

House of Representatives Standing Committee on Economics
Parliament House
Canberra ACT 2600

Via email: floodinsurance.reps@aph.gov.au

Tuesday 31st October 2023

NIBA Submission: House of Representatives Standing Committee on Economics inquiry into insurers' responses to 2022 major flood claims.

Introduction

The National Insurance Brokers Association (NIBA) welcomes the opportunity to provide this submission to the House of Representatives Standing Committee on Economics inquiry into insurers' responses to 2022 major flood claims.

Insurance supports communities to recover from natural disasters more efficiently, increasing economic recovery and reducing reliance on ex gratia government support). Studies into the role of insurance in disaster recovery have shown that homeowners who lack adequate insurance coverage are less likely to rebuild following a natural disaster. These same studies also found that the availability of flood insurance was a key factor when deciding whether or not to rebuild.

Insurance brokers are uniquely placed within the general insurance market, acting as a conduit between policyholders and the broader insurance market. Many brokers also provide claims management services, serving as the client's advocate when an insurable event occurs.

Following numerous flooding events throughout 2022, NIBA has worked with the Insurance Council of Australia to facilitate the exchange of feedback from members in impacted communities and improve outcomes for policyholders affected by these events. While insurers' responses to these events have largely been positive, members have raised concerns over delays in resolving claims, the handling of claims made by vulnerable clients and the availability and affordability of insurance.

About NIBA

NIBA is the peak representative body for the intermediated general insurance industry. NIBA represents approximately 450 member firms and 9,000 individual brokers, including large, multinational insurance brokers, Australian broker networks, and small to medium-sized businesses located in cities and regional areas around Australia.

NIBA aims to promote the role of insurance brokers and the role they play in supporting and advising their clients on risk and insurance matters. NIBA provides this knowledge and expertise to governments and government agencies to promote understanding of the operation of general insurance markets.

Insurance brokers represent the interests of the purchasers of insurance policyholders and not those of insurance companies. Consequently, comments made by NIBA are made on behalf of its members and the public that purchases general insurance, not on behalf of insurers.

Treatment of vulnerable clients

The General Insurance Code of Practice sets out the standards general insurers must meet when providing services to vulnerable clients. Under section 9 of the Code, insurers have an obligation to identify and support vulnerable clients; this includes having a vulnerable client policy and training for staff.

Members have expressed concerns about the lack of a consistent industry-wide approach to vulnerable clients, with some insurer policies having no practical impact on the handling of the claim and others failing to meet their obligations under the Code despite being notified that the client is experiencing vulnerability.

NIBA encourages all insurers to engage with consumer groups and the broader general insurance industry to develop a consistent industry-wide approach, especially for those consumers who are not caught by the vulnerable client provisions in the Code

Claims experience

The events of 2022 resulted in a record number of claims made to insurers. To meet this increase in claims, a large number of staff had to be employed at short notice, many of whom lacked essential experience in claims handling. This has resulted in significant delays, with one broker providing an example of a client who waited eight months for an insurer to decline their claim, resulting in an increase in internal dispute resolution and AFCA complaints.

Brokers have also pointed to a lack of flexibility within the claims-handling process that has contributed to delays, including an absence of express payment methods, unnecessary requests for hydrology reports, a lack of communication channels available to impacted policyholders immediately following events and delays in obtaining builder quotations due to a refusal to allow policyholders to source quotes for required work.

Availability and affordability of insurance products

Increasing insurance losses due to more frequent natural disasters, as well as changes to actuarial and underwriting models and underlying risk profiles, have resulted in significant increases in insurance premiums in many parts of the country. Climate Council's report into the impacts of climate change on insurance affordability warns that unless immediate action is taken to halt climate change, property insurance premiums in 'high-risk' areas will increase to a level that is unaffordable for most Australians, making these properties 'effectively uninsurable'.

Data published by the Climate Council shows that one in 25 homes in Australia will be "effectively uninsurable" by 2030 due to the increased risk of extreme weather events and climate change. Of the federal electorates identified by the report as being most at risk of becoming uninsurable, many were impacted by flooding last year.

The paradox of insurance is that those who are most impacted by natural perils, i.e. low socioeconomic households, are least likely to be able to afford to protect themselves from the effects of such events. Uninsurability has the potential to exacerbate existing inequalities by trapping vulnerable populations in high-risk areas and exposing them to greater social harm. Low socioeconomic households are less likely to be able to recover from natural disasters due to lower household incomes and less secure work. Low socioeconomic households are also more likely to be

engaged in part-time or casual work. This demonstrates that the impacts of uninsurability will disproportionately affect those who are least able to protect themselves against these impacts.

This phenomenon is already occurring in parts of Northern Australia where, on average, home insurance premiums are almost double that of the rest of Australia. Higher-risk areas are more likely to have a larger portion of consumers who pay significantly more; for example, in the town of Port Hedland on the West Australian coast, 25% of households were paying premiums more than four times higher than the average for the rest of Australia.

Property owners in flood-prone areas of New South Wales also experience insurance unaffordability concerns when attempting to protect their property against flood and rainwater run-off. A recent determination by the Australian Financial Complaints Authority highlights how unaffordable flood premiums are for property owners in high-risk areas, with one insurer quoting \$27,000 to provide flood coverage on a sum insured of approximately \$500,000. Removing flood, rainwater runoff, and storm surge cover decreased the premium to \$2,225,52.

Conclusion

As the frequency and severity of natural disasters increase due to climate change, it is vital that we take the opportunity to learn from these events to improve outcomes for policyholders impacted by natural disasters. The concerns raised by brokers highlight the need for a standardised approach when responding to natural disasters, including an industry approach to liaising with broker clients.

Should you have any queries or wish to discuss any aspect of this submission, please don't hesitate to contact me or my office.

Yours sincerely,

A handwritten signature in dark red ink, appearing to read 'Philip Kewin'.

Philip Kewin

Chief Executive Officer

National Insurance Brokers Association