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17 November 2023

House of Representatives  
Standing Committee on Economics

Dear Dr Mulino,

### **Inquiry into insurers' responses to the 2022 major floods**

In 2022, Australia experienced extreme flooding of a scale and complexity that we had never experienced before. The rain was relentless and already flooded areas were flooded again. They had a devastating human, social and financial impact.

Unfortunately, the floods came at a time when the external economic environment, both globally and in Australia, was especially challenging. Supply chain shortages, labour market disruptions and an overheated construction industry resulting from the pandemic and ensuing high inflationary environment, created a particularly difficult backdrop for insurers to respond to the scale of the floods.

The role of insurance is to help people, businesses and communities recover and rebuild when disaster occurs. It is our responsibility to deliver for our customers when they need us most and I am personally very proud of the dedication and commitment of QBE's claims teams who worked tirelessly to support and help our customers during such difficult times.

Nonetheless, the scale and complexity of these major flood events exposed vulnerabilities in insurers' claims and complaint handling responses, and there are lessons to be learned.

In addition to reviewing our own response to the floods, QBE was very supportive of the independent review by Deloitte examining insurers' response to Australia's largest extreme weather event. We are carefully and thoroughly reviewing the findings and recommendations of their recently released report *The New Benchmark for Catastrophe Preparedness in Australia*.

I know that with the extreme conditions last year, some of our customers did not experience the standard of claims management service that QBE strives to achieve. We are listening and genuinely grateful for the feedback from our customers who did have poor experiences.

I sincerely apologise to each customer where we have failed to meet expectations.

I believe opportunities to reflect, including this Inquiry, are important to understand what can be done better and how we can enhance preparation for future extreme weather events in Australia. Please be assured, QBE has already, and will continue to implement improvements and enhancements in our claims management systems and processes.

Alongside the call to action for insurers to initiate change for the better, I hope the Committee also hears the many positive stories that demonstrate the industry's significant contribution in supporting the recovery of Australia's affected people and communities.

QBE looks forward to participating in the Inquiry and is pleased to provide the attached submission.

Yours Sincerely,

Sue Houghton  
Chief Executive Officer, QBE Australia Pacific



# Submission

House of Representatives Standing Committee on  
Economics: inquiry into insurers' responses to 2022  
major floods

November 2023



## Preface

Around the world, we continue to experience increased natural peril catastrophe events. In Australia, the scale and complexity of the 2022 floods was unprecedented and had a devastating human, social and financial impact.

The 2022 floods occurred at a point in time when the external economic environment was particularly challenging. Supply chain shortages, labour market disruptions, an overheated construction industry and other significant global economic vulnerabilities were prevalent as Australia emerged from the Covid-19 pandemic, then grappled with the uncertain impacts of Russia's invasion of Ukraine.

We understand the impact of natural peril events is often overwhelming for families, businesses and communities. As an insurer, we recognise this is fundamentally why we exist – to deliver for our customers when they need us most.

The insurance industry has worked hard to help the people and communities impacted by these devastating floods, restoring and rebuilding what was lost. QBE is proud of the efforts of our claims teams who worked tirelessly to support our customers.

Given the scale and complexity of these events and the prospect of increased extreme weather events, we also understand and accept there is a need to reflect and consider what actions we can take to improve and be better prepared for the future.

The number and scale of extreme weather events is increasing, raising complex and challenging issues across the world. As risk is escalating and insurance and reinsurance losses increase, the affordability and availability of insurance is under increased strain. The gap between insured and uninsured losses is widening globally. Where this protection gap widens, individuals and communities look to governments to provide support.

Insurance is fundamental to our economy, giving people and businesses the protection and confidence to grow and prosper. QBE's purpose is to enable a more resilient future and it is our collective responsibility to deliver workable solutions that increase community resilience and ensure that insurance remains sustainable for future generations.

As we face into a future with heightened geopolitical tensions, global inflationary pressures and an expectation that the impacts of climate change will continue to worsen, collaboration is needed across all levels of government, industry, communities and individuals.

QBE welcomes the Parliamentary Inquiry into insurers' responses to the 2022 major floods. While there is more to do, QBE has already and will continue to take actions to identify and implement improvements following the 2022 floods to better prepare for future extreme weather events.

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# About QBE

QBE Insurance Group is one of the few Australian-based financial institutions operating on an international scale. QBE has operations in, and revenue flowing from 27 countries and employs just under 13,000 people around the world.

QBE Insurance Group is predominantly a commercial insurer with products covering a diverse portfolio including property, crop, energy, marine and aviation. Headquartered in Sydney and listed on the Australian Securities Exchange, our international operations are comprised of three key operating divisions: QBE Australia Pacific, QBE International and QBE North America.

QBE Australia Pacific (**QBE**) has been an integral part of the Australian business landscape since its early beginnings in Queensland in 1886. QBE is proud of its heritage and the support that it has provided to our customers and policyholders, providing peace of mind during normal business and times of crises.

Within Australia, QBE<sup>1</sup> operates primarily through an intermediated business model combining our expertise in commercial and small and medium enterprise (**SME**) with a targeted presence in personal lines.

## Flood inquiry

The Parliamentary Inquiry (**Inquiry**) into insurers' response to the 2022 major floods<sup>2</sup> (**Floods**), to be undertaken by House of Representatives Standing Committee on Economics (**Committee**), will take a whole-of-economy view of the ongoing challenges faced by intense and frequent flood events. We welcome this approach.

As a member of the Insurance Council of Australia (**ICA**), QBE has been involved in and is supportive of the independent review of the insurance industry's response to the 2022 floods in South East Queensland and New South Wales (**NSW**) (**Deloitte Review**)<sup>3</sup>. QBE also supports the submission made by the ICA to the Inquiry (**ICA submission**).

We are pleased to provide this submission which includes the information requested by the Committee. We have also provided a confidential supplementary submission for the Committee's consideration in relation to "commercial in confidence" matters.

## Global landscape

Around the world, the changing climate is bringing significant challenges for people and their way of life.

With natural peril catastrophes becoming more intense and frequent, the financial impacts are considerable. In 2022, global economic losses from natural catastrophes have been reported at USD 270-275 billion<sup>4</sup>.

Measuring the financial impact does not in any way reflect the significant human loss and suffering that natural catastrophes can cause. Similarly, the ongoing dislocation and social impacts for those affected continues long after the clean-up has occurred – and is significantly underestimated.

As the impact of natural peril events across the world continues to grow, we are also seeing the difference between economic and insured losses widening. In 2022, the financial loss generated by natural catastrophes not covered by insurance was estimated at around USD 151 billion globally (or 53% of the total economic losses)<sup>5</sup>. Where the gap between economic and insured losses widens, individuals and communities typically look to governments for support.

Insurance is not of itself, sufficient to address the widening gap. With the increasing frequency and intensity of natural catastrophes, some risks may not only become unaffordable, but may ultimately become uninsurable without mitigation, resilience and other adaptive measures being taken.

In Australia, forecasts show extreme weather events are expected to cost Australia \$35.2 billion a year by 2050<sup>6</sup>. As we have seen, these events can have far-reaching economic consequences and devastating impacts on Australian communities.

For insurers, there is considerable pressure on pricing sustainably. Australian insurers faced historically low profits in 2020, 2021 and 2022, with recent improvements in profitability largely due to investment returns and commercial lines business.

In 2022, insured losses across all categories totalled \$36.5 billion from 5 million claims<sup>7</sup>. As outlined in the ICA submission, the south east Queensland and northern NSW floods alone were the largest insured event in Australian history and second costliest insurance event in the world, at over \$6 billion insurance losses.

For many years, QBE and the insurance industry have been advocating for measures that reduce natural peril risk and increase community resilience, which is critical to alleviate insurance affordability and accessibility issues. Investing in public mitigation infrastructure, creating more resilient homes, making changes to land-use planning and strengthening building codes so we build homes and infrastructure that are fit for the future – these are measures that will deliver benefits. We strongly support and commend the Federal Government's focus and agenda on these matters and support collaboration across all levels of government, industry, communities and individuals to address these challenges.

Insurance is fundamental to our economy, giving people and businesses the protection and confidence to grow and prosper. It plays a significant role in managing the financial impact of natural disasters, contributing to resilience and recovery and lessening the financial burden for governments, communities and individuals. Protecting the integrity and stability of insurance markets and ensuring the long-term sustainability of the industry is crucial.

QBE's purpose is to enable a more resilient future and it is our collective responsibility to deliver workable solutions on these complex issues to ensure insurance remains sustainable for future generations.

## Major floods of 2022

The scale and complexity of the Floods were unlike any extreme weather event previously experienced in Australia and came with a devastating human, social and financial impact. Called the "Great Deluge" by some<sup>8</sup>, weeks of ongoing rain, rivers swollen beyond capacity and saturated grounds meant that flooded areas were flooded again. The resulting damage was of a scale and nature that hampered recovery efforts, including inhibiting access, mould remediation and drying out processes, and displacing many people from their homes and businesses.

The volatility of the global economy, and the ongoing repercussions of the Covid-19 pandemic, exacerbated these already significant challenges for Flood recovery efforts. The Australian economy was experiencing a range of considerable challenges including supply chain constraints and disruptions, labour market upheavals, increased demands on the construction sector, rising interest rates and growing inflationary impacts. These conditions are outlined further in the ICA submission.

In addition, several substantial regulatory changes which had come into effect in recent years, including in response to the Financial Services Royal Commission, were being implemented and embedded in insurers' systems and were tested at scale for the first time by the Floods. Further detail on these changes is contained in the ICA submission.

As identified in the Deloitte Review, all these factors combined to challenge insurers' claims response to the Floods in ways and at a scale beyond business-as-usual operations, including operations during past catastrophe situations. The vulnerabilities in the capacity of our systems and processes which were exposed by these challenges meant that despite the extraordinary efforts of our front-line people, not all of our customers received the standard of claims service that QBE strives to achieve.

While QBE considers our claims management operates in the top tier of industry practice (based on the Deloitte Review), we have listened and learned from the experience of our people and our customers during the Floods, particularly from those customers who were impacted by a poor experience. This has helped us understand what went wrong and to identify and focus on improvements and enhancements that could be made.

QBE has already, and will continue, to implement continuous improvements in our claims management systems and processes in preparation for future significant extreme weather events. In particular, areas of continuous improvement include:

**Communication** – where:

- our Claims and Customer Advocacy and Insights teams are working together to understand how we improve our customer communication strategy and plans during catastrophes to enhance information and communications with our customers during these events,
- we are developing a higher level of digital communication to keep customers updated through the claims process, as part of our modernisation strategy and program.

