with all insurers as soon as possible.**
3. **The ARPC and the Taskforce should have due regard for reinsurers' current operating environment and underlying performance when determining a reasonable profit margin to be foregone.**
4. **The ARPC and the Taskforce should have due regard for insurers' current operating environment, including unprecedented cost pressures, when determining the catastrophe modelling and pricing formula.**
5. **APRA should advise insurers of its approach to recognising the \$10 billion guarantee in prudential capital requirements as soon as possible.**
6. **The ARPC and/or the Taskforce should further detail the approach to restoring the \$10 billion guarantee using future premiums. Any payback period should not occur over a short period.**
7. **The ARPC should clarify what "own resources" means in relation to meeting claims costs.**
8. **The definition of the claims period should be changed to align with standard reinsurance treaties and apply a "168 hours clause" (seven days). However, the seven-day period must overlap with a point in time when the weather event was a declared cyclone to meet the Government's policy objectives.**
9. **The pool's coverage should match the reinsurance market's treatment of product coverage, meaning it would cover features and entitlements above sum insured. The pool should also cover other forms of insurance that are impacted by cyclone, particularly motor, as per standard market practice. Clarification of any maximum sum insured limits for residential properties should also be given.**
10. **The full value of eligible claims should be recoverable from the pool if a portion of loss occurred during the claims period.**
11. **Assessing claims and costs for recovery should remain the responsibility of the insurer for the purposes of pool recoveries. The pool recovery process should include "cash calls" consistent with current reinsurance market practice.**
12. **The price monitoring regime should be simple and not become a costly investigation that dilutes premium benefits by increasing regulatory costs and therefore, runs counter to the Government's policy objective.**



- 13. The ARPC should share with the insurance industry any property-level cyclone and flood mitigation data it uses to provide discounts to policyholders. The ARPC could share this data with the Insurance Council of Australia to upload it onto the existing National Flood Information Database (NFID).**

- 14. The pool should cover claims handling expenses associated with eligible cyclone-related losses.**

- 15. The ARPC should consult with insurers in the design and implementation of systems to operate the pool.**



INTRODUCTION

RACQ is Queensland's largest member-owned mutual with nearly 1.8 million members. RACQ provides motor vehicle roadside assistance across the state, together with insurance and banking. The Club has been operating for over 116 years and this year marks our 50th anniversary providing general insurance to Queensland homeowners and motorists. We have grown to become the state's largest motor insurer and second largest home insurer.

Unlike the majority of the market, we are not governed by the pursuit of profits. As a mutual, RACQ exists solely for our members who are our only shareholders. Approximately 300,000 north Queenslanders are members of RACQ, 20% of whom have home and/or contents insurance with us. Many of these homeowners have turned to RACQ in their greatest hour of need.

We maintain a strong daily presence in the region, particularly in the populated centres of Rockhampton, Mackay, Townsville and Cairns where we have more than 50 staff and contractors based, with RACQ branches in each location and we are pleased to be able to deliver face-to-face services to north Queenslanders on an ongoing basis. Everyone at RACQ is proud of our history of being on the ground, helping tens of thousands of Queenslanders through some of the worst natural disasters this state has ever seen. Much of the devastation has occurred in north Queensland, a region synonymous with tropical cyclones.

Eight of RACQ's 15 costliest weather events in the past decade have occurred in north Queensland and all of them, with the exception of Townsville floods (2019), have involved tropical cyclones.

RACQ is immensely proud of its record in putting our members' lives back on track after natural disasters. Our Assistance fleet is on the ground as our initial incident response and our Mobile Member Centre is often the first insurance vehicle in impacted regions. Our catastrophe response also features dedicated teams of assessors, claims managers and professionals as well as a vast network of builders, trades and other partners. This response activity often stretches far beyond insurance. The RACQ Foundation exists to help communities recover from adversity. For instance in the aftermath of the Townsville Floods, the Foundation gave more than \$780,000 to 22 impacted community groups such as sporting clubs and charitable organisations. We also sent 23 staff and skilled tradespeople to help 13 community groups and farms rebuild and repair their assets and properties after the floods.

RACQ has accumulated many insights and experiences to help Governments and communities build a more resilient north Queensland. We are passionate supporters of this wonderful part of Queensland and we want to see the region grow and prosper well into the future.

In this respect, our motivations go far beyond general insurance. We believe natural hazard resilience in north Queensland will improve quality of life, and in turn, create happier, safer communities. One cannot put a dollar figure on having greater peace of mind and confidence to make more certain decisions about family, home, and business. If we all act on this starting premise, then a stronger economy and more accessible insurance should fall into place.

Nevertheless, RACQ strives to play our role in keeping general insurance accessible, affordable and sustainable, particularly for our members in high-risk areas. RACQ advocates for greater mitigation investment, contributes to critical research to fill knowledge gaps, attends industry and Government forums, actively participates in inquiries and, importantly, embeds resilience into our business practices.

In 2016, we introduced a cyclone resilience discount which involves a premium reduction of up to 20% of a premium's cyclone component for members who implemented various resilience measures to their home including strengthening their roof and cyclone shutters.

RACQ has long acknowledged that the cost of insurance in north Queensland is too high and becoming unsustainable. It is well understood that north Queenslanders are paying double for their home insurance compared to southern Australia. However, through many inquiries, the causes are now well understood.

Disaster risk is increasing, climate impacts are being felt, communities have been put in harm's way, significant resilience investment has been absent, the "double-tax" (GST and stamp duty) on insurance is exacerbating



and, more recently COVID-related factors have added to these pressures. The main objective of our insurance pricing strategy is to collect enough premium from members to fully pay all projected claims costs.

Despite the cost disparity, the region has not been profitable for general insurers for a long time. The Australian Competition and Consumer Commission (ACCC) noted that over the 12-year period to 2018-19, insurers in northern Australia, including RACQ, have experienced an estimated aggregate gross loss across home, contents and strata insurance products of approximately \$856 million in real terms.

North Queensland needs a comprehensive plan for resilience and sustainable insurance agreed to by all levels of Government, one that leverages the expertise of insurers like RACQ to ensure it will result in tangible affordability outcomes.

There is no “silver bullet” to these complex challenges. However, the Commonwealth Government’s policy to introduce a cyclone reinsurance pool (the pool) could be an important part of a larger program of practical, evidence-based initiatives. Without projects to protect vulnerable communities along our coastline, the pool risks becoming nothing more than a “band-aid” solution. However, working in tandem with meaningful investment that progressively takes risk out of the system, as well as tax relief and disaster mitigation, a well-designed and efficient pool can provide much welcome relief to RACQ members and the broader north Queensland region while ensuring continued access to affordable insurance.

On that basis, RACQ expressed its support during Treasury’s initial consultation in June this year. The release of exposure draft legislation and regulations regarding the pool’s proposed structure, governance and operation on 3 December 2021 helps RACQ better understand the policy in practice and how it could help (or affect) our members.

However, it is only half the picture as there is still much we do not know and evidently, much that is yet to be developed. We need to know the pool’s catastrophe modelling, pricing structure, more detail on exclusions and capital implications as well as other rules and processes that will influence how we do business with other reinsurers and, ultimately, assist our members.

These issues are further explained in this submission.

Based on advice the Taskforce has provided to industry on timing of deliverables, it is difficult to see any pathway that would enable the pool to be operating and accessible to insurers on the proposed start date of 1 July 2022.

However, we remain hopeful that a well thought-out, fit-for-purpose pool can be finalised next year. We also believe the pool can make a difference in the north, but the industry is facing a number of issues, pressures and uncertainties that will limit the size of benefits for our members. We look forward to closely collaborating with the Taskforce, Treasury and the ARPC next year, as we have done throughout 2021, to ensure the pool is effective and works for Government, insurers and, most importantly, policyholders in northern Australia.



SECTION 1: THE POOL'S POTENTIAL

RACQ has always assessed and supported the pool with the Government's policy objective in mind, which is to improve the accessibility and affordability of insurance in cyclone prone areas of Australia. This focus will continue through legislation, pricing consultation and, ultimately, implementation.

During initial consultation, RACQ made a number of recommendations to Treasury for a well-designed pool that would meet the policy objective.

We are pleased to see a number of these recommendations partially or fully adopted in the exposure draft, as well as other decisions taken that will go some way towards setting up the pool for success.

RACQ'S RECOMMENDATIONS ADOPTED

1. Mandatory national reinsurance pool

Given the catastrophic nature of a cyclone, RACQ stated the pool should be mandatory for insurers to maximise efficiency, and therefore, benefits to be passed on to members. We believe such a pool can only work with scale and size so there are enough funds to build up over time to cover for liabilities. **Part 2A Section 8A** of the draft amendments detail the mandatory nature of the pool, specifically subsection 1 (a) & (b) specify contracts that:

- “(a) cover the insurer's liability, under all pool insurance contracts that it enters into, in respect of eligible cyclone losses; and*
- (b) insure against 100% of the insurer's liability, under each of those pool insurance contracts, in respect of eligible cyclone losses.” (Exposure draft legislation – page 5)*

The exposure draft regulations prescribe a threshold amount of \$10 million under which insurers with total gross written premiums (GWP) covering liability for cyclone losses are not required to participate (Exposure draft regulations – page 3).

This exclusion is appropriate to ensure only those insurers underwriting reasonable amounts of cyclone risks are contributing to the ARPC's premium pool and others with small exposures are not unnecessarily burdened with compliance and friction costs for little gain.

2. Suitable transition period (at least one year)

Recognising a mandatory pool involves a program of activity, including a period of allowing other reinsurance contracts to run so there are no “double-ups” of cover, RACQ recommended at least 12 months after the pool's commencement for insurers to participate.

This recommendation is now particularly pertinent given the number of uncertainties that remain and will not be clarified or known until next year, making participation on 1 July 2022 unachievable.

Part 2 Section 25 of the exposure draft legislation sets out those insurers who must commence by 2024 calendar year and the other smaller insurers (with total GWP less than \$300 million) who must commence by 2025 calendar year.

These periods should allow sufficient time for insurers to invest in necessary systems changes and restructure their reinsurance programs to accommodate the pool.

RACQ also understands the ARPC will allow insurers to join the pool at any time between 1 July 2022 and their respective commencement deadline. We support this decision as an insurer could use the allowance if it determines the full transition period is not needed to be ready, or if an insurer wants to see their policyholders benefit from the pool earlier than required.

3. Includes cyclone related flooding and storm surge

RACQ recommended all claims arising from a cyclone should be covered for certainty, confidence and clarity. We called for the pool to include claims relating to wind damage, water ingress, storm surge and flooding. We are pleased that the exposure draft legislation and regulations rely on the definition of a flood in subsection 34(1) of the *Insurance Contracts Regulations 2017* (Exposure draft regulations – page 3). There is now



universal application of this definition across general insurance and most home insurance policies now contain flood cover.

Section 5C of the exposure draft regulations state the definition of storm surge will be: “. . . *an abnormal rise in sea level, over and above the normal astronomical tide levels.*” (*Exposure draft regulations – page 3*)

Storm surge should be covered by the pool given that cyclones produce larger than normal tides. Storm surge has been defined by RACQ as “*an increase in the sea level that is caused by a tropical cyclone or other intense storm*” (*RACQ Household Insurance Policy PDS – page 113*).

While inclusion of flood and storm surge is to be commended, RACQ notes the exclusion of losses as set out in 8C & 8F of the exposure draft legislation regarding eligible cyclone loss and declarations about cyclone events respectively (*Exposure draft legislation – pages 8-10*). This effectively means the pool will only cover losses that occurred during a declared cyclone and 48 hours after it has been downgraded.

RACQ believes some of the certainty and clarity achieved through flood and storm surge inclusions could be clouded by the restrictions placed on claim eligibility. This issue is explored in greater detail in section 2.

4. Property-level pricing

RACQ recommended that the pool should price at the individual property level based on the risk profile of the property, to allow for accurate and fair pricing that takes into account a range of attributes. Keeping a price signal for risk is critical to incentivise mitigation and to discourage poor planning and construction of homes and communities.

While not explicit in the exposure draft legislation or regulations, the **Treasury Factsheet** states the pricing formula “*will use property-level data such as: geography, building characteristics, and mitigation*” (*Factsheet – page 2*).

RACQ welcomes this decision however the pricing formula is yet to be released for consultation. We note the Factsheet does not specify how cyclone peril will feature in the property-level pricing formula. A number of pricing issues to be resolved are detailed in section 2.

5. Cover landlords (investment properties for both stand-alone dwellings and strata dwellings)

RACQ felt it was important the pool covered landlord policies to enable tenants access to properties and affordable contents insurance. Landlords themselves are often “mum and dad” investors with the same insurance affordability pressures as residential homeowners.

An exclusion would have also unfairly penalised tenants who are often paying for growing property costs through rental increases. On this basis, RACQ supports 3B Definition of *pool insurance contract* in the exposure draft legislation which confirms the principal place of residence can be occupied by the insured or another person (*Exposure draft legislation – page 7*).

6. Operate on a continuous basis with no exit date

RACQ recommended against a pool exit date given the recurring nature of tropical cyclones in the north and climate science which indicates growing cyclone severity. The cost of cyclones will continue to rise and put upward pressure on insurance premiums.

