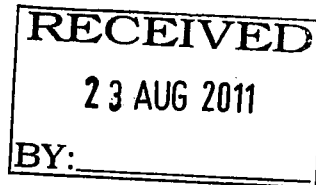




Hon Rachel Nolan MP  
Member for Ipswich



Queensland  
Government

Minister for Finance, Natural  
Resources and The Arts

MIC- 00400

**17 AUG 2011**

Mr John Trowbridge  
Chairman of the Review Panel  
Natural Disaster Insurance Review  
C/- The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Mr Trowbridge

**Natural Disaster Insurance Review**

Further to the Queensland Government's submission to the Review, I wish to provide an Addendum for the Review Panel's consideration.

Given the overlap between the two inquiries, the same comments have been provided to Mr Graham Perrett, Chair of the House of Representatives Standing Committee on Social Policy and Legal Affairs' Inquiry into the operation of the insurance industry during disaster events.

These observations reflect some of the difficulties encountered by the Queensland Reconstruction Authority in its efforts to rebuild and reconnect communities affected by the devastating floods and cyclones earlier this year.

*Access to insurance claims experience relating to large scale events*

There is currently no mandated or prescribed format for insurers to collate and report claims information after a large scale weather or disaster event. Information is currently provided in ways that insurers or representative bodies think appropriate (if at all) and this may be presented to only portray favourable aspects of the situation.

The Australian Government should require insurers to publish aggregated information in relation to declared events, such as natural disasters. While the data would be at an aggregated level to protect the privacy of individuals, the information must also be sufficiently detailed to make it useful. While each insurer would publish its own data, the Insurance Council of Australia or the Australian Prudential Regulation Authority may also publish consolidated information for all insurers. To enable the central collation of data and

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Insurance Council of Australia or the Australian Prudential Regulation Authority may also publish consolidated information for all insurers. To enable the central collation of data and to reduce or avoid the prospect of misleading or erroneous reports, the data would need to be collected and presented in a prescribed format and to specified time and data quality standards.

Examples of data that could be collated may include:-

- how many claims have been received and the status and resolution of those claims on a progressive basis;
- how many claims have been accepted in full, accepted partially or rejected;
- what funds have been paid and what is estimated to be paid on those claims.

The claims detail should be broken down by major insurance class - household, motor, commercial - not jumbled into one total figure.

The claims information must relate to the event and not include claims that are coincidentally received for the time period or region but for loss due to another cause. Furthermore, information should be required to be updated in a timely manner - perhaps daily initially, but then weekly and monthly when a large proportion of claims have been fully resolved. The data should enable an overall and specific geographic understanding of claims experience - how many claims were received for the event in total and how many were received by postcode or region.

The purpose and benefit of this disclosure are important to enable:

- emergency services, community and government agencies to gain timely information on broad or localised community impacts from events;
- resources to be directed to areas of greatest need, particularly where insurance coverage is in dispute and community support needs would be expected to be high;
- consumers to gain a timely understanding of insurer performance and providing context to their own situation should they suffer a loss;
- the broader community to assess insurer performance in 'delivering on the promise' that having taken an insurance premium, how quickly and how well the insurer responds to supporting people at a time of need;
- informed analysis and decision making post event about what went well and what can be learned and improved upon for the future.

### *Example of recent experience*

*The Queensland Reconstruction Authority sought information on the percentage of people in the Ipswich region who had submitted flood claims and were to receive a payment. Initial advice from the Insurance Council of Australia reported a high proportion of claims being paid, but upon questioning, this was clarified to indicate the high acceptance rate applied to all claims received for the Ipswich region, not just flood claims.*

*The initial data may well have been provided in good faith but, if left unchallenged, could have resulted in resources being prioritised incorrectly and property owners being overlooked or left in a situation of great and urgent need.*

I also wish to highlight some of the critical issues identified by Legal Aid Queensland (LAQ) in acting for over 450 families affected by the summer floods who have had their home and contents insurance claims denied by their insurer. The majority of these families are still waiting for these disputes to be resolved.

### *Delay in finalising claims*

The inquiry's terms of reference include whether consumers were given accurate and useful information by insurers about their right to make a claim and whether the time taken to process their claim was reasonable. LAQ clients have expressed anger and dismay at the delay in processing their insurance claims, many having to wait an average of 12 weeks for a written refusal of their claim.

### *Case Study 1 – delay for 74-year-old pensioner*

*Mrs A has been with the same insurance company for 10 years. Following inundation of her home at Yeronga, which rendered it unliveable, she made a claim on her policy on 13 January 2011. This elderly pensioner telephoned on a weekly basis chasing a response to her claim. She received a written refusal on 18 May and only after LAQ lodged a complaint with the Financial Ombudsman on the basis of unacceptable delay in claims handling.*

### *Dissuaded by Insurer from lodging claim*

Some clients reported to LAQ that they were dissuaded from lodging their insurance claims by insurers at the first point of contact after the floods with many emotionally unable to continue the process of challenging a refusal.

