



News release

Insurance Council
of Australia

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Comprehensive review released into insurers' response to 2022 flood

A comprehensive review of insurers' response to Australia's largest ever extreme weather event released today has set out seven areas for action by insurers and the Insurance Council of Australia (ICA) to improve responses to future events.

Commissioned by the ICA and undertaken by Deloitte, *The New Benchmark for Catastrophe Preparedness in Australia* report examined the operations of eight insurers who together received around 99 per cent of all home and contents, motor, and small business claims related to the floods that impacted northern New South Wales and south-east Queensland in February and March 2022, known as Cat 221.

The flood, which was the second largest insured event in the world in 2022, resulted in more than 240,000 claims with a total value of \$6 billion, including \$3.4 billion in home property claims, \$710 million in home contents claims, and \$304 million in personal motor claims. An additional 2,200 claims staff were employed by insurers in response to the flood.

Deloitte interviewed more than 80 staff across the eight insurers, reviewed more than 400 documents and significant quantitative data from all eight insurers, consulted more than 50 people impacted by the event including insurance customers and elected and local government representatives, and interviewed numerous stakeholders including regulators, reinsurers, reconstruction authorities, consumer groups, researchers, international experts, and businesses in the supply chain.

Key findings from the report include:

- External factors made responding to Cat 221 particularly challenging, including a historically tight labour market, building materials constraints, the price and availability of new and used cars, and rental vacancy rates.
- The scale of Cat 221 tested claims processes at a scale never before seen and exposed vulnerabilities in insurers' claims and complaint handling responses, particularly in catastrophe planning, resourcing, processes and technology, communications, and governance.
- Improvements have already been made by insurers as a result of lessons learned from Cat 221, but there is more work that can be done to continue to improve customer outcomes.
- Claim closure rates varied considerably across insurers, however speed is not the only measure of insurer performance as other factors impacted closure timeframes, such as exposure to the event, policy definitions, and the mix of claims types.

The report presents seven recommendations for improvement, noting that not all recommendations will apply to all insurers to the same extent (detailed recommendations attached).

- **Preparedness** Insurers should improve their catastrophe planning, particularly their preparedness for extreme catastrophes like Cat 221.
- **Customer experience** Insurers should improve the customer experience during catastrophes through better communication with policyholders and by delivering a consistent experience through claim handling and complaints.
- **Resourcing** Insurers should redesign resourcing capability for catastrophe events, with a particular focus on workforce planning and resourcing and onboarding during catastrophes.

- **Operational response** Insurers should assess what operational efficiencies could be delivered in catastrophes through process, technology, and infrastructure investments.
- **Governance and transparency** Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes.
- **Coordination with government** More effective coordination between government and the insurance industry is required to provide faster access to government funding, consistent approaches to clean-up and debris removal, and co-incentivise investment in resilience and adaptation measures.
- **Code review** The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review.

The Insurance Council has accepted all seven recommendations in-principle. The ICA will lead the work to improve coordination with government and will refer the recommendation regarding the Extraordinary Catastrophe definition to the upcoming review of the General Insurance Code of Practice.

An independent review of implementation progress will be undertaken in the second half of 2024.

Comment attributable to Andrew Hall, CEO Insurance Council of Australia:

The number of claims from Cat 221 was more than six times higher than the average received for catastrophes declared since 2016, so it's not surprising that insurers were challenged in their ability to adequately respond to their customers.

However, insurers acknowledge there were failures of systems, processes and resourcing which impacted some customers as they progressed through their claims process, which was the driver behind the industry proactively reviewing its performance through this event.

The industry apologises to those customers for whom claims were not handled to the standard the industry strives to achieve, and we are working hard to better prepare for future extreme events.

The timing of this flood, which followed 12 insurance catastrophes since the Black Summer bushfires as well as the global pandemic, compounded insurers' challenge, yet the industry is on track to finalise every valid claim, rebuild homes and repair communities, and remain prudentially strong.

This was in no small part due to the efforts of the thousands of people working hard in insurers' claims departments, including the additional 2,200 staff employed by insurers to help deal with the surge in claims.

Australia has the conditions to underpin an insurance industry at the global frontier of extreme weather responsiveness.