Furthermore, RACQ is concerned that a foreseeable end to the pool will trigger insurers exiting the market, leaving a small number of Queensland-based insurers behind to pick up the poorer risks with no pool support. This would have been a perverse outcome, notwithstanding any disaster mitigation that was to occur for the duration of the pool. This is why RACQ is pleased to see no reference to an exit date in any of the materials released on 3 December 2021.

7. Flexible risk retention

RACQ has advocated for flexibility in the amount of insurers' risk retention for a range of reasons. Principally, we recognise that each insurer is different with their own portfolio needs and challenges. If the pool becomes an unviable form of cover for insurers with sizeable programs, then it is fair for those insurers to be allowed to decide what, if any, risk they should cede to the pool.



While ambiguous in the draft legislation, the Explanatory Memorandum (EM) states that a risk-sharing agreement could be put in place between the ARPC and the insurer after the first three years, on the condition that the pool continue to cover a significant proportion of cyclone-related risk.

OTHER DECISIONS TAKEN

RACQ understands that in insuring against 100% of the insurer's liability for eligible cyclone losses, the pool will pay for the entire value of eligible cyclone claims after the policyholder's excess amount. While not entirely explicit in the draft legislation, the Explanatory Memorandum clearly states this intent on page 12.

RACQ believes this is a decisive step towards delivering on the policy objective.

RACQ pays proportionately more for reinsurance in north Queensland with a "rate on line" (ratio of reinsurance premium paid to maximum loss recoverable) nearly three times greater than south east Queensland, as the below figure shows.

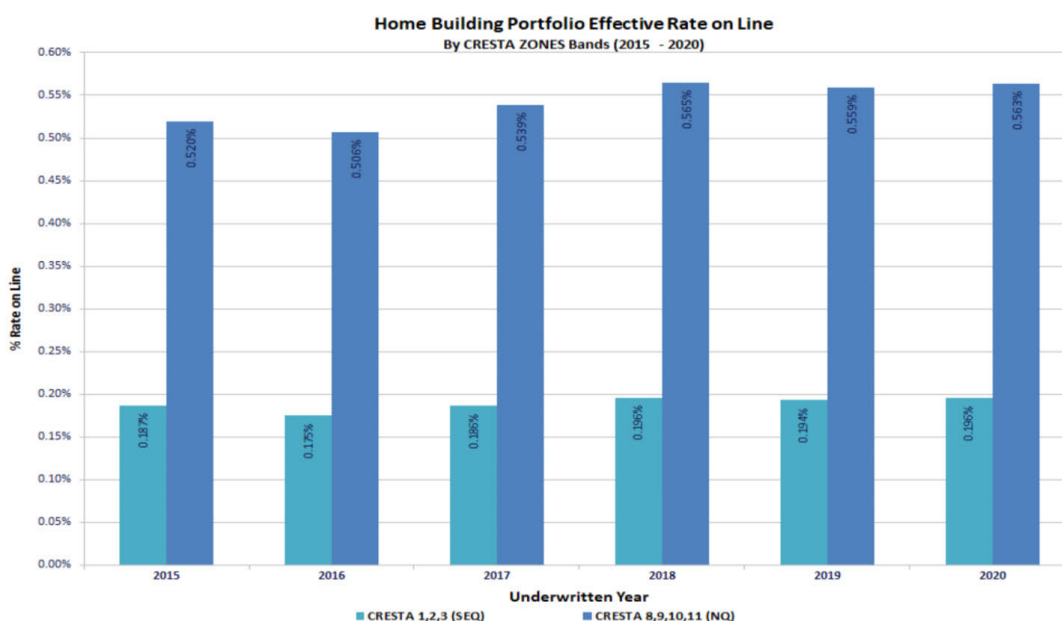


Figure 1: Home building portfolio effective rate on line
 Source: RACQ Internal Analysis

Cyclone drives this higher rate due to past claims history and catastrophe models that point to increased risk. RACQ's current catastrophe program costs \$125 million.

As mentioned above, eight of RACQ's 15 costliest weather events in the past decade have occurred in north Queensland. The below graph tracks the costs of these weather events in today's terms.

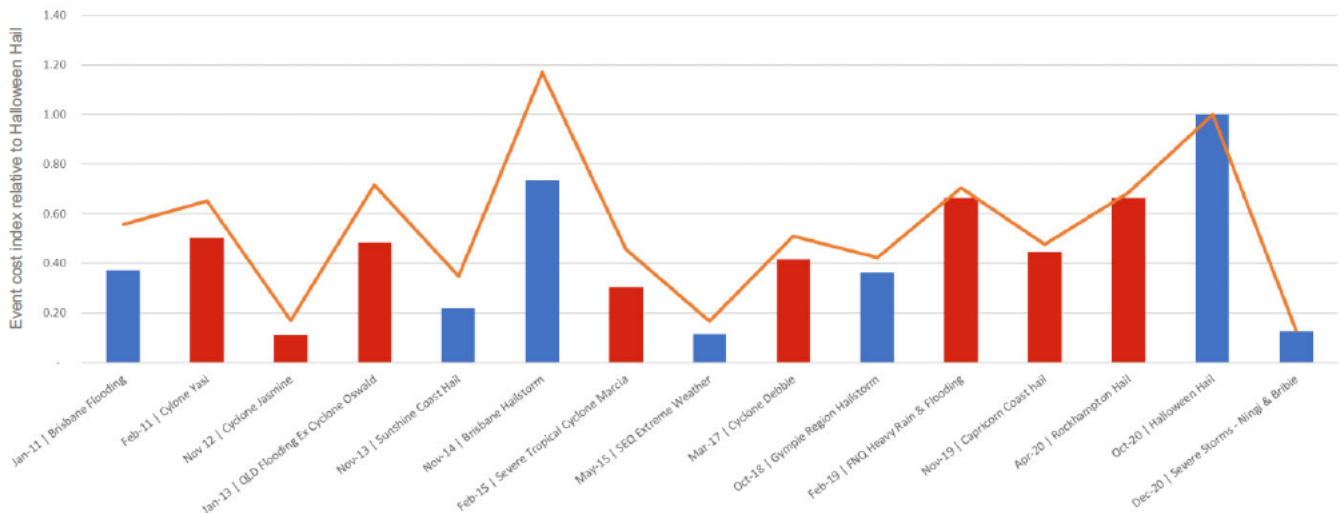


Figure 2: RACQ's top 15 events, with costs indexed against the October 2020 Halloween Hail event (RACQ's most costly event)
Legend: Red column = Original cost northern Queensland; Blue column = Original cost other location; Orange line = Cost in today's terms
Source: RACQ Internal Analysis

Given the cyclone peril constantly looms large in RACQ's catastrophe program, any measure that transfers as much of this exposure as possible from our portfolio and program to a "non-profit" pool is supported.

RACQ also supports the decision to maximise the benefits to medium and high cyclone risk policies by aggregating policies containing low cyclone risk as evident in **8D Setting reinsurance premiums** subsection (b) which states:

"... to keep those premiums:

- (i) to the extent they are for reinsuring liability under pool insurance contracts that involve medium to high levels of exposure to eligible cyclone losses—as low as possible; and
- (ii) to the extent they are for reinsuring liability under pool insurance contracts that involve lower levels of exposure—comparable to what would be charged by other reinsurers; and
- (c) to maintain incentives to reduce and mitigate the risk of eligible cyclone losses." (Exposure draft legislation – page 9)

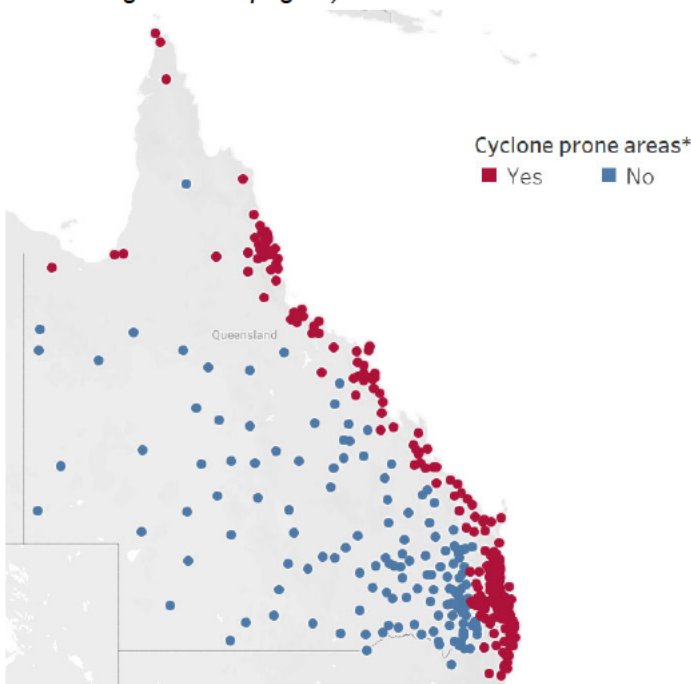


Figure 3: RACQ's home insurance portfolio footprint
Source: RACQ Internal Analysis

Aggregating the premium pool to re-distribute the benefits to those who are in greatest need of assistance aligns with RACQ's preferred modelling provided to the Taskforce. Meaningful benefits can be provided to a smaller cohort of higher risk policyholders by gathering and redistributing the very small gains on the more numerous lower risk policies.

A basic geographic footprint of RACQ's home insurance portfolio by postcode and suburb is shown adjacent. A loose classification of cyclone prone areas is used to provide this footprint, i.e., postcodes and suburbs that are within 75 kilometres distance to the coast are classified as cyclone prone areas.

The map shows cyclone risk present in home insurance policies along Queensland's entire coastline. Approximately 110,000 RACQ building policies contain very low to low cyclone risk, which are predominantly located in the southern half of



Queensland and northern New South Wales. There are approximately 50,000 building policies with medium to high cyclone risk concentrated in north Queensland.

Under the Government's proposed approach, RACQ members in the lower risk regions would forego very marginal benefits to contribute to larger gains for members living in cyclone prone parts of the state.

RACQ reiterates its commitment to returning any financial benefit from the pool to its members to keep insurance accessible.

However, our support for the pool and certain policy settings is subject to several unresolved issues and reservations that are detailed in the following section.



SECTION 2: KEY ISSUES

The pool's effectiveness will be predicated on certainty and confidence. The reinsurance market will need certainty in exactly what risks they are writing and confidence that losses believed to be covered by the pool will not leak to them.

Primary insurers dealing with the pool now need certainty in exactly what they are seeking from the reinsurance market – the exposure gaps that are left by the pool – and confidence that the pool provides cover as intended with minimal friction costs.

Any lack of certainty or confidence from either industry will undermine the pool in its policy objective – improving the accessibility and affordability of insurance in cyclone prone areas. Greater uncertainty in insurance almost always puts greater cost into the system.

RACQ has identified four key themes that best encapsulate our main concerns.

- **Cost** – The draft legislation was released without a pricing formula or schedule of premium rates so RACQ is not yet able to assess the difference between the “pool rate” and the “market rate” and the associated benefits for our members. A pricing approach that is truly not-for-profit and free of unintended consequences will be critical to the pool's success.
- **Capital** – APRA has not articulated its intended treatment of the \$10 billion guarantee so RACQ is not yet able to assess the pool's effect on our prudential requirements, thus we cannot advise the extent to which this will flow through to our members' premiums.
- **Coverage** – In seeking a “black and white” set of rules to govern the determination of recoverable losses, the pool has limitations that partly offset its strengths. The defined “claims period” is the most obvious example and will restrict the number of cyclone-related claims it covers as will the exclusion of motor. This will lead to only partial transfer of the cyclone and flood-related risk to the pool and require cover to continue to be purchased from the reinsurance market. Further, changes to risk modelling will be required to “carve” out the risk associated with the new definition. As the modelling is uncertain, it is likely to result in additional cost to offset. Other critical factors are uncertain, such as the treatment of product features and the BoM's cyclone declarations in practice.
- **Claims Management** – The coverage issue can potentially lead to confusion and delay in the management of cyclone claims as well as a different kind of claims experience for RACQ members. Although absent in the proposed legislation, Treasury's Factsheet states that insurers will continue to manage any claims. This is a sensible step to ensure the primary insurer manages the end-to-end relationship with the policyholder. However, RACQ is concerned certain policy settings related to the pool's coverage may require additional processes, administration and cumbersome interactions with our members, culminating in extra costs borne by the insurer and frustration for those impacted by a cyclone.

RACQ notes that Government expects the pool to achieve premium savings in two distinct ways:

- 1) The pool will charge premiums to insurers without a commercial profit margin
- 2) The \$10 billion guarantee is available to be drawn down immediately if the premium pool is exhausted at any time.

The resolution of Cost and Capital will inform the effectiveness of each mechanism while questions relating to Coverage and Claims Management are necessary to determine how these factors will offset the benefits.

COST – PRICING FORMULA AND SCHEDULE ISSUES

Perhaps the most influential factor in determining the size of financial benefit possible for north Queenslanders is the reinsurance premium the ARPC will charge insurers.

With the policy objective in mind, there is a reference in the EM under **Premium Settings** suggesting improving insurance accessibility and affordability is a second order priority behind fiscal responsibility.

