



One Company  
Many Brands



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The General Manager  
Financial System Division  
The Treasury  
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PARKES ACT 2600

Email: [floodinsurance@treasury.gov.au](mailto:floodinsurance@treasury.gov.au)

Dear Mr Lonsdale

## Consultation Paper - Reforming Flood Insurance: A Proposal to Improve Availability and Transparency

Suncorp welcomes Treasury's Consultation Paper *Reforming Flood Insurance: A Proposal to Improve Availability and Transparency* (the consultation paper). Suncorp is strong supporter of improving flood insurance availability and transparency and is pleased with the opportunity to comment on this area of reform.

Appendix A includes Suncorp's detailed response to the questions raised in this consultation paper. In general, Suncorp supports flood insurance reform and highlights a few key issues that we believe will enhance the consumer and industry outcomes if incorporated into the reform package.

This submission is made on behalf of the General Insurance operations of the Suncorp Group.

If you have any questions or comments regarding this submission please contact me on 03 8681 9428 or [annabelle.butler@suncorp.com.au](mailto:annabelle.butler@suncorp.com.au). Alternatively contact Mike Thomas, Manager Government Relations on 02 8121 3115 or [mike.thomas@suncorp.com.au](mailto:mike.thomas@suncorp.com.au).

Yours sincerely

**Annabelle Butler**  
Executive Manager  
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## Appendix A

### The Suncorp Group

Suncorp Group Limited and its related bodies corporate and subsidiaries (collectively 'Suncorp') offer a range of financial products and services in banking (Suncorp Bank), general insurance, life insurance and superannuation (Suncorp Life) across Australia and New Zealand. Suncorp has around 16,000 employees located across Australia and relationships with over nine million customers. It is a top 25 ASX listed company with over \$95 billion assets.

### Responses to questions raised in the consultation paper

#### The Proposal and the Objectives

Suncorp already offers mandatory flood cover to retail customers under the majority of its brands including Suncorp Insurance, GIO, Vero and Shannons. Under its AAMI brand, Suncorp is offering mandatory cover for the majority of its customers in the no to low risk categories, with customers we assess to be in medium to high risk categories given the ability to opt-out upon request. This opt-out process is available to medium/high flood risk customers whose premiums are heavily affected by the addition of flood cover. Therefore customers who are insuring high risk addresses receive a clear price signal, whilst giving them the choice to opt-out of cover if they so wish.

Suncorp welcomes the flexible approach being employed by Treasury in the consultation paper. Allowing riverine flood cover to be available with the ability for consumers to opt-out in some circumstances, confirms Suncorp's own approach via its portfolio of brands (a mixture of offerings nationally, mandatory cover or opt-out to enable consumer choice). Allowing opt-out enables consumers in higher risk riverine flood areas to be able to continue to purchase Home Building and Home Contents insurance without having to pay the premium for riverine flood if they so wish. This policy approach will help minimise non insurance rates (which are a key concern of completely mandating flood cover), whilst allowing consumers to manage/mitigate their own risks.

However, Suncorp does continue to have a concern regarding "renters" insurance. As explained previously,<sup>1</sup> the majority of low cost "renters" policies do not cover all forms of natural perils – hence these policies are commonly referred to as "fire and theft" cover. This structure is deliberate, to keep premiums low and enable greater accessibility to contents insurance for low income earners.

Forcing the inclusion of flood cover in this type of policy would cause the cost to increase in some risk profiles. This would mean that this product would no longer be accessible to some of the consumers that it was designed to help. In addition, the cost of transitioning the renter's product to cover flood, including changes to systems and the ongoing cost of administering opt-out, would add significantly to the base cost of operating the product which is likely to reduce the commercial viability the product. Mandating flood cover may also result in the unusual circumstance of a policy providing cover for flood but not storm.

As stated previously, Suncorp recommends that this class of insurance should be specifically excluded from the classes of contracts declared by Regulation 29C (Insurance Contracts Amendment Regulations 2011). This could be done by amending Regulation 29C so that it only includes home building and/or home contents policies that provide storm cover.

#### Concerns with Proposal

In analysing the proposal, Suncorp has identified a few key concerns. It is intimated within the proposal that both the opt-out and opt-in options should be priced and disclosed on every renewal. In the interests of avoiding customer confusion, Suncorp recommends that, where the policy allows for the consumer to opt in or out, the consumer is only informed of their current status (either opted in or opted out of flood) on renewal.

There should be no requirement for pricing of both "opt-out" and "opt-in" price on every renewal. Policy schedules are designed to communicate the policy terms agreed to by the customer and the insurer.