**Support for vulnerable customers** – where:

- we are enhancing training for QBE front-line people and their leaders with respect to identifying and supporting customers experiencing vulnerability,
- we are reviewing and simplifying the financial hardship process to improve the customer experience for hardship applications,
- we are embedding our system flagging processes so that our customers do not need to re-explain to our claims staff their specific circumstances concerning vulnerability, and
- we are revising our catastrophe management plan to embed enhanced support and relief measures for our customers experiencing vulnerability, such as financial hardship.

**Third party oversight and arrangements** – where:

- we are introducing measures to strengthen oversight and performance management of our service suppliers and experts including:
  - › more timely updates to our claims officers on the progress and customer contact activity of our suppliers so that they have the relevant information to manage customer expectations,
  - › implementing further measures to fast-track our supply chain processes,
  - › reviewing and updating supplier service level agreements,
  - › tightening management of the loss adjustor process and capacity,
  - › implementing new preferred supplier agreements, for example trialling a new temporary accommodation provider,
  - › uplifting guidelines for mould remediation and builder strip-out instructions to provide clarity and enhance communications between restorers and builders,
- we have formalised arrangements with a preferred hydrology supplier after assessing the timeliness and the quality of reporting from the panel of hydrologists QBE used during the Floods.

**Enhancing consistency and quality of customer experiences and outcomes** – where:

- we have established a dedicated National Claims Response Team of 25 permanent additional staff to support surge capacity requirements from future extreme weather events more effectively,
- we have invested additional resources to support the onboarding and ongoing training of our claims staff with a focus on the specific nuances and protocols needed to support them during large scale catastrophe events,
- we have established a property health check process focused on better understanding the most complex claims so we can identify obstacles to minimise any potential delays, and
- we are improving internal and external feedback loops about our claims performance and customer experiences assisting us to translate key insights into meaningful actions across our claims front line staff during the high intensity response stages of severe weather events.

Across our international operations, prior to the Floods, QBE had already established a strategic priority to modernise our business. Our modernisation agenda is primarily focused on improving connectivity and ease of doing business with our customers and partners, supporting the digitisation and efficiency of our core underwriting and claims processes, better leveraging data across our organisation and providing better tools for our people to meet customer needs. In Australia, our program focuses on simplifying and digitising our customer facing and partner engagement technologies and our claims end-to-end processes to increase operational efficiency and uplift our people, customer and partner experience.

In addition to these steps we are, carefully and thoroughly, reviewing the findings and recommendations of the Deloitte Review to further our continuous improvement efforts and preparedness for future severe weather events.

QBE believes opportunities such as the Deloitte Review and the Inquiry are important for both the insurance industry, and QBE, to identify and understand lessons learned and what can be done to enhance preparation for future extreme weather events, while at the same time being mindful of the broader issues of insurance availability and affordability for our customers.

## Committee information request

The Committee has requested QBE provide answers to questions and associated data by letter dated 22 September 2023 (**Request**). Our response to the Request relates to the same products considered in the Deloitte Review (domestic property, private motor and small business insurance policies)<sup>9</sup>. Please note:

- QBE's domestic property householder insurance policies (**householder policies**) cover flood as a standard inclusion, so an assessment of whether property damage was caused by flood or storm is not required. Hydrology reports were not needed in these circumstances.
- For QBE's small business insurance policies, flood cover is not a standard inclusion but is available as optional cover. For claims made under these policies (where flood cover had not been taken as an option), hydrology reports were generally sought to determine whether the damage was caused by flood or storm.

For information on QBE's small business insurance policies, we have used data relevant to our business pack insurance products (**business policies**). Business policies are largely taken out by SMEs but are also taken out by larger businesses.

QBE's response to the Request for matters relating to claims management, disputes, vulnerable customers, communication and hydrology reports is set out in the *Claims management* section below and is consolidated into the themes of the Request. Our response to the Request for matters relating to resilience, land use planning, future policies and renewals and lessons learned since the 2010-2013 disasters, is set out in the *Risk and Insurance* section.

Relevant "commercial in confidence" information has been included in QBE's supplementary confidential submission. Where we do not capture the requested data or information in a way that can be readily accessed<sup>10</sup> or a way that does not specifically address the request, we have attempted to provide information or draw inferences where we can, to assist the Committee.

## Claims management

### Surge capacity during the Floods

#### Committee information request (Attachment B, item 1)

- *How did the sector cope with the surge in claims from the 2022 floods (referred to in the Terms of Reference)?*
- *How many staff are engaged in claims processing? How does this change during natural disasters?*
- *At times when a high number of claims are submitted, the industry will be competing for additional staff and for materials (for repairs) with other sectors. How does the firm manage cost and/or access issues? How could it do better in the future?*
- *What are the strategies for redeploying resources internally? How do you manage the risk of unintended consequences? (e.g. insufficient resources in other areas).*
- *What are the key skills gaps currently (or anticipated)? How does the firm/industry propose to manage recruiting and training a surge workforce?*
- *What training is provided to claims processing staff? How long does it take?*

During the Floods, QBE managed the surge in claims through activation of our catastrophe management plan (**CAT Plan**) and strategy. The CAT Plan is designed to enable us to quickly adopt pre-determined processes to address increased claim volumes, address potential complexities of the particular event (such as localised supply chain or resource constraints), and the welfare of customers and our people.



Execution of CAT Plan during the Floods was enhanced by QBE's implementation of risk mapping technology. This assisted our people to better understand where impacted customers were likely to be located so that we, and our claims fulfillment suppliers, could deploy critical human response in a more considered and targeted manner. For example, risk mapping technology enabled our people to more quickly and easily identify customers that likely needed emergency accommodation or payments or other immediate support.

The risk mapping technology also enhanced our workforce planning and the customer communications strategy in the initial stages of the Floods giving our people an early picture of the nature and extent of the damage likely to have been caused. This meant we were better able to:

- forecast claim volumes and resource, and
- issue bulk SMSs to potentially impacted customers to advise them to get in touch with QBE if they have suffered damage requiring immediate action or assistance.

In addition to risk mapping technology, to manage claims surge during the Floods we utilised insights from industry and community engagement forums, intelligence from loss adjustors, suppliers and QBE representatives when on the ground, to inform workforce planning and the deployment of our people and our claims fulfillment suppliers.

Directly understanding the on-ground situation is an important aspect of QBE's claims surge management. It provides a real world and localised view for our people of the challenges facing customers enabling our people to respond more dynamically. During the Floods, QBE deployed senior claims representatives on the ground as soon as it was possible to do so. QBE executives, management and staff made multiple visits to customers and the sites and regions impacted by the Floods and QBE representatives attended all the ICA's community engagement forums for the Floods<sup>11</sup>.

As the Floods event progressed, claims surge management was aided by claim metrics which included open claim volumes, telephony performance (grade of service and abandonment rates), outstanding activities/diaries and claims finalisations. Further reporting and monitoring mechanisms, such as feedback loops around quality assurance testing, customer experience feedback and supplier performance metrics, were also used to inform, redirect or re-prioritise the focus of the claims handling teams as needed.

All of these metrics were used during the Floods for continuous workforce forecasting and reforecasting of the immediate and likely ongoing operational resourcing needs. This informed caseloads, internal redeployment needs and opportunities, and additional recruitment plans and strategies.

During the initial stages of the Floods, QBE undertook internal redeployment of resources from across claims to support the surge in claims notifications and lodgements, which included identification of vulnerable customers and customers with immediate make-safe repair needs. The sheer volume of claims notifications experienced in the initial stages of the Floods resulted in QBE also taking prompt action to create an additional and specific catastrophe team to assist with the surge in claims. Other measures included:

- immediately standing up strategic and operational cross-functional teams to monitor, triage and respond as needed to emerging issues and the complex environment of the Floods,
- planning and developing our communication responses to assist our teams and external stakeholders inform customers of QBE's response actions,
- adopting specific processes to address increased claim volumes, localised supply chain constraints and to ensure appropriate focus on the welfare of customers and staff,
- offering short term internal secondments to non-claims QBE employees and utilising available resourcing in our global shared services centre,
- streamlining claims processes and amending authority limits to facilitate more efficient claims management progress and repairs, and
- close and ongoing monitoring and analysis (e.g. of phone and email queries and any pressure points on caseloads across individuals and teams) of emerging issues and progress of processes to facilitate appropriate actions to address resourcing needs.

Despite the comprehensive CAT Plan, strategies and measures outlined, the fact is that the extent of the multiple external factors stretched the CAT Plan beyond what would be considered reasonably likely to occur.

## Resourcing

Prior to the Floods, QBE had, on average, 411 people directly engaged in processing property and motor claims. This does not include people within QBE's broader claims function that have responsibilities relating to our property supply chain (including supplier relationship management, repair quality management, and partner management), motor supply chain (including motor assessing and partner relationship management), delivery and performance (including workforce planning, performance coaches, trainers, risk and compliance) or governance, quality assurance teams and other supporting teams. This also does not include external suppliers and providers, third party agents and intermediary partners who are involved in QBE's claims management process and may have delegated authority from QBE to manage claims.

During the initial flooding events (February – March 2022), QBE increased the number of people engaged in processing property and motor claims to, on average, 491 people. During the response and recovery phase (March 2022 – March 2023) the number of people engaged in processing property and motor claims was, on average, 498 people.

Claims resourcing varied across 2022, but overall general claims resources were increased by approximately 100 full time personnel, primarily to support the property claims team (which equates to an approximate 70% increase in resourcing for that area) (see **Chart 1**). Motor damage claims were generally able to be addressed through the pre-existing claims resources.

These additional resources included claims specialists, repair quality technicians, specialist resources with experience in hydrology processes, trainers (to assist with on-boarding and induction training for new starters), and management and other support staff. QBE also increased its frontline staff on the ground during the first 4 months of the South East Queensland and NSW event, with several teams of 2-3 rotating across ICA and local government run recovery centres.

Considering our experiences with the Floods, QBE has subsequently increased our resourcing by establishing a dedicated National Claims Response Team (**NCRT**). The NCRT comprises 25 permanent people and will assist us to more effectively address surge capacity requirements for future extreme weather events. The NCRT currently remains devoted to managing catastrophe claims. The NCRT is designed so we have sufficient and immediately available resources to support and stabilise short term service levels, while recruitment, onboarding and training of temporary resources occurs in parallel. We believe this response appropriately balances the need for additional permanent resourcing with increased operational costs, which does have insurance affordability implications for customers. If Australia experiences future events of the size and nature of the Floods, it is likely this would still require recruitment of temporary resources to manage such a significant surge volume of claims.

