



ASIC
Australian Securities &
Investments Commission

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and Investments Commission**

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To: Directors of general insurance companies

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Dear Directors

Insurance claims and natural disaster events

On [9 January 2020](#), ASIC encouraged fair and effective insurance claims handling for Australians affected by the devastating bushfires.

During 2020, we have been monitoring insurers' responses to recent natural disasters, including bushfires, storms and hailstorms. We acknowledge insurers' responses to this important work.

This work continues as we enter this year's natural disasters event season, which has been declared a La Nina season with an increased likelihood of flooding, cyclones and hailstorms.

ASIC's research on natural disaster claims

In 2020 ASIC undertook consumer research to inform our understanding of the effects of natural disasters on insurance consumers.

We focused on the experiences of small-business insurance policyholders affected by the 2019 Townsville flood, and home or car insurance consumers affected by the 2020 Canberra hailstorm. This research is summarised in the appendix to this letter.

Both research studies found that, overall, more consumers were satisfied with the claims process than were dissatisfied. However, the research identified common sources of consumer dissatisfaction, despite the differences in research methodology, consumer groups researched, location of consumers and subject matter.

Key sources of dissatisfaction for consumers included the following:

- *Claimants had to deal with multiple claims staff during the claims process*—As in [our previous work on natural disasters](#), we found that it is best practice to provide dedicated staff to assist claimants until their claim is resolved when handling a large number of claims after a disaster.
- *There was a lack of transparency*—Some claimants reported that they were not given clear information about the claims process and how their claim would be assessed. They also felt that they weren't kept up to date with how their claim was progressing.

- *Some consumers were not aware of limitations in their insurance cover—* This finding suggests that unintended underinsurance may be an underlying source of dissatisfaction at claims time. The Townsville flood research found that some small-business insurance policyholders believed they had flood cover when they did not. Parts of Townsville are flood-prone.

Actions for general insurers

ASIC has carefully considered the research findings and their implications for our work and for the way that insurers deal with consumers (including small businesses) affected by natural disasters in light of their duty to handle claims in a manner that is consistent with the duty of utmost good faith.

Recent judicial interpretation of insurers' duty of utmost good faith is that claims should be handled in a manner that is characterised by 'full and frank disclosure, clarity, candour and timeliness': see *ASIC v Youi Pty Limited* [2020] FCA 1701 at [9] per Allsop CJ.

Insurers should also keep in mind the imminent commencement of the design and distribution obligations and the regulation of claims handling as a financial service in the *Corporations Act 2001* (Corporations Act). The obligations in section 912A of the Corporations Act—including to provide financial services efficiently, honestly and fairly—will soon apply to claims handling.

We are calling on insurers to consider the following actions in preparation for the imminent La Nina natural disaster event season to ensure they are better placed to meet the duty of utmost good faith:

1. To help consumers who have lodged a natural disaster claim, centralise oversight of the claim with a dedicated claims manager after the claim has been lodged until it is resolved.
2. Proactively and effectively communicate with consumers who have lodged a claim about the claims process, how their claim will be assessed and how their claim is progressing.
3. Given the findings of our research and the imminent commencement of the design and distribution obligations, consider whether:
 - the insurance products being offered are designed to meet the needs of consumers who live in parts of Australia that are prone to natural disasters, and
 - the way these products are being distributed results in appropriate products being sold to those consumers.

ASIC's ongoing engagement with stakeholders

During the COVID-19 period, ASIC [deferred our detailed data requests](#) of insurers. We have consulted with relevant general insurers and have now issued a request for data on outcomes and disputes relating to claims arising from the 2019–20 summer bushfires.

We have asked insurers to respond to us by March 2021. Our analysis of this data will help us to ensure that insurers are handling claims for Australians affected by the bushfires in line with the duty of utmost good faith.

In doing our work, we have engaged extensively with stakeholders including the Australian Financial Complaints Authority, the Australian Prudential Regulation Authority, the Australian Competition and Consumer Commission (ACCC), the Insurance Council of Australia (ICA), insurers and consumer advocates.

ASIC's expectations

We expect that you will seek ongoing confirmation, through board reporting, that your company has considered and appropriately responded to our identified actions.

Your company should also consider these identified actions when assessing its readiness for the commencement of the design and distribution obligations and the regulation of claims handling as a financial service.

ASIC expects compliance from day one with the design and distribution obligations and with the requirement to handle claims 'efficiently, honestly fairly'. We expect compliance in a way that meaningfully improves outcomes for consumers.

We look forward to your company's response to these actions as part of our ongoing natural disaster work.

Yours sincerely



Emma Curtis
Senior Executive Leader—Insurers
Financial Services and Wealth Group

Appendix: Summary of ASIC’s consumer research

ASIC commissioned research in 2020 to:

- help us understand the experiences of consumers (including small businesses) who made claims as a result of natural disaster events, and
- identify any sources of consumer harm.

In doing so, we focused on two disaster events that were declared by the ICA to be catastrophes.

One was the [flooding event which affected large parts of Townsville](#), Queensland in January and February 2019 (Townsville flood). As at 12 January 2020, this flood had caused \$1.269 billion of damage and resulted in 30,702 claims being lodged.

