

# Inquiry into Insurers' Responses to 2022 Major Flood Claims

Submission to the House of Representatives Standing Committee on  
Economics



## Submission to the Inquiry into Insurers' Responses to 2022 Major Flood Claims

Our ref: #E2024/38046  
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To the Standing Committee on Economics

### **Byron Shire Council submission to the Inquiry into Insurers' Responses to 2022 Major Flood Claims**

Thank you for the opportunity to participate in the House of Representatives Standing Committee on Economics Inquiry.

We have prepared this submission in response to the Inquiry Terms of Reference to complement our witness testimony in Lismore on 11 April.

The issues we have outlined are:

1. Communication practices
2. Lengthy and disrupted claims resolution and rebuilding process
3. Consumer disadvantage in claims decision making and outcomes
4. Access, inclusion and equity
5. Complaints
6. Access to insurance coverage
7. Risk reduction and resilience
8. Limited opportunities for other financial assistance

If you have any questions about this submission, please contact me at 

Yours sincerely



Mark Arnold  
General Manager

## Submission to the Inquiry into Insurers' Responses to 2022 Major Flood Claims

# Scope of our Submission

Byron Shire Council notes the Inquiry Terms of Reference with our content relevant to this submission identified in bold (Box 1).

Box 1. Scope of Byron Shire Council's submission

- 1. Responses of insurers to the claims resulting from major 2022 floods, including the:**
  - a. South-East Queensland and **Northern New South Wales (NSW) floods of February and March 2022;**
  - b. Hunter and greater Sydney floods of July 2022;
  - c. Victorian, NSW and Tasmanian floods of October 2022; and
  - d. Central West NSW floods of November and December 2022.
- 2. The inquiry shall have regard to the following matters in respect of the aforementioned floods:**
  - a. **the experiences of policyholders before, during and after making claims;**
  - b. **the different types of insurance contracts offered by insurers and held by policyholders;**
  - c. **timeframes for resolving claims;**
  - d. **obstacles to resolving claims, including factors internal to insurers and external, such as access to disaster-hit regions, temporary accommodation, labour market conditions and supply chains;**
  - e. **insurer communication with policyholders;**
  - f. accessibility and affordability of hydrology reports and assessments to policyholders;
  - g. **affordability of insurance coverage to policyholders;**
  - h. **claimants' and insurers' experiences of internal dispute resolution processes; and**
  - i. the impact of land use planning decisions and disaster mitigation efforts on the availability and affordability of insurance.
- 3. The inquiry shall also have regard to insurer preparedness for future flood events.**
4. The inquiry will take into consideration findings from other reports such as Deloitte's external review of insurers' responses to the 2022 floods, and ASIC's claims handling review.

## Introduction

This submission is informed by input from the Byron Shire Community Resilience Network, community disaster recovery and preparedness associations, community disaster recovery service providers, and through our ongoing ad hoc interactions with community members over the last two years.

We present a number of issues that have been, and continue to be, encountered by community members (consumers) in their interactions with insurers.

We provide examples of illustrative experiences which have been provided by our stakeholders.

Where possible, we offer recommendations to improve insurer practice and consumer experiences.

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# Issue 1: Communication practices

### Our experience:

**1A. Feedback from our local community members highlights mainly difficult experiences with insurers including lack of transparency and responsiveness, as well as behaviour that appears coercive or intimidating.**

**1B. Current customer services practices appear to be inadequate for interactions with traumatised individuals.**

- Community members have used a number of terms to describe the negative communication and behaviour of insurer staff including 'suspicion', 'aggressive', 'bullying', 'coercive', 'intimidating', 'threatening', 'psychological warfare', 'dismissive', and 'appalling tone'.
- Example: Consumer receives phone calls from the insurer at 6 pm at night or at Christmas, pressuring the consumer to sign off on the claim settlement even though the offer was well under what the consumer thought was warranted.
- Example: Insurer case managers insist on authorising a building strip-out before the consumer had seen a scope of works. Consumer experiences 'bullying behaviour' from insurer after requesting a copy of the scope of works.
- Example: A consumer experienced a panic attack waiting in phone queue with an extremely long wait time. Extremely long wait times are identified repeatedly by consumers.
- Example: Consumer request for a recording of the conversation is dismissed by the insurer. Similarly, a consumer request for feedback in writing is dismissed.
- Example: Consumer request for information about amount of temporary accommodation available to them was withheld, leaving the consumer with uncertainty and stress.
- Example: Consumer was 'bullied' and told repeatedly that she was holding up the process by not taking the first available temporary accommodation offered which was unfurnished and 'filthy'.
- Example: Consumer was provided very short notice of the end of their temporary accommodation arrangement with no subsequent accommodation proposed.