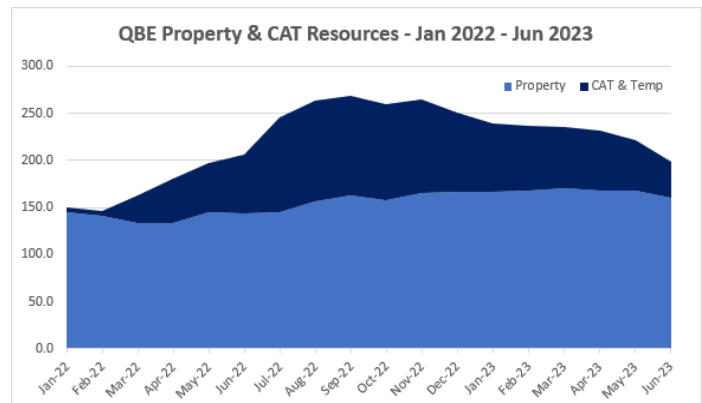
### Competition for resources – recruiting and training

Given the tight labour market conditions in 2022, there were challenges recruiting people with specific insurance claims management expertise during the Floods. In this context, our recruitment approach actively considered applicants with broader expertise and capabilities that we believed could translate to insurance (such as people with experience in customer service or care industries, including nursing). QBE was also flexible with respect to location within Australia and hours of work, employing part time workers, and people in remote locations.

We were, however, deliberately selective around characteristics that we considered were needed in claims management roles. During our recruitment, this included considerations such as culture fit with QBE's DNA<sup>12</sup>, resilience attributes, and characteristics that demonstrated a genuine desire to assist and help people, which we consider important for these roles. We believe having the right people with the right attitudes for these roles made a significant difference as we progressed through the year.

For new people in the claims team, QBE has a range of on-boarding training components. This includes structured learning pathways covering QBE's claims philosophy and standards, end-to-end claims processes for a variety of claims types, and guides for daily learning activities. Training is delivered through a range of modes (e.g., e-learning, face-to-face, on the job coaching) and is also supported by access to digital information resources. In addition, all staff must complete mandatory online learning to meet QBE's minimum corporate

**Chart 1**



standards (including our regulatory and compliance obligations). This is supplemented by on the job learning, buddying and shadowing of experienced personnel which is a key part of our training approach for claims personnel. New starters performance outcomes are monitored through our quality assurance processes.

During the Floods, our regular onboarding was streamlined and focused on areas of particular importance for managing flood and storm-related claims, supported by additional training resources as mentioned. On-boarding training before deployment into an operational team can typically range between 2-3 weeks. Once the new starter is deployed into the operational team, individual or group support is provided on an ongoing basis as the new starter works towards competency and proficiency. A new starter with prior insurance and claims experience is typically effective in the role within a month. Less experienced recruits typically have a speed to effectiveness period of 3-6 months.

During the Floods, QBE had a range of processes and controls in place for monitoring claims handling timeframes. This enabled us to redeploy claims resourcing, as needed, across our catastrophe claims and our business-as-usual claims. These included operational performance scorecards and reporting, supported by automated workflow in QBE's electronic claims handling systems and manual diary follow up for other claims systems. Reporting was used to understand developments at the portfolio, team and individual level and redirect support and resources where needed. Examples of monitoring reports that are used for property and motor claims include:

- the Portfolio Management Tool, which is a daily report providing management with visibility over key metrics such as team and individual workloads and claim ageing; and
- the Daily Dashboard which provides granular claims information in relation to telephony, e.g. call volumes, call duration, call abandonment rates etc.

This assists us to direct and balance our claims resource capabilities between existing business-as-usual claims as well as our catastrophe claims response. During the Floods, new starters were deployed directly in the catastrophe team or to existing claims teams, as we sought to balance resources' capability and experience to support customers across both segments.

As part of our ongoing improvement processes, we are currently reviewing our training with specific consideration being given to any enhancements that may be needed for onboarding people during a catastrophe. As previously noted, we have also invested in additional resources to support onboarding and ongoing training of our claims people and the specific support needed during large scale catastrophe events.

### **Competing for suppliers and materials – access and costs**

QBE has panel arrangements in place to manage access to, and the cost of, materials and resources. We have a number of claims supplier panels that provide expertise and support across a range of claims handling and fulfillment activities. This includes loss adjusters, loss assessors, claims investigators, builders, motor vehicle smash repairers, restoration providers, and contents providers. Supplier panels are monitored and reviewed for continued suitability through QBE's procurement process. We focus on having access to, and coverage of, services nationally. Regular oversight mechanisms of these arrangements form part of QBE's vendor management oversight framework.

Given the nature and scale of the Floods however, there was unprecedented demand and competition for materials, trade contractors and other relevant third-party providers. The Deloitte Review analyses in some depth the significant shortages of materials and resources that existed in Australia at that time, indicating – *there was too much work and not enough materials to work with*<sup>13</sup>.

At the same time, the Australian labour market was at a historically tight level, as noted in the Deloitte Review:

*The fast rebound in economic activity meant that businesses needed more people; however, Australia's labour force had shrunk during the pandemic as border closures halted inward migration. This made hiring activity extremely challenging for businesses, with vacancies at a historic high relative to the number of unemployed Australians. While Australia reopened its borders in February 2022, persistently strong demand meant that the labour market continued to tighten throughout the first half of 2022. New South Wales saw record low unemployment rates for much of 2022, meanwhile Queensland equalled its previous low towards the end of the year*<sup>14</sup>.

With very low unemployment and an overheated construction industry in Australia in 2022, the availability of trades and materials that were needed to repair and rebuild properties damaged from the Floods, was

particularly problematic. This created additional complexities for insurers' claims handling responses in what was already an unprecedented event, given the nature and scale of damage experienced.

Construction and building material prices were at historically high levels and increasing at the fastest pace on record, which contributed to the high cost of the rebuild following the Floods. In this context, QBE applied a catastrophe levy enabling our providers to compete in the market against the increased demand. Our loss adjusting partners also sought additional capacity by utilising their international operations. This assisted with administrative tasks that could be performed remotely and increased capacity for on-ground activities in affected areas to assess and determine claims.

Also, as the Deloitte Review notes, insurance investigators and surveyors were already in short supply at the time of the Floods<sup>15</sup>. The need for expert hydrology reports and the limited pool of qualified hydrological engineers in Australia also caused significant delays for those people who did not have flood coverage.

Global supply chain disruptions and shortages are complex problems that are not readily resolved. In the context of supply chain, trade and services constraints following the Floods, the Federal Government's National Emergency Management Stockpile initiative, announced this year, is expected to bring increased availability of key resources in responding to disasters.

We note the Government's initiative comprises three components, including: a national stockpile of Australian Government resources including shelter, power and water; a Memorandum of Understanding with other governments on humanitarian and crisis response capabilities; and a Standing Offer Panel with categories for goods, logistics and specialist services which will be available to governments. A strategic approach to addressing key shortages following disasters is vital, and we encourage governments to consider how these kinds of initiatives might also be utilised to support key industries' ability to respond effectively to communities.

We understand the ICA has also been engaging with state and territory governments and building industry associations to consider ways to increase the availability of trades and to investigate the feasibility of bringing in qualified trades from overseas. An additional factor that could be considered for the future is that state-based trade licences were not universally recognised across state borders. We understand initiatives are underway to consider national recognition of qualifications or streamlining of existing processes for cross-border recognition. This would assist in facilitating the efficient movement of trades across borders during natural peril events.

## Claims processing

### **Committee information request (Attachment B, item 1)**

- For each 2022 flood event, what is the average time<sup>16</sup> taken to:
  - a. determine claims for each relevant category of insurance including, but not limited to, home and business;
  - b. provide a payout to the policy holder;
  - c. commence repair work.
- For each 2022 flood event, why did those policy holders experience delays in the processing of their claims? Were these delays due to:
  - a. Internal factors (staffing/resourcing/other)
  - b. External factors (lack of access to tradespeople or to materials due to supply chain issues)
- How did these delays impact policy holders? Was the impact measured?

### **Timeframes and monitoring**

Claims processing timeframes for the Floods were extended beyond business-as-usual timeframes – see “Average claims closure rates for CAT 221” in the ICA submission. The extended timeframes were largely due to the impact of the external environment – see “The impact of the external environment” in the ICA submission.

As flood cover is a standard inclusion for householder policies, QBE's processes did not require a preliminary or final claims determination before QBE took action to respond to urgent customer circumstances. As such, during the Floods, QBE was able to take immediate action to respond to urgent customer circumstances, (e.g. make-safe repairs, temporary accommodation support and emergency payments), before a formal claims determination. Where a claim was later determined to be not valid, the customer retained the benefit of the early and immediate action taken by QBE.

Formal claims determinations do require confirmation of damage via a builder or loss adjustor accessing the site. Timely access to sites was hampered during the Floods by the rural and regional location of affected areas and unprecedented demand for builders and loss adjustors across the industry as outlined in the ICA submission.

In the face of these challenges, the metrics for contact, site attendance and scope of works submission by a QBE panel builder in respect of householder and business policy claims during the Floods is in the table below.

<b>Builder Action</b>	<b>Median</b>	<b>Average</b>
Contact with Insured	0.9 hours	9.0 hours
Attendance at Site	8.1 days	14.2 days
Scope Submission	7.9 days	14.6 days

From training delivered to QBE claims teams by the Red Cross, QBE understands that customers experiencing the stress and trauma of a natural peril event often require additional time to consider and understand available options for recovery and the possible impacts on their lives. Following a claims decision by QBE, customers very understandably also needed time to consider government programs offering resilience, rebuild and buyback options. Customers needed to make potentially life changing decisions about whether to rebuild on their land or to move. While this also contributed to delays in commencing repair work or providing a cash settlement, QBE continued to provide support for customers during this time (e.g. through temporary accommodation).

### Claims processing delay factors

Several factors significantly contributed to delays in claims management during the Floods. The Deloitte Review provides a detailed analysis of both the internal and external factors that impacted the insurance industry's claims' management response. The ICA submission summarises some of the key external factors and challenges including:

- the tight labour market and shortage of insurance investigators and surveyors,
- construction industry pressures further fuelled by supply chain constraints and construction price inflation,
- high demand for new and used cars and accommodation, constraining insurers' ability to replace vehicles and source temporary accommodation,
- the capacity of hydrologists was overstretched, resulting in delays to assessments.

Several of these factors were exacerbated by further flooding which also meant indispensable drying timeframes were extended. It is critical that properties are allowed to dry out properly before commencing repair work to ensure the safety and health of customers and that further rectification is not required at a later stage.

