



ASIC
Australian Securities &
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To: Chairs and CEOs of general insurance companies

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Obligations of general insurers: Insurance claims and severe weather events

This letter sets out the obligations general insurers have as Australian financial services (AFS) licensees under the *Corporations Act 2001 (Cth)*. General insurers are required to act efficiently, honestly, and fairly when providing claims handling services: see section 912A. This includes resolving claims in a timely manner, especially when responding to claims relating to severe weather events.

The 2023–24 Australian summer has seen several severe weather events – in particular, Tropical Cyclone Jasper and the Christmas and New Year storms in Queensland, New South Wales and Victoria, which have been declared ‘insurance catastrophe’ events by the Insurance Council of Australia (ICA).

Given that severe weather events are expected to occur more frequently and with greater severity, it is increasingly important for general insurers to adhere to their obligations when responding to claims relating to such events.

Note: See, for example, the [Australian Actuaries Climate Index](#), the Government's [Annual climate change statement 2023](#) (PDF, 3.54 MB) at p. 9, and Figure SPM.2 (b) in [Summary for policymakers](#) (PDF, 1.33 MB), Intergovernmental Panel on Climate Change, 2022.

Insurers are required to:

- communicate transparently, clearly and in a timely way with consumers regarding their claims
- effectively project manage third parties, including assessors and tradespeople
- identify complaints and expressions of dissatisfaction at the earliest opportunity
- recognise consumers experiencing vulnerability and tailor their claims handling service accordingly, and
- sufficiently resource claims handling and dispute resolution functions, and ensure staff are adequately trained.

In August 2023 ASIC outlined our observations on how insurers are meeting their obligations and highlighted areas for improvement in Report 768 *Navigating the storm: ASIC's review of home insurance claims* ([REP 768](#)). Since then, the ICA has released its own commissioned report from Deloitte, [The new benchmark for catastrophe preparedness in Australia](#) (Deloitte report, PDF 4.53 MB), which identified several similar issues as well as the importance of insurers taking action.

We recognise that insurers have told us that they have implemented changes following the 2022 floods, including increasing resources for claims handling and dispute resolution.

As a result, we expect to see a significantly better response by the industry to the events that have occurred during this summer, and any subsequent events. We also expect to see an increased focus by insurers on resolving any outstanding claims related to flood events that occurred in 2022. We will shortly be seeking additional information from some insurers on outstanding claims from those events.

Insurance claims handling is an enforcement priority for ASIC in 2024. We are monitoring claims handling through reports of misconduct made directly to ASIC, any systemic issues reported by the Australian Financial Complaints Authority (AFCA), and our regular contact with consumer groups assisting people with claims and related disputes. Our message is that ASIC is watching how insurers support their customers very closely. Evidence of significant misconduct identified through these channels may result in enforcement action.

Background

ASIC has been clear about our expectations in our direct and public communications with insurers. These expectations are shaped by the commencement of the claims handling reforms on 1 January 2022, which made claims handling and settling a regulated financial service.

In 2021, ASIC published information for industry on complying with these obligations: see Information Sheet 253 *Claims handling and settling: How to comply with your AFS licence obligations* ([INFO 253](#)). This is in addition to the standard in the [General Insurance Code of Practice](#) (Code).

In June 2022, ASIC commenced a review to better understand the consumer experience in home insurance claims and assess the current state of claims handling from the start of the new regime and how this compares to insurers' regulatory obligations. The review captured claims that were lodged following the flood events in south-east Queensland and northern New South Wales in February and March 2022. The findings of this review were published on 16 August 2023 in [REP 768](#).

In August 2023 the House Standing Committee on Economics announced a [Parliamentary Inquiry](#) into the insurance industry response to major flood events across Australia in 2022. ASIC has made a submission to the inquiry and provided evidence on 2 February 2024. We expect to continue to assist the Committee with its work as required.

Findings on claims handling

[REP 768](#) identified five areas for improvement within claims handling: see Table 1.

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

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

Common themes between REP 768 and the Deloitte report

There are strong parallels in the themes identified in the Deloitte report and [REP 768](#) – in particular:

- weaknesses in claims handling processes
- issues with complaints handling
- poor communication, and
- problems arising from inadequate processes for managing third parties.

Deloitte observed that not all insurers had made changes to the level required to address the issues identified.

Adequacy of resourcing

Adequacy of resourcing for claims handling and dispute resolution is critical to addressing a number of the issues identified in [REP 768](#) and the Deloitte report.

[REP 768](#) found issues with both the quantum and quality of resourcing. It also recommended that insurers should track the following metrics for full-time equivalent (FTE) staff, and any impact on consumer outcomes:

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

The Deloitte report found that insurers had to increase their claims workforce from between 19% and 87% in response to the February and March 2022 floods in south-east Queensland and New South Wales and that this significant reactive recruitment caused its own difficulties. The Deloitte report said that all insurers had permanently increased their claims headcount in anticipation of continued catastrophic events but the increase was not quantified in the report.

Ongoing analysis and transparency of resourcing and its relationship to consumer outcomes is important. It is much harder for an insurer to adequately respond if they are already under-resourced when a severe weather event occurs.

In May and November 2023, we wrote to six large general insurers seeking further information on changes in resourcing to deal with significant issues and delays with claims handling and dispute resolution.

The responses to our queries showed an overall increase in the resourcing of claims handling since 2019, albeit with a significantly increased reliance on temporary staff. This reliance was not ubiquitous, with some individual firms being more heavily reliant on temporary staff than others. Similarly, the aggregate increase in claims handling staff was not shared equally between firms, with some firms increasing their claims resources significantly more than others.

Importantly, the responses also revealed that, overall, increases in resourcing for dispute resolution were not commensurate with the increase in numbers of complaints. This indicates that general insurers' under-resourcing of dispute resolution remains an issue of concern.

Concluding remarks

We acknowledge that general insurers have taken steps to improve their claims handling practices in response to severe weather events. However, AFCA data indicates that delays in claims handling continued to be a significant and increasing category of complaints in 2023.

We expect the industry to continue action on the issues raised in [REP 768](#), the Deloitte report and the current House Standing Committee on Economics inquiry.

We will seek updates on progress in addressing these issues in our regular discussions with the ICA and with individual insurers. We also expect the industry to consider these issues as part of the current review of the Code.

Yours sincerely

Alan Kirkland
Commissioner