Specifically, it states:



“1.56 Specifically, the ARPC and reviewing actuary should first consider the requirement that the reinsurance pool is intended to be cost-neutral over time. The pool will be funded by the premiums that insurers would pay to participate in the scheme. The premiums charged would be expected to cover the long-term costs of insured risk in addition to the pool’s ongoing administration expenses. [Schedule C, item 8, section 8D(a) of the Act]

1.57 The ARPC and reviewing actuary must also have regard to the second requirement, which is that the reinsurance pool is designed to reduce reinsurance costs. The pool does not include a profit margin above cost as it does not seek to make a profit, thereby increasing savings available to policyholders and insurers. The pool would provide targeted reinsurance premium reductions based on each property’s risk profile, where higher risk properties receive higher discounts. [Schedule C, item 8, section 8D(b) of the Act].” (Explanatory Memorandum – page 12)

Ideally, cost-neutrality should be placed after affordability and accessibility as per the policy objective.

RACQ RECOMMENDATION: The Government’s values should be adjusted so the legislation makes abundantly clear that the stated policy objective – improving insurance accessibility and affordability – is the overriding priority of the pool.

Premium formula and catastrophe modelling

Theoretically, the pool will charge for the eligible exposures at a lower rate than what insurers and brokers would otherwise find in the open market.

As it stands, the Taskforce is yet to consult with industry on the formula it intends to use to set premiums, nor has it shared any catastrophe modelling that will inform the formula. RACQ understands the fully parametrised pricing formula at a property level will not be available to industry until April 2022.

Firstly, the timing means that RACQ will be unable to join the pool from 1 July 2022. RACQ has already begun work to place the next catastrophe reinsurance program which commences at the same time as the pool. The annual program protects our members’ capital from increasing disaster risk and needs to satisfy APRA’s prudential requirements. A number of factors influence the structure, components and costs of the program, but pool participation will require an exact understanding of the liabilities the pool is covering and what value the market will put on these liabilities. The market should then “credit” the insurer with a reduced cost in recognition of the losses that are expected to be recovered from the pool. Insurers will almost certainly require access to the Government’s catastrophe modelling to engage with brokers and the market for any program that runs in tandem with the pool. This process is likely to take several months.

In addition, any pricing adjustments triggered by the pool will need to be made months in advance. RACQ needs to reconfigure pricing, possibly add more information on renewals and send the first “pool” notices about two months before participating in the pool.

We are yet to understand how the pool’s catastrophe modelling will “inform” the pricing formula. Catastrophe models are useful on an aggregate portfolio level, but not ideal for property risk level pricing. It would be difficult to see how a risk-based pricing approach allowing for mitigation can meet a portfolio-wide view at the 1-in-200-year return period, based on catastrophe modelling when risk mitigation and detailed building characteristics are not often built into such models.

RACQ suggests if the modelling and the pricing formula was provided well before next April, RACQ would be in a stronger position to participate in the pool earlier.

RACQ RECOMMENDATION: The pool’s catastrophe modelling should be shared with all insurers as soon as possible.



Reinsurer margins

Thirdly, the commercial profit margin the ARPC and the Taskforce deem reasonably “forgone” as a result of the pool’s existence will be crucial. Such a margin that represents the entire market is arguably subjective on many fronts. How does one assess the current and prospective profitability of reinsurers to derive a “benefit” that insurers should pass on to a specific cohort of policyholders?

Presumably, the Taskforce modelling may involve an assessment of the reinsurance component in a north Queensland policy’s premium and apply a projection of future costs. It could then carve out a portion of that premium component representing the liability the pool would attain and add an estimated profit margin.

Estimating a profit margin assumes the reinsurance industry has achieved a degree of profit in recent years. A retrospective snapshot of recent underwriting years shows an industry barely “breaking even” as a result of significant natural disaster costs combined with the impacts of COVID-19.

Reinsurers’ Combined Ratio

Tier 1 & 2 Global Reinsurers

| Reinsurers | 2016 | 2017 | 2018 | 2019 | 2020 | 5-yr avg | 5-yr SD |
|---|---------------|----------------|----------------|----------------|----------------|---------------|-------------|
| Tier 1 Global Reinsurer | | | | | | | |
| Munich Re Group | 95.70% | 114.10% | 99.40% | 101.00% | 105.60% | 103.2% | 7.1% |
| Swiss Re | 93.50% | 111.50% | 104.00% | 107.80% | 109.00% | 105.2% | 7.1% |
| SCOR Group | 93.10% | 103.70% | 99.40% | 99.00% | 100.20% | 99.1% | 3.8% |
| Hannover Re Group | 93.70% | 99.80% | 96.50% | 98.20% | 101.60% | 98.0% | 3.0% |
| Lloyd’s* | 97.90% | 114.00% | 104.50% | 102.10% | 110.30% | 101.7% | 8.8% |
| Aspen Group | 98.50% | 125.70% | 106.50% | 108.50% | 106.00% | 109.0% | 10.1% |
| XL Re | 94.20% | 108.30% | N/A | N/A | N/A | N/A | N/A |
| AXA XL | | | 108.60% | 101.50% | 112.20% | 107.4% | 5.4% |
| Average | 95.23% | 111.01% | 102.70% | 102.59% | 106.41% | 103.4% | 5.8% |
| Tier 2 Global Reinsurer | | | | | | | |
| Sompo International (former Endurance Specialty)* | 90.96% | 122.88% | 97.10% | 91.60% | 96.70% | 99.8% | 13.2% |
| Everest Re Group | 87.00% | 103.50% | 108.80% | 95.50% | 102.90% | 99.5% | 8.5% |
| Partner Re | 93.60% | 114.70% | 108.70% | 100.30% | 106.00% | 104.7% | 8.1% |
| Renaissance Re Holdings | 72.50% | 137.90% | 87.60% | 92.30% | 101.90% | 98.4% | 24.5% |
| Trans Re | 95.50% | 108.11% | 105.40% | 100.90% | 103.60% | 102.7% | 4.8% |
| Argo Group | 97.80% | 108.10% | 97.90% | 109.10% | 106.20% | 103.8% | 5.5% |
| Sirius International | 94.00% | 107.60% | 103.10% | 110.80% | 110.30% | 105.2% | 6.9% |
| SiriusPoint | | | | | | | |
| Average | 90.19% | 114.68% | 101.23% | 100.07% | 103.94% | 102.0% | 8.8% |

Combined Ratios (losses plus expenses to premium revenue) for every Tier 1 Global Reinsurer exceeded 100% in 2020. All but two had five-year averages that exceeded 100%. Tier 2 reinsurers recorded very similar levels.

These results strongly suggest pressures exist for reinsurers to improve their financial performance and return on equity.

Without taking into account recent experiences and planning for a constrained market into the future, the ARPC and the Taskforce risk under-pricing cyclone risk, calling the sufficiency of the premium pool into question.

RACQ RECOMMENDATION: The ARPC and the Taskforce should have due regard for reinsurers’ current operating environment and underlying performance when determining a reasonable profit margin to be foregone.



Figure 4: Reinsurers’ combined ratio results
Source: Guy Carpenter (reproduced with permission)

Other cost pressures in general insurance

Finally, while RACQ agrees a pool can make a positive difference as part of a larger program of initiatives, community and Government expectations need to be managed in the context of the recent and current operating environment of general insurers in Australia.

Cost pressures have significantly increased, pushing up insurance premiums throughout Australia. They are expected to continue on an upward trajectory as a result of rising catastrophe losses and COVID-19 impacts, similar to the challenges experienced by reinsurers.



Globally, average annual losses are approaching \$100 billion, up from about \$20 billion just 30 years ago, as shown in the figure below. There have been more than 300 catastrophes every year since 1993.

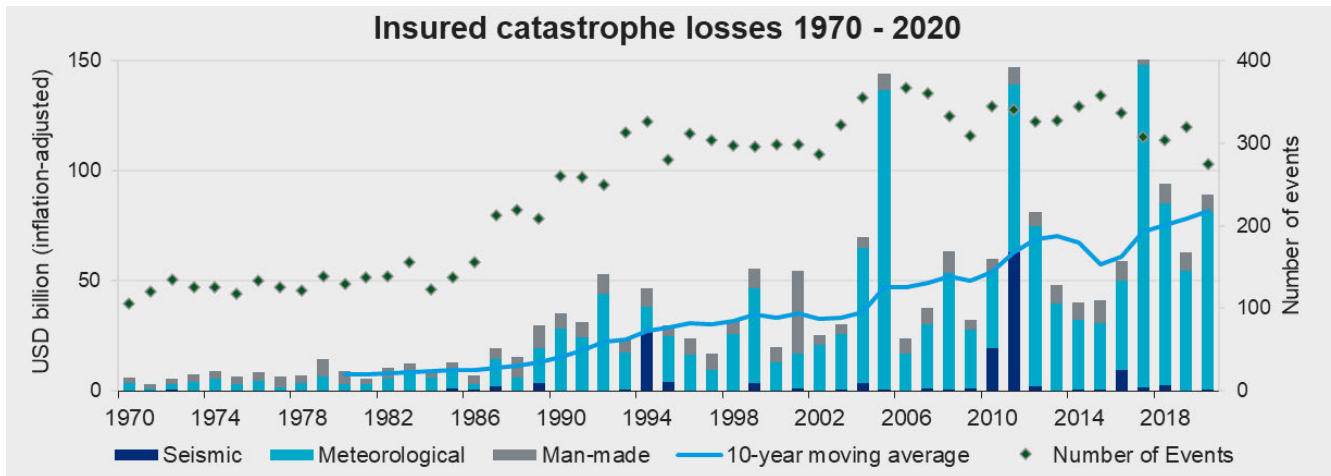


Figure 5: Global insured catastrophe losses from 1970 - 2020
Source: Guy Carpenter (reproduced with permission)

The global experience is reflected in RACQ's recent history of catastrophe losses. The figure below shows the upward trajectory of reinsurance costs and natural hazard allowances.

RACQ's reinsurance costs have increased from \$25 million in 2008 to \$99 million in 2020-21 while risk retention – used to offset these costs – has also significantly increased during the same period. Similarly, our actual natural hazard experience (net of reinsurance recoveries) has risen from \$33 million in 2008 to \$136 million in 2021. Climate change, alongside population and asset growth, will see insurers' annual losses significantly increase across most perils including cyclone and storm surge, even under a 2° warming scenario.

These pressures are driving up the cost of insurance in Queensland, particularly in high-risk areas, which the pool can only partially address.

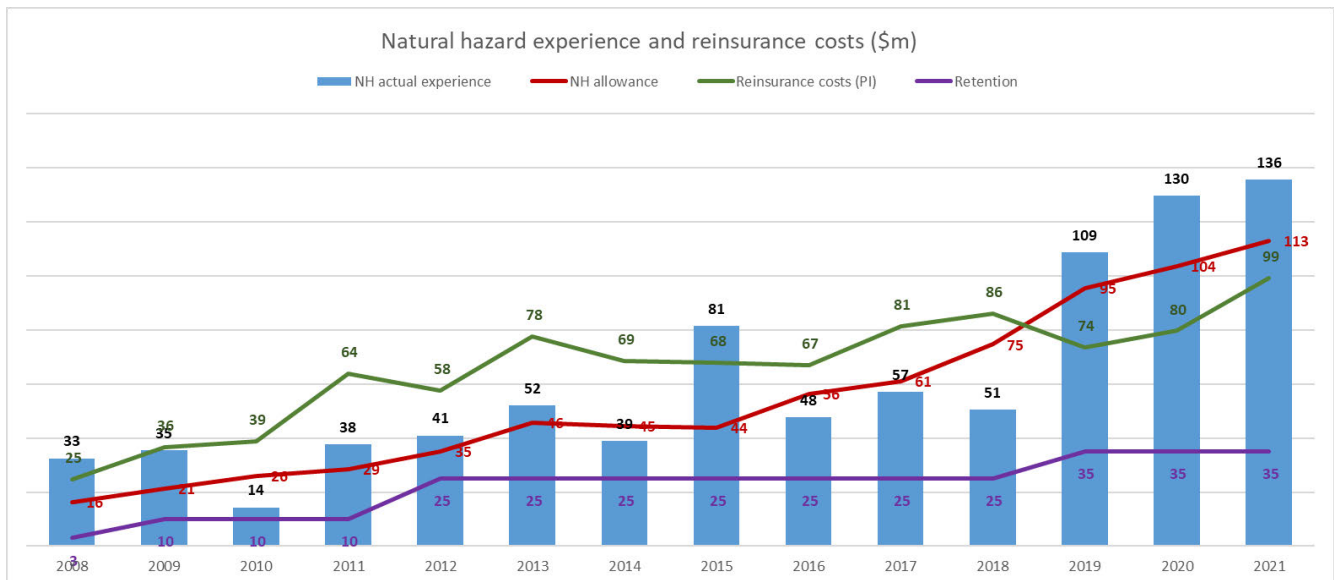


Figure 6: RACQ's natural hazard claims experience and reinsurance costs by financial year
Source: RACQ Internal Analysis

COVID-19 is still causing unprecedented impacts on insurers' claims operations. Supply chain and import disruptions, as well as border closures and uncertainty, have caused chronic trade and material shortages as well as logistical delays. Indirectly, Government stimulus packages for home builds and renovations, combined with persistent record-low interest rates, are exacerbating these shortfalls with insurers competing for in-



demand trades, such as roofers. This, in turn, is leading to premium increases to cover various demand surges and longer wait times. RACQ analysis shows an increasing trend in square-meterage rates across multiple categories but is most prominent in roofing which has almost doubled in price in the last 12 months. The average cost of a home claim from natural hazards has increased by 90% over the past two years.