The following matters were also particularly problematic:

- Availability of trades in some remote and regional areas was challenged by accessibility (e.g. road infrastructure and travel times), and lack of accommodation given the number of displaced locals.
- Gaps in basic infrastructure (e.g. electricity, water supplies) contributed to delays in repairs.
- Debris disposal logistics, involving two state governments, resulted in considerable delays.
- Many customers confronted the decision of whether to rebuild or relocate. As noted above, customers understandably needed to take time to consider the options available to them.
- Changing building codes also created uncertainty and delays in local government building approvals and consents also impacted insurance repair and rebuilding works.
- The claims surge placed claims handling timeframes under significant stress, due to the scale and complexity of the events. The customer contact timeframes in the General Insurance Code of Practice (**Code**) meant that the sheer volume of communications increased substantially. As there was no alleviation of that Code obligation, there were flow through impacts on the capacity to meet these timeframes in addition to managing claims, complaints and servicing customers' urgent needs.

These factors impacted the claims process and the delivery of claim outcomes for customers, however, the precise impact of a specific delay for each claim is not able to be quantified or measured accurately.

## Claims decisions

### Committee information request (Attachment B, item 1)

- *Under what circumstances do you reduce the quantum of payouts to policy holders?*
- *What procedures do assessors engaged by your firm follow to differentiate between storm and flood events?*
- *How do assessors differentiate between storm and flood damage where both may have occurred during a single event?*
- *How does your firm differentiate between storm and flood damage?*
- *For each 2022 flood event, how many claims did your firm refuse on the basis that damage was caused by flood and not a storm? What percentage of total claims made for both home and business insurance do these refusals represent?*

For QBE, there are limited circumstances where deductions are made from a claims payout, beyond the excess in the policy<sup>17</sup>. These may include:

- outstanding premiums (for policies paid by instalment), and
- cost of removal of debris (subject to any government arrangements) as it is part of the property sum insured.

In terms of assessing whether damage was caused by storm or flood, for the relevant products, this arises for our small business customers who have not elected to purchase flood cover. As previously indicated, flood coverage is a standard inclusion in QBE's householder policies.

To help determine if damage was caused by storm or flood, QBE typically engages hydrological engineers – further information on QBE's hydrology process is in the *Flood cover and hydrology* section).

For the Floods, the following table outlines the outcome of QBE's small business claims where it was determined the damage was caused by flood (and flood cover was not included in the policy). For QBE's householder policies, this question is not relevant (subject to any other conditions of the policy).

Claims outcome	No. of SME claims
Fully declined (no flood cover)	156
Partially declined (no flood cover)	113
Total	269
Total as % of SME claims	13.7%
Total as % of all QBE claims	2%

## Claims protocols

### Committee information request (Attachment B, item 1)

- *Where policy holders are asked to sign documents with legal implications including but not limited to:*
  - a. waiver documents when homes and businesses are being 'stripped out' by building contractors engaged by insurers; and*
  - b. documents relating to the full or partial settlement of claims;*

*What steps does your company take to ensure policy holders fully understand the nature and terms of these documents and their legal effect?*
- *Does your firm ever advise policy holders to engage independent legal advice before signing such documents? If yes, does your firm ever assist policy holders to do this?*
- *What role does automation/AI have in the claims process?*

There are a range of regulatory requirements and Code obligations that govern insurers' claims management, including the overarching legal obligation to provide our claims services honestly, fairly and efficiently. We do not facilitate the provision of legal advice to customers, nor would we consider this appropriate.

QBE's standard claims management processes do not require customers to execute any document prior to settlement of claims that would release QBE from liability under the policy (e.g. by way of deed of settlement or release).

Where we are proposing to deny or partially accept a claim, our correspondence with customers will explain our reason for the decision and provide the reports we relied on making the decision. In addition, our processes

require our claims officers to articulate the outcomes of a decision and relate the facts to the policy documentation to help customers understand the rationale for the decision. Where we can, our practice is also to verbally discuss this with the customer, prior to the customer receiving the formal written claim outcome. Our formal written claim outcome documentation expressly identifies complaint avenues for customers and asks customers to provide us with any further information that would support a reconsideration of our decision.

QBE engages and pays for the services of contracted suppliers who carry out insurance repair work as our third-party providers. QBE may also delegate claims handling authority under a variety of arrangements with underwriting agencies and third party administrators. The contract requirements for residential building work, including in relation to price, scope of work and warranties, are generally mandated by state and territory legislation.

Where a cash settlement is being considered by the customer, there is a regulatory requirement to provide a cash settlement fact sheet to assist customers in their understanding. The fact sheet expressly recommends that a customer consider obtaining independent legal or financial advice before accepting a cash settlement.

Contract terms with QBE's distribution partners with delegated claims handling authority typically will mirror insurers obligations so partners are required to provide services efficiently, honestly and fairly and comply with all relevant laws, including industry codes. In addition, QBE includes contractual oversight and monitoring obligations for providers against claims standards and obligations. Providers are not authorised to do anything on behalf of QBE that is not authorised under the agreement and are to act in good faith and reasonably.

Automation is playing a role in QBE's claims management, for example:

- We have implemented an auto supplier payment system over the last 18 months increasing efficiencies of approvals of supplier payments based on contractual approved rates and allowances. This assists our suppliers with cashflow for payments to trades and for materials, which in turn, helps support servicing customers at times of high volume.
- We are leveraging our AI capabilities in speech analytics to identify, at scale, the reasons customers call and email. This helps us identify process improvement opportunities to support customers.

## Case management

### **Committee information request (Attachment C):**

- *What is the company's policy in relation to appointing a case manager? (i.e. when it should occur, protocols for engagement, protocols for internal reporting).*
- *Are there timelines in relation to this appointment?*
- *Once a claim is identified for case management, how high up the chain does management of the claim go?*
- *What are the protocols in terms of a case manager interacting with a policyholder (e.g. mode of communication, frequency of communication)?*
- *For each of the four category incidents, for how many claims was a case manager appointed?*
- *How is the progress of claims that are being case managed reported to the Board?*

QBE does not use the terminology "case manager" or "case management", so we have responded based on our usual claims management approach (which is detailed in our claims standards, policies and processes), assuming "case manager" refers to QBE claims officers.

Once a claim is lodged, it is triaged and allocated to a dedicated claims officer. The claims officer will typically send out a communication to the customer within 24 to 48 hours of lodgement, introducing themselves and providing their contact details.

The triage process will also determine whether the customer has any immediate needs (such as 'make safe' building repairs), a particular vulnerability requiring additional support, and whether an external supplier such as a builder, loss adjuster or motor assessor is required.

On assessing a claim, the claims officer will review relevant information and documentation including policy terms. If further information is required, it may be sourced from the customer or through the appointment of:

- For motor vehicle claims, an internal or external motor assessor to assess whether the damage is consistent with the stated cause and consider reasonable costs of repair or replacement.

- For property claims, an external loss adjuster or builder (through our 'Straight to Repairer' model) to assess the damage and obtain or provide a reasonable quote for the cost of repair or replacement.

Each claim is assessed on its merits with the opportunity to escalate queries to a technical claims officer, service manager or subject matter expert. This may occur if the claims officer needs to discuss technical matters of policy interpretation and the evaluation of information (e.g. reports related to making the claims decision).

Some claims may be determined to be complex (during the triage process or as the claim progresses) due to a range of factors. These claims may be transitioned to a different claims officer in a complex or major loss team for oversight and management as they are likely to require a higher level of technical expertise and experience to manage. In addition, a loss adjuster may be appointed to be an "on the ground" point of contact for the customer. Handling complex claims in this way assists with oversight, ongoing management and co-ordination of these more complex or difficult matters. Additional senior management oversight of these claims typically also occurs. Day-to-day management of the claim will, however, continue to be carried out by the claims officer. Please also see *Complex Cases* below.

As a claim progresses, circumstances may arise where vulnerabilities are identified. QBE would then manage such a case in accordance with our vulnerable customer framework. Depending on the circumstances, this may mean the case is transferred to a different claims officer. Please also see *Vulnerable Customers* below.

Specific claims cases are unlikely to be reported to the QBE Board. General reporting to the Board on the Floods, including the scale and complexity involved and QBE's claims response, was however provided regularly through the year. QBE directors also visited affected areas to understand first-hand the scale of the situation.

## Ex gratia payments

### **Committee information request (Attachment B, item 1):**

- *For each 2022 flood event, how many ex gratia payments were made? How much was paid on average, and what was the distribution of payments made?*

For details of QBE's ex gratia payments, please see our confidential supplementary submission.

## Strengthening processes

### **Committee information request (Attachment B, item 1):**

- *What is your assessment of how to strengthen the claims management processes?*

QBE has already taken a range of actions to identify and implement improvements following the Floods including those detailed previously in the *Major floods of 2022* section. This includes measures to strengthen our claims resourcing for catastrophe management including the establishment of the NCRT, revising our temporary accommodation approach, reviewing supplier arrangements, particularly where there is a limited capacity (e.g. hydrologists), oversight of suppliers and agents, conducting health checks for complex or unresolved claims.

As previously indicated, across our international operations, we had already established a strategic priority in 2021 to modernise our business. In Australia, through simplification and digitisation we aim to improve connectivity between our systems and our partners' systems, automate low-value or repetitive processes, enhance our data quality, provide data-driven insights to help support decision making, deliver flexible and engaging digital interfaces, and optimise fulfilment through innovative supply chain partners. Specific to claims management:

- We are focused on enhancing the customer journey through simplifying our claims handling processes. For instance, in the past year we have enhanced the functionality in our Digital Claim Lodgement tool such as facilitating the lodgement of claims relating to weather and natural catastrophe events.
- We are simplifying and digitising our processes. For example, our recently developed new car and motorcycle repairer search and select tool within our claims system. The tool gives our claims team more time to focus on delivering an improved experience to our customers and is, amongst other things, able to identify the most appropriate QBE Preferred Repairer for our customers based on their preferred location and data retrieved directly from the claim.
- We are increasing the level of digital communication to keep customers updated through the claims process and reviewing our loss adjusting model.



As outlined in the Deloitte Review, additional general measures that would assist include:

- Standardised guidance across insurers, governments and other stakeholders on clean-up processes after a severe weather event to remove any potential confusion and delays relating to removal of damaged material and contents.
- Developing established standing programs and agreements with state governments on clean-up and debris removal, buy back, betterment and resilience schemes, to reduce confusion around eligibility which contributes to uncertainty and delay.
- Developing a mechanism so certain more administrative regulatory and compliance timeframes can be extended during extreme catastrophes. This would reduce stresses on the system, and we believe would improve efficiencies and customer experience.