### Recommendations:

- Ensure application of insurance customer service practice standards and performance metrics including customer satisfaction feedback. Use this as the basis of industry monitoring and oversight and quality improvement.
- Ensure client-facing staff are appropriately trained and skilled in trauma informed communication with disaster-impacted people.

## Issue 2: Lengthy and disrupted claims resolution and rebuilding process

### Our experience:

**2A. Claims processes and timeframes are lengthy, sometimes disjointed, and do not adequately support consumers to return to pre-damage condition as quickly as possible.** Extended timeframes appear to impact the entire claims process including making safe, assessment, decision-making, scope of works, repair/replacement and settlement functions.

**2B. Many consumers are left in limbo and frequently living in sub-standard housing whilst they await the resolution of the claim and rebuild. Consumers face multiple barriers to conclusion of the process including insurer delays, lack of trades, and escalating costs.**

**2C. Insurers do not appear to have required timeframes for resolution of claims, and do not appear to face any penalty for unacceptably long processing.**

- Community feedback has indicated that repeated changes to case managers has disrupted claim progression and required consumers to 'retell their story'. These frequent changes in insurer personnel are inefficient, disruptive and retraumatising to the consumer.
- In the wake of a disaster, it is difficult for consumers to acquire independent quotes which inhibits their ability to assess or dispute the insurer assessment.
- There are a number of issues with scope of works:
  - There is a shortage of available insurance builders to complete a scope of works. This holds up the resolution of claims.
  - In many cases, the scope of works are unclear or incomplete (missing many items), or the scope of works is reduced by the insurer as the claim progresses.
  - The quotes related to scope of works don't appear to be representative of current costs, which have increased markedly in recent years (trades shortage, materials shortage or escalating costs).
- There are a number of issues with restoration/repair/rebuild work:
  - Example: a property was classified as unsafe by an insurer through preliminary cover, so the builder unable to enter the site to give quotes or do work.
  - Insurers are observed to be choosing the cheapest quote and often the work done by the builders is below standard.
  - Consumers have been unable to progress with rebuilding due to lack of trades availability. This includes instances of tradespeople/builders committing to the job but leaving for more profitable or easier jobs.
  - Mould remediators are in a conflict of interest when they provide remediation services and the certificate of clearance (post-remediation verification), yet this is common practice. There is no agreed and enforceable standard of mould remediation, and little recognition of mould as a secondary impact resulting from water intrusion.



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### Recommendation:

- Ensure application of insurance claims processing performance standards and performance metrics. Use this as the basis of industry monitoring and oversight and quality improvement.

## Issue 3: Consumer disadvantage in claims decision making and outcomes

### Our experience:

**3A. Many consumers have experienced classification challenges that impact the eligibility of their claim – i.e., storm water, flood water or existing building vulnerability, depending on their insurance coverage. Mould damage is not well recognised as a secondary effect of water damage.**

**3B. In order to make determinations on causality, insurers commission expert reports such as hydrology reports. It is cost prohibitive for consumers to obtain expert reports in order to review evidence and contest insurer decisions.**

**3C. At times the insurer may be justified in denying a claim due to prior damage or insufficient maintenance by the homeowner. Consumers may be unaware of home issues and may need more education of insufficient maintenance on their insurance coverage.**

**3D. There is an impression that the outcome of a claim appears to be 'luck of the draw' depending on the personal approach of the consumer's case manager and insurer. Consumers generally don't have confidence that they will receive what they are entitled to in their insurance coverage.**

