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Queensland Floods Commission of Inquiry

Submission on behalf of Suncorp Group Limited

This submission is written in response to the Commission's invitation for submissions relating to "the performance of private insurers in meeting their claim responsibilities". Suncorp Group (Suncorp) is pleased to respond to that invitation. Suncorp understands this term of reference to relate to both the willingness of insurers to offer cover for flood events, and the manner in which insurers assess and manage claims in such events, in particular the flood events which occurred in Queensland in the 2010/2011 summer season.

This submission should be read in conjunction with Suncorp's first submission to Commission, sent on 11 March 2011, relating to other terms of reference.

1. Contents

1.1. This submission will:

- provide a brief outline of the 2010/2011 events which have occurred and the impact of those events in an insurance context as involving Suncorp;
- by way of background, provide an overview of Suncorp's general insurance brands, many of which were at the epicentre of Queensland's recent natural disasters;
- give specific details regarding Suncorp's widespread response to the Queensland floods and Cyclone Yasi in terms of claims numbers and customer service;
- provide a snapshot of how insurance works in the context of a major natural disaster and the particular process used by Suncorp in such an event;
- discuss some of the unique challenges of this event; and
- present recommendations to the Commission on public policy matters that could improve disaster resilience as well as insurance outcomes for Queenslanders living in vulnerable communities.

1.2. Please note that the figures contained in the schedule to this submission in relation to claims are commercial-in-confidence. Suncorp asks that this data remain confidential and that it is excluded from any publication of Suncorp's submission or the findings of the Commission.

2. Introduction

2.1. The extraordinary series of natural disasters during the summer of 2010/2011 have presented insurance companies with unprecedented challenges. Those events impacting Queensland included:

- late December 2010: serious flooding in Emerald;
- late December 2010 through to the first weeks of 2011: further extensive flooding throughout large areas of rural Queensland;
- 10 January 2011: catastrophic flooding in Toowoomba and the Lockyer Valley;
- 12 January 2011: devastating flooding of Ipswich;
- 12 and 13 January 2011: extensive flooding of Brisbane, with the Brisbane river peaking on 13 January 2011; and
- 3 February 2011: Cyclone Yasi's destructive impact on North Queensland.

outages. At the height of the Brisbane Floods, the following Suncorp premises were closed:-

- all 10 Suncorp Brisbane CBD premises;
- 2 call centres at Milton; and
- 21 branches,

- 3.4. In addition, flooding impacted communications and data links of our two telecommunications providers, and more than 3000 of our staff were unable to attend their usual place of work.
- 3.5. Suncorp is Australia's largest general insurance group by gross written premium, and despite the constraints caused by these closures, was well prepared to handle the insurance outcomes of the major weather events which occurred. These are described in detail later in this submission.
- 3.6. This submission outlines how Suncorp's response to what have been some of Australia's most devastating weather events, has been and continues to be prompt, responsible, appropriate and consistent with industry best practice.

4. Suncorp Brands Overview

- 4.1. Suncorp is the largest general insurance group of companies in Queensland, insuring approximately 37% of Queensland households and 17% of Queensland businesses. Among Suncorp's stable of brands are some of Australia's most recognised and reputable insurance names including Suncorp Insurance, AAMI, APIA, Shannons, Just Car and Vero.
- 4.2. More than one in three Australian homes have a policy with Suncorp and in many places, including Tropical North Queensland, Suncorp is one of the only companies willing to offer home and contents protection
- 4.3. Annually the company receives more than 300,000 home insurance claims and 600,000 motor insurance claims, reinvesting more than \$2.4billion in rebuilding, replacing and repairing customer's property.
- 4.4. From an operational perspective, Suncorp General Insurance is divided into two streams, Personal Insurance (retail customers) and Commercial Insurance (wholesale customers/business, and statutory classes, compulsory third party motor and workcover. The distinction is referred to later in this submission.
- 4.5. Suncorp has an extensive claims network that includes local repairers and suppliers that are utilised to assist Suncorp's more than nine million customers when they need to make a claim.