## Disputes

QBE is committed to treating all complainants fairly and upholding a positive complaints culture. Complaints are treated as a rich source of feedback at QBE and assist us to improve the quality of our products and services.

Customer feedback is captured through various means including customer satisfaction surveys (Net Promoter Score Surveys), post-transactional call surveys, social media and formal complaints. Our complaints processes apply equally to complaints made in relation to QBE's services and those of our suppliers.

### Internal dispute resolution (IDR)

#### **Committee information request (Attachment B, item 2):**

- *Please summarise your firm's internal dispute resolution process.*
- *Does the process differ for different categories of insurance? If so, how?*
- *Are your IDR processes for each 2022 flood event the same? If no, how do they differ?*

QBE's IDR framework and supporting processes apply uniformly across QBE's insurance business except for Lenders' Mortgage Insurance and statutory classes of insurance (e.g. Compulsory Third Party and Workers Compensation)<sup>18</sup>.

- **Initial phase:** complaints with potential for early resolution (primarily service-related issues such as delays in processing and extended call wait times) are directed to the relevant front-line people for review and resolution within the first 5 days. If the complaint is not resolved within 5 days, it is escalated to our Customer Relations and Advocacy (**CR&A**) team. Complaints without obvious potential for early resolution (primarily those regarding a denied claim, financial hardship or the value of a claim) are escalated at lodgement to the CR&A team.
- **Phase 1 Complaint Review/Triage:** complaints escalated to the CR&A team are independently reviewed which involves gathering both internal and external information required to evaluate the complaint(s). Activities include: speaking to the customer to confirm QBE's understanding of their complaint, the desired outcome, and the impact of any claim denial on the customer, including their personal circumstances (to determine if there are vulnerabilities to address); engaging with the relevant internal business areas; gathering the information necessary to evaluate the matter; identifying whether an early resolution is achievable; and seeking to resolve the complaint where appropriate. If the complaint is resolved at this stage, the complaint moves to Phase 4.
- **Phase 2 Evaluation:** if resolution at Phase 1 is not achieved, the complaint is further investigated which may involve requesting additional information either internally or externally (e.g. expert reports). QBE will continue to explore ways to resolve the complaint with the customer throughout this phase. If a resolution is achieved during this phase, the complaint moves to Phase 4.
- **Phase 3 Decision:** the CR&A team will determine the outcome of the complaint after reviewing all relevant information (including policy conditions, approaches by the Australian Financial Complaints Authority (**AFCA**) on similar matters, the applicable law and commercial considerations). QBE's decisions include consideration of what is fair and reasonable in all the circumstances. This assessment is informed by a range of considerations including QBE's 'customer principles' – four overarching promises based on customer insights and developed to ensure QBE takes a consistent approach to designing and living its customer centred strategy.

- **Phase 4 Implementation:** once an outcome on the complaint is decided or a resolution agreement is reached, instructions to the relevant internal stakeholder are issued to implement the decision.

All complaints received directly by QBE are recorded, managed and monitored in our complaint management system (**SPARC**).

QBE's third-party distributors may be authorised to manage complaints on behalf of QBE within certain timeframes and in line with QBE's expectations and requirements (including reporting). For complaints unable to be resolved within approved timeframes, the complaint must be escalated to QBE for ongoing management in line with the framework outlined above.

The most common outcomes following investigation of a complaint in relation to a claim denial include maintaining the decision, overturning the decision, providing an ex-gratia payment (as an 'act of goodwill' for something outside the scope of cover), or a commercial settlement.

The framework outlined above applied for each of the Floods. We do, however, continue to implement continuous improvements in our processes (refer to *Strengthening processes* below).

### Customer communication

#### **Committee information request (Attachment B, item 2):**

- *How does your firm communicate with policy holders during the IDR process?*

Complaints are acknowledged on lodgement and a QBE complaint brochure outlining our complaint process and providing additional information is provided. If the complaint is unresolved within 24 hours, QBE will advise the complainant of the direct contact details of the person handling the complaint. Ongoing contact with the complainant uses the complainant's preferred method and occurs every 10 business days, starting from the date of complaint, or as otherwise agreed.

Timeframes are tracked and monitored in SPARC. Final determinations are communicated to the complainant in writing on, or before, the final decision due date. Where there is a preference for phone contact, every effort is made to first communicate this decision verbally.

### IDR outcomes

#### **Committee information request (Attachment B, item 2):**

- *How many cases involved dispute resolution? What was this as a percentage of overall claims?*
- *What were the main causes of disputes?*
- *What was the timeframe – average, and distribution (under 1 month, 1-6 months, 6-12 months, 12+ months) from initial dispute to close?*
- *How many claims that went to IDR were resolved in favour of the policy holder?*
- *How many claims that went to IDR:*
  - led to no change to the original decision;*
  - led to full acceptance of the claim; or*
  - led to partial acceptance of the claim?*
- *How have the frequency and causes of disputes changed over time? (e.g. vs the 2011/2012 floods).*

The following table provides our response to these items.

Number of complaints	1,046
Complaints as a percentage of claims	5.2%
Reasons for complaints	<ul style="list-style-type: none"> <li>› Claims denials (partial and full) due to a policy condition and/or exclusion</li> <li>› Claims service (delays)</li> </ul>
Timeframe to resolve complaints (average)	25 days
Less than 1 month	1,028
1-6 months	14
6-12 months	1
Unresolved	3

Resolved in favour of customer*	342 (1.7% of all claims)
Change to the original decision, and/or Partial or full acceptance of claim, and/or Negotiated commercial settlement	171
Ex-gratia payment	36
Apology or other non-financial remedy	135

\* Note, we do not collect structured data about the IDR complaints that resulted in no change to the original claims decision or led to full or partial acceptance of the claim, which is held on the individual complaints files.

The primary reason for complaints during Floods was claims service delays, whereas in the 2010-11 floods, the main reason was policy coverage for flood (which was later addressed via the standard cover for flood).

### Strengthening the complaints process

#### **Committee information request (Attachment B, item 2):**

- *Is there (or should there be) a change in general dispute management handling during surge times?*
- *What percentage of policy holders engage a hydrologist during the IDR process?*
- *What percentage of policy holders engage a legal representative during IDR?*

We believe a more adaptive and streamlined approach to dispute resolution is necessary during these times. QBE will adapt our approach to complaints handling depending on the situation through a combination of measures such as increased capacity, strategic prioritisation, effective communication, collaboration and technological solutions.

During surge periods, there can however be constraints on the ability to recruit additional people or access experts with the necessary skills and expertise as outlined earlier. This can impact on the ability to comprehensively investigate complaints within established timeframes, which can lead to complaints being referred to External Dispute Resolution (**EDR**). We suggest consideration could be given by regulators to adjusting dispute resolution timeframes to accommodate situations where a catastrophe or other significant event has led to a significant surge in complaint volumes. This would enable insurers to obtain additional information or expert reports that may assist to resolve complaints, lessening complaints moving to EDR.

As outlined in the *Major floods of 2022* section, we are also improving internal and external feedback loops about our claims performance and customer experiences. This will assist so key insights are rapidly understood and can be translated quickly into meaningful actions across our claims front line staff during the high intensity response stages of severe weather events.

We do not collect data on the number of complainants who engaged a hydrologist or legal representative during the IDR process. As previously indicated, hydrology is only of relevance for business customers given QBE's householder policies provide standard cover for flood.

## External Dispute Resolution (EDR)

### EDR processes

#### **Committee information request (Attachment B, item 9):**

- *How is the policy holder supported during this process?*

We are mindful of ensuring customers are well-supported during the EDR process. Each dispute at AFCA receives dedicated attention from a QBE dispute resolution specialist. The customer receives an acknowledgment of their complaint, with details about the dispute resolution specialist assigned to their case.

QBE's dispute resolution specialists are tasked with actively seeking resolutions in collaboration with the customer, and relevant stakeholders, aiming for a fair and reasonable outcome. These specialists have a wide range of technical, legal, and other qualifications that equip them with the knowledge required to manage and resolve these complaints. This also involves employing effective communication, offering personalised assistance, demonstrating empathy, and upholding a commitment to transparency and accessibility.

Consideration is extended to any potential vulnerabilities the customer may be experiencing during the resolution and management of the complaint. This includes the possibility of referral to support services through our vulnerable customer processes.

### EDR outcomes

**Committee information request (Attachment B, item 9):**

- For each 2022 flood event, how many claims were referred to EDR?
- What was the typical cause of this?
- How many disputed claims remain unresolved (internal and external)?
- How many claims that went to EDR were resolved in favour of the policy holder?
- How many claims lodged with your firm that went to EDR:
  - a. led to no change to the original decision;
  - b. led to full acceptance of the claim; or
  - c. led to partial acceptance of the claim?
- How long does this EDR process typically take?
- For each 2022 flood event, how many policy holders engaged a legal representative?

The following table provides our response to these items.

Number of complaints referred to AFCA	168
Complaints as a percentage of claims	0.8%
Reasons for complaints	<ul style="list-style-type: none"> <li>› Claims denials (partial and full) due to a policy condition and/or exclusion</li> <li>› Claims service (delays)</li> </ul>
Timeframe to resolve complaints (average)*	106 calendar days
Outcome**	
In favour of customer	6
In favour of QBE	15
Unresolved	34
Discontinued, resolved by negotiation or by other resolution	113

\* Based on AFCA data, this is the timeframe for AFCA to provide an outcome.

\*\* Information on outcomes is based on AFCA's data as we do not collect structured data about EDR complaints that result in no change to the original claims decision, or lead to full or partial acceptance of the claim. This information is held on the individual complaint files. It is also worth noting that AFCA's classification of EDR complaints resolved in favour of the customer is broad and will include even small amounts of monetary compensation.

For the 6 complaints that were resolved in favour of the customer:

- 5 included monetary compensation which may include the following outcomes: full or partial acceptance of the claim; action required to be taken (e.g. payment for a report); requirement to pay compensation, interest or contingency; or reimbursement of costs incurred by customer including premium, and
- 1 complaint was resolved with a classification of "other" which may include: supporting the customer with a specific task (e.g. removal from written off vehicle register); payment for only one component of the dispute (e.g. AFCA only provides remedy for part of the dispute and cannot determine part of the remaining dispute likely due to insufficient evidence); or action required to be taken (e.g. obtain a new scope of works).

We do not collect data on the number of complainants who engaged a legal representative during the EDR process.

### QBE expenses related to EDR

**Committee information request (Attachment B, item 9):**

- What is the expense to the company of the EDR process?
- Does this cost disadvantage a policy holder?

For the Floods, QBE's AFCA fees (excluding compensation paid to customers) for resolved EDR complaints were \$306,106. In addition to these AFCA fees, QBE also pays an annual membership fee and usage fees to AFCA – these are in excess of \$3 million per year.