Repeated exposure to such events, coupled with established disaster institutions and frameworks, means Australian insurers are well placed to show the world how to respond effectively and efficiently to extreme weather events. This will always need to be weighed up against the cost impacts and keeping insurance affordable.

Deloitte's rigorous and thorough report provides a clear roadmap for insurers on ways in which meet this challenge and move forward on areas that have been identified for improvement.

The ICA will conduct a review on progress against the recommendations and report in the second half of 2024.

www.insurancecouncil.com.au/2022FloodReview

Recommendations

Recommendation 1 Catastrophe preparedness

Insurers should improve catastrophe planning to meet community expectations of operating in the Australian environment. Specifically, uplift is required on preparedness for, and stress testing against, extreme catastrophes.

Five key areas that would make a significant improvement in catastrophe preparedness are:

- 1. Policy design for catastrophes:** policies and policy terms offered to customers should be assessed for the practicality to process and assess large volumes of claims under those policy terms during a catastrophe. Where policy terms are known, or expected, to create bottlenecks or claims handling delays during periods of high claim volumes, insurers should consider how or if the policy terms or associated claims processes can be changed.
- 2. Catastrophe response plans:** catastrophe plans should contain sufficient detail on: event declaration protocol, roles and responsibilities, resourcing strategy, communication strategy, logistical management, risk management, staff health and safety measures, reporting and governance to act as a reliable course of action and build confidence in the business response.
- 3. Scenario planning and stress testing:** insurers should conduct operational and economic stress testing to identify and understand vulnerabilities within their product portfolio, operations and dependencies on market conditions when responding to catastrophes. The stress testing will need sufficient allocated resources and should be conducted alongside normal business activity to simulate realistic catastrophe operating environments.
- 4. Post event reviews:** post event reviews should be completed within 12 months of the initial event and should have clear outcomes, actions and owners to drive areas of identified improvements. Insurers should consider getting an “outside-in” view of performance as part of any review.
- 5. ICA planning:** the ICA should consider introducing a baseline category as part of the Insurance Event Management Plan to support industry and community preparedness for extreme weather events.

Recommendation 2 Customer experience

Insurers should improve the customer experience during catastrophes by improving how they communicate with policyholders and by delivering a consistent experience through claim handling, decisioning and any associated complaints.

Four areas that would make a significant improvement in customer experience are:

- 1. Communication:** communication should be improved through a holistic review and improvement of the customer journey before, during and after catastrophes. This should include consideration of purpose, important touchpoints, type of communication, channel, reasonable frequency and supporting tools, templates and technology. Communication plans should address both the scale of demand and community expectations about customer service during a time of largescale trauma.
- 2. Claim handling:** insurers should seek to improve the consistency of customer experience through decision making by enhancing governance and quality assurance standards. Where governance and quality standards are relaxed in the early aftermath of an event (due to processing constraints), insurers should undertake proactive reviews and remedial work to correct issues without customers needing to identify them.
- 3. Customer treatment strategy:** insurers should review the effectiveness of the definition, identification and support of vulnerable customers during catastrophes. Consideration should be given to other ways of categorising and supporting customers through events given that, after a large-scale catastrophe, most customers will be, in some way, vulnerable.
- 4. External voice of customer:** insurers should improve the ways they embed a “voice of customer” into their operations, through a customer advocate or alternate means, and take meaningful action to incorporate lessons learned.

Recommendation 3 Resourcing capability

Insurers should redesign resourcing capability for catastrophe events, with particular focus on workforce planning, the catastrophe resourcing model, and catastrophe onboarding, training and competency management.

Three areas that would make a significant improvement in resourcing are:

- 1. Workforce planning:** workforce planning functions should be reviewed or bolstered, where necessary, to support better management during catastrophes. Workforce planning should be used by insurers to understand the impact of resourcing levels on claims and complaints timelines, and drive decision making regarding resourcing needs. This should include any third-party workforces.
- 2. Catastrophe resourcing model:** resourcing models for catastrophes should be diversified to mitigate against risks and dependencies in the labour market and broader economic conditions. Resourcing models should consider more than one channel to increase skilled capacity (e.g. recruitment, redeployment, utilising global networks, modifying work hours, and using third-parties).
- 3. Catastrophe onboarding, training and competency management:** onboarding, training and competency frameworks to prepare new hires for claims and complaint handling roles during a catastrophe should be reviewed or established. Consideration should be given to the maximum number of resources the training and onboarding team can manage at any one time during a catastrophe to maintain a baseline level of skills and quality of handling. Insurers should also consider providing claims and complaints staff with industry recognised accreditation or certificate level training.