RACQ is also currently experiencing similar issues in the motor insurance business, particularly a lack of new car imports that are driving up the cost of second-hand vehicles as well as a shortage of motor parts pushing up the cost of claims.

How quickly the pool will respond to increased cost pressures will be an important consideration as well as the agreed process the pool will follow to change price.

RACQ RECOMMENDATION: The ARPC and the Taskforce should have due regard for insurers' current operating environment, including unprecedented cost pressures, when determining the catastrophe modelling and pricing formula.

CAPITAL – PRUDENTIAL REQUIREMENT UNCERTAINTY

RACQ plans to write to APRA for guidance to help determine the extent to which the \$10 billion guarantee will be accepted towards our capital requirements. A reduction in capital required could also contribute towards benefits in insurance pricing to our members.

RACQ's current catastrophe program has a panel of around 50 reinsurers with coverage to a 1 in 200-year loss or \$1.5 billion as required by APRA. The entire program costs RACQ approximately \$125 million (2021-22), up from \$99 million last year.

Section 35A Commonwealth guarantee: payments under cyclone reinsurance contracts states:

"(1) The Commonwealth guarantees the due payment of money that may become payable by the Corporation to any person (other than the Commonwealth) in respect of a liability (a cyclone loss liability) of the Corporation as insurer under a contract of reinsurance it enters into under the cyclone reinsurance scheme." (Exposure draft legislation – page 15)

Based on RACQ modelling, doubts remain as to whether the \$10 billion guarantee will be sufficient to cover losses from a 1 in 200-year cyclone under the ARPC's proposed definition.

This is a significant consideration for RACQ as the cyclone peril is the key driver of the Probable Maximum Loss (PML) that we are required to cover in any year. If the guarantee is deemed not sufficient, RACQ will likely be required to purchase additional reinsurance to make up the shortfall, thus diluting the pool's benefits.

In **Section 1.65** of the EM, the Treasurer has the mandate to increase the cap on the guarantee to *"ensure that all cyclone liabilities offered under reinsurance contracts with the ARPC are met"* (Explanatory Memorandum – page 13). The Taskforce expressed an expectation that the guarantee would serve to reduce insurers' 1 in 200-year event cover requirements, however RACQ will require a formal confirmation.

The EM explains the \$10 billion guarantee will "back" the pool and be reinstated each year.

There is no reference regarding prudential considerations except Treasury's **Factsheet** which states:

"... the Australian Prudential Regulation Authority (APRA) has indicated it would allow insurers to fully recognise the risk transfer provided by the reinsurance pool. Changes to APRA's prudential framework would occur after the passage of legislation." (Factsheet – page 2)

The prudential timeframe is also likely to hamper insurers' ability to participate in the pool from 1 July 2022. Earlier advice from APRA about these considerations would be welcome in order to help insurers plan their catastrophe program.

In addition to the anticipated reduced PML liability, RACQ is also keen to understand how the guarantee may affect horizontal reinsurance requirements. In **Section 1.65** of the EM it states that the \$10b guarantee will be increased to meet the liability relating to *"all claim costs in the event of one or series of large but rare cyclones in any annual period"* (Explanatory Memorandum – page 13). RACQ would like clarification that the pool covers multiple cyclone events occurring within a year.



RACQ would expect APRA to treat the pool in a similar way it responds to Government loan guarantee schemes, giving banks the ability to shed risk and provide lower interest rates. We saw this, most recently, at the height of the COVID-19 pandemic last year during a string of Federal Government economic stimulus measures. However, clearing up the definition issues relating to the pool, so as not to cause duplication of either reinsurance cover or capital, will be critical in maximising the benefit of APRA's treatment.

APRA's advice on its approach would be based on draft legislation which is subject to amendments and timing of passage so we recognise that APRA may need to revisit this advice.

RACQ RECOMMENDATION: APRA should advise insurers of its approach to recognising the \$10 billion guarantee in prudential capital requirements as soon as possible.

In addition, RACQ notes that "cost-neutrality" has been a recurring theme throughout the development of the Government's policy.

While absent from the actual legislation, both the EM and the Factsheet make it clear that the pool is to be cost-neutral to Government "over time". RACQ understands this objective will also apply to the guarantee such that insurers are to repay any funds drawn through premiums paid over a period. On this basis, the guarantee is mainly in place for liquidity to ensure immediate access should the premium pool be exhausted. RACQ would welcome further explanation of this "payback period" as it could potentially impact on the policy objective.

RACQ RECOMMENDATION: The ARPC and/or the Taskforce should further detail the approach to restoring the \$10 billion guarantee using future premiums. Any payback period should not occur over a short period.

Finally, under **Commonwealth Guarantee**, the EM states: "*The Commonwealth guarantee will be drawn from if funds from the reinsurance pool and the ARPC's own resources are insufficient to meet claim costs.*" (Explanatory Memorandum - page 13)

The reference to the ARPC's "own resources" suggests cyclone claims may be paid using sources other than the cyclone reinsurance premium pool.

To effectively plan our participation and assess the true extent of financial benefit to be achieved, RACQ would like to understand exactly what this reference means.

We would not expect the ARPC's terrorism reinsurance premium pool to be used for cyclone claims as the two pools should be managed separately to respond to very different perils.

The long-term sustainability of the cyclone reinsurance pool depends on the build-up of reserves in years with nil or benign cyclone experience.

RACQ RECOMMENDATION: The ARPC should clarify what "own resources" means in relation to meeting claims costs.

COVERAGE

The exact nature of losses to be recovered could perhaps be the most influential factor in the pool's effectiveness. The "devil will be in the detail" not yet fully known or understood across two key themes:

- Claims period
- Policy and Product

However, what is clear and what must be understood by the broader community is that the pool, as it stands now, will only cover some cyclone-related losses. In fact, depending on the nature and movement of the cyclone, the pool may cover only minimal losses incurred by a cyclone.

Given only part of the cyclone and flood related risk is being transferred to the pool, insurers will need to purchase additional reinsurance from the open market or price the risks directly into premiums to address these gaps. The definition is a new concept and requires established risk models to be adjusted which may create uncertainty. Any uncertainty will lead to reinsurers adding margin which will be passed onto RACQ and eventually passed onto members, reducing the benefits provided by the pool.



Claims period

Under **8F Declarations about cyclone events**, the draft amendments state:

“(1) If the Bureau notifies the Corporation that a cyclone exists or has reintensified, the Corporation must declare that a cyclone event has begun. The declaration must:

- (a) specify the day and time when the cyclone began or reintensified, as notified by the Bureau; and*
- (b) state that the claims period for the cyclone event began on that day at that time.*

Note: If a cyclone ends but then reintensifies, a new cyclone event is declared under this section in relation to the cyclone.

(2) If the Bureau notifies the Corporation that a cyclone has ended, the Corporation must declare that the cyclone event has ended that was previously declared under subsection (1) in relation to that cyclone. The declaration under this subsection must specify:

- (a) the previous declaration; and*
- (b) the day and time when the cyclone ended, as notified by the Bureau; and*
- (c) the day and time when the claims period for the cyclone event ended, or will end, as the case requires.*

(3) The day and time specified under paragraph (2)(c) must be the day and time when the period ends:

- (a) that began on the day, and at the time, specified under paragraph (2)(b); and*
- (b) whose duration is prescribed by the regulations for the purposes of this subsection.” (Exposure draft legislation, pages 10-11)*

The exposure draft regulations state the “duration” relating to 8F (3)(b) is 48 hours, meaning the claims period begins when the BoM declares a cyclone has begun and ends 48 hours after the BoM declares the same cyclone has ended. The claims period can impact on the policy objective in a number of ways.

Firstly, setting the 48-hour period limits the volume and, at times, severity of cyclone-related losses to be covered.

RACQ understands the Government’s policy rationale for proposing this period to be:

- 1) Achieving coverage clarity, to the greatest extent possible, so there is no reinsurance duplication in covers between the pool and the market.
- 2) Focusing coverage to ensure the pool’s benefits are directed at cyclone prone areas.

The second point may be achieved most of the time. RACQ undertook initial analysis of three major cyclones during the past decade to determine how the pool would have responded if it were in place at the time.

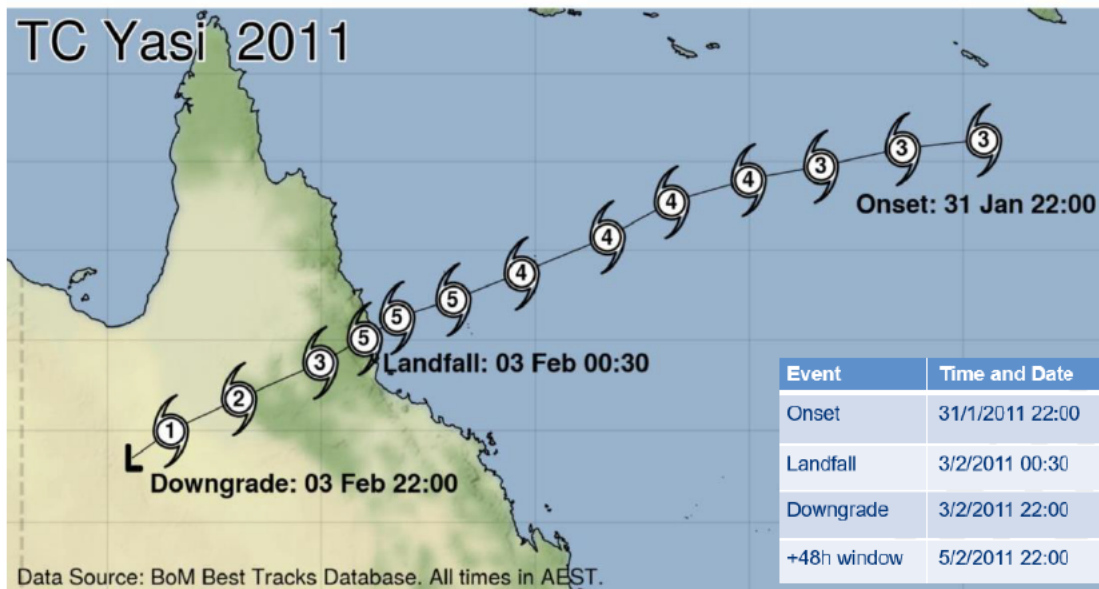


Figure 7: Tracking and timing of Tropical Cyclone Yasi
Source: BoM Best Tracks Database

Cyclone Yasi was category five cyclone in 2011 that cost around \$100 million in claims for RACQ, in today's terms. TC Yasi was declared by the BoM on 31 January, made landfall at 12.30am on 3 February and was downgraded that night at 10pm. This means the pool's claims period would have ended on 5 February at 10pm when Yasi continued south-westerly direction. TC Yasi is an example of the pool fulfilling the 48-hour objective as 98% of RACQ's claims would have been covered.

Cyclone Debbie was a category four cyclone in 2017 that cost around \$75 million in claims for RACQ, in today's terms. TC Debbie was declared on 25 March, made landfall at 12:40pm on 28 March and was downgraded at 10am on 29th March. This means the claims period would have ended at 10am on 31 March. In addition to wind damage, Debbie inflicted significant flood damage as an ex-TC however most of that damage occurred within the 48-hour period and so 89% of RACQ's TC Debbie claims would have been covered by the pool.

However, Cyclone Oswald is a different case study. Oswald was only a category 1 cyclone in 2013. However, it was a slow-moving system that brought incredible storm-related damage costing RACQ approximately \$100 million, in today's terms.

It was declared on 21 January, made landfall at 4am on 22 January but was quickly downgraded. The claims period would have ended at 4am on 24 January.

Because ex-TC Oswald caused most of its damage after the 48-hour period down Queensland's coastline, the pool would have covered virtually none of RACQ's claims.