Additional internal operational costs are also incurred by QBE in relation to the EDR process. This includes the costs of a dedicated EDR team of 13 dispute resolution specialists that only responds to complaints at AFCA.

The AFCA fees and EDR operational costs and expenses contribute to the overall expense base of QBE's operations. The aggregated costs of EDR may be reflected as part of the expense assumption in QBE's business planning process and priced implicitly across QBE's portfolios, contributing to the cost of insurance.

The fact a customer has brought a complaint to IDR or EDR does not influence the price they individually receive for a policy renewal quote.

### Strengthening EDR processes

#### **Committee information request (Attachment B, item 9):**

- *How could EDR processes be improved?*

We recognise that the scale of the Floods challenged resourcing for all involved in the recovery, including AFCA. In situations where a catastrophe or other significant event has led to a significant surge in complaint volumes, consideration could be given to whether EDR processes and response timeframes could be appropriately extended, as outlined above in the *IDR* section.

## Vulnerable customers

#### **Committee information request (Attachment B, item 3):**

- *How does the firm define/identify vulnerable customers?*
- *Should the definition of 'vulnerable customer' be expanded?*
- *How are vulnerable customers supported?*
- *For each 2022 flood event, how many vulnerable policy holders were identified and supported?*
- *How effective is that process?*

We recognise that vulnerability is a complex concept. Many of our customers may be considered vulnerable throughout their entire customer journey with us, while others may only experience vulnerability briefly. In this context, we have adopted a broad definition of a vulnerable customer as:

*“someone who, due to their personal circumstances or due to the actions of others, is susceptible to harm, loss or disadvantage. Vulnerability can be temporary or ongoing. It can be gradual or sudden. Anyone can become vulnerable at any point in time.”*

QBE's *Supporting Customers Experiencing Vulnerability Policy*, establishes a framework for the processes and procedures to support customers experiencing vulnerability and includes our commitments under the Code. Our framework is based on the principles of, respect and empathy, non-judgemental and informed decision-making, a needs-based focus, customer-centric communication and fairness and transparency.

We recognise a person's vulnerability may be due to a range of factors and have developed a *Recognise, Respond, Refer (RRR)* framework to support identification in three main ways:

- direct customers who self-notify and tell us they are experiencing vulnerability,
- direct customers who we identify through our interactions may be experiencing vulnerability in line with the factors in the Code, and
- indirect or intermediated customers who are identified as being vulnerable by our partners, intermediaries or other advisors or representatives through their interactions.

Our customer-facing employees are regularly trained on how to recognise and identify vulnerabilities as well as how to take appropriate steps to assist those experiencing or susceptible to vulnerabilities. More generally, vulnerable customer training is also embedded into QBE's new starter training and mandatory annual training.

During the Floods, we arranged for the Red Cross to deliver specialised training for our people focused on understanding the perspective of customers and communities impacted by a disaster, which was considered very helpful. Given this and other learnings from the Floods, we are in the process of developing additional learning modules to enhance support and build confidence for our employees in identifying and supporting customers experiencing vulnerabilities.

In early 2021, QBE also provided face-to-face and remote training for our suppliers (including loss adjusters, builders and investigators) to support customers experiencing vulnerability. Since then, QBE has transitioned this training for suppliers to a mandatory online learning module. All new loss adjusters, builders and investigators aligned to our panel firms must complete this training before commencing work on behalf of QBE.

In terms of supporting customers experiencing vulnerability, QBE has a range of internal and external support mechanisms available. This can include hardship support for financial difficulty, ex gratia payments and waiver of excess payments, and extended payment arrangements. We also have internal referral processes to specialists for the management of complex and sensitive conversations and have established an interpreter panel that can be utilised by all customer-facing QBE staff. This is extended to our intermediaries, agents, service suppliers and distributors. Access to QBE's REACH program that provides free and confidential mental health, financial and wellbeing coaching through a third-party provider, is also available.

Where a customer needs additional support over and above what QBE can provide, appropriate referrals are made. This could be to our disaster relief partners (Red Cross and Save the Children)<sup>19</sup>, government agencies, or other community support services who can offer specialist support to ensure our customers' needs are adequately met.

QBE has introduced a vulnerability flag in our claims and complaint management systems. This can be raised at claim or complaint lodgement or throughout a claim or complaint. Vulnerability categories align with Code categories and actionable responses aligned to each vulnerability have been identified and can be monitored. QBE has also implemented a vulnerability category for 'Urgent Need of Financial Benefits' and has a weekly forum where the management of high risk claims (including vulnerable customer claims) are considered.

The flag was introduced in claims systems during 2022, and in our complaints system in late 2021. While the system flags support QBE with identifying customers experiencing vulnerability and alerts other teams who may be involved in managing the customer, QBE tailors the management of vulnerable customers.

During the Floods, 229 vulnerable customers were identified during the complaints process. Given the claims system flags were introduced throughout 2022, our data for vulnerable customers identified during the claims process up until this time is not structured.

As outlined in the *Major floods of 2022* section, QBE has identified several areas of improvement for our support of vulnerable customers. This includes enhanced training for our front-line employees and their leaders, embedding the system flagging processes, and enhancing our support and relief measures including for financial hardship.

## Complex cases

### **Committee information request (Attachment B, item 4):**

- *How does the firm define/identify 'complex cases'?*
- *Once a complex case is identified, what is the process for managing that claim?*
- *How effective is that process?*
- *In what proportion of complex cases were case managers deployed? How effective was this?*
- *Is there a longer-term trend in the proportion of complex cases? (e.g. comparing the 2011/2012 floods to the 2022 floods)*
- *For each 2022 flood event, how many policy holders told your firm they had engaged legal representatives?*

There are several reasons a matter can be deemed complex. These can include risk type/profile, quantum, damage, customer circumstances (e.g. fatalities), or multiple insurers and parties impacted. Complex matters are triaged by QBE into a specialist complex or major loss team trained in handling complex cases. Our specialists in these teams generally manage fewer open claims than others due to the complexity of the claim and the time required to devote to such claims. Additional senior management oversight of these claims typically occurs.

In addition, a loss adjuster may be appointed to be an “on the ground” point of contact for the customer to assist with progressing the customer’s claim. Given the nature of the Flood events, the proportion of complex cases with a loss adjuster appointed was approximately 43.5%.

We believe handling complex claims in this way is effective to assist with oversight, ongoing management and co-ordination of these more complex or difficult matters and improves generally communication and co-ordination. In response to the Floods, we have also established a property health check process which assists to identify and progress complex claims or claims that are experiencing unusual delays so we can identify obstacles and work to remove roadblocks.

Generally, we are seeing the nature and complexity of claims change over time due to a range of factors. This includes, for example, changes in the type and increases in the value of assets and increased urban development in high-risk areas.

We do not collect data on the number of customers who engaged a legal representative during the claim process.

## Communication

### **Committee information request (Attachment B, item 5):**

- *What is the typical process of communicating with clients once a natural disaster is declared?*
- *What is the typical response time to incoming:*
  - a. *Phone calls*
  - b. *Emails*
  - c. *Written correspondence*
- *What are your firm’s processes to ensure effectiveness and quality of communication with policy holders after natural disasters?*
- *What are your firm’s procedures to ensure claimants are not speaking with different customer service representatives and have to repeat information already provided?*
- *In what ways could communication improve – before, during and after natural disasters*

For the Floods, it was apparent that the severity of the events was likely to result in a range of complexities from a claims management and communication perspective. In the early stages of the Floods, QBE’s communication with customers included:

- Proactive SMS communications directly to customers (targeted using our risk mapping technology to identify where our impacted customers are located) with information and links on how to make a claim.
- Bulk SMS or email communications were issued to customers to confirm claim notifications, outlining next steps and alerting customers to potential delays due to continuing severe weather, location access and claim volume surge.
- ‘Broker NewsFlash’ – which are newsletters distributed to our brokers and agents that interact with customers providing information and guidance about the unfolding situation. Information was also provided to assist in fast-tracking claims (e.g. QBE preferred suppliers were able to commence the repair and/or reinstatement processes without waiting for a claim authority from QBE). This facilitated communication of relevant information by intermediated partners to customers.
- Information was available on QBE’s website and social media platforms for affected customers.
- Electronic communications were supplemented with face-to-face and other verbal communications. Once recovery and community centres were operational, QBE representatives were deployed and able to assist customers on the ground. Our representatives have remote access to our claims systems and can provide customers with real time information about their claim and next steps or can listen to the customers’ personal circumstances (which also provides an avenue for the identification of vulnerabilities) and provide referrals to additional services as appropriate.
- Our claims relationship managers engaged regularly with our distribution networks and supply chain partners.
- Senior and executive QBE personnel also visited impacted areas to gauge impacts and gain an understanding of the evolving situation.

Once a customer makes a claim, a written acknowledgment is provided. This outlines what they have communicated to QBE and flags any immediate information requests that will assist QBE to help progress the claim as quickly as possible. This communication also provides the customer with an overview of the claims process, details of any suppliers appointed, a guide as to when a decision will be made, the amount of their excess or length of their waiting period and the direct contact details of their dedicated claims officer. A link to more general information contained on QBE's product-specific claims website is also provided.

QBE's claims service standards set out timeframes for communication which must meet or exceed the Code requirements. The following table sets out our service levels and performance. We recognise that during the Floods these timeframes were exceeded, particularly during the early period as we were scaling up our resources in tight labour market conditions.

Phone calls	QBE service standard	Performance (Jan 2022)	Average performance (Feb-June 2022)
Answered	80% within 2 minutes	> 80% within 2 mins	63% within 2 mins
Abandonment	< 5 %	< 5%	10%

QBE has a range of measures that monitor and assess effectiveness of our performance, including through our quality assurance program and workforce planning. QBE also monitors customer feedback through various means including customer satisfaction surveys (Net Promoter Score Surveys), post-transactional call surveys, social media and formal complaints, as previously outlined.

As noted, customers are provided with the contact details of the claims officer managing their claim. To ensure a customer's experience is as seamless as possible however, file notes are maintained to clearly detail customer interactions and next steps should their claims officer not be available at the time of their call.

As outlined in the *Major floods of 2022* section we are also looking at ways to improve our communication with our customers. For instance, our Claims and our Customer Advocacy and Insights teams are working closely together to understand how we improve our customer communications during these events. We are also developing a higher level of digital communication to keep customers updated through the claims process, as part of our modernisation strategy and program.

