



ASIC
Australian Securities &
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**Australian Securities
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To: Directors of general insurance companies

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Dear Directors

ASIC's expectations of general insurers: Insurance claims and severe weather events

This letter sets out ASIC's expectations of general insurers in line with their general obligations as Australian financial services (AFS) licensees to act efficiently, honestly, and fairly to resolve claims in a timely way.

The upcoming 2022–23 Australian summer is expected to see a continuation of La Niña conditions with severe weather events increasing in severity and frequency.¹ As these events are expected to lead to increased claim numbers, it is an appropriate time for ASIC to restate our expectations in this area.

Background

ASIC's expectations build on the actions for general insurers as stated in our letter dated [17 December 2020](#) and our media release of [9 January 2020](#) on insurance claims and severe weather events. ASIC has also raised these expectations with industry at the 2022 Insurance Council of Australia (ICA) Annual Conference.² They are also shaped by the commencement of the claims handling reforms on 1 January 2022 which made claims handling and settling a regulated financial service in its own right.

In 2021, ASIC also published guidance for industry on complying with these obligations: see [Information Sheet 253](#) *Claims handling and settling: How to comply with your AFS licence obligations* (INFO 253). These expectations are in addition to the standards in the [General Insurance Code of Practice](#).

¹ See the [Climate Driver Update](#) for 27 September 2022 on the Bureau of Meteorology website.

² See [Insurance Council of Australia Annual Conference 2022](#), speech by ASIC Deputy Chair Karen Chester, 2 November 2022.

The expectations are informed by ASIC's ongoing monitoring of severe weather events, findings from our review of claims from the 2019–20 bushfires in New South Wales, Victoria, South Australia, and the Australian Capital Territory ('Black Summer bushfires') as noted in our media release of [1 December 2021](#), and ASIC's current work focusing on home insurance claims.

ASIC's expectations of general insurers

ASIC's expectations	What this means
1. Be prepared	<p>We expect that general insurers will be prepared:</p> <ul style="list-style-type: none">• well in advance of the severe weather event season over the Australian summer• with a comprehensive severe weather event response plan addressing assessment, assistance, and emergency repairs for claimants• to ensure a severe weather event response team is adequately resourced and trained to deal with severe weather events• by stress-testing the severe weather event response plan, and undertaking appropriate simulation exercises, and• with adequately resourced and trained teams of claims handlers, complaints managers, assessors and service providers.
2. Be proactive	<p>We expect that general insurers will be proactive in:</p> <ul style="list-style-type: none">• communicating with consumers who have lodged a claim or made an inquiry• providing assurance to consumers to inform them about their policy coverage (including any exclusions or optional benefits applicable) when they lodge a claim or make an inquiry, and• progressing claims in a timely way, without the need for the client to regularly follow up the insurer and other service providers.
3. Be transparent	<p>We expect that general insurers will be transparent in:</p> <ul style="list-style-type: none">• explaining the coverage (and any exclusions) that their products provide (consumers have reported not being aware of the limitations of their policies)• explaining the claims process (including how the claim will be assessed and how the claim is progressing)• providing realistic expectations to consumers about the progress of the claim• managing the claims process (including facilitating communication between consumers, experts, and tradespeople in the assessment or repair phase)

ASIC's expectations	What this means
3. Be transparent (continued)	<ul style="list-style-type: none"> • providing key information about the types of settlement (for example, a cash settlement) that may be available, and the impact of such settlement, in addition to what is covered in the Cash Settlement Fact Sheet • providing regular updates across the claim, and • providing clarity to consumers about the impact of making a claim (if any) on future premiums.
4. Be consumer-centric	<p>We expect that general insurers will be consumer-centric in:</p> <ul style="list-style-type: none"> • ensuring that products offered are designed to meet the needs of consumers who live in parts of Australia prone to severe weather events and fit-for-purpose, providing adequate cover in times of need (including appropriate temporary accommodation benefits and other costs in addition to the sum insured amount, such as for debris removal) • managing the claims process to ensure adequate oversight of claims and to avoid consumers having to re-tell their circumstances multiple times • simplifying the claims process as much as possible by reducing paperwork and providing frequent updates to consumers about the status of the claim, and • being generous about side benefits like temporary accommodation (for example, by paying the maximum temporary accommodation benefit flexibly at the outset of any claims assessed as a significant or total loss).
5. Be responsive	<p>We expect that general insurers will be responsive by:</p> <ul style="list-style-type: none"> • reviewing and refining existing processes to respond to severe weather events • continuing to invest in systems and processes to accurately record claims information, and • continuing to invest in increased capacity and resources to deal with severe weather events.

Preliminary observations from general insurance claims handling research

ASIC is conducting a project to better understand the consumer experience in home insurance claims, expanding on previous work that examined insurers' data and practices. This project includes identifying frictions and systemic issues that contribute to consumer harm in the claims handling process. It aims to establish a baseline for insurer conduct for claims lodged from 1 January 2022. Through the project, ASIC will gain insights from high level quantitative data, a qualitative review of select claims files, and consumer research in the form of case studies.

ASIC's project is ongoing. The following preliminary observations from the project are relevant for insurers as they respond to severe weather events in the coming months:

- Transparent communications and trust are necessary for a positive claims experience for consumers.
- Consumers often do not understand the extent of their cover or the process of making a claim.
- The process of providing relevant information and supporting documentation to assist a claim can be time-consuming and stressful for consumers.
- Third parties who are engaged by the insurer have the power to 'make' or 'break' the claims experience for consumers. Insurers need to be confident in their third-party partners and proactively project manage the claims process.

We intend to publish a short report and media release in 2023 to highlight both good and bad claims handling practices that emerge from our project.

Engagement with stakeholders

ASIC actively engages with stakeholders to identify pressure points and areas of cooperation in response to harms that become apparent before, during, and after severe weather events. We engage proactively with the ICA, Australian Financial Complaints Authority (AFCA), Australian Prudential Regulation Authority, and consumer groups for this purpose. We are aware of the resourcing obstacles and other significant pressures that insurers are facing as a result of the East Coast floods and other severe weather events that have occurred throughout 2022.

ASIC will continue engaging flexibly with insurers to minimise regulatory burden and to identify areas of cooperation where ASIC and insurers can address consumer harms. We also intend to separately share findings from the general insurance claims handling research with each insurer involved in the project before publishing a final report in 2023.

Adequate resourcing

In light of the increasing frequency and impact of severe weather events, we are currently observing significant pressures in claims handling and dispute resolution across the general insurance sector. This appears to us to be a widespread and ongoing issue. Recent statistics from the ICA and AFCA suggest that claims handling and dispute resolution timeframes are worsening.

We expect general insurers to review whether they are allocating adequate ongoing resourcing to their claims handling, complaints management and dispute resolution functions, including whether a permanent uplift is needed.

Conclusion

We look forward to seeing general insurers continue to improve their claims handling practices in response to severe weather events, and to embed consumer-centric practices for what appears to be the 'new normal'. We expect that insurers will be prepared, proactive, transparent, consumer-centric, and responsive in meeting their claims handling obligations into the future.

Yours sincerely

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