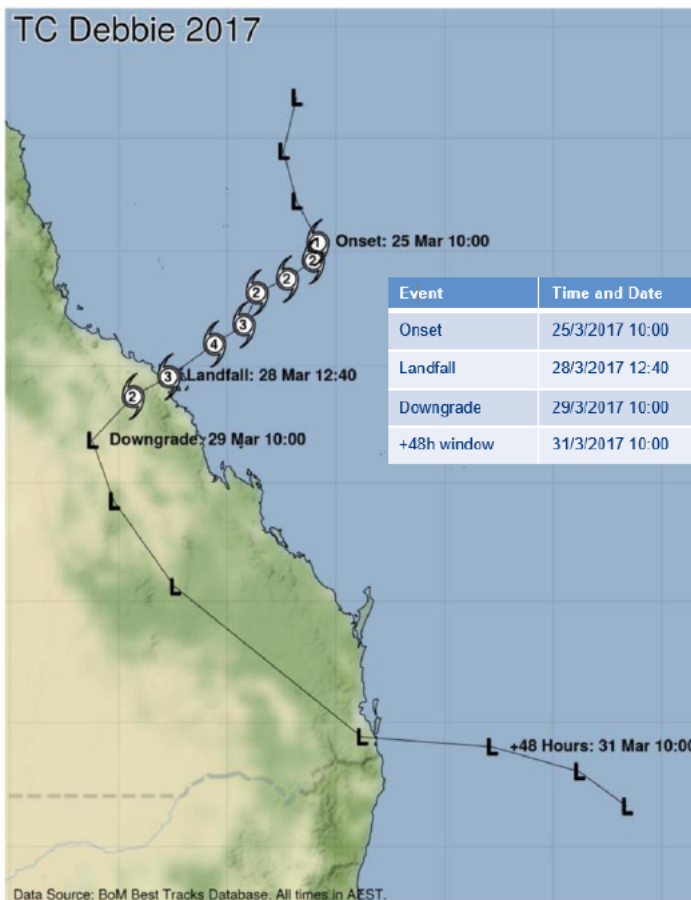


Figure 8: Tracking and Timing of Tropical Cyclone Debbie
Source: BoM Best Tracks Database

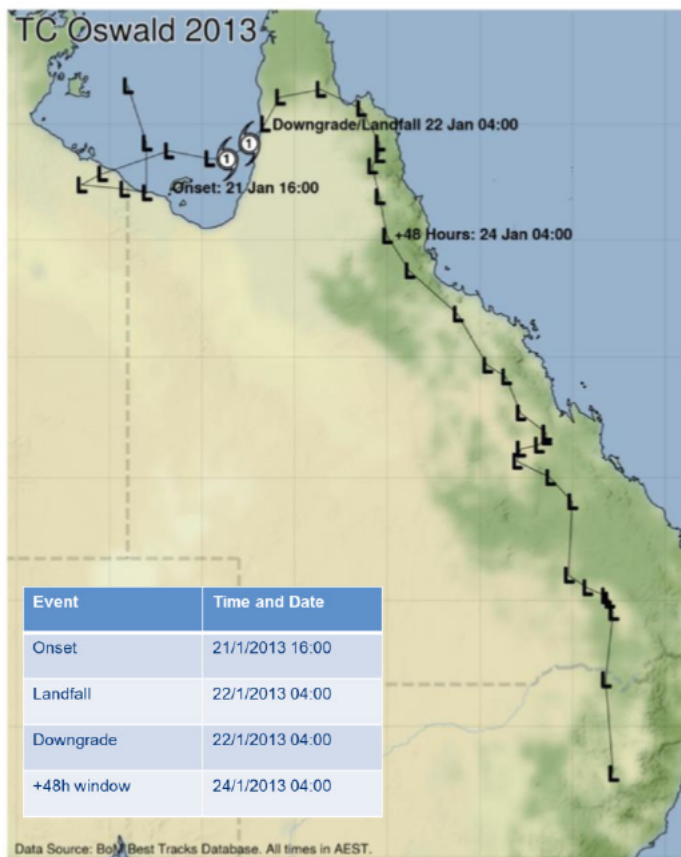


Figure 9: Tracking and Timing of Tropical Cyclone Oswald
Source: BoM Best Tracks Database

By allowing the BoM, via the ARPC, to make the start and end date determination, it is made purely on meteorological terms and the choice of date of loss is taken away from the insurer.

The claims period, as it is defined, is not an approach adopted by the global market and so its alignment with typical reinsurance treaties is yet to be properly tested. Any cover uncertainty or duplication will impact on member benefits.

Currently, an insurer chooses the start and end date of the catastrophe event for the purposes of making a reinsurance claim. Should the insured event last longer than 168 hours (seven days), the insurer is able to choose which seven-day window from which it wishes to recover claims. For example, Ex-TC Oswald, the claim period chosen for the reinsurance claim was 24 January to 30 January.

Interestingly, Oswald was not declared a cyclone when it first made landfall. It was a low-pressure system when it touched in the Gulf of Carpentaria, circled back east of the Northern Territory before intensifying to category one and hitting Queensland. In reading the legislation, the pool presumably would not cover losses caused by a system during the time between reaching landfall and being declared a cyclone.

These examples demonstrate there can be instances where the determination of the claims period can actually work against the policy objective of the pool. Setting seemingly “black and white” parameters for clarity could come at the expense of flexibility so the insurer cannot exercise judgement about when the pool can assist the most.

A “pre-cyclone” system could cause significant flooding or storm surge. Similarly, a slow-moving ex-TC could also cause these impacts after the claims period.

In addition, setting a narrow cyclone definition may be difficult when explaining to the broader community. Perhaps the Taskforce needs to ask itself “What is the community expectation of defining a cyclone?” A homeowner who is impacted by a system either shortly before a cyclone is declared, or after a cyclone is downgraded, is unlikely to appreciate such nuances and semantics and is likely to expect the pool to respond to their situation.

RACQ RECOMMENDATION: The definition of the claims period should be changed to align with standard reinsurance treaties and apply a “168 hours clause” (seven days). However, the seven-day period must overlap with a point in time when the weather event was a declared cyclone to meet the Government’s policy objectives.

The claims period is the leading cause of friction issues detailed in this paper. The closer the pool can move towards standard practice, the less uncertainty will be built into the system. RACQ recognises the Government’s objective to link the pool’s benefits to cyclone prone areas. Anchoring the seven-day period to any time when the event was a cyclone – even a category one – would ensure the pool covers the period when most losses are likely to occur. However, it would also allow for instances where a system is yet to become a cyclone (but making landfall) or has been downgraded and tracking through cyclone prone areas.



Policy and product

RACQ understands the pool will recognise different building policies that cover different perils. For instance, the pricing formula will include a cyclone-only rate for policies without flood or storm surge cover.

It will also provide for a combination of two or all three perils. This decision is supported as it ensures product coverage remains a decision of the insurer and there is consumer choice in the market.

Cover for flooding and storm surge is included in all policies written by RACQ.

However, RACQ is less clear about how, or whether, the pool will recognise different features in different products.

The pool should not hamper product innovation or product competition. If it does not recognise benefits that currently exist in the market it could risk setting off a "race to the bottom", causing reduction in product covers.

Whether the pool's coverage is restricted to the sum insured noted on the policy or inclusive of additional benefits can make a significant difference to recoveries. Typical reinsurance treaties cover losses against these features. RACQ provides a range of additional product features beyond the sum insured as detailed in the table below.

| Benefit | Limit | Building | Contents |
|---|---|--|--|
| Temporary accommodation | Accommodation costs up to the market rental value of your home prior to the insured event happening. | We pay this benefit on top of your home sum insured. | |
| Storage costs after an event | Up to 10% of your contents sum insured shown on your Certificate of Insurance. | | We pay this benefit on top of your contents sum insured |
| Lost rent | Up to 10% of your home sum insured or your contents sum insured shown on your Certificate of Insurance. | We pay this benefit on top of your home sum insured, or your contents sum insured or both sums insured depending on which part of your policy you claim under. | |
| Investigating leaks | Up to 10% of your home sum insured shown on your Certificate of Insurance. | We pay this benefit on top of your home sum insured. | |
| Gifts | Up to \$1,000 for each claim, or the general limits for your contents shown on page 23. | | We pay this benefit on top of your contents sum insured. |
| Extra living expenses | Up to 10% of your contents sum insured shown on your Certificate of Insurance. | | We pay this benefit on top of your contents sum insured |
| Design | Up to 10% of your home sum insured shown on your Certificate of Insurance in total | We pay this benefit on top of your home sum insured | |
| Demolition and removal of debris | Up to 20% of your home sum insured (for home debris) or 20% your contents sum insured (for contents debris) shown on your Certificate of Insurance. | We pay this benefit on top of your home sum insured, or your contents sum insured or both sums insured depending on which part of your policy you claim under. | |



| | | |
|-----------------------------|--|--|
| Counselling services | Up to 6 sessions, \$1,500 in total | We pay this benefit on top of your home sum insured, or your contents sum insured or both sums insured depending on which part of your policy you claim under |
| Clean up costs | Up to 10% of your home sum insured or your contents sum insured shown on your Certificate of Insurance | We pay this benefit on top of your home sum insured, or your contents sum insured or both sums insured depending on which part of your policy you claim under. |

RACQ also notes that motor insurance is not included in the coverage. Its inclusion was recommended in our June submission. We estimate approximately 10% of the total claims cost from cyclones relates to non-home related risk, predominantly motor. RACQ has not been required to “carve out” motor claims from home claims to recover from reinsurers. The added complexity is likely to impose friction costs on the system and dilute member benefits.

In addition, RACQ notes there is no reference in the proposed legislation regarding a maximum sum insured limit for residential properties – only small business properties. Clarification of any sum insured limits for residential properties would be welcomed for clarity and certainty of coverage.

RACQ RECOMMENDATION: The pool’s coverage should match the reinsurance market’s treatment of product coverage, meaning it would cover features and entitlements above sum insured. The pool should also cover other forms of insurance that are impacted by cyclone, particularly motor, as per standard market practice. Clarification of any maximum sum insured limits for residential properties should also be given.

CLAIMS MANAGEMENT

RACQ supports the decision to have insurers continue to manage claims as stated in the Factsheet. This will ensure RACQ can serve, support and assist its members from “end to end”.

The Earthquake Commission’s (EQC) management of the Canterbury earthquakes of 2011 in New Zealand remains a poignant example of why such Government entities should not be involved in claims management.

The earthquakes’ magnitude (1,000+ year event) seriously tested EQC’s operational capabilities. At this time, policyholders were required to deal with both EQC and their private insurance company creating confusion and a lack of transparency for all parties. It was exacerbated with supply and demand issues, forcing serious delays and failures in the referral and assessment of claims, especially when the EQC limit had been, or was likely to be, exceeded.

From lessons learned, private insurers are now responsible for managing all claims from the ground up in order to improve efficiency and effectiveness of claim process as well as the customer experience. The EQC acts only as a reinsurer. Policyholders will only have to deal with their insurer who rely on their own built-in claims operational capabilities. RACQ commends the Taskforce for recognising this important feature of the insurer-policyholder relationship.

However, the pool, in its proposed form, will present challenges in the way RACQ manages claims and supports members impacted by cyclone. In addition, it will potentially lead to further friction costs that do not exist today.

Firstly, the coverage limitations will mean that RACQ will deal with more than one reinsurer after a cyclone event.

Secondly, depending on how the claims period is applied, RACQ could be splitting a claim in two parts to seek recoveries from two reinsurers.

Thirdly, the prescriptive timing of the claims period will change the way RACQ interacts with its members during lodgement, focussing on exact time of loss. This may not only introduce new claims processes but negatively impact the claims experience for members.



Fourthly, ongoing damage that starts during a cyclone and ends after a downgrade will present greater complexity in determining “ownership” of liabilities.

Current reinsurance event loss recovery process

Under current arrangements with a single reinsurance panel, the process to make a claim for recovery is a reasonably straightforward administrative exercise, based on data collected in the insurer’s claims systems.

After a natural hazard event occurs, the insurer monitors the volume and aggregates costs of the claims received within the scope of the event, and if the total cost (including claims handling expenses) is anticipated to exceed the applicable deductible for the reinsurance policy, the event is notified to the reinsurer.

If necessary, the insurer then nominates the appropriate seven-day period of loss “window” according to the standard “hours clause” that provides the maximum recovery opportunity, taking into consideration the distribution of claim lodgements, costs and other factors relevant to their portfolio and the event.

The insurer may make a request for recovery, or “cash call”, from the reinsurer multiple times in the weeks and months following the event, reducing in frequency as time passes. More payments are made and reserves are reduced as individual claims close, and the ultimate cost of the event loss becomes clearer. This iterative process helps in managing the cash flow over time as claims are lodged, assessed and settled.

Internal insurer reports utilise a unique event code to assign the aggregated costs of event driven claims. The amount requested to be recovered is equal to the total payments made on claims for that event in addition to claims handling expenses (CHE), less any ex-gratia and tax components, and less the relevant deductible.

Usually, around three months after the date of loss, the insurer’s reinsurance, finance, analytics and claims management teams form a view of the ultimate net loss (UNL) for the event. This represents an estimated total reinsurance recoverable cost of the event, which is subsequently communicated to the reinsurer, monitored regularly and updated if necessary as forecasts change.

Finally, once all claims have been lodged and settled (which can take many years if there is a prevalence of late lodgements), the final reinsurance recovery is completed and the event is “closed”.

Recovery from multiple reinsurance panels

Due to the specific scope and limitations of coverage provided under the pool, RACQ is likely to require additional reinsurance to manage risk from the exposure gaps that remain. This may result in a scenario where an insurer is making a reinsurance recovery claim from both the pool and a commercial panel of reinsurers for the same weather event.

For example, as described above, Cyclone Debbie (2017) was a severe cyclone when it made landfall at Bowen. If the pool’s timeframe definition is used, the claims period would have ended at 3am on 31 March.

The portion of the loss that incurred within the 48 hours after the cyclone was downgraded would include the cyclone wind damage plus the first 20cm of flooding that occurred.