## Flood cover and hydrology

### **Committee information request (Attachment B, item 6):**

- *How do hydrology reports assist in determining liability (i.e. is it principally storm water vs riverine flood)?*
- *Is it common for different insurers to engage the same hydrologists with respect to the same storm and flood events?*
- *Did your firm engage the same hydrologists as other insurers during each of the 2022 flood events?*
- *In preparing their reports, did hydrologists engaged by your firm communicate and/or collaborate with hydrologists engaged by other insurance companies with respect to the same event?*
- *For each 2022 flood event, how many hydrologists did your firm engage?*
- *Did your firm provide policy holders with hydrology reports obtained by your firm and relevant to their claims during the 2022 flood events?*
- *For each 2022 flood event, how many policy holders obtained their own hydrology report?*
- *Does your firm have procedures to assist policy holders obtain their own hydrology report?*
- *What is the average cost of a hydrologist's report for home and business claims?*
- *What is the timeframe for seeking/receiving hydrology reports?*
- *In how many instances was lack of access to, or unaffordability of, hydrology reports an issue for the timely processing of claims and/or the timely and fair processing of disputes?*
- *Are there ways for clients to better share access to hydrology experts?*
- *How could access to hydrology reports for policy holders be improved?*



**Committee information request (Attachment C):**

- *In how many instances (separately for each category incident) did the company obtain advice from expert hydrologists when assessing claims?*
- *In how many instances (separately for each category incident) were hydrology reports required to resolve disputes?*
- *What types of issues did hydrologists typically deal with (e.g. determining whether flooding was storm water vs riverine flooding)*
- *Are you aware of particular areas/regions where access to expert hydrologists was an issue for the timely processing of claims or resolution of disputes?*

The expertise of a hydrological engineer (or hydrologist) is used to determine the source of water inundation to a property. Insurers will arrange a hydrology report in cases where they need to determine the primary cause of the inundation to make a claim decision. Typically, consideration will be given to the extent to which flood and/or storm water (as defined in an insurance policy) was a contributing factor to the inundation.

QBE has a dedicated flood review panel with relevant experience and expertise to ensure appropriate and consistent claims decisions are made on complex claims relating to flood. Once a hydrology report is available, it is considered by the panel, together with relevant factors (including the policy coverage), to make a claim decision. As QBE provides flood and storm water coverage as a standard inclusion in our householder policies, a hydrology report is not required for QBE to make a flood coverage claim decision on these policies.

For QBE's business policies flood coverage is optional, which means it must be selected by the customer and an additional premium paid. Hydrology may be used to determine coverage for these properties. During the Floods we utilised hydrologist services for small business insurance claims as follows:

Event	No. of hydrology reports	No. of hydrology firms	Proportion of SME claims
South East Queensland and Northern NSW floods (February – March 2022) Hunter and greater Sydney floods (July 2022)	386	11	30.5%
Victorian, NSW and Tasmanian floods (October 2022) Central West NSW floods (November – December 2022)	79	4	13.5%

Given the limited number of hydrologists in Australia, our assumption is QBE would have engaged hydrologists that were engaged by other insurers, however we are unable to confirm the number of cases where this may have occurred. We are also unable to advise whether hydrologists engaged by QBE communicated and/or collaborated with other hydrologists engaged by other insurers.

QBE's process is to obtain a hydrology report prior to making a claim decision on flood coverage for business insurance claims where flood cover has not been purchased. QBE will engage a hydrologist immediately following assessment of the need to determine the cause of damage (e.g. by an on-site assessment by a loss adjustor or builder). Normally, QBE expects reports to be received within 14 days of site attendance by the hydrologist. As previously outlined however, during the Floods demand for hydrologists was unprecedented. While we did not encounter any issues in obtaining access to hydrologists across any of the impacted regions, timeliness was most impacted where properties were in more remote locations. In the circumstances, we worked with our appointed suppliers to establish realistic timeframes and prioritise the most at need customers.

QBE provides customers with a copy of the hydrology report where the hydrology assessment resulted in a claim not being accepted (partially or in full) by QBE and in any case where a customer requests the report. QBE also provides the opportunity for customers to obtain their own expert report and will discuss the need for any such report to be obtained from a suitably qualified firm. Given our process of obtaining a hydrology report prior to a making a claim decision, we have not needed to obtain reports to resolve disputes, but in some cases have sought clarification from hydrologists to enable us to adequately respond to a dispute.

Unfortunately, we do not collect data on the number of customers who obtain their own report. The cost of a hydrology report varies greatly depending on the complexity of the event, the size and nature of the property, and the location of the property. In our experience, across the Floods, the average cost of a report was \$5,500.

# Risk and insurance

## Increasing risk and insurance pricing

### Factors driving premium pressures and insurance pricing for flood risk

#### **Committee information request (Attachment B, section 11)**

- *What are the overarching/summary trends in premium increases?*
- *How do you ensure transparency in pricing? For example, when there is a premium increase, do you clarify how much is due to upward pressure on reinsurance costs and how much to changes in the assessment of underlying risk?*
- *How do you convey information on the changing risk profile of policy holders*
- *How many policy holders that were covered for storm and/or flood damage during the 2022 flood events have been denied full or partial coverage when seeking to renew their policies after these events?*

#### **Committee information request (Attachment B, section 8):**

- *Are there instances of flood mapping or hydrological analysis that has materially changed the firm's assessment of a region's risk?*
- *In determining premiums, does your firm take into consideration:*
  - o *Detailed flood mapping of localised areas (vs just using postcodes)?*
  - o *Local government flood planning, including changes to mitigation in local areas post-flood?*
  - o *Development approvals or risk assessments undertaken by local governments?*
- *Has your approach to any of these (the 3 issues above) changed in any way since the 2022 flood events?*

In Australia, data published by the Australian Prudential Regulation Authority (**APRA**) shows that insurance premiums continue to increase on a total market basis, with a more recent acceleration in personal lines classes<sup>20</sup>. For insurers, there is considerable pressure on pricing sustainably. Australian insurers generated historically low profits in 2020, 2021 and 2022, with recent improvements in profitability largely due to investment returns and commercial lines business.

This pricing pressure is driven by a range of factors including the impact of extreme weather events such as the Floods, inflation pushing up rebuilding and repair costs, and the rising global cost of reinsurance. Insurers are increasing premiums to reflect these increased risks and costs to ensure insurers remain prudentially sound with the capacity to operate sustainably into the future. Further detail on the factors driving premium increases is provided in the ICA submission.

In addition, in the competitive global and local market for investment capital, it is also critical that the insurance industry continues to be an attractive destination for investors and provides adequate commercial returns to shareholders. To do this, the industry must keep its costs competitive and operate as efficiently as possible, so it is not disadvantaged compared with other industries competing for capital.

In Australia, over recent years the regulatory reform agenda impacting the insurance industry has been significant. While we welcome a strong financial regulation regime, it is also important that the regime strikes the right balance between stability on the one hand, and competitiveness and productivity of the industry on the other. The cumulative costs of the regulatory burden in Australia, including overlapping and duplicative regulation, also adds to the operating costs of insurers and exacerbates affordability and accessibility issues.

In addition, as highlighted in the ICA submission, levies and stamp duties on insurance are recognised as one of the most inequitable taxes in Australia, and are distortionary. They impact significantly on affordability of insurance and reduce take-up of insurance which exacerbates the broader societal issues of non and under insurance. We support the ICA's call on state and territory governments to remove these taxes on insurance and commend the NSW Government on its recent decision to reform the NSW Emergency Services Levy.

On pricing transparency, QBE provides information on the factors driving premium increases for our people and partners to enable them to advise customers and respond to customer queries as needed. QBE also publishes thematic articles on our website to support customer awareness<sup>21</sup>. Where a customer raises concerns through a complaint in relation to their premium, we will review the specific pricing of their policy and provide additional detail on the drivers particular to their insurance policy and circumstances. The complaint will be managed in accordance with our process referred to in the *Disputes* section above.

For details of QBE's pricing approach for flood risk, including customer policy renewal and risk profile information, please see our confidential supplementary submission.

## Learnings from the 2010-11 floods

### **Committee information request (Attachment B, section 12):**

- *What is the total number of claims for all events that were declared natural disasters for the period 2010-2011 floods and the 2010-2013 natural disasters?*
- *How many clients had the same or similar claims in 2010-2013 for natural disasters?*
- *Of the total claims made in 2010-2013, how many ended up in dispute resolution? What was the percentage (of disputes) from claims made during this period?*
- *What have you learnt from claims management from the 2010-13 period?*
- *What changes have been implemented in the intervening period?*

In the summer of 2010–11, floods inundated Queensland, Western Australia, NSW and regional Victoria. The Queensland floods alone affected 86 towns and cities, leaving two million people living in areas declared disaster zones and 28,000 homes needing to be rebuilt<sup>22</sup>. Around a similar time, cyclones impacted northern Queensland and there were significant bushfires in Western Australia.

It is important to recognise that during this time, insurance cover for flood was not generally available for households and businesses. Since this time there have been significant changes to the regulatory environment, including the introduction of a standard definition of flood. This assisted to facilitate the increased availability and offering of flood cover by insurers in Australia. This change and broader regulatory reforms are detailed in the ICA submission.

A material change made by QBE following our experiences in the 2010-2013 events however, was to include flood cover as standard cover in our householder policies, with no option to opt out<sup>23</sup>. This decision was made to provide peace of mind for customers and reduce complexity at claim time.

## Building resilience

QBE strongly supports the focus of Australian governments on improving the resilience of communities against extreme weather events. Many independent reviews in Australia<sup>24</sup> have found the primary driver of insurance premiums is the underlying risk. The best solutions are those that focus on the root cause – that is, reduce the underlying risks and increase community resilience.

We appreciate the investments of governments via the Disaster Ready Fund (**DRF**), for natural disaster resilience and risk reduction across Australia. We also welcome the Hazards Insurance Partnership (**HIP**) for ongoing collaboration between insurers, government and other stakeholders to engage on issues of disaster risk reduction.

We believe the most effective solutions to reduce risk continue to be resilience investment, improved land-use planning and strengthened building codes and standards. We support the ICA's policy recommendations<sup>25</sup>, as also outlined in the ICA submission.

We appreciate these solutions are complex and it will take time for benefits to be seen. Without these investments and commitments however, people will continue to suffer extreme losses from natural catastrophes. For insurers to remain prudentially sound, premiums would also likely continue to rise.