**3E. Consumers offered cash settlements may not have independent legal advice and may not understand the implications of this agreement, and may later question whether the decision was appropriate.**

**3F. There is a general impression that insurers are offering lesser amounts than consumers are entitled to in their coverage, or that are relevant to Northern Rivers prices for products and trades.**

- Example: Insurers have determined that roofing issues are contributing water damage and therefore have refused to proceed with the claim until the roof is repaired or replaced at the expense of the consumer. Even when consumers carry out these works at their own expense, the home remains unliveable due to the unresolved insurance claim.
- Example: Consumers with storm cover (without flood cover) have been told by their insurer that the cause of the damage was flood water, even when storm water damage is present.
- Example: Consumers with landslip damage have been advised by insurers that the cause of damage is 'ongoing land movement' and not land movement that occurred 'within 72hrs of the event', as per the policy.

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- Example: Consumers have not been aware that they can seek reimbursement of expenses from insurers for reports or builders quotes (and therefore have not sought these independent quotes / reports to inform claims resolution.
- Example: After accepting a cash settlement, consumers may discover more extensive flood damage which may not be eligible for further claim, or discover that they are no longer insurable.

### **Recommendation:**

- Further insurer support for consumer education about home maintenance and its impact on insurance coverage. Consider incentive programs for improved home maintenance.
- Consider alternate mechanisms to complete area-based hydrology reporting (e.g. panels), rather than individual property reports, for accessibility, consistency and equity.

## Issue 4: Access, Inclusion and Equity

### **Our experience:**

**4A. Vulnerable community members are the most disadvantaged in the claims process and its outcomes, including the elderly, the underinsured and those with insufficient resources to contest insurer decisions.**

**4B. Consumers do not have adequate access to insurer claims handlers when face-to-face services are not available.**

**4C. Current insurer performance standards appear to inadequate to provide equitable outcomes for consumers that require additional support, including consumers experiencing vulnerability.**

Local community members have raised concerns that they, other consumers, or people they support, do not have the level of financial and legal literacy to be effective self-advocates in the insurance process. As a result, vulnerable community members may achieve a disproportionately unfavourable result in their claim. Additionally, due to protracted claims timelines, local consumers have 'given up' or 'settled' for a lesser claim amount because of the stress of being engaged in the lengthy claims process.

- Example: Friends reporting on behalf of an 87 yr old neighbour summarised their concerns with how her insurance company (Budget Direct) had responded to her claim. "They moved her out and gutted her home even though the hygienist mould detection [showed] no sign of any contamination. They broke her windows when removing the walls and ceiling. Locked gates meant she had no access to her property to get winter clothing, couldn't maintain her garden. She has never been consulted about her kitchen requirements, tiles etc. and they didn't take any photos of how it was. We feel this dreadful stress will have very serious outcomes for this lady, if not a terminal one."
- Example: Another community member noted the following anecdote. "One 86 year old woman who had knee deep water through her house was only insured for storm, not flood. It took a huge amount of chasing to get her house assessed, to get clarity on whether she would have a

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pay out etc. In the end, many, many months after the flood, she had the verdict that it was flood and she wouldn't be eligible for a payout. She didn't have the energy to fight it and gave up. On the other hand, a family only a few blocks away spent the best part of a year fighting their insurance company to say it was a storm not a flood. They had footage of the water, and put vast amounts of energy into fighting. It went to the civil and administrative tribunal and they won. They were classified storm and they got a full pay out. These two cases demonstrate that who got paid out was often linked to the amount of energy they could put into fighting the insurance company."

- Community support services are also indicating that in cases that the insurance company cannot find builders to do the work for a "suitable price", local community organisations have reported that insurers are "convincing" clients to take cash settlements that are well below the amount needed to fix the damage caused by the event. Clients are inclined to take the cash payout because they are "stressed and tired" and they do not realise they can, nor do they have the energy to, negotiate for increased settlement amounts.
- Community support services have also indicated that local consumers are employing private negotiators to work on their behalf that cost up to 10% of their total cash settlement as the consumers themselves are too exhausted to continue negotiations.

### **Recommendation:**

- Enhance consumer support programs where needed.
- Ensure trauma informed communication from insurer staff with client facing roles.