Clarification is sought on whether the entire claim cost amount from properties that received any damage during the claims period will be recoverable from the pool. Alternatively, will the pool only accept costs from the wind and first 20cm of flooding and then leave the remaining damage (e.g. the next 80cm of flooding) with insurers to recover from their other commercial reinsurance arrangements? In this split example of losses straddling the 48 hours timeframe, there may be a need to engage hydrologists to determine loss allocation at specific points in time. RACQ anticipates this will lead to friction, delays in defining losses and administration in the various reinsurance recoveries. RACQ believes a much cleaner and simpler process is required.

RACQ RECOMMENDATION: The full value of eligible claims should be recoverable from the pool if a portion of loss occurred during the claims period.

In this same Cyclone Debbie example, the inundation that occurred in south east Queensland would be within the 48-hour timeframe, but any losses from flooding that occurred in Rockhampton some days later due to delayed rain flowing from inland catchments, would not be recoverable from the pool. The Rockhampton floods



were caused by the Cyclone Debbie weather system and depending on the seven-day claims period selected by the insurer, would be recoverable under exiting reinsurance arrangements.

This is a potential point of dispute and friction between insurers, the pool, and the other reinsurers. It opens the door to the additional cost and time burden of detailed interrogation and categorisation of individual claims, and potentially scope of works and cost line items, which are not required under current reinsurance arrangements. Any gaps in cover are likely to require reinsurance from the open market which will diminish the intended benefits of the pool.

The administration of multiple reinsurance arrangements for a single weather event will be another challenge that does not exist today. The insurer may need to raise two “event codes” (used for classifying claims for recovery – one for the pool, and others for the commercial reinsurer panels) for a weather event. This adds complexity for reinsurance, accounting and claims management personnel who will need to correctly identify the cause of loss, date and time of loss, validate these against the pool coverage parameters in order to correctly triage and code the claim (or cost line item) and report for reserving and recovery from the pool or other reinsurer panels.

The other option is to establish a single code for any loss related to the weather system and apply business rules and data filtering techniques over the data after the fact to identify which claims or cost line items fall within the scope of pool recovery. Investment in insurer system and reporting enhancements will be required to successfully execute this change.

In the scenario where losses to the same house may fall under two different reinsurance covers, there may be a requirement for the managing builders or restorers to prepare scopes of work and invoice in two parts – works within or without the scope of the pool. This will add effort and cost to the claim, ultimately being passed back to customers in premiums, and eroding benefits made possible through the pool.

Furthermore, secondary mould due to flooding can develop and be identified much later than the original water ingress from the cyclone. This was the case in the Townsville flood event (February 2019) where mould damage following the flood made up a significant portion of claim volumes and costs. If a similar scenario were to unfold with mould appearing more than 48 hours after the downgrading of the original cyclone, the remediation costs could be out of scope of the pool. Again, this relies on the critical time of loss question to be answered correctly by the homeowner, and if outside the pool’s coverage parameters, would result in a multi-reinsurer recovery process being required, with associated challenges as described above.

Regardless of the approach to coding the claims and costs, there will be twice the amount of reporting, monitoring and administration effort required from the insurer to manage the overall recovery process for this event than under current state arrangements with a single reinsurer.

Time of loss

The frictions outlined above relate to the specific time of loss involving the date and time the cyclone was downgraded. RACQ believes under a pool, insurers will be asked to rely on their customers to correctly pinpoint the time of loss, in order to identify whether it was eligible for recovery from the pool. Loss time is not currently a data point required for reinsurance due to the established practice of accepting any claim falling within the 7-day date of loss window nominated by the insurer.

In the interest of public safety, residents are often evacuated to another place of shelter well in advance of the cyclone reaching the area. Homeowners may not discover if their house has been damaged by the cyclone (or related flood or storm surge) until evacuation orders have been lifted and they’ve been able to return home, which can be many days later. It will not only be impossible in these situations to correctly identify the time of loss but could be perceived as an overly specific and insensitive question to ask a distressed RACQ member whose home has been destroyed.

(as above) RACQ RECOMMENDATION: The definition of the claims period should be changed to align with standard reinsurance treaties and apply a “168 hours clause” (seven days). However, the seven-day period must overlap with a point in time when the weather event was a declared cyclone to meet the Government’s policy objectives.



Primary insurer responsible for categorising losses

Under existing commercial reinsurance arrangements, the onus is on RACQ to receive and respond to member claims. We then categorise costs accurately for recovery from the reinsurer. It is widely accepted that the insurer is best placed to undertake this activity, as they have closer relationships to the insured and understand the operational processes that give rise to the recoverable costs.

While there is some monitoring undertaken by the reinsurer of the detailed claims data supplied through the recovery request, it is very rare for reinsurers to challenge the eligibility of claims submitted for recovery.

This practice should be adopted by the ARPC in managing the pool and leave the responsibility with the insurer to appropriately assess claims and costs for recovery. If the ARPC gets involved in specific recovery disputes at an individual claim level, this would likely lead to conflict and confusion between insurer, reinsurer and the pool, with associated time and cost added to the system.

RACQ RECOMMENDATION: Assessing claims and costs for recovery should remain the responsibility of the insurer for the purposes of pool recoveries. The pool recovery process should include “cash calls” consistent with current reinsurance market practice.



SECTION 3: OTHER CONSIDERATIONS

In addition to the key issues, RACQ would like to briefly raise other considerations that could impact on the pool's effectiveness and influence decisions.

PRICE MONITORING

RACQ notes plans to appoint the ACCC as the pool's price monitor as per the Factsheet. We understand the policy imperative to ensure insurers are passing on the full extent of premium benefits that can be attributed to the pool.

However, RACQ would urge the ARPC and the ACCC to design a price monitoring regime that is simple and does not become a costly, heavy-handed exercise that will run counter to the Government's policy objective.

The ACCC's recent Northern Australian Insurance Inquiry was an important investigation that gave the most broad, comprehensive analysis of what is driving high premiums in the region.

It was allocated \$50 million over three years to conduct the inquiry but significant "hidden" costs were borne by insurers participating in the inquiry.

RACQ allocated additional staff to assist the inquiry over its duration. This was equal to four full-time-equivalent staff over three years, costing more than \$500,000.

In addition, approximately \$750,000 was spent on software, systems and legal support to comply with the significant volume of information requests.

Every dollar spent validating premium benefits is a dollar not spent on actual benefits associated with the pool and so RACQ would urge simple audits rather than inquiry-like investigations.

RACQ RECOMMENDATION: The price monitoring regime should be simple and not become a costly investigation that dilutes premium benefits by increasing regulatory costs and therefore, runs counter to the Government's policy objective.

Secondly, RACQ notes the option for insurers to transfer their whole portfolio over to the pool, not just risks not yet written. How the price monitoring regime manages whole-of-portfolio transfers may influence insurers' decisions. Any requirement to retrospectively pass on pro-rata benefits to risks already written may require too much cost and effort as to make these transfers unviable.

Finally, RACQ notes the pool will eventually recognise and reward cyclone and flood mitigation in the home through discounts. This kind of property-level information is currently not available to the insurance industry but would be very useful to better understand policies being underwritten.

RACQ RECOMMENDATION: The ARPC should share with the insurance industry any property-level cyclone and flood mitigation data it uses to provide discounts to policyholders. The ARPC could share this data with the Insurance Council of Australia to upload it onto the existing National Flood Information Database (NFID).

CLAIMS HANDLING EXPENSES

Claims handling expenses (CHE) are a standard feature of overall reinsurance recoveries. CHE is not referenced in any legislative materials and if they are not covered by the pool this will be another friction cost borne by insurers. RACQ understands the ARPC plans to use virtually the same CHE-related clause in its existing terrorism reinsurance contracts. RACQ is still considering whether this clause is appropriate for cyclone claim recoveries.

RACQ RECOMMENDATION: The pool should cover claims handling expenses associated with eligible cyclone-related losses.



EXCESS AMOUNT

Under **Funding claims made under the cyclone reinsurance scheme**, the EM states: “All eligible claims are funded by the reinsurance pool above the policyholder’s excess for cyclone events for the first three years.” (*Explanatory Memorandum – page 12*)

Excess amounts are a common feature of general insurance policies and often used as an affordability mechanism by policyholders. However, with the pool receiving 100% of eligible cyclone liabilities beyond excess there could be a perverse incentive to dramatically reduce these amounts without checks or balances.

RACQ is interested to understand how the ARPC plans to mitigate the risk of excess amounts reducing en masse across northern Australia which would be an unintended consequence.

SYSTEMS CHANGE

Ill thought-out systems compatibility could impose further unnecessary friction cost on the system. RACQ understands this is top of mind as the ARPC develops its modelling, formula and pricing schedule. In addition to several months, there is likely to be significant cost involved in changing systems to accommodate the pool’s pricing and interact with the ARPC in recoveries and reconciliation.

RACQ would urge ease and efficiency as two key principles when designing pool systems.

RACQ RECOMMENDATION: The ARPC should consult with insurers in the design and implementation of systems to operate the pool.

CONCLUSION

RACQ commends the Government on moving the cyclone reinsurance pool policy closer to reality through the draft legislation. However, we note there is still a lot of work to do on the finer detail, particularly pricing and final design. The Government must next year heighten consultation that is inclusive of the broad industry.

RACQ joins with Government, local representatives and the broader community in wanting to see the pool achieve success and deliver on the policy objective. Our knowledge and experience in north Queensland can lead to meaningful engagement to help reach this outcome together.

We reiterate the need for the pool to run in tandem with significant disaster mitigation to reduce risk over the long term, The pool should be expanded to include motor and align its claims period closer to standard reinsurance practice to minimise gaps in cover.

We remain entirely committed to the interests and wellbeing of our members and the region and so we welcome a pool that will deliver downward pressure on premiums and keep insurance accessible and affordable well into the future.



CYCLONE REINSURANCE POOL

RACQ SUBMISSION TO THE SENATE STANDING
COMMITTEE ON ECONOMICS LEGISLATION

March 2022





INTRODUCTION

RACQ supports a Cyclone Reinsurance Pool. We have reinforced that support through four successive submissions to Government, and now the Senate, as well as numerous public comments in the media and to our members directly. We believe a pool can help curb the rising cost of insurance and make a difference to the lives of 1.3 million people who call northern Australia home.

However, RACQ's support is predicated on three key principles:

- The pool must be well-designed to ensure efficiency, practicality and minimise implementation costs.
- The pool must be part of a larger program of evidence-based initiatives to drive down the cost of insurance such as natural hazard resilience investment, tax reform and stronger building standards.
- The price monitoring regime should be simple and not become a costly administrative burden.

All our advice to date has been provided with the Government's policy objective front of mind – to improve the accessibility and affordability of insurance in cyclone prone areas. RACQ shares this objective with the Government which is why we have been so active in the pool consultation over the past 10 months. But we feel strongly that the pool's proposed structure and operation could be improved - maximising benefits for our members in the north.

That is why we welcome the Senate Standing Committee on Economics Legislation's consideration of the *Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022*.

RACQ recommends two legislative amendments to address outstanding concerns we have previously expressed about the pool. If these recommendations are adopted, we believe several costs, complexities and uncertainties would be taken out of the system ensuring the pool is best placed to meet community expectations over time.

About RACQ

RACQ is Queensland's largest member-owned mutual with nearly 1.8 million members. RACQ provides motor vehicle roadside assistance across the state, together with insurance and banking. The Club has been operating for over 116 years and last year marked our 50th anniversary providing general insurance to Queensland homeowners and motorists. We have grown to become the state's largest motor insurance brand and second largest home insurer.

Unlike the majority of the market, we are not governed by the pursuit of profits. As a mutual, RACQ exists solely for our members who are our only shareholders. Approximately 300,000 north Queenslanders are members of RACQ, 20 per cent of whom have home and/or contents insurance with us.

RACQ is immensely proud of its record in putting our members' lives back on track after natural disasters. Our Assistance fleet is on the ground as our initial incident response and our Mobile Member Centre is often the first insurance vehicle in impacted regions. Our catastrophe response also features dedicated teams of assessors, claims managers and professionals as well as a vast network of builders, trades and other partners. This response activity often stretches far beyond insurance. The RACQ Foundation exists to help communities recover from adversity. For instance, in the aftermath of the Townsville Floods, the Foundation gave more than \$780,000 to 22 impacted community groups such as sporting clubs and charitable organisations. We also sent 23 staff and skilled tradespeople to help 13 community groups and farms rebuild and repair their assets and properties after the floods.

Our continued advocacy

RACQ has long acknowledged that the cost of insurance in north Queensland is too high and becoming unsustainable. However, through many inquiries, the causes are now well understood. Disaster risk is increasing, climate impacts are being felt, communities have been put in harm's way, significant resilience investment has been absent, the "double-tax" (GST and stamp duty) on insurance is exacerbating and, more recently, COVID-related factors have added to these pressures. Finally, Australia is experiencing a construction boom that is driving intense competition for in-demand trades such as roofing. The main



objective of our insurance pricing strategy is to collect enough premium from members to fully pay all projected claims costs.

Yet the Australian Competition and Consumer Commission (ACCC) noted that over the 12-year period to 2018-19, insurers in northern Australia, including RACQ, have experienced an estimated aggregate gross loss across home, contents and strata insurance products of approximately \$856 million in real terms.

RACQ has remained committed to the market despite enormous challenges. North Queensland continues to be a core part of who we are as a company, a business, and most importantly, a club. We have remained a key part of the different local economies and social fabric despite the incredible challenges that insurers have faced in the region.

