

In the Wake of Disasters

Volume One: The operation of the insurance industry during disaster events

Report Summary

On Monday 27 February 2012, the Social Policy and Legal Affairs Committee tabled its report on the inquiry into the operation of the insurance industry during disaster events.

During the course of the inquiry, the Committee received submissions from 79 individuals and organisations, as well as almost 700 responses to its online survey. The Committee travelled to many parts of Australia affected by natural disasters, holding 18 public hearings and five site inspections.

The report considers the issues that were raised in the submissions to the inquiry and in evidence received at public hearings. This summary outlines in brief the findings and recommendations of the Committee. The full report is available at www.aph.gov.au/insurance.

General Insurance Code of Practice

The general insurance industry is self-regulated by a voluntary Code of Practice. The Committee heard consistent dissatisfaction with the Code and its voluntary nature, as well as low levels of awareness of the Code's existence. The most pertinent part of the Code to the inquiry is the clause that suspends the Code standards in times of disaster events.

Lack of consumer awareness

The Committee encountered low levels of awareness among consumers about their insurance policies. Many did not know, or were misled about, what they were covered

for, and only found out when it came time to make a claim. Many others were covered but didn't realise that in the event of total loss they would be underinsured. The Committee heard that many consumers were not fully aware of their rights when making a claim.

Lack of consumer protections

The inquiry found that consumer rights are not protected adequately in the claims-handling process. Policy-holders have few rights when it comes to challenging the length of time to process a claim, the independence or accuracy of third-party assessors and their reports, or the lack of communication with insurers. The Committee considers that legislative changes are required to strengthen consumer protections, and at the very least the Code of Practice should set out standards and timeframes for handling insurance claims in the wake of disaster events.

Dispute resolution processes

The inquiry examined the internal dispute resolution processes of insurance companies and the external dispute resolution service provided by the Financial Ombudsman Service (FOS). The Committee concluded that on the whole, internal dispute resolution processes were convoluted and ineffective. While external dispute resolution through FOS appeared to be genuine, the Committee found that consumer awareness of FOS was low, and the process could be intimidating without legal assistance.

In the Wake of Disasters

Volume One: The operation of the insurance industry during disaster events

Recommendations

The Committee made recommendations for the following:

1. Legislation should be enacted that obliges general insurers to offer an insurance policy that conforms to Standard Cover, including flood cover and full replacement in the event of total loss.
2. Legislation should be enacted that obliges general insurers to make absolutely clear to policyholders where any policies deviate from Standard Cover.
3. The Insurance Contracts Amendment Bill 2011 should be enacted.
4. Legislation should be enacted to remove the exemption of general insurers from unfair contract terms laws.
5. The General Insurance Code of Practice should be amended significantly, to ensure that consumers are provided with more information on the claims-handling process and to ensure that timeframes and standards are adhered to during disaster events.
6. The Australian Securities and Investments Commission should be empowered to publicly 'name and shame' insurers that breach the Code of Practice.
7. Legislation should be enacted to make a breach of the duty of utmost good faith a breach of the Insurance Contracts Act, thereby empowering the Australian Securities and Investments Commission to regulate insurance claims handling.
8. Legislation should be enacted to make the General Insurance Code of Practice compulsory for all general insurers.
9. Regulations should be amended to oblige general insurers to provide clear and comprehensive information about both internal and external dispute resolution processes to policyholders at the time of claim lodgement, and to prohibit multi-tiered models of internal dispute resolution.
10. Australian Government funding should be allocated to the Insurance Law Service so that it can mobilise temporary offices in areas of need following natural disasters.
11. Funding from the Australian Government and the insurance industry should be allocated to the establishment of a consumer advisory position with the Financial Services Ombudsman.
12. The Australian Government should investigate ways to reduce the cost of calling 1300 numbers from mobile telephones in areas of natural disasters.
13. A joint industry-Government action group should be established immediately to address the rising costs and potential market failure of insurance premiums across Australia.

The full recommendations are available in the report at www.aph.gov.au/insurance.