The other was the [hailstorm event which affected large parts of Canberra](#) in the Australian Capital Territory (as well as Victoria, New South Wales and Queensland) in January 2020 (Canberra hailstorm). As at 26 November 2020, the hailstorm had caused \$1.66 billion of damage and resulted in 130,982 claims being lodged.

Our research focused on the experiences of the following two groups:

- 251 small-business insurance policyholders affected by the Townsville flood ([approximately 5%](#) of the small businesses in Townsville)—this work built on research conducted by the ACCC in parallel with its Northern Australia Insurance Inquiry and published as Appendix C to its [Northern Australia Insurance Inquiry: Second interim report](#) (2019 ACCC research), and
- 100 home or car insurance consumers affected by the Canberra hailstorm, including qualitative interviews with 30 claimants.

Research methodology

Element	Townsville flood research	Canberra hailstorm research
Researchers	Q&A Market Research and String Research Insights Consulting Pty Ltd	ChatHouse Research Pty Ltd and Nature Pty Ltd
Methodology	20-minute computer-assisted telephone quantitative survey (both open and closed-ended questions)	10-minute online quantitative survey. 45-minute in-depth qualitative interviews conducted via Zoom
Survey scales (satisfaction with claims handling)	0--4 very dissatisfied 5--6 neutral 7--8 satisfied 9--10 very satisfied	0--4 extremely dissatisfied 5--6 [no label] 7--8 [no label] 9--10 extremely satisfied

Element	Townsville flood research	Canberra hailstorm research
Participants	251 small businesses in the Townsville area that held business insurance	Quantitative survey: 100 consumers living in affected postcodes (ACT/NSW) who had made or considered making a claim on their home or car insurance (55 home/contents insurance consumers; 45 car insurance consumers). Qualitative interviews: 30 consumers who had made a claim on their policy.
Sampling	Participants were drawn from an independent panel provider. Quotas were set to ensure the sample represented the profile of small businesses in the area and a weighting was applied to ensure the data was comparable to the 2019 ACCC research.	Quantitative survey: Participants were drawn from an independent panel provider. Qualitative interviews: Survey participants who had made a claim on their policy and who agreed to a follow-up interview, with additional participants recruited by specialist consumer research recruitment agency.
Fieldwork dates	9–23 July 2020	11 June–9 July 2020

Both research studies were deliberately designed to gather the subjective experiences and views of real consumers. In keeping with all self-reported surveys and research, hindsight and recall bias can influence participants' views and accounts.

In the research, consumer perceptions were considered valuable data, and recall bias was minimised by surveying and/or speaking with consumers relatively shortly after their insurance claim experience.

The home or car insurance consumers in Canberra were surveyed approximately five months after the Canberra hailstorm. The small-business insurance policyholders in Townsville were surveyed approximately 18 months after the Townsville flood as a significant minority of claims arising from the flood were still open over a year after the flood occurred.

Overview of research findings

In both research studies, the researchers found that, overall, more consumers were satisfied with the claims process than were dissatisfied.

However, a considerable proportion of consumers in both research studies were dissatisfied. The reasons for the dissatisfaction were consistent despite the differences in research methodologies, participants and subject matter.

The research has three key findings:

- *Finding 1*—A key source of dissatisfaction was the number of claims staff that consumers had to deal with during the claims process.
- *Finding 2*—A significant minority of consumers felt they were given insufficient information about the claims process and the assessment and progress of their claim.
- *Finding 3*—Many consumers were not aware of limitations in their insurance cover.

Finding 1: A key source of dissatisfaction was the number of claims staff that consumers had to deal with during the claims process

This issue was identified in earlier work by ASIC on natural disasters.

For example, in [Report 54](#) *Getting home insurance right: A report on home building underinsurance* (REP 54) we found that best practice in the event of mass claims following a disaster includes providing dedicated staff to assist customers until their claim is resolved.

Some insurers have advised us that they allocated dedicated claims staff to provide this service to consumers with natural disaster claims. But despite this, a common theme in 2020 for both research studies was dissatisfaction with the number of claims staff that consumers had to deal with.

Townsville flood

Of the small-business insurance policyholders who lodged claims, 31% were 'very dissatisfied' with the number of people they had to deal with in making a claim.

Canberra hailstorm

Of the consumers who lodged claims, 10% were 'extremely dissatisfied' about the number of people they had to deal with in making a claim.

Many survey participants were frustrated by the inefficiency of waiting on hold on the general claims telephone line, and having to repeat their case history to different claims staff. Even where case managers were assigned (name and 'direct number' provided), they were often not easily contactable. Sometimes the case manager was changed multiple times during the claims process.

Some survey participants reported that communication was often delegated to others (e.g. assessors, repairers, car hire businesses) during the 'assess and repair' stage of the process. Some were told by their insurer to contact third parties for progress updates.

There was often little coordination between third parties and the insurer, resulting in insurers being 'out of the loop', unaware of delays, and on occasion providing incorrect information.