5. Suncorp's Flood Insurance Products

- 5.1. The manufacture, distribution and sale of general insurance policies in Australia is governed by the Insurance Contracts Act and by Chapter 7 of the Corporations Act with the Australian Securities and Investment Commission (ASIC) responsible for regulation of the provision of financial services by general insurers.
- 5.2. The Insurance Contracts Act and the Insurance Contracts Regulations 1985 provide that for home building policies and contents policies, the following events are "prescribed events":

"storm, tempest, flood, the action of the sea, high water, tsunami, erosion or land slide or subsidence"

relation to storm and flood, from cover which is automatically included in policies (Suncorp, APIA, Vero, AMP, and Shannons Home and Contents) , partial cover (AAMI Home and Contents – excludes riverine flood) and optional cover (for Vero business customers).

- 5.11. Suncorp considers it is in the best interests of customers for this choice to be available in the market. Customers are the ones best placed to assess their own individual risks, and the level of protection they may require in relation to those risks.
- 5.12. Across its portfolio of brands, therefore, the Suncorp Group offers different products, with different levels of cover, which enables customers to choose the cover best suited to their needs and their budget.
- 5.13. The Suncorp Group continues to include the few domestic general insurers who automatically provide cover for flood. Customers who purchase flood insurance will typically pay significantly more premium than those who don't, particularly if they live in high flood risk areas.
- 5.14. This necessarily reflects that if insurance is to be offered for a particular risk, the risk must be capable of being priced, and must be priced.

6. Insurance, Risk-assessment and Re-insurance

- 6.1. Insurance companies use actuarial analysis to predict what percentage of insured people or businesses actually suffer a loss and lodge a claim. This analysis helps determine the amount of the premium. Other factors such as location of the risk, propensity to natural disasters of that risk (e.g. fire, flood, cyclone etc.), value of the property being insured, construction techniques and materials (e.g. bricks, tiles, tin, wood, age of the building), and previous claims are also taken into consideration. Naturally, the lower the risk, the lower the insurance premium.
- 6.2. When individuals or companies purchase insurance policies, the money from the premium is combined into what is called the insurance "pool".
- 6.3. An insurer is required to have enough capital/reinsurance in the "pool" to be able to pay out potential insurance claims. In Australia, the capital and reinsurance requirements of general insurers are governed by the Australian Prudential Regulation Authority (APRA).
- 6.4. Reinsurance is insurance that is purchased by an insurance company (insurer) from another insurance company (reinsurer) as a means of risk management - it transfers some of the risk from the insurer to the reinsurer.
- 6.5. The reinsurer and the insurer enter into a reinsurance agreement which details the conditions upon which the reinsurer would pay the insurer's losses (in terms of excess of loss or proportional to loss). The reinsurer is paid a reinsurance premium by the insurer.
- 6.6. For example:
 - Assume an insurer sells one thousand policies, each with a \$1 million policy limit. Theoretically, the insurer could lose \$1 million on each policy – totalling up to \$1 billion, and;
 - The insurer passes some risk to a reinsurance company (reinsurer) to minimize the insurer's risk.
- 6.7. Therefore, in order for insurers to offer insurance to customers, and to acquire reinsurance, it is necessary for both the insurer and the reinsurer to be able to:

8. Regulation of the Insurance Industry

- 8.1. The insurance industry is highly regulated. The Insurance Contracts Act 1984, Corporations Act 2001, Insurance Act 1973, ASIC Act 2001 and various other Commonwealth laws such as the Privacy Act 1988 regulate the provision of general insurance in Australia.
- 8.2. Insurers are required to obtain an Australian Financial Services Licence issued and administered by the Australian Securities Investment Commission (**ASIC**) as well as a authorisation to carry on insurance business from the Australian Prudential Regulation Authority (APRA).
- 8.3. Additionally the general insurance industry has a very comprehensive General Insurance Code of Practice (the Code)^[1] which clearly sets out the requirements on general insurers in relation to claims management.