### *Case Study 2 – clients dissuaded from lodging insurance claim*

*Mr T and Ms R were living near Ipswich and insured with Insurer A during the flood event. On the Saturday after the event, they first rang their insurer to attempt to lodge a claim. Insurer A informed them they were not covered under their insurance policy for flooding and not to bother lodging a claim. It was only after Mr T and Ms R rang Insurer A on four successive days that their insurance claim was lodged.*

### *Complexity of insurance policies*

Insurance law is complex and LAQ is dealing with 36 different insurers and close to 100 different policies, each generally more than 50 pages in length with complex and inconsistent policy wording. In the experience of LAQ, most clients are unable to identify viable legal arguments relevant to their claim without expert legal assistance.

### *Case Study 3 – client reflections on their policy*

*LAQ client commented: "I didn't really read the PDS. It's not in plain English. I don't really understand what it means. You need a law degree to work it all out."*

Forty-nine percent of LAQ clients were sure that their policy covered them for what could best be described as riverine or other flooding with almost 70 percent believing that they were covered for the loss they sustained in January's floods.

### *Misrepresentations by Insurer*

Only 6.0 percent of LAQ clients had read their insurance policy before making a claim with most relying on what was said by insurance staff or media advertising when taking out the policy. Of those clients who have had their claims accepted, many were unaware that their insurance policy limited pay-outs to a capped amount significantly less than what they believed they were insured for and well below what was necessary to rebuild their home.

### *Case Study 4 – example of misrepresentation at point of sale of policy*

*Mr H had been insured with Suncorp for a number of years. Last April his wife bought a new car. He was down at the Bank B branch. He was withdrawing money to pay the insurance premium and said it was expensive. The teller asked him if he had thought about switching his insurance to Bank B's insurer. Mr H asked who was the insurer and she said the bank was an agent of Insurer C. She invited Mr H to bring in his insurance documents so she could give him a quote. She looked at his current policies and said they could better them by \$200-300. She represented herself as being an agent of Insurer C. Mr H said that he wanted the same cover as he had from Suncorp as he had flood coverage with Suncorp. She told Mr H that he had the same coverage. It wasn't until after the floods that Bank B and Insurer C told him he wasn't covered for floods.*

### *Affordability of home and contents insurance*

Affordability of insurance premiums is still a very real issue for many homeowners. Clearly, pensioners and households on low incomes struggle to pay rising insurance premiums. It is especially difficult for those in the community who were affected by the devastating floods and cyclones earlier this year.

Ninety-one LAQ clients reported changing insurers because of difficulty in affording cover in the past two years and of that number, 21 changed from Suncorp which offered full flood cover because they could no longer afford it. One client reported a premium quote of \$9000 for his home at Rocklea following the floods.

#### *Case Study 5 – difficulty funding adequate insurance cover (1)*

*Mr and Mrs F are 66-year-old retired pensioners who have been living in the same house for 23 years. They first took out insurance with Suncorp in 1988 when they purchased the property. They maintained their home and contents insurance up until 2008 when they were paying premiums of about \$700. In 2009, the insurance premiums went up to \$1500 and then in 2010 the premium went up to \$2000.*

*Despite difficulties with rising living costs on a fixed income, Mr and Mrs F still maintained their insurance with Suncorp because they believed it was important to protect their only major asset in their retirement. Late in 2010, they received their renewal notice from Suncorp for 2011 home and contents insurance. The premium had risen to \$2800. Mr and Mrs F simply could not afford another rise and had to change insurers. Despite assurances to the contrary, the insurance policy they changed to at a cheaper price did not cover flooding.*

#### *Case Study 6 – difficulty funding adequate insurance cover (2)*

*Mr L is a 70-year-old retiree who, with his wife Mrs L, is currently living on superannuation. He and his wife built the house they are still living at in 1970. They had been insured with Suncorp for a number of years. In 2009, their home and contents insurance premium was about \$800. When they received their next insurance renewal from Suncorp, their premium had increased to \$1400.*

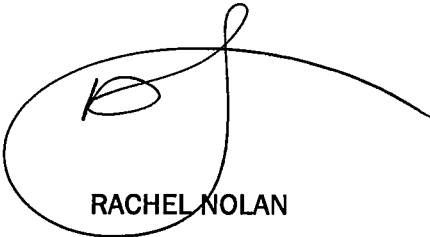
*Mr and Mrs L were already living very frugally and could not tighten their belt any further, but recognised that they needed insurance in order to protect their property. They shopped around with three other insurers and changed to what they thought was the same cover with another insurer. They subsequently discovered the insurance policy they changed to did not cover flooding.*

From the Queensland Government's perspective, initiatives to make flood cover more broadly available with a clear, unambiguous standard flood definition are required. Coupled with improved product disclosure, this would enhance consumer understanding and help alleviate the uncertainty that has occurred for many policyholders following the extreme weather events in Queensland. Streamlining claims management practices so as to lessen the post-event delays and stress on policyholders who have already endured significant trauma following a natural disaster would also be welcomed.

As you are no doubt aware, the Queensland Floods Commission of Inquiry has provided an interim report on the 2010-2011 flood events which can be reviewed on the Commission's website - [www.floodcommission.qld.gov.au](http://www.floodcommission.qld.gov.au). The report examines a range of issues relating to flood preparedness and makes 175 recommendations focussed on changes which can be implemented before the next wet season. The final report is due to be provided to the Queensland Government by 24 February 2012 and will include, amongst other things, an examination of the performance of private insurers in meeting their claims responsibilities.

Thank you for the opportunity to provide some additional commentary to the issues being considered by the Committee.

Yours sincerely



RACHEL NOLAN