North Queensland needs a comprehensive plan for resilience and sustainable insurance agreed to by all levels of Government, one that leverages the expertise of insurers like RACQ to ensure it will result in tangible affordability outcomes.

We will continue to closely collaborate with the Government this year to ensure the pool is effective and works for Government, insurers and, most importantly, policyholders in northern Australia.

SUPPORT FOR THE POOL

RACQ pays proportionately more for reinsurance in north Queensland with a “rate on line” (ratio of reinsurance premium paid to maximum loss recoverable) nearly three times greater than south east Queensland.

Cyclone drives this higher rate due to past claims history and catastrophe models that point to increased risk. RACQ’s current catastrophe program costs \$125 million. Eight of RACQ’s 15 costliest weather events in the past decade have occurred in north Queensland.

Given the cyclone peril constantly looms large in RACQ’s catastrophe program, any measure that transfers as much of this exposure as possible to a “not-for-profit” pool that delivers benefits to our members is supported.

RACQ has been very active throughout consultation on the pool and we have been pleased to see much of our advice adopted in the legislation.

We have successfully argued that:

- The pool should be mandatory
- The pool should have an appropriate transition period
- The pool should include cyclone-related flooding and storm surge
- The pool should adopt property-level pricing
- The pool should cover landlord insurance
- The pool should not have a designated exit date
- The pool should cover damage that commences during the “claims period” but ends after the “claims period”
- The pool should involve maximising the benefits to those who are in greatest need of assistance. This means a smaller cohort of higher risk policyholders are supported by gathering and redistributing the very small gains on the more numerous lower risk policies.

RACQ has also commended other decisions taken that help the pool achieve its policy objective. We particularly note that the pool will insure against 100 per cent of the insurer’s liability for eligible cyclone losses, meaning it will pay for the entire value of eligible cyclone claims after the policyholder’s excess amount.

However, we believe the legislation is also holding the pool back from reaching its potential because it will provide only partial coverage of cyclone-related damage.

PROPOSED LEGISLATIVE AMENDMENTS

The partial coverage will build unnecessary cost into the system in a number of ways:

- RACQ will need to purchase “top up” reinsurance from the market to cover the gaps in coverage.
- RACQ will need to undertake new modelling to split the cyclone risk into different parts – a part that is ceded to the pool and the remainder that is purchased from the market.
- RACQ will need to invest in changes to its claims processes to preserve a seamless end-to-end experience for our members and ensure it is identifying costs that are to be recovered from the pool and those that are recovered from our commercial panel of reinsurers.
- RACQ expects additional resources will be required to reconcile costs and premiums with the pool’s price monitor, the ACCC.

The “claims period” is the main cause of the pool’s complexity and uncertainty. Most importantly, it will restrict the number of cyclone-related claims it covers, as will the exclusion of motor insurance. Insurers can only recover from the pool for cyclone-related losses that commence during the claims period.

The legislation and the draft regulations prescribe that the claims period begins when a cyclone has been declared and ends 48 hours after the cyclone has been downgraded.

RACQ recently completed an analysis of Australia’s history of cyclones over the past 40 years. During that time, the Bureau of Meteorology declared 226 tropical cyclones that approached or crossed Australia’s coastline. When applying the claims period over the cyclones’ timelines and trajectories, we have determined that almost 50 per cent or 112 of these cyclones would experience a gap in pool coverage before or after the defined claims period. Some of these cyclones may not have been covered at all.

As part of the analysis, RACQ has looked back at every cyclone that has incurred losses since Cyclone Larry in 2006.

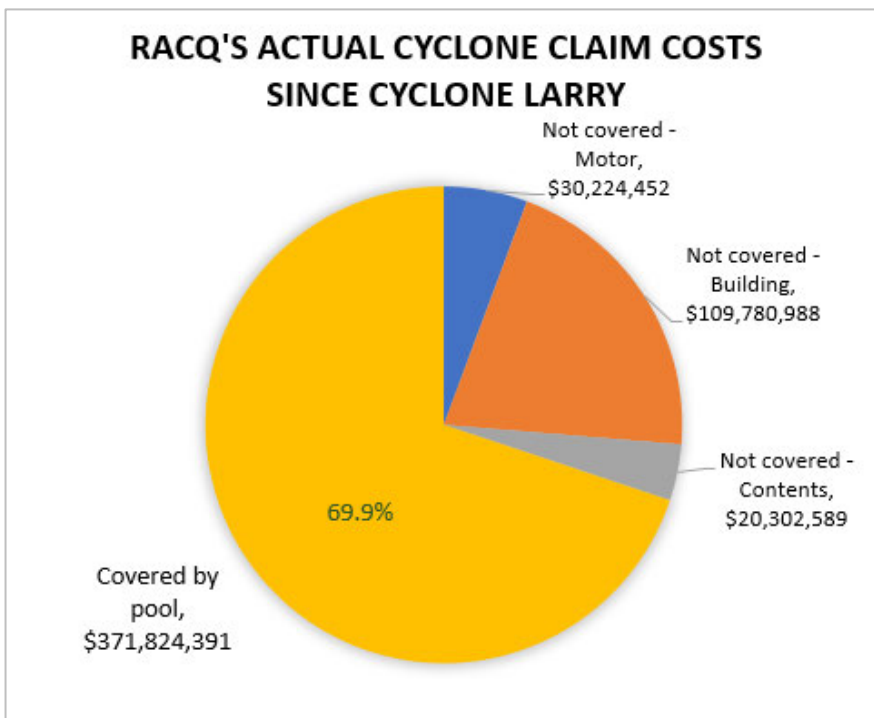


Figure 1: Pool coverage rules overlayed on RACQ’s historical cyclone losses (in today’s terms)
Source: RACQ internal analysis

RACQ members incurred more than \$532 million in insurance losses (in today’s terms) across 11 cyclones during this period. Approximately one third – \$160 million – of this total would not have been covered by the pool had it been place.

These costs are a blend of motor claims, which is entirely excluded, as well as home and contents losses that occurred after the claims period. Approximately 25 per cent of RACQ’s building costs, plus 33 per cent of RACQ’s contents claims costs for the 11 analysed cyclones fall outside the pool coverage rules.

This kind of cyclone-related exposure needs to be covered through purchasing additional reinsurance in the global market which will feed back into the price of premiums and is counter-intuitive with the pool’s purpose.

Analysis of three major cyclones during the past decade shows mixed results when determining the adequacy of the claims period.

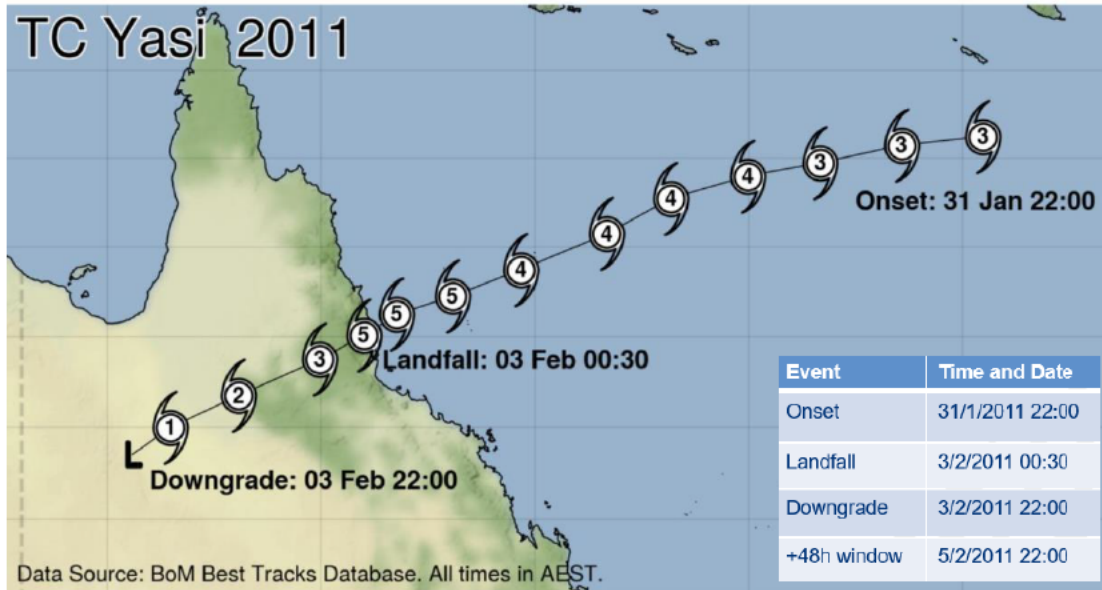


Figure 2: Tracking and timing of Tropical Cyclone Yasi
Source: BoM Best Tracks Database

Cyclone Yasi was a category five cyclone in 2011 that caused around \$100 million in damage and loss to RACQ member property and possessions, in today's terms. TC Yasi was declared by the BoM on 31 January, made landfall at 12.30am on 3 February and was downgraded that night at 10pm. This means the pool's claims period would have ended on 5 February at 10pm when Yasi continued in a south-westerly direction. TC Yasi is an example of the pool fulfilling the 48-hour objective as 98 per cent of RACQ's claims would have been covered.

Cyclone Debbie was a category four cyclone in 2017 that cost around \$75 million in damage and loss to RACQ member property and possessions, in today's terms. TC Debbie was declared on 25 March, made landfall at 12:40pm on 28 March and was downgraded at 10am on 29th March. This means the claims period would have ended at 10am on 31 March.

In addition to wind damage, Debbie inflicted significant flood damage as an ex-TC however most of that damage occurred within the 48-hour period and so 89 per cent of RACQ's TC Debbie claims would have been covered by the pool.

However, Cyclone Oswald is a different case study. Oswald was only a category one cyclone in 2013. However, it was a slow-moving system that brought incredible storm-related damage costing approximately \$100 million in damage and loss to RACQ member property and possessions, in today's terms.

It was declared on 21 January, made landfall at 4am on 22 January but was quickly downgraded. The claims period would have ended at 4am on 24 January.

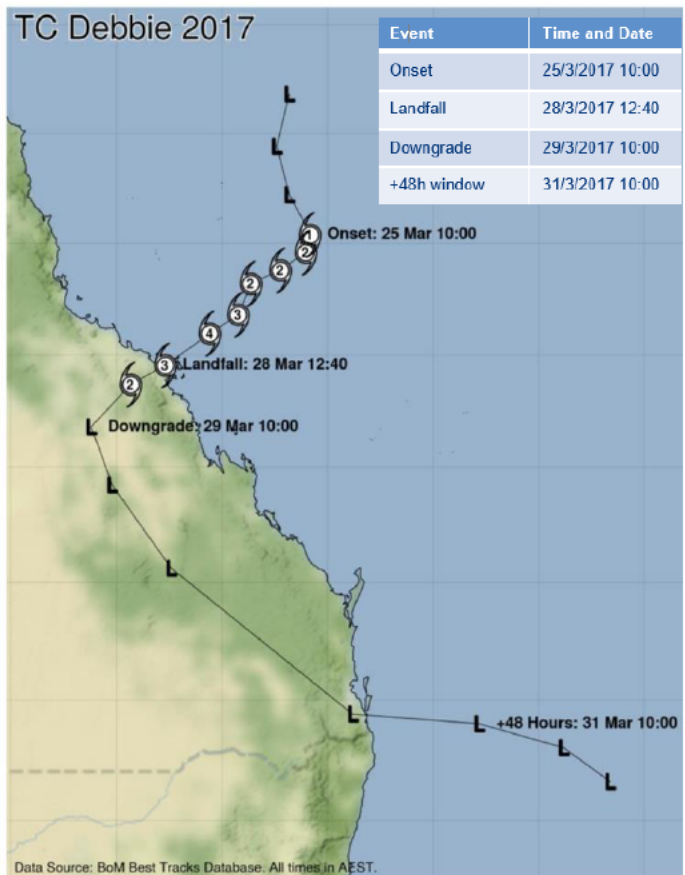


Figure 3: Tracking and Timing of Tropical Cyclone Debbie
Source: BoM Best Tracks Database

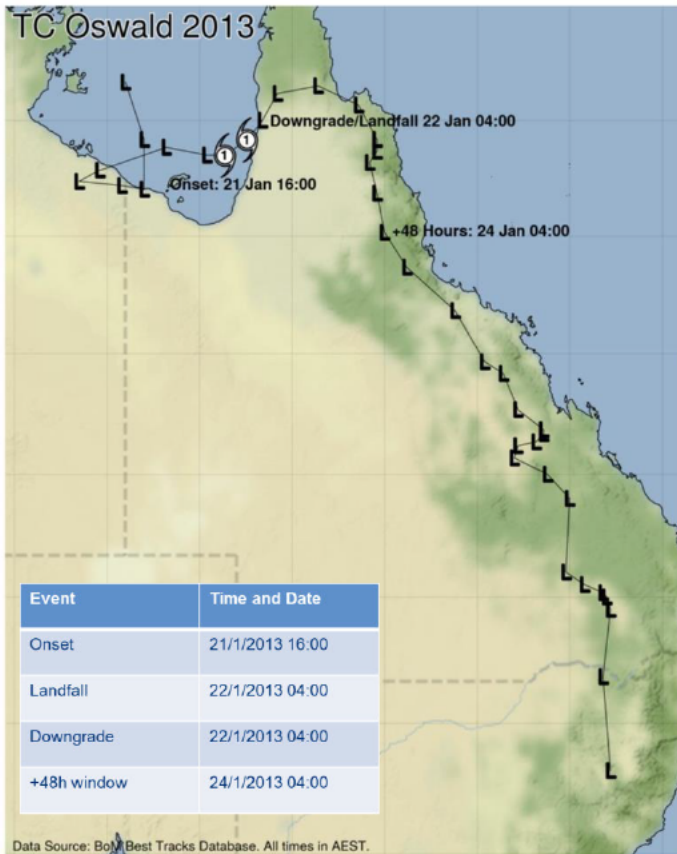


Figure 4: Tracking and Timing of Tropical Cyclone Oswald
 Source: BoM Best Tracks Database

Because ex-TC Oswald caused most of its damage after the 48-hour period down Queensland's coastline, the pool would have covered virtually none of RACQ members' losses.

