



**Submission: Recent trends in and  
preparedness for extreme weather  
events**

**February 2013**

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## About CHOICE

CHOICE exists to unlock the power of consumers. Our vision is for Australians to be the most savvy and active consumers in the world.

As a social enterprise we do this by providing clear information, advice and support on consumer goods and services; by taking action with consumers against bad practice wherever it may exist; and by fearlessly speaking out to promote consumers' interests - ensuring the consumer voice is heard clearly, loudly and cogently in corporations and in governments.

To find out more about CHOICE's campaign work visit [www.choice.com.au/campaigns](http://www.choice.com.au/campaigns) and subscribe to CHOICE Campaigns Update at [www.choice.com.au/ccu](http://www.choice.com.au/ccu).

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## Introduction

CHOICE recently conducted research on the role of flood cover in increases in home and contents insurance premiums. This research included a nationally representative survey of 1,435 home and contents customers. The survey was conducted in November 2012.

The research addresses (b)(iii) of the inquiry's terms of reference, which reads:

“the availability and affordability of private insurance, impacts on availability and affordability under different global warming scenarios, and regional social and economic impacts”

CHOICE research indicates that flood coverage has been a major contributing factor in significant increases to home and contents insurance premiums recently. Of those surveyed, 58% were aware of a premium increase in the renewal notice they had received in the past year. Of the consumers who recalled a reason given for their premium increase, in most cases the reason was to do with flood coverage.

CHOICE is concerned that flood coverage is becoming so expensive that consumers are being priced out of the market. This is true of the consumers who are most in need to flood coverage, however CHOICE's research also indicates that insurance companies are using inconsistent techniques to assess flood risk for consumers.

Increasing insurance premiums to unaffordable levels for consumers is not an effective response to extreme weather events.

CHOICE's article explaining the findings of its research is attached as an appendix. This is the article as it appears on the CHOICE website<sup>1</sup>.

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<sup>1</sup> <http://www.choice.com.au/reviews-and-tests/money/insurance/house-and-car/home-and-contents-premium-hikes.aspx> retrieved 06/02/2013

## Appendix 1 - Home and contents premium hikes

### Why is the insurance industry playing fast and loose with the flood cover issue?

We've looked into the role flood cover has played in a recent pattern of premium hikes in home and contents insurance, including:

- what [policyholders](#) have told us
- the impact of recent [government reforms](#)
- what the [insurers](#) say
- as well as giving a breakdown of the results of our own [insurance survey](#).

### Credibility check

The insurance industry can't get its story straight when it comes to explaining the shocker renewal notices that landed in mailboxes throughout 2012. Many policyholders who've contacted CHOICE say the massive premium hikes to their home and contents insurance have come with the addition of mandatory flood cover or a repricing of existing cover, but companies have been cagey about how they've determined the risk. Worse, it's not clear that risk has anything to do with it.

When we asked the [Insurance Council of Australia](#) (ICA) about the outbreak of premium increases early last year, the peak body cited, among other things, the industry's need to shore up profit margins after a run of hefty natural disaster payouts. At the same time, though, the ICA claimed "policyholders in high-risk flood areas may see the recent inclusion of flood cover in their policies, and a move towards risk rating their area, reflected in higher premiums". If companies have been using new techniques to assess risk, they haven't filled policyholders in on the methodology. An executive manager at one major insurer told us some companies were using [Google Maps](#), hardly a precision tool for predicting water flow.

### Nonplussed policyholders

CHOICE member Shirley B is still at a loss as to why her [NRMA](#) premiums went through the roof in 2012. "I had no contact from the insurer initially other than receiving the excessive bill," she told us. "I was absolutely shocked. We have lived at this property for more than 30 years and never been flooded, and to my knowledge the property has not flooded previously." When Shirley called NRMA, the initial explanation was that the company had used local council information to assess the flood risk. But then a different company rep called back shortly after and said the increase was necessary due to the high number of claims after the Queensland floods and other natural disasters. Shirley ended up dropping the expensive flood cover but was further confused when she discovered her neighbour's premiums, which included flood cover, were far lower.