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<sup>1</sup> *Suncorp Response*, Insurance Contract Regulations, 02/02/2012

Introducing a new element of choice on what has traditionally been a transaction record has the potential to complicate the renewal process. Having both prices displayed means it will be difficult for consumers to determine whether they are currently covered or not. It may also be difficult to recall which option was chosen when later reviewing the policy schedule. Further, should a consumer wish to change their level of cover they still need to contact their insurer to request that change. Simply paying a different amount would not result in a coverage change as insurer systems are not designed to adjust coverage in this manner.

Suncorp is concerned that offering both the opt-in and opt-out prices has a risk of consumer confusion and will ultimately result in a protracted renewal process. In addition, given the small number of customers that are at risk of flood damage, it does not make economical sense to adjust current systems and renewal processes.

Less than two percent of homes in the AAMI portfolio have high flood risk status under our data, it does not make financial sense for AAMI to change their systems to specifically quote for opt-in on every renewal for such a small percentage of customers. The costs (system changes for a small group of customers, plus increased call centre traffic) outweigh the benefits. Additionally Suncorp, via its other brands, provides various other optional covers such as fusion, accidental damage, portable valuables, pet cover etc. and we believe flood should be treated similarly to provide a consistent policy framework for consumers, and Suncorp, to work within.

Obviously this is on the proviso that the consumer is clearly informed of their flood cover status to ameliorate current concerns regarding knowledge of cover purchased. The insured is of course free to contact the insurer if they wish to change their status should for example, their appetite for risk or their own financial circumstances change over time.

### **Whose role is it to inform householders about their flood risk?**

Within the proposal and subsequent questions there is discussion about the insurer's role in informing consumers of their flood risk. As previously mentioned, Suncorp and other general insurers inform consumers about our assessment of their overall risk via price signals. It needs to be understood that the price is a combination of many factors, including level of cover, location, certainty of events (fire, storm, theft, flood etc) and quantum of potential damage etc.

It is not an insurer's primary role to inform consumers about their flood risk, the insurer's role is to help the community manage their risk by providing insurance cover. Therefore insurers should not be seen as entirely responsible for flood risk awareness. It is Suncorp's view that government plays the primary role for disseminating flood risk information to the community.

Flood risk information should be publicly available for every property. Suncorp supports the Federal Government's initiative to provide a single access point to existing flood mapping data via a portal. Additionally Suncorp supports local initiatives that are occurring country wide to improve current council maps, which will feed into this portal. This work is vital for the community as a whole to start to understand their risk exposure more accurately.

Suncorp has submitted to various inquiries that flood risk data should be made available to every household (whether via vendor statements, rental agreements or rates notices).<sup>2</sup> Currently Local Government is responsible for risk management via land-use planning, building codes and mitigation measures. Due to this existing responsibility and specialist local knowledge, Suncorp believes Local Government should be responsible for communicating risk to their electorate. This approach will ensure that all persons in high risk areas are informed of their risk, not only those that hold insurance policies.

It also needs to be understood, that due to the lack of complete and accurate national peril data, insurers base their risk assessment on a mixture of data available, via mechanisms such as the National Flood Insurance Database and their own claims history/individual risk assessment process. Therefore there are times where the insurer's view of the risk differs from the local councils.

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<sup>2</sup> <http://www.ndir.gov.au/content/Content.aspx?doc=submissions.htm> and also <http://pc.gov.au/projects/inquiry/climate-change-adaptation/submissions>

Additionally, the types of floods mapped by local council may be different and more comprehensive as compared to the standard definition of flood (depending on location) and may include types of flood not covered by the standard definition and therefore insurance policies, for example, actions of the sea.

This issue should hopefully be resolved with the development of the data portal in the long term.

Finally, insurers will be concerned that informing consumers of our view of their flood risk, based on their personal circumstances could be construed as providing personal financial advice. This may have consequences in terms of compliance with Chapter 7 of the Corporations Act. Suncorp acknowledges that the method of delivery will determine whether advice was given or not, however it needs to be understood that it is difficult to discuss a customer's personal circumstances during a typical insurance phone call without providing personal financial advice as currently defined under the Act.

## **Increasing the Awareness of Flood Risk and Flood Cover**

**What benefits are there in offering flood cover to all consumers with an 'opt-out' option?**

The benefit of offering flood cover with an opt-out option is that consumers who are high risk to flood have the ability to elect not to take the cover if it is unaffordable for them, whilst maintaining cover for other events. Additionally they receive a price signal for their risk. Given that such a small percentage of consumers will actually receive a price signal for flood, opt-out should only be made available for this group to ensure efficiency in delivery.

However, if an insurer wishes to only offer mandatory cover then they should be able to do so. A large number of insurers within Australia already offer mandatory cover, whilst others offer opt-out cover. As noted earlier, Suncorp brands operate under both a mandatory cover and an opt-out cover model. This decision reflects the different value propositions of each brand. For example, premium brands such as GIO Platinum include mandatory flood cover so that customers can be assured they have a high level of cover. In contrast, AAMI offers high risk customers the ability to opt-out of flood, reflective of their commitment to provide competitive premiums to all Australians. This is indicative of the competitive approach various insurers have taken and gives the consumer choice. This competition should continue to be encouraged.