By allowing the BoM, via the ARPC, to make the start and end date determination, it is made purely on meteorological terms and the choice of date of loss is taken away from the insurer.

The claims period, as it is defined, is not an approach adopted by the global market and so its alignment with typical reinsurance treaties is yet to be properly tested. Any cover uncertainty or duplication will impact on member benefits.

Currently, an insurer chooses the start and end date of the catastrophe event for the purposes of making a reinsurance recovery. Should the insured event last longer than 168 hours (seven days), the insurer is able to choose which seven-day window from which it wishes to recover claims. For example, with Ex-TC Oswald, the claim period chosen for the reinsurance claim was 24 January to 30 January.

Interestingly, Oswald was not declared a cyclone when it first made landfall. It was a low-pressure system when it touched in the Gulf of Carpentaria, circled back east of the Northern

Territory before intensifying to category one and hitting Queensland. In reading the legislation, the pool presumably would not cover losses caused by a system during the time between making landfall and being declared a cyclone.

These examples demonstrate there can be instances where the determination of the claims period can actually work against the policy objective of the pool. Setting seemingly "black and white" parameters for clarity could come at the expense of flexibility so the insurer cannot exercise judgement about when the pool can assist the most.

A "pre-cyclone" system could cause significant flooding or storm surge. Similarly, a slow-moving ex-TC could also cause these impacts after the claims period.

In addition, setting a narrow cyclone definition may be difficult when explaining to the broader community. A homeowner who is impacted by a system either shortly before a cyclone is declared, or after a cyclone is downgraded, is unlikely to appreciate such nuances and semantics and is likely to expect the pool to respond to their situation.

PROPOSED AMENDMENT: The definition of the claims period should be changed to align with standard reinsurance treaties and apply a "168 hours clause" (seven days). However, the seven-day period must overlap with a point in time when the weather event was a declared cyclone to meet the Government's policy objectives.

The claims period is the leading cause of friction issues associated with the pool. The closer the pool can move towards standard practice, the less uncertainty will be built into the system. RACQ recognises the Government's objective to link the pool's benefits to cyclone prone areas. Anchoring the seven-day period to any time when the event was a cyclone – even a category one – would ensure the pool covers the period when most losses are likely to occur. However, it would also allow for instances where a system is yet to become a cyclone (but making landfall) or has been downgraded and tracking through cyclone prone areas.



If this recommendation is not adopted and the Government is committed to a shorter claims period, RACQ would argue for a change to the “48-hour rule”. In addition to the range of additional costs it will bring, we believe the 48-hour rule will lead to very poor claims experiences for many of our members. The claims period imposes a strong focus on exact time of loss that is not currently present in claims processes. Under current policy settings, insurers will be required to rely on their customers to correctly pinpoint the time of loss, to determine where they should recover from – the pool or another reinsurer.

Loss time is not currently a data point required for reinsurance due to the established practice of accepting any claim falling within the seven-day date of loss window nominated by the insurer. In the interest of public safety, residents are often evacuated to another place of shelter well in advance of the cyclone reaching the area. Homeowners may not discover if their house has been damaged by the cyclone (or related flood or storm surge) until evacuation orders have been lifted and they have been able to return home, which can be many days later. It will be impossible in these situations to correctly identify the time of loss and it also could be perceived as an overly specific and insensitive question to ask a distressed RACQ member whose home has been destroyed. RACQ strongly recommends shifting the focus to “day” rather than “time” to allow for a simpler claims process and better experience for our members.

ALTERNATIVE AMENDMENT: If a shorter claims period must remain, the “48-hour rule” should be adjusted to bring the end of the claims period to 11.59pm on the day in which 48 hours have passed since the cyclone was downgraded. For example, if a cyclone is downgraded at 3.30pm on 1 January, the claims period should effectively end at 11.59pm on 3 January.

PROPOSED AMENDMENT: The pool should also cover motor insurance to ensure efficiency and cost effectiveness.

Of the \$160 million of uncovered cyclone-related losses referred to above, more than \$30 million represent motor claims. Although not a large proportion of cyclone-related losses over the period, motor’s inclusion would minimise friction costs by eliminating the need to split out this cyclone exposure to purchase from the market.

Finally in relation to the legislation, RACQ has noted the Regulation Impact Statement estimates implementation costs of \$440,000 across the industry. RACQ is unsure how this estimate was determined. RACQ believes it will need to spend significantly more than this amount on its own to get our systems and processes ready to participate in the pool. These are costs that are likely to be spread across the value chain from pricing and distribution to claims and ACCC compliance.

OTHER FACTORS

There remains a number of issues outside the legislation that need to be resolved.

Pricing

RACQ noted in the recent Federal Government announcement that the pool will lead to home insurance premiums reductions of up to 46 per cent. This is a significant reduction for an initiative that is largely relying on forgoing profit margins to provide savings.

To date, RACQ cannot assess the impact the pool will have on our member’s home insurance premiums, primarily because we have not received proposed pricing rates or associated modelling from the Australian Reinsurance Pool Corporation.

Theoretically, the pool will charge for the eligible exposures at a lower rate than what insurers and brokers would otherwise find in the open market.

In addition, we understand APRA will recognise the pool, including the \$10 billion Government guarantee, in setting prudential capital requirements. This decision will be important because without the ability to reduce our 1-in-200 catastrophe cover, the premium benefits from the pool to our members will reduce. We look forward to ongoing discussion with APRA on the pool to confirm this position.



RACQ has already begun work to place the next catastrophe reinsurance program which commences at the same time as the pool. The annual program protects our members' capital from increasing disaster risk and needs to satisfy APRA's prudential requirements. A number of factors influence the structure, components and costs of the program, but pool participation will require an exact understanding of the liabilities the pool is covering and what value the market will put on these liabilities.

RACQ suggests if the modelling and the pricing formula was provided soon, RACQ would be in a stronger position to participate in the pool earlier than our deadline of 31 December 2023.

Other cost pressures in general insurance

While RACQ agrees a pool can make a positive difference as part of a larger program of initiatives, community and Government expectations need to be managed in the context of the recent and current operating environment of general insurers in Australia.

Cost pressures have significantly increased, pushing up insurance premiums throughout Australia. They are expected to continue on an upward trajectory as a result of rising catastrophe losses and COVID-19 impacts, similar to the challenges experienced by reinsurers. Globally, average annual losses are approaching \$100 billion, up from about \$20 billion just 30 years ago, as shown in the figure below. There have been more than 300 catastrophes every year since 1993.

The global experience is reflected in RACQ's recent history of catastrophe losses. Figure 5 below shows the upward trajectory of reinsurance costs and natural hazard allowances.

RACQ's reinsurance costs have increased from \$25 million in 2008 to \$99 million in 2021 while risk retention – used to offset these costs – has also significantly increased during the same period. Similarly, our actual natural hazard experience (net of reinsurance recoveries) has risen from \$33 million in 2008 to \$136 million in 2021. Climate change, alongside population and asset growth, will see insurers' annual losses significantly increase across most perils including cyclone and storm surge, even under a 2° warming scenario.

These pressures are driving up the cost of insurance in Queensland, particularly in high-risk areas, which the pool can only partially address.

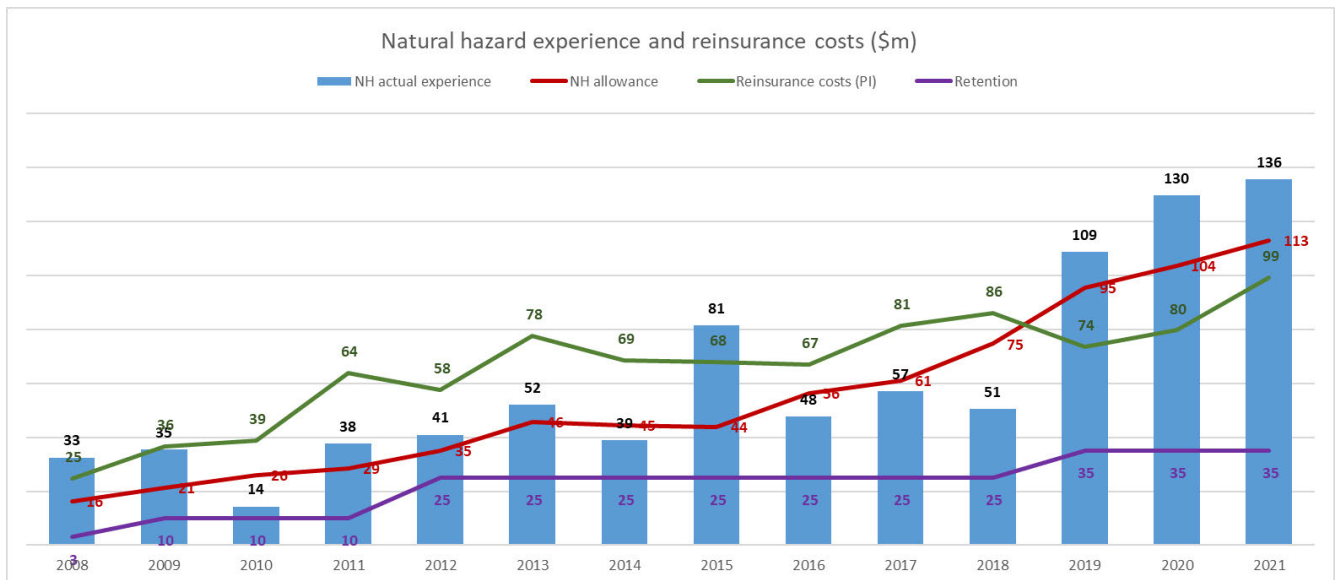


Figure 5: RACQ's natural hazard claims experience and reinsurance costs by financial year
Source: RACQ Internal Analysis

COVID-19 is still causing unprecedented impacts on insurers' claims operations. Supply chain and import disruptions, as well as border closures and uncertainty, have caused chronic trade and material shortages as well as logistical delays. Indirectly, Government stimulus packages for home builds and renovations, combined with persistent record-low interest rates, are exacerbating these shortfalls with insurers competing for in-demand trades, such as roofers. This, in turn, is leading to premium increases to cover various demand surges and longer wait times. RACQ is also currently experiencing similar issues in the motor insurance



business, particularly a lack of new car imports, that are driving up the cost of second-hand vehicles as well as a shortage of motor parts pushing up the cost of claims.

How quickly the pool will respond to increased cost pressures will be an important consideration as well as the agreed process the pool will follow to change price.

Finally, the inclusion of stamp duty on top of GST on insurance policies is a significant driver of the cost pressures our members are facing. The “double tax” equates to 19.9 per cent of a home insurance premium in Queensland. RACQ does not believe it is fair that the more risk our members face, the more tax they pay on their insurance. We believe tax reform is required to ensure insurance remains accessible and sustainable, particularly in high risk areas.

Price Monitoring

The ACCC has been appointed the pool's price monitor. We understand the policy imperative to ensure insurers are passing on the full extent of premium benefits that can be attributed to the pool.

RACQ believes the ACCC needs to be engaged as soon as possible to ensure the pricing arrangements between the insurer and the ARPC can be easily reconciled. We would recommend a price monitoring regime that is simple and does not become a costly, heavy-handed exercise that will run counter to the Government's policy objective.

Every dollar spent validating premium benefits is a dollar not spent on actual benefits associated with the pool and so RACQ would urge simple audits rather than inquiry-like investigations.

CONCLUSION

RACQ joins with Government, local representatives and the broader community in wanting to see the pool achieve success and deliver on the policy objective. Our knowledge and experience in north Queensland can lead to meaningful engagement to help reach this outcome together.

We reiterate the need for the pool to run in tandem with significant disaster mitigation to reduce risk over the long term. We strongly support the Insurance Council of Australia's current policy platform *Building a More Resilient Australia* which calls for all Australian Governments to collectively lift funding to \$2 billion over the next five years. Tax reform on general insurance is also needed. We do not believe it is right that Queenslanders pay 19.9 per cent in stamp duty and GST on their home insurance.

Putting these issues aside, the Senate Standing Committee on Economics Legislation can play a key role in making the Cyclone Reinsurance Pool better. Removing the current claims period and including motor insurance will go a long way towards making the pool more efficient, certain, simple, clear and, ultimately, effective for the people of northern Australia.