We continued to hear such stories throughout 2012. Justine W said [AAMI](#) added flood cover to her policy in May last year but maintained it wasn't the reason her premium jumped 100%. "There was no information from AAMI regarding any risk assessment. I had a surveyor from the council knock on my door after the commencement date of my policy to ask permission to survey for flood levels, but this was well after my premium had increased and well after I'd been told I was covered for flood." Rosie G's explanation from NRMA of why her home insurance went up 45% last July left a particularly sour taste. After explaining the company had reviewed certain "rating factors" before raising the premiums, NRMA claimed they weren't "able to give any specific details in relation to what particular rating factors have changed as information you have requested is only available to our underwriting department and is not accessible to anyone outside that area".

David P contacted us in October after his [RACQ](#) home and contents premiums jumped 500%. "RACQ didn't make us aware of any of their flood risk assessment techniques. They have not used the best available information, otherwise they'd know our house was raised under a state and local government joint flood mitigation program." When David asked RACQ to review it, the company immediately dropped the rise to 450%.

As well, results of our nationally representative [survey](#) of 1435 home and contents policyholders back up the contention that insurance companies have been using the flood cover issue as a pretext to raise revenue, get rid of customers, or both.

## Systemic issue

In addition to many other similar tales involving a range of companies, we received many emails from members outlining comparable scenarios and naming providers such as [GIO](#), [RACV](#), [RACQ](#) and [Westpac](#). The stories point to a widespread pattern.

"As a veteran of 37 years in this industry I love, I am appalled at what is going on," one broker told us in February last year. "A 'take it or leave it' mentality is happening with insurers, who are purposely pricing themselves out of certain postcodes, namely potential flood and water damage claims, so that they can keep the 'good' clients and dispense with the ones who may cost them in the future." Perhaps not coincidentally, the explosion in premiums was accompanied by a blowout in general insurance disputes lodged with the [Financial Ombudsman Service](#), which saw a 35% increase in 2011-12. In an equally disturbing and possibly related trend, more consumers are forgoing household insurance altogether due to rising costs, according to Roy Morgan research released in November last year.

## Pre-emptive move?

Two pieces of the federal government's [insurance reform package](#) - which came about as a response to the 2011 floods - are now finalised:

- all new home and contents insurance policies that offer riverine flood cover must use the same definition by July 2014, and
- all policies will have to come with a one-page fact sheet explaining what is and isn't covered by 2014.

But some policies had mandatory flood cover added or premiums increased for existing cover long before these changes were mandated. Tellingly, the early proposal that all insurers have to offer flood cover has slipped off the agenda. And when originally discussed, the government indicated that policyholders should be allowed to opt out.

The government's latest position is in line with the view of many respondents to our insurance satisfaction survey early last year who rejected the idea of mandatory flood cover. One respondent said the government's insurance reforms "will probably give the insurance companies an excuse to boost premiums by an amount more than is warranted". The [Insurance Law Service](#) voiced a similar concern at the time. And other members and consumers, apart from those who answered the survey, also reject the idea of being unable to opt out. "We live on top of a hill in dry WA, with no rivers close by," Barbara L told us in July last year. "Yet when we were looking to change our policy two months ago, it was extremely difficult to find one where flood insurance wasn't mandatory. Why can't insurers take geographical location into account instead of having blanket policies?"

## The company line: what the insurers say

Insurance companies gave CHOICE a strikingly different take to the consumers we've heard from on premium increases. In some instances, the accounts of policyholders flatly contradict the version of events put forth by insurers. In addition to risk, NRMA, AAMI, Apia and RACV all cited the rising costs of reinsurance as an additional driver of premium increases.

NRMA acknowledged it uses council data to help determine risk, but said it also relies on "a range of other data, including specialist mapping, terrain and hydrology reports, watercourse mapping and insurance information". The company claims it "reassesses individual properties at the time of renewal... [and] contacts all customers who receive an increase in their premium due to flood cover".

AAMI added flood cover to new and existing policies in February last year and told us it had updated its flood risk information through "a combination of newly available local council data, as well as feeding in our own claims data gleaned from flooding events over the past couple of years. Our sophisticated pricing engine allows us to determine the level of flood risk each individual property is exposed to, and price that risk accordingly". The spokesperson added that policyholders can opt out.