It should be noted that flood risk is not the only rating factor, therefore there are other risks built into the price, such as cyclone, or for contents, theft rates, which also cause the premium to rise and provide a signal to the market. The premium is indicative of the total assessed risk.

**What information would consumers require to make reasonable decisions as to whether or not to 'opt-out' of flood cover? Is this information readily available? Are consumers able to adequately access this information?**

Consumers need to be able to assess their own risk and their own risk appetite. A flood information portal is a good first step to be able to do this. It is Suncorp's view that the portal should contain information on all peril risks – not just flood, including bushfire and cyclone. Grades or codes should be simplistic so consumers are able to assess risk quickly. Interactive tools and response tips will also help to inform consumers.

In addition and as discussed earlier, Local Government should continue to communicate flood risk information to local residents so that consumers can make an informed choice regarding their level of insurance cover.

Obviously, current insurance price signals will continue to provide an indicator of general risk.

## **Increasing the Availability of Flood Insurance**

**To what extent would insurers offering flood cover to all consumers (including where an 'opt-out' option is provided) increase the take-up of flood cover? Is it likely that there would be different take-up rates among groups exposed to different levels of flood risk?**

Suncorp, via its portfolio of brands, offers flood cover nationally. Therefore cover is available for 100% of domestic homes.

AAMI is the only Suncorp brand to offer an opt-out option for medium/high flood risk consumers of its home and contents insurance. At the time of writing, 130 customers had been given the flood option with,

approximately half choosing to maintain flood cover. Although it is early days (7 weeks of data), experience has shown that consumers are recognising the value of flood insurance and are generally choosing cover when they can afford to do so.

It is assumed that for those consumers in high risk areas, where the flood premiums are high, they will make a decision to purchase cover based on their perception of risk, household budgets and possibly, their desire to manage risk in other ways. It needs to be understood that consumers use various methods of managing the cost of premium; excesses, sum insured or extent of cover. This choice needs to remain in the market to prevent higher non-insurance rates and customer dissatisfaction about the removal of choice.

**How prevalent would the practice of offering an ‘opt-out’ option be? For insurers – would you envisage providing an opt-out option? Why? If you intend on offering an opt-out option, who would you intend to offer it to? E.g. all risks or any consumer who has a flood risk premium above a certain value?**

As stated previously, Suncorp is offering various options to consumers including opt-out via AAMI. AAMI is only offering this option to medium to high risk customers, who may wish to opt-out of flood cover but maintain general household insurance – for other risks. This flexibility is particularly important if a consumer has a mortgage which requires the consumer to have building cover as part of the contractual arrangement with the lender.

For Suncorp, opt-out allows us to balance increased re-insurance premiums that arise from including flood insurance in the AAMI complete replacement cover policy. This in turn allows us to keep premiums at a manageable level for our customers.

**Would an annual decision to ‘opt-out’ maintain coverage? If consumers elect to purchase flood cover, should they be provided with an ‘opt-out’ option the following year or just offered a renewal of insurance including flood cover?**

Suncorp is of the view that consumers should be fully informed of their decision to opt-in or opt-out on their renewal notice. However, due to costs of forcing consumers to contact their insurer each year to opt-out (call handling costs, re-issuing costs etc.), it appears an uneconomical approach to require insurers to automatically opt customers in each year. Forcing consumers to opt-out every year would cause more pressure on premiums, in an already hardening market and would significantly inconvenience consumers.

Suncorp is confident consumers will make their initial opt-out or opt-in decision carefully and we believe this decision should be respected. Suncorp does not support attempting to override a customer’s previous decision without express consent.

**What would be the impact on actual insurance premiums for the different categories of flood risk?**

Suncorp considers our categories of flood risk, and associated premiums, commercially sensitive. As a general guide we have provided the below table, but wish to make clear it is for indicative purposes only.

Flood Rating	Additional Premium
None	\$0
‘Low’	\$100-\$400
‘Medium’	\$400-\$1000
‘High’	\$1000-\$3000
‘Extreme’	\$3000 and above

## The Storm/Flood Distinction

**What initiatives might assist to resolve, in a timely fashion, disputes about whether damage has been caused by storm or flood?**

Suncorp supports the Insurance Council's submission that there should be a central body that manages water related data. This would help hydrologists and other interested parties, in accessing the information they require to make a finding on the source of the water in question. As seen during the 2011 floods this was a key frustration for consumers, insurers and the hydrology industry.

In general, increased surveillance of flood waters through use of automated depth gauges, rain gauges and aerial photography would improve knowledge about the flow of flood water. This improved knowledge would make it simpler to determine the source of flood which in turn minimises potential disputes.