Recommendation 4 Operational response

Insurers should assess the operational efficiencies delivered by investment in process, technology and infrastructure in the context of responding to a catastrophe.

Five areas that would make a significant improvement in the operational response are:

- 1. Reduction in manual processes:** insurers should review the manual processes that result in bottlenecks during catastrophes, to consider how digitisation or re-engineering would improve claim processing.
- 2. Accelerated triage:** insurers should consider triaging to accelerate claims in a catastrophe, including batching, automating and bulk processing cohorts of claims. For triage to be successful, insurers need a level of consistency in policy definitions and terms across the portfolio, robust data capture, and pre-identification of processes that can be automated or handled in bulk.
- 3. A single claims (customer) view:** insurers would benefit from an integrated infrastructure which allows them to understand, track and monitor claims, including third-party supplier involvement, to enable improved decision making and better interaction and information provision to customers.
- 4. Customer application:** to support customer communication, insurers could consider an app or portal for customers to self-serve information on claim process, status, time to next update, key contact details etc. Further advancements could include the ability to extract claim details for third-parties (e.g. government, banks).
- 5. Advanced technologies:** insurers should consider in the commercial feasibility of technologies such as machine learning, automation and generative AI to improve handling times and customer experience, particularly in the context of responding to a catastrophe.

Recommendation 5 Governance and transparency

Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes. These insights should be used to assist management and boards with making strategic decisions in response to an event and preparing for future catastrophes. The ICA

should actively work with insurers to collate and communicate claims data in a way that meets community expectations on timeliness and quality.

Two areas that would make a significant improvement in governance and transparency are:

6. Data capture, modelling and reporting: insurers should improve data capture, modelling and reporting to assist with identifying and mitigating against factors that impact their ability to progress claims in response to a catastrophe, including bottlenecks (e.g. hydrology reports).

7. ICA data capture: to provide greater transparency on the industry's response to catastrophes, the ICA should develop a data dictionary to enhance industry-wide reporting and investigate the feasibility of extending data capture to other claim outcome measures such as closure rates, quality and complaints.

Recommendation 6 Co-ordination with government

More effective coordination between government and the insurance industry is required to deliver improved customer outcomes. Specifically, this includes supporting more rapid access to government funding, consistency in approach to clean-up and debris removal, and co-incentivising investments in resilience and adaptation.

Three areas for more effective coordination with government that would deliver significant improvements for policyholders and their communities are:

8. Government funding eligibility: improved coordination between insurers and government is required when access to government disaster funding requires evidence of an insurance claim status. Improvements should focus on removing unnecessary information requirements, agreeing the format and nature of information required, and alignment on timeframes.

9. Clean-up and debris removal: standardised guidance should be jointly developed by the insurance industry and government on clean-up processes after a severe weather event. This guidance should be consistent across all insurers and levels of government and communicated to policyholders and other stakeholders in the waste removal process.

10. Co-incentivise resilience investments: improvements should be made to encourage investing in resilience and adaptation when rebuilding following a catastrophe or severe weather events (where this is cost-beneficial). This should involve coordination between government and insurance industry to co-incentivise these investments to create mutually beneficial outcomes for the government, insurance industry and more importantly, the customer and their community.

Recommendation 7 Code review in the context of catastrophes

The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review so that outcomes can be improved for policyholders and insurers.

In reviewing the Code, consideration should be given to two key areas.

11. Objective definition: an objective definition of an Extraordinary Catastrophe should be developed. This definition should be based on factors such as the type and scale of a weather event, the size of the population impacted and the macroeconomic conditions.

12. Type of relief: the type and level of relief provided to insurers in an Extraordinary Catastrophe should be considered, as should the consequences for fair and efficient claims handling. This includes: a) The timing of the relief – before the event, in the immediate aftermath and up to 12 months following the event.

b) Factors other than timeframes that could be subject to relief.

c) The minimum commitments insurers are expected to meet; for example, prioritising vulnerable customers, supporting policyholders with emergency situations, including temporary accommodation, and communication standards.