Apia took a similar line to AAMI, saying "we work with industry experts who have a lot of experience in the area of flood risk to understand the level of differences between each individual property. This additional information is over and above the local council information that is available through council flood maps." Apia policies have included mandatory flood cover since the early 2000s, but the spokesperson acknowledged that "there have been premium movements in the past year. With each natural disaster, more information becomes available and our previous assumptions are checked. These may result in a change in the way we determine the risk to a property or properties."

RACV general manager Paul Northey said new premiums were calculated "for each individual property according to the risk of damage to their property from flood" after the company made flood cover a standard inclusion in January last year. He also argued RACV uses a wide range of its

own risk-assessment methods and regularly updates risk information, but acknowledged that “there will be some instances of individual properties where we have not taken into account the most recent changes to local circumstances”. (The company offers a review process through which policyholders can question “individual assessments”.)

CGU told us it added mandatory flood cover to policies last year “following feedback from our customers and business partners. The decision not to allow opt out was based on our own research that showed those most in need of flood cover were also those most likely to choose to go without.” The company says the 15% of policyholders who were deemed high risk “were advised of the reasons behind the decision”. Like the others, CGU maintains it relied on existing flood data as well as “drawing on our own research, including the assessment of existing topographical and hydrological maps, water flow maps and accumulated insurance data”. CGU was one of the few companies we spoke to that said recent premium increases had nothing to do with offsetting high claims payouts. “We don’t recoup past claims costs. CGU’s premiums reflect the risk posed to the property being insured.”

## Data down the drain

Speaking for the industry in late November last year, the [ICA](#) reiterated what it told us in February 2012 when the shocker renewal notices began rolling in. A spokesperson said “the cost of natural disasters, including storms and floods, has had a significant impact on insurance premiums as companies adjust their pricing to take account of individual risk levels, with sharper increases in areas that have a history of natural disasters, or an exposure to future events”. The ICA once again called on local governments to improve flood mapping, beef up mitigation infrastructure and contribute any new information to its National Flood Information Database (NFID).

But the ICA also suggested policyholders don’t have a right to know which assessment methods may have been used or whether they were fairly applied. “Insurers base their pricing on factors and data each company deems appropriate,” the spokesperson said. This lack of transparency is very unhelpful to current or future homeowners, since any new risk information dug up by insurers is not passed on to homeowners, local governments, the NFID or the government’s [National Flood Risk Information Portal](#). NRMA told us “the data we use is very complex, and we overlay different types to give us a complete picture of the risk. For this reason we do not share our data.” CGU was blunter, claiming that “to protect the integrity of our investment we do not place this information into the public forum as we do consider it commercial in confidence”. AAMI and Apia maintained they share such information selectively.

The ICA told us that the NFID is limited to publicly available information from local and state governments and “insurer-owned data” is not shared. Such opacity runs counter to the ICA’s call for greater data sharing, an appeal that appears to be a one-way street. “If a consumer has evidence their property may have been incorrectly assessed and is in a low-risk flood or fire area, they are encouraged to present this information to their insurer,” the ICA said.

## Our survey results

In addition to the detailed and documented input we've received from CHOICE members and other consumers throughout 2012, we conducted a nationally representative survey of 1435 home and contents customers in November. The results are overwhelmingly consistent with what we've heard from consumers before and after the survey.

### The lowdown

- Insurance companies across the industry have been substantially raising some home and contents premiums, usually without giving a reason. If one was given, it was almost always flood-related.
- Only a minority of policyholders who've seen a flood-related increase understand their properties to be at any risk of flood based on local government or other information.

### The breakdown

- Out of the 1435 surveyed, 829 were aware of a premium increase in the renewal notice they had received in the past year.
- 60% who noticed a premium increase did not recall being given a reason for the increase.
- When a reason was recalled, it was nearly always related to flood cover - and the mandatory addition of flood cover was the most common reason given.
- Of the 286 participants who remembered a flood-related reason being given for their premium increase, just 71, or 25%, understood themselves to be at potential risk of flood based on local government or other information; and of these, only 16 (23%) understood their level of risk to be "high".
- Customers of GIO, API and Apia were most likely to have noticed a premium increase.

### CHOICE verdict

Although progress has been made, CHOICE believes the government's [National Disaster Insurance Review](#) has yet to adequately address the issue of affordability, particularly with respect to flood cover. As we maintain our investigation and continue to hear from disaffected policyholders, we will continue to push for honest dealings and fair play between insurers and their customers.