Suncorp's Response to the Queensland Flood Events

9. Claims Process

- 9.1. The typical claim process for home building and contents policy is as follows:
 - (a) The customer contacts the insurer and lodges a claim.
 - (b) The claim is allocated to a case manager.
 - (c) The claim is assessed by the case manager and the customer is contacted.
 - (d) If required, an on-site assessor is appointed to assess the damage and in some events the cause of the damage. (Where identifying the cause of a loss requires expert opinion, an appropriate expert would also be engaged. For example, in dealing with claims arising from the recent floods, AAMI has also appointed a hydrologist to assess the cause of damage due to the riverine flood exclusion in its policy in some parts of Queensland.)
 - (e) The assessor's report and any expert report is reviewed by the case manager and the necessary action is determined.
 - (f) A builder/contractor or supplier is appointed to manage the claim and to restore the customer to their prior position.
 - (g) The builder commences work/the supplier delivers the goods to the customer.
 - (h) The claim, once finalised (all work completed) is reviewed and closed.
- 9.2. To date the indications are that for the Queensland floods alone, insurers will:
 - receive and process 49,400¹ claims;
 - approve almost 90% of total claims; and
 - outlay an estimated \$2.31 billion to affected customers.
- 9.3. In addition to the sheer number of claims involved, there have been enormous practical and logistical issues in seeking to remediate insured properties including:-
 - the unprecedented number and geographic spread of impacted customers;

^[1] www.codeofpractice.com.au

¹ Figures from the General Insurance Council, as of 29/03/2011

10.4. The Suncorp Corporate Event Response Plan process has been structured around the clear operational phases that a large event tracks through, with each Plan tailored to the specific event. For example, the timeframes specified for each step of the process depend on the type of event that occurs. The following table demonstrates the different phases in event management that Suncorp has defined. This is from an operational perspective.

10.5. The event management is overseen by the Suncorp Event Leadership Team (comprised of senior Suncorp management in both operational and support roles).

Event Stage	Operational Phase	Objective
Pre Event	Event Alert	<ul style="list-style-type: none"> • Raise awareness and commence early planning for event • Refresh response models for event type
	Event Imminent	<ul style="list-style-type: none"> • Develop tailored response given current business as usual (BAU) status and likely event impacts
During Event	First Response	<ul style="list-style-type: none"> • Initiate response as planned in line with pre-agreed triggers • Clear communication of immediate actions • Focus on managing call volume surge without compromising customer experience or information quality • Firm up fulfilment phase resource plan once scale of event is clear • Consider segregation of claims to specialist claims service team
	Transition	<ul style="list-style-type: none"> • Effectively moving focus from Lodgement to Fulfilment as the call volumes scale down and the processing load increases
	Fulfilment	<ul style="list-style-type: none"> • Focus on fulfilling claims in with product guidance on PDS coverage • Focus on fulfilling claims quickly while managing claim costs
Post Event	Finalisation	<ul style="list-style-type: none"> • Focus on finalisation of event claims and transition back to BAU • Focus on timely and accurate reporting of event statistics • Conducting a post-incident review to continually improve on Suncorp Group's Event response Management

11. Suncorp Customer Response Teams (CRTs)

11.1. As part of its planning for natural disasters, Suncorp has developed an innovative system of self sustainable mobile claims centres staffed by Customer Response Teams (CRTs) which deploy to the site of a natural disaster in the immediate aftermath of an event to enable immediate, on-the-ground claims support to customers.

13. Treating Customers Individually

13.1. Importantly, the insurers in the Suncorp Group treat customers individually. For example, AAMI policies exclude riverine flooding. AAMI did not commission area-wide hydrology reports with a view to treating customers within a geographical area on a grouped basis. It did not rely upon reports of this kind that were commissioned by the Insurance Council of Australia. Unlike some insurers, it did not issue "form letters" advising customers that their claim was or was likely to be rejected because of a riverine flood exclusion in the policy. Rather, for any AAMI customer lodging a flood claim, AAMI appointed a hydrologist to review the customer's individual circumstances. As a result a large number have been found to have mixed reasons for damage caused, e.g. storm and riverine, which leads to partial payments on policies. It has been important to take the time to source the expert reports and consider the claims on a case by case basis so that accurate decisions could be made on the best available information as to causation of the damage claimed.

14. Customer response - How it happened

14.1. The following provides an overview of how Suncorp mobilised itself in response to the Queensland Flood events.

23/12/2010 –Suncorp's Corporate Event Response Team (an internal team who monitors the likelihood of events and organises responses) identified through weather monitoring including information from the Bureau of Meteorology that major weather events were imminent and there was a likelihood of customer exposure in major regional Queensland centres. In accordance with Suncorp's standard procedures, CRTs were mobilised and call centres were briefed to prepare for increased claims.