Finding 2: A significant minority of consumers felt they were given insufficient information about the claims process and the assessment and progress of their claim

Townsville flood

While 55% of the small-business insurance policyholders who lodged claims were 'satisfied' or 'very satisfied' with how well they were kept up to date throughout the claims process, 30% were 'very dissatisfied' with how they were kept up to date.

One policyholder commented:

[I]t was a complete pain. Half the time they were uncontactable, they didn't get back to us, we had to chase them every time to find out what was going on, and it was a slow process.

Key sources of dissatisfaction in relation to claims on business interruption insurance were disagreements about how the loss was calculated, and the excessive amount of information that claimants dealing with a crisis felt they were required to provide.

Canberra hailstorm

Of the consumers who lodged claims, 15% were 'extremely dissatisfied' with the information they were provided about the claims process, while 18% were 'extremely dissatisfied' with how well they were kept up-to-date throughout the claims process.

Consumers who had lodged claims felt that many insurers did not proactively communicate with them, failing to provide progress updates or concrete timeframes, which are crucial to managing claimant expectations.

As one consumer said:

A month between an incident and payout is not that bad—but a month between incident and payout when you don't know the next step and when you will be contacted is much worse than a month when you know 'this is the process, the next step is we will get back to you ...' So, I think having a little bit more certainty about the next steps would have been a huge improvement in my mind.

The research findings suggest that the onus was very much on the consumer to follow up with the insurer.

Consumers also felt that insurers were not proactive in sharing information about next steps, expectations and consumers' legal rights, which could lead claimants to make less favourable decisions about their claim. For example, if a car was deemed to be a write-off, some consumers were unsure whether it would be taken immediately or whether they could take it in at a later date.

A lack of transparency about the process and the outcome also appears to have contributed to dissatisfaction with insurers' communication. In many cases, the assessor's report was not shared with claimants, giving them no option except to trust that the insurer's settlement offer was fair and accurate.

As another consumer said:

I might've liked an actual written [settlement] letter or something because there's no traceability of what happened.

Finding 3: Many consumers were not aware of limitations in their insurance cover

Lack of awareness about limitations in insurance cover increases the risk of consumers being underinsured. Unintended underinsurance was a key source of dissatisfaction at claims time.

Townsville flood

Of the 251 small-business insurance policyholders surveyed:

- 88% held business insurance at the time of the flood, but
- 37% did not have flood cover, despite parts of Townsville being flood-prone.

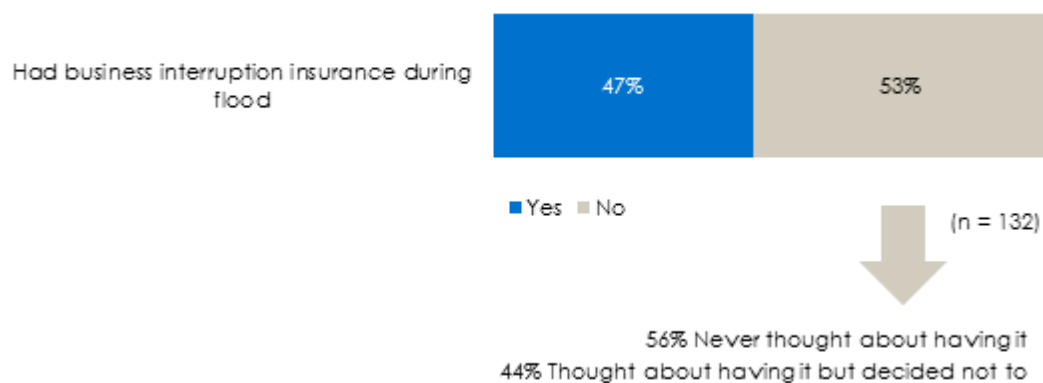
Almost one in 10 of the 251 small-business insurance policyholders surveyed mistakenly believed they were covered for flood, when they were not. Of this significant minority who mistakenly believed they were covered for flood when they were not, 71% arranged their insurance cover through a broker.

These findings are broadly consistent with the findings of the 2019 ACCC research.

Of the 251 small-business insurance policyholders surveyed, 53% did not have business interruption insurance, compared to 47% who had business interruption insurance. Of the policyholders who did not have business interruption insurance, 56% never thought about having it, while 44% thought about having it, but decided not to.

Yet 48% of all 251 small-business insurance policyholders surveyed stated they had lost income because they had to reduce capacity or close their business as a result of the flood.

Figure 1: Percentage of small-business insurance policyholders with business interruption insurance at the time of the flood



Source: ASIC, Townsville flood research

Note: For a description of the findings in this figure, see paragraphs above (accessible version).

Canberra hailstorm

Only a few consumers were confident about precisely what their home or contents insurance covered. In the interviews, examples of consumers' mistaken beliefs about their cover included believing that:

- the excess applied to each item they included in their claim
- trees, chicken coops and a greenhouse would be classed as 'contents' (not 'building') and would therefore trigger an additional excess payment, and
- an awning over the dog area would not be covered because it was a new structure—and therefore they actively chose not to claim for it.

Home insurance claims were much less predictable than car insurance claims, as there are many more variations, making the assessment and valuation process more subjective.