## Industry Capacity to Underwrite Flood

**What particular issues need to be addressed before all insurers could be required to offer flood cover?**

The national flood mapping (including digital elevation models) needs to be completed to a comprehensive level, and this information needs to be made publicly available. This data will enable insurers to more accurately underwrite without needing to outlay significant expense in developing their own flood data.

Flood insurance also requires a significant capital commitment from insurers. It may not be feasible for smaller companies with low numbers of policy holders to set aside the amount of capital required to meet prudential standards if required to offer flood cover. This issue would need to be examined further with those smaller companies before they are required to introduce flood cover.

Importantly, as Treasury are aware, better mitigation activities such as land use planning, building code changes, infrastructure improvements etc. are key elements, which would alleviate pressure on premiums and allow greater flood underwriting.

**What is the likely impact on overall premiums of system costs?**

Suncorp has spent ten years developing the ability to underwrite flood. This included:

- the initial outlay for the first comprehensive flood mapping of Australia (which is now forms the basis of the NFID),
- the building of a pricing engine which prices at an individual risk address level,
- subsequent systems designs,
- documentation changes,
- staff training, and
- support costs, such as ongoing access costs to risk data to refine pricing.

Therefore it is difficult to put a final dollar figure on full implementation and ongoing costs, but it is assumed to be in the high tens of millions. This obviously will act as a barrier for smaller insurers, especially if home building and contents insurance does not form part of their core business.

**Would insurers need to cross subsidise parts of their business to make this proposal workable? If so why?**

Suncorp submits that it is up to each insurer how they cross subsidise and price. Suncorp notes that longer term, large scale cross-subsidisation is not sustainable.



**Would affordable reinsurance protection be available for all insurers who take on flood risks? What factors would influence whether affordable reinsurance is available? Would there be any difference between the availability of affordable reinsurance for large and small insurers?**

Suncorp refers to the Insurance Council Submission on this matter. We highlight that the affordability and accessibility of reinsurance in the long term will depend on the catastrophe rate and its predictability. However, this is a world-wide issue and is not contained to Australia.

Reinsurers need to have confidence in the underwriting and pricing of the insurer so that they are able to manage their own exposure, which may lead to difficulties if the insurer is unable to provide this.

Affordability is clearly linked to mitigation (as a method of reducing risk), therefore improved mitigation (for example in Roma which has flooded three times in the last 18 months) would reduce the risk, exposure and cost.

### **Transition Period**

It is recommended that two years should be sufficient for insurers to either implement or pull out of the market (if they so wish).

The Key Fact Sheet can be implemented sooner, however the rolling out of a standard definition of flood (Insurance Contracts Act Amendment Bill 2011) plus the disclosure changes (Duty of Disclosure) in the Insurance Contracts Act Amendment Bill 2010 should all be aligned to allow a true two year implementation period. This would mean insurers would only need to make one set of changes, instead of continual changes to their PDSs (which would be seen as material), plus it would help reduce consumer confusion and possible malaise to being overwhelmed by documentation from insurers as each change is rolled out.

### **Which Assets should be covered by the proposed 'opt-out' regime?**

If Strata were to be included, then there needs to be very clear definitions about what is being covered. Strata buildings vary a great deal in characteristics covered, from small subdivisions of land (duplexes etc.) to complex tower blocks with a mixture of retail and commercial incumbents.

Suncorp recommends that only pure residential strata under a certain insurable value (or number of units) should be considered. More complex strata buildings are managed by body corporate management companies that will normally broker the cover required.

### **Sub limits and Excesses**

#### **Excesses**

Excesses play a vital role in allowing consumers to manage their own risk and their appetite for cover. They allow consumers to access products at a more affordable rate and encourage consumers to purchase insurance. Therefore the removal of the ability for the insured to be able to manipulate price to suit their own needs, should be very carefully considered. Further the ability to have flood specific excesses should not be removed, as this is a legitimate underwriting action – providing it is adequately disclosed.

It would also reduce the industry's ability to innovate and provide new forms of cover in response to emerging issues, for example, affordability.

Therefore, we recommend the retention of the ability to use excesses.

#### **Sub Limits**

The removal of the ability to use sub limits is seen as inadvisable by Suncorp.

In the context of contents insurance, sub limits are already used extensively in cover. For example, there is normally a sublimit on jewellery, computer equipment or collections. This is common practice and helps the

insurer offer a price that is reasonable whilst understanding their financial exposure to risk. Removing this ability (in relation to flood cover or any other form) will cause premiums to rise.

Sub limits in all forms should be allowed to remain as a legitimate underwriting action. They must however be clearly disclosed and understood by the consumer. Therefore Suncorp recommends that they be disclosed on the key facts sheet if they are considered material.