24-26/12/2010 - Daily phone hook-ups and monitoring of weather events saw activation for Corporate Event Response Plan and despatch of CRTs to affected areas.

Once the seriousness of the situation was realised the Suncorp General Insurance Public Policy and Corporate Affairs teams activated their own Emergency Response Process. This included preparation of media releases and twitter accounts supported by placement of local newspaper and radio advertisements informing customers of claims processes and CRT locations.

Key regional stakeholders were quickly identified and a briefing process commenced.

31/12/2010 - Suncorp's Event Leadership Team (which is part of the Suncorp Corporate Event Response Plan), met to ensure an immediate group wide response to the Central Queensland flooding.

Suncorp began issuing media releases and advertisements informing customers of claims lodgement issues and encouraging all customers to lodge their claims immediately regardless of brand or cover. This helped in speeding up the response process.

Once claims are lodged they must be dealt with in accordance with the timeframes and standards required by the General Insurance Code of Practice requirements in regards to claims management.

03/01/2011 - Suncorp's CRTs were activated in Bundaberg and Chinchilla to lodge claims and to provide emergency funding to customers across all brands.

15-16/01/2011 - Claims call centre demand peaked with 680 staff processing claims through four national call centres.

Suncorp secured the services of assessment teams of 150 assessors. With unprecedented demand by all general insurers, local supply of assessors was grossly insufficient to enable prompt assessment of claims. Suncorp therefore retained assessors from interstate and overseas, including through the use of its related companies and other industry contacts in New Zealand and the United States.

17/01/2011 – Additional Suncorp's CRTs and assessing teams were deployed to Brisbane City, Toowoomba & Ipswich to focus on immediate customer needs.

These teams operated throughout the region for a 4 week period with 80% of assessments completed within approximately 2 weeks.

The scale of national events were assessed and planned out to ensure the fastest and best possible management of major rebuild program. Queensland based project manager, Bovis Lend Lease, was engaged to assist Suncorp in its recovery efforts.

Local purchasing and supply policies were confirmed and communicated.

Suncorp's Event Leadership team continued to meet discussing ongoing response, policy coverage, assessment progress and the reinstatement (repair) programs.

15. The claims assessment process

15.1. Suncorp is a signatory to the General Insurance Code of Practice. The Code of Practice is voluntary and establishes a set of standards for signatory insurers in relation to claims management and other issues. The Code is endorsed by the Commonwealth Government through the Minister for Financial Services, Superannuation and Corporate Law.

15.2. The Code establishes timeframes for the management of claims. It specifically provides that in the event of catastrophes and disasters resulting in large numbers of claims, the usual timeframes established by the Code may not be met, but signatories to the Code recognise that they will *"respond to catastrophes and disasters in a fast, professional and practical way and in a compassionate manner"*.

15.3. Some of the issues faced by companies in the Suncorp Group in ensuring that claims arising from the Queensland floods to date are dealt with quickly, include:

- inability to immediately access some insured properties, as rural properties, suburbs or entire towns were cut off due to flooding;
- delays by power authorities in re-establishing electricity supply to individual properties or areas due to the extent of work necessary to ensure that electricity supply could safely be restored;
- in some cases, customer reluctance to return to the damaged property due to the extreme trauma resulting from loss of family, friends or community members, and/or the emotional impact from loss of treasured possessions and the destruction of the home;
- the nature of some losses, which are not capable of being quickly calculated because loss is ongoing for a period following the event. For example, for many commercial insurance customers, business interruption losses may not be

- 16.8. Having said this, Suncorp does recognise that with the capacity constraints (such as pressures on assessing services) resulting from significant events, there is legitimate reason to relax some of the usual requirements of proof of loss.
- 16.9. For example, as a general rule, customers are required to preserve the damaged property in the state it was in, as a result of the insured event, in order for the assessment process to occur. Where customers are seeking to arrange repairs themselves, or are seeking to replace destroyed items, usually two quotes will be required. For many higher value items, proof of ownership, proof of the cost of the damaged item and/or proofs such as the make, model and serial number of the item would be required.
- 16.10. However in the case of the 2010/2011 floods:
- (a) given the number of impacted properties and potential health and hygiene issues that could arise, Suncorp agreed to allow flood victims to commence the clean up process and the removal of damaged and destroyed items provided that photographic evidence was obtained; and
 - (b) for household items such as whitegoods, televisions and the like, Suncorp did not require the usual proofs used to identify the destroyed item, and encouraged customers to commence clean up ahead of assessors visiting damaged properties.