## Resilience and mitigation

### **Committee information request (Attachment B, section 7):**

- *What options are there for households or businesses to repair/rebuild properties in a more resilient way? (e.g. from elevated buildings through to more resilient flooring such as tiles vs carpet)*
- *In a practical sense, what is your firm doing to reflect changes in household level resilience/mitigation in pricing?*
- *How can this be done in a way that directly leads to lower premiums? (i.e. in a way that allows insurers to quantify the reduced risks of the more resilient building)*

QBE supports household-level mitigation measures through:

- A Risk Mitigation Discount which is available to owner occupied freestanding homes in Queensland that have been certified for the completion of cyclone mitigation upgrades under the Household Resilience Program<sup>26</sup>. The size of discount depends on the type of upgrade made to the home.
- Reduced premiums for properties with a higher floor height, including where properties have been raised to mitigate flood risk.
- Reinstating homes and property in accordance with current building regulations up to the sum insured (where provided for in the customer's policy), which may reflect a higher standard as compared to when the property was originally built. This is also why it is important that the National Construction Code (**NCC**) incorporate a resilience principle.

For householder policies, QBE provides a sum insured safeguard benefit that in a catastrophe event allows a top-up of the purchased sum insured by a further 30% where customers have used QBE's sum insured calculators to set their sum insured.

QBE has also been participating in the insurer pilot of the Resilient Retrofit Program (part of the Queensland Resilient Homes Fund established in response to the Floods). This initiative was intended to facilitate resilience repair or retrofit works at the same time as insurance repair works are undertaken to a customer's property. Engagement between insurers and the Queensland government is ongoing, and there are several learnings and enhancements to be considered.

In addition, public mitigation works that result in effective risk reduction (for example, a flood levee), will flow through to QBE's risk assessment and pricing, through relevant mapping and models.

To enable insurers to operationalise mitigation initiatives by way of premium adjustments, QBE believes the following should be considered.

- Improvements made by public infrastructure mitigation works (e.g. flood levees and seawalls) need to be reflected in a timely manner in relevant risk maps and tools that are relied on by insurers when undertaking risk assessments and pricing (e.g. flood mapping, catastrophe models etc).
- For insurers to reflect household level mitigation in premiums, these measures need to reduce the risk and some certification of the efficacy of the works (e.g. retrofitting) is needed. This information needs to be efficiently accessible for insurers to be able to operationalise it effectively during underwriting. The Queensland Household Resilience Program is an example of this, and we would welcome a similar approach in other government-funded mitigation programs<sup>27</sup>.

## Land use planning and building codes

### **Committee information request (Attachment B, section 8):**

- *What can be done to reduce the likelihood of additional development occurring on high-risk land?*
- *How can your company better support individuals who own property on high risk/medium risk/low risk land?*

In many parts of Australia, the built environment has developed in locations highly exposed to natural hazards. Insufficient consideration of risk at the planning stage and a deficiency of effective resilience in construction increases risks, puts lives in harm's way and results in higher insurance premiums.

As noted, we support the ICA's policy recommendations<sup>28</sup> in relation to land-use planning that aim to ensure we stop building in high risk areas, such as on floodplains. We commend the NSW Government's recent decision to stop building on high-risk floodplains. We also support the ICA's call to embed the principle of resilience into the NCC and for associated measures to support better compliance with the NCC.

As indicated in the ICA submission, it is important to note that improvements to building standards alone cannot eliminate the risk of extreme weather, so they must be considered in parallel with land use planning reform.

QBE participates in all geographic regions in Australia with a broad risk appetite across hazard levels, geography and product range. We support customers who own property across all levels of risk (high, medium, low). We price premiums based on how we view each risk using more granular hazard information, and also consider flood and other natural peril ratings in our risk assessment. This risk-based pricing aims to ensure that

premiums for customers reflect the level of risk they face. If the price becomes higher than the customer is willing or able to pay, this is usually a signal there may be a need to mitigate the risk.

As outlined in the *Resilience and mitigation* section, QBE has several measures to reflect household-level and public mitigation in premiums. We believe that additional measures are needed to enable insurers to further operationalise mitigation initiatives by way of premium adjustments.

We also support measures that help customers better understand their risks and potential mitigation options, including more disclosure of extreme weather risks at the real estate stage of property acquisition (for purchasers and renters). Also, joint education campaigns (governments and the insurance industry) to better educate consumers of the benefits of mitigation, what they can do to mitigate their risk, and to increase the take-up of government programs that support household-level mitigation. We acknowledge the work of the National Emergency Management Agency to develop a Mitigation Measures Knowledge Base, in consultation with the HIP.

## Future policies and insurance coverage in Australia

### **Committee information request (Attachment B, section 11):**

- *What trends are you seeing in policy holders reducing coverage? (i.e. potential underinsurance issues)*

While there may be individual instances of customers reducing their coverage, this is not currently reflective across QBE's overall portfolio and we are not seeing a portfolio-wide reduction in coverage.

Given the widening gap between economic and insured losses as outlined in the *Global landscape* section, we understand insurers are exploring, among other things, product innovation to address affordability and availability<sup>29</sup>. We note internationally "some insurers are rethinking their products and looking at basics or partial cover offerings (not all perils, or not a full rebuild)"<sup>30</sup>.

QBE is undertaking a comprehensive customer research program to enhance our understanding of customer expectations in relation to natural catastrophe risk and insurance coverage. Initial qualitative findings indicate a reluctance from customers to consider reduced insurance cover (e.g. an 'opt-out' of cover for extreme events for a reduced premium), but there have been positive indications for a co-insurance model (e.g. higher excess for reduced premium). The underlying risk, however, remains key to insurance pricing, together with the need for insurers to price sustainably to cover that risk in their insurance offerings.

## Conclusion

QBE appreciates the opportunity to provide this submission and to participate in the Inquiry. If you have any questions or require further clarification or information, please do not hesitate to contact Kate O'Loughlin, General Manager Government Relations & Industry Affairs

## Endnotes

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<sup>1</sup> QBE Insurance (Australia) Limited.

<sup>2</sup> Including: south-east Queensland and northern New South Wales (NSW) floods of February and March 2022 (ICA reference: CAT221); Hunter and greater Sydney floods of July 2022 (ICA reference SE222); Victorian, NSW and Tasmanian floods of October 2022 (ICA reference CAT223); and central west NSW floods of November and December 2022 (ICA reference SE224).

<sup>3</sup> Deloitte, [The new benchmark for catastrophe preparedness in Australia: A review of the insurance industry's response to the 2022 floods in South East Queensland and New South Wales \(CAT221\)](#), 31 October 2023. In April 2023, the ICA commissioned Deloitte to undertake an external review into the insurance industry's response the floods impacting Queensland and NSW in early 2022 (known as CAT221). In view of the unprecedented scale and complexities of this flood event and the increasing likelihood of future extreme weather events, the insurance industry recognised the need to reflect and identify what could be improved in our future responses to such events.

<sup>4</sup> Swiss Re Institute, [Sigma: Natural catastrophes and inflation in 2022: a perfect storm](#), No 1/2023, 22 March 2023. Also Munich Re, [Natural disaster risks: Rising trend in losses](#), accessed November 2023.

<sup>5</sup> Swiss Re Institute, *ibid*.

<sup>6</sup> The McKell Institute for the ICA, [The Cost of Extreme Weather: building resilience in the face of disaster](#), September 2022.

<sup>7</sup> ICA, [Media release: Inquiry on insurers' 2022 flood response welcomed](#), 19 July 2023.

<sup>8</sup> Climate Council and Emergency Leaders for Climate Action, [The great deluge: Australia's new era of unnatural disasters](#), November 2022.

<sup>9</sup> As discussed with the Committee Chair's office and agreed with the ICA.

<sup>10</sup> Enhancing our claims data and insights is part of our modernisation program.

<sup>11</sup> As outlined in the ICA submission, there were 66 community consultations, and QBE attended each of these.

<sup>12</sup> Everything we do at QBE is underpinned by our DNA – because we know it's not just what we do that matters, it's how we do it that makes the difference. At QBE, when we show-up for our people, customers, communities or shareholders across the globe: We are customer-focused; We are technical experts; We are inclusive; We are fast-paced; We are courageous; We are accountable; We are a team.

<sup>13</sup> Deloitte Review, p71.

<sup>14</sup> Deloitte Review, p68.

<sup>15</sup> Deloitte Review, p70.

<sup>16</sup> QBE does not capture the requested data or information in a way that can be readily accessed. As mentioned, enhancing our claims data and insights is part of our modernisation program.

<sup>17</sup> The excess is the amount the customer agrees to pay if they make a claim for an insurable event. This amount will need to be paid by the customer.

<sup>18</sup> Complaints relating to Lenders' Mortgage Insurance follow the same framework but have a shorter response timeframe of 21 days in accordance with ASIC guidance specific to credit-related complaints. Statutory classes of insurance business are subject to specific legislative and regulatory requirements at state and territory level and QBE has established specific processes to ensure compliance with these.

<sup>19</sup> QBE's Global Disaster Relief and Resilience Partnership with Red Cross and Save the Children, now in its fourth year, aims to help communities build their resilience and their capacity to prepare, anticipate, respond and recover from disasters. During the Floods, this Partnership enabled a range of support and long-term recovery operations for affected communities.

<sup>20</sup> APRA, [Quarterly General Insurance Performance Statistics](#), June 2023 (issued 24 August 2023).

<sup>21</sup> For example, see [Why do insurance premiums go up? | QBE AU](#) and [Understanding your premium | QBE AU](#)

<sup>22</sup> L Murdoch, 'Qld Floods "the Worst in History"', 16 January 2011, Brisbane Times as referenced in The House of Representatives Standing Committee on Social Policy and Legal Affairs [In the Wake of Disasters: Volume 1 The operations of the insurance industry during disaster events](#), February 2012.

<sup>23</sup> This became effective for policies entered or renewed from 14 December 2013.

<sup>24</sup> Most recently, the Australian Competition and Consumer Commission, [Northern Australia Insurance Inquiry](#), Final Report, November 2020.

<sup>25</sup> ICA, [Building Australia's Resilience: Policy recommendations for federal and state governments](#), July 2023.

<sup>26</sup> Information on the Queensland Household Resilience program is available at [Household Resilience Program](#).

<sup>27</sup> A similar approach is also underway in the UK for example, where Flood Re has committed to developing and testing a scoring methodology for Property Flood Resilience efficacy and the introduction of Property Flood Performance Certificates enabling individual properties to be assessed against the scoring methodology. These measures are intended to help insurers understand the mitigations individual properties have.

<sup>28</sup> ICA, *op cit* (note 25). Also refer to the ICA submission.

<sup>29</sup> Australian Securities and Investments Commission (ASIC) Deputy Chair Karen Chester, ['The Princess and the Pea': Getting the basics right in insurance](#), speech to the ICA Annual Conference, 12 October 2023.

<sup>30</sup> *ibid*.

29