

8 November 2023

Dr Daniel Mulino MP  
Standing Committee on Economics  
Flood Insurance Inquiry

By email to: [floodinsurance.reps@aph.gov.au](mailto:floodinsurance.reps@aph.gov.au)

Dear Dr Mulino

**Re: Flood Insurance Inquiry**

We refer to your letter dated 28 September 2023 in relation to the Flood Insurance Inquiry. Thank you for affording us the opportunity to submit views on the topics, as outlined in the Terms of Reference, on behalf of Lloyd's as an entity as well as our market.

We should clarify that Lloyd's Australia Limited is the representative office in Australia for Lloyd's Underwriters (the insurers) and the Corporation of Lloyd's (the service provider) in London. Lloyd's Australia Ltd. is not the insurer or Underwriter.

Lloyd's is an internationally acknowledged insurance market within which numerous independent underwriting entities accept risks severally for their own account. The various titles by which Lloyd's is regularly addressed, Lloyd's or Lloyd's of London/Society of Lloyd's/Corporation of Lloyd's, provides services etc. to an insurance marketplace, but does not itself underwrite insurance business or assume the liabilities of the business transacted by the underwriting members of the market. That market is generically referred to as Certain Underwriters (at Lloyd's). The insurer of the policy is the specific underwriters which subscribed to the policy. These links may assist in providing clarity: <http://www.lloyds.com/lloyds/about-us/what-is-lloyds> and <https://www.lloyds.com/about-lloyds/our-market/lloyds-market>.

Lloyd's underwriters are authorised to write general insurance business in Australia under the Insurance Act 1973. Please see the APRA website for more information <http://www.apra.gov.au/GI/Pages/Lloyds-in-Australia.aspx>.

Australia remains a key market for Lloyd's as it has been historically. We are appreciative that you consider reinsurance plays a key role in Australia and will continue to do so in the future, as outlined in your letter of 28 September 2023.

We note the committee would welcome commentary around affordability issues, emerging/growing trends, and any other issues we deem relevant. Our submission includes feedback we have received from our market and makes specific points on adjusting and hydrology capabilities before turning to a wider policy issue of ensuring availability of insurance protection for catastrophic events.

### **Use of remote adjusting capabilities:**

There is an apparent reluctance of domestic carriers to utilise remote adjusting functionality when, it appears, use of same would have been appropriate in many circumstances.

Lloyd's are steadfast in our view that the use of remote adjusting functionality, which is offered by many Adjusting firms in Australia, leads to better utilisation of adjusting expertise where/when required (particularly during a surge event), faster prioritisation of those most requiring assistance, access to harder to reach areas quicker and faster decisions for Policyholders.

An approach utilising the remote adjusting abilities, and the technical expertise of well trained adjusters, in our view delivers the best possible policyholder outcomes particularly in surge events like this.

While use of remote capabilities may not be appropriate in all circumstances, we believe that it is a powerful tool in an insurer's arsenal to draw upon when appropriate and in order to serve their customers quicker, establish which matters are more complex (and perhaps require a site visit) and progress the investigation beyond information gathering to coverage and, if applicable, quantum and settlement.

### **Reliance upon Adjusting resources from other areas/overseas:**

We understand that local Adjusting firms were forced to bring in additional adjusting resources from other areas of Australia and overseas in order to assist with the surge in cases.

These Adjusters, if taken from other parts of the business, may have resulted in ongoing matters in different territories taking longer to be resolve leading to worse customer outcomes.

These Adjusters also needed to be housed while responding to the flood event which, presumably, meant using properties/hotel rooms that could have been used to re-house those policyholders effected by the floods. An increase in demand, you would imagine, was met with an increase in price.

Perhaps this was exasperated with the restrictions of travel due to Covid 19 (and variants) but continued low levels of transient workers in the Adjusting and Insurer space is understood to have led to a lack of available resource in these spheres (and presumably an increase in costs to hire and retain which would impact policyholder premiums).

### **Availability of Hydrology resources:**

The availability of hydrology experts and the increased time in submitting reports to Insurers has been highlighted. We have, on a number of occasions, been given examples of matters that have clearly related to an uninsured peril (e.g., flood) but, in the absence of the hydrology report, the Insurer and/or Adjuster has been unable to confirm the coverage position under the policy.

Increased claims handling time results in increased costs, particularly with rising costs of raw materials and low numbers of trades people available to build or rebuild. The correct decision, if delivered too late, is a bad decision.

### **Affordability issues:**

It is Lloyd's view that, while private insurance markets can adequately address most natural catastrophe risks, there are some systemic risks, including some natural catastrophes that might stem from accelerated climate change, that might be effectively addressed through public private partnerships.

In its "Black Swan Re" concept developed in response to the Covid-19 crisis<sup>1</sup>, Lloyd's set out a potential reinsurance framework for a government and industry partnership that could better protect customers from the devastating and long-term impacts of accelerated climate change and other systemic risk events. The conceptual framework proposed a way of providing reinsurance for commercial non-damage business interruption cover for a range of systemic risks through industry pooled capital, backed by a government guarantee to pay out if ever the pool had insufficient funds. It could protect businesses against events such as widespread telecommunications, utilities, or technology failures; accelerated climate change related risks; major public health emergencies; or critical resources supply chain failures.

Black Swan Re's proposed requirement for an initial commercial and industry pooled layer of funds would enable certainty of cover and fast pay-outs to customers. Furthermore, the proposed scheme would ensure that more of the costs of systemic event impacts are paid for by those protected against the events, that risks are modelled and understood as best as they can be, that the price of insurance reflects the risk exposure and drives mitigating behaviour, and that there is a commercial capital layer in place before the cost of covering risk falls to governments. The proposal relies on the private sector, rather than the government, to model and price the risk as Lloyd's position remains that the private sector is best placed to undertake this task due to access to historical data and modelling expertise.

Premiums paid by industry towards the fund could also facilitate productive and sustainable business investment in Australia. In this way, the scheme as envisaged in the concept paper would allow Australian society to access the many benefits that only private sector insurance can provide while benefiting from a comprehensiveness of coverage against systemic risks that only governments can provide.

### **Concluding remarks**

We trust the above is in order, and again thank you for your kind invitation to submit our and our market's views on the response to the 2022 flood event(s). We look forward to continuing the relationship between Lloyd's and our market in Australia.

Yours faithfully

Christopher Mackinnon  
Regional Head of Australia & New Zealand  
Deputy Regional Director, Asia Pacific Middle East & Africa

---

<sup>1</sup> [https://assets.lloyds.com/assets/lloyds-covid-19-white-paper-final2/1/Lloyds\\_covid-19\\_white%20paper\\_FINAL2.pdf](https://assets.lloyds.com/assets/lloyds-covid-19-white-paper-final2/1/Lloyds_covid-19_white%20paper_FINAL2.pdf)