17. Resourcing the Rebuild Process

- 17.1. Suncorp has partnered with **Lend Lease, Cunningham Lindsay and MYI Freemans** to help project-manage major repairs arising from both the Queensland floods and Cyclone Yasi.
- 17.2. Suncorp has a local purchasing policy and always encourages the use of local repairers and suppliers. On an ongoing basis, Suncorp (as part of its purchasing philosophy) has a registered panel of Queensland builders and suppliers, who they use continually. The panel builders also employ local tradesmen where possible.
- 17.3. The personal insurance division of Suncorp is currently using approximately 25 Panel Builders and 10 Non Panel Builders with 76% jobs assigned to Panel Builders.
- 17.4. The commercial insurance division is using approximately 9 Panel Builders and 17 Non Panel Builders with 73% jobs assigned to Non-Panel Builders.
- 17.5. Where additional resources are required, Suncorp's policy is to firstly use other local repairers and suppliers before looking to other regions for additional resources. Suncorp aims throughout this process to balance its support for local trades with its prime objective of restoring customers to their prior position as soon as possible.
- 17.6. In south east Queensland, where Queensland based project manager Lend Lease has been engaged to assist Suncorp in its recovery efforts, it has separately appointed over 30 builders to date, including about 20 builders from Suncorp's Queensland panel. Suncorp has referred over 1000 expressions of interest to Lend Lease from suppliers all over Australia.
- 17.7. From a customer perspective, if the value of the claim is under \$2,000 the item can be replaced or repaired using a local builder/supplier and the customer will be reimbursed. For claims up to \$5,000, customers are able to obtain a single quote from a local builder or supplier and submit that quote to Suncorp for approval rather than the usual process of requiring two quotes.

EDR to general insurance consumers. It is free for consumers and the findings of FOS are binding on the insurer.

- 19.2. ASIC has recently conducted an extensive review of general insurers' performance in relation to claims handling and dispute resolution (comprehensive and third party motor insurance) and has informed the industry that there is no evidence of any systemic issues, and in fact congratulated the industry on its performance. A report to this affect is due to be released by ASIC in April 2011.

20. Summary and Recommendations

- 20.1. Suncorp has a well developed disaster management process for dealing with the large volume of claims which follow such events. As set out above, Suncorp has delivered according to that process in its management of claims arising from the Queensland floods.
- 20.2. Looking forward, there are two key factors which together are essential to lessening the physical losses and the financial impacts of major weather. These are:
- (a) appropriate measures to disaster-proof properties, communities, public infrastructure and the physical environment. These reduce the likelihood of loss; and
 - (b) measures to ensure that insurers are able to continue to offer cover for disasters. In order to maintain a prudentially sound and competitive insurance industry capable of providing customers with a range of products to mitigate the risk of significant financial loss arising from flooding, it is necessary for insurers to be able to appropriately assess, price and reinsure the risks.
- 20.3. To achieve this, Suncorp suggests the following measures are implemented:
1. A full audit of risk mitigation programs in Queensland ought be undertaken, which looks at the occurrence of natural hazards in each region and the adequacy of local mitigation programs (e.g. dams, levies, land management strategies etc.).
 2. Funding is made available to local councils to implement local risk management strategies identified in the above audit (see case study below).
 3. Local authorities ought review planning requirements and impose appropriate building requirements to mitigate the risks of plausible risk scenarios such as flooding, storm surge and/or cyclones.
 4. Full public access should be made available in relation to local authority flood maps, reports on the construction, flood mitigation effect and management strategies for water infrastructure such as the Wivenhoe Dam and historical data on weather and flooding dating back to the 1800s. Such data needs to be accurate, meaningful, transparent and verifiable.
 5. Consideration could be given as to whether to amend land sales laws to require vendors to provide planning and flood information certified by the relevant local authority to prospective property purchasers as is required in some other States including NSW and Victoria.

community benefits from insurance can only be enhanced through risk identification and increased mitigation.