## Issue 5: Complaints

### **Our experience:**

**5A: Local consumers have indicated negative experiences when escalating issues with or complaining to their insurer:**

**5B: Complaints to the Australian Financial Complaints Authority (AFCA) are sometimes successful, which generates consumer questions about the validity of insurance company decisions overall**

**5C. Vulnerable community members face additional barriers to submitting and following through with a complaints process.**

- Example: One consumer made a formal complaint about their caseworker to the management of the Insurer. The following day, the caseworker rang the consumer and stated: 'I know you made a complaint about me and I stand by what I've said to you - and there will be no change to what we are offering'. No other case manager was offered to the consumer, and the consumer had to keep working with the same caseworker.
- Example: A community member described submitting a formal complaint which was escalated to a senior level and then apparently 'stonewalled' by the insurer.
- People have two years to appeal insurer decisions through AFCA. We are only now seeing a volume of claims going to AFCA and many have not yet been reviewed.



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### Issue 6: Access to insurance coverage

#### Our experience:

**6A. Consumers are facing issues with renewing insurance or taking out new policies, being deemed ineligible or being prohibitively expensive.**

**6B. Consumers are confused by the inconsistency of their property being labelled as 'too risky' for insurance and still not meeting the flooding threshold for the Resilient Homes Buyback scheme.**

- Example: "There are reports of people who in one week were told they would no longer be offered insurance by their company as they were in a flood mapped area and then told by the NRRC that they were not eligible for a house lift as they were NOT in a flood area."
- Example: "When you apply [for house insurance], you have to disclose if you have been refused insurance before. Many people are talking of unaffordable price hikes. This leaves our area increasingly less protected than before."
- Example: There is inconsistency in insurance eligibility to get new policy (renewal) between neighbours with similar houses, similar damage and with the same insurer.
- Example: Insurer could not confirm with the consumer whether the current policy covers their empty home as one of the prerequisites for insurance is that the home does not remain empty, and that the home is kept in a good state of repair.
- Uncertain whether the insurer is required to disclose reason that they will not reinsure a consumer

#### Recommendation:

- Ensure clarify and consistency to consumers about ability to be insured.
- Consider a parametric insurance approach, with a standardised payout amount linked to the event, rather than determining payouts based on the magnitude of loss.

### Issue 7: Risk reduction and resilience

#### Our experience:

**7A. Insurance industry appears not to have a mandate to rebuild for resilience and plan for disasters.**

**7B. There are inadequate funding options for vulnerable people to enable house raising and rebuilding with resilience.**

#### Recommendations:

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- Insurer staffing – ensure surge staffing capacity is available to meet needs emerging from catastrophic events, including face to face service delivery.
- Housing – improve temporary housing capacity and reduce the timeframes for consumers to be able to return home.
  - Local external drivers have generated a pre-existing 'housing crisis', so affordable and appropriate options must be planned for accordingly.
  - Local community members have indicated that it is common for people to be residing in substandard accommodation for extended or indefinite timeframes including damaged houses, caravans or garages.
- Insurance builder and trades availability – improve continuity planning for surge capacity required after disaster events.
- Currently, insurers only offer 'like for like' build back, which causes psychological distress to consumers who want to improve their resilience to future disaster events.
- Enable resilience restoration/builds: Insurance companies are ideally placed to promote or further enable retrofits for resilience - even if it means the consumer has to pay the difference in cost. This will enable the property to be more resilient to future disaster events.

## Issue 8: Limited opportunities for other financial assistance

### Our experience:

**8A: Consumers who are attempting to resolve their insurance claim may dismiss other funding grants and opportunities (due to lack of time or assumption their claim will be successful).**

**8B: Lower income consumers who have their insurance claim denied have limited options to restore or raise their homes if they are not accepted into the Resilient Homes Program.**

Community members have faced a series of negative outcomes including denied insurance claims and exclusion from the Resilient Homes Program. Compounding disappointments wear on consumer's mental health and they have few remaining options to restore their home. Local community organisations have advocated for low interest loans or other types of financial aid.

### Recommendation:

- Consider additional financial aid programs.



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