

13 May 2011

Flood Insurance: Proposed Reforms  
C/- Insurance Contracts Act Review  
Corporations and Financial Services Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

**Email:** [icareview@treasury.gov.au](mailto:icareview@treasury.gov.au)

**Attention:** Mr Andrew Sellars

Dear Mr Sellars

**RE: Reforming Flood Insurance Consultation Process**

We refer to the consultation paper released by the Honourable Mr Bill Shorten MP titled "Reforming Flood Insurance: Clearing the Waters" dated April 2011.

This letter is submitted on behalf of RACQ Insurance Limited in response to that paper.

**Background**

1. RACQ Insurance was established in 1971. It is an Australian public company, wholly-owned by the Royal Automotive Club of Queensland Limited (RACQ).
2. RACQ Insurance has a virtually exclusive Queensland focus to its business, providing cover to over 1.7 million policyholders throughout Queensland and Northern New South Wales. As such, it has been particularly exposed to weather events in Queensland. As at the end of January 2011, RACQ Insurance has approximately 476,000 household insurance policies in place, including policies relating to household building, household contents and household specified items. It is, it believes, the second largest provider of household insurance in Queensland and the leading motor insurer in Queensland. The majority of its policyholders are members of the RACQ.
3. In the summer of 2010/2011, Queensland was struck by a series of devastating events. Across South-East Queensland, flooding from Cyclone Tasha in December and flooding in Central and Southern Queensland in late December 2010 and January 2011 has resulted in RACQ Insurance receiving approximately 6,200 insurance claims.
4. RACQ Insurance is committed to improving its products and processes in line with the needs of its customers. This is a continuous process. However, as you can appreciate, RACQ Insurance's focus in recent months has been on processing claims as quickly as possible. Accordingly, these comments are necessarily a preliminary response based on our initial observations.
5. At this stage, RACQ Insurance wishes to make the following comments about the two key proposals addressed in the discussion paper.

**Proposal 1: Standard Definition**

6. RACQ Insurance agrees, in principle, that there is some utility in having a standard definition for flood events.
7. Any standard definition must be clear in its application and be well understood by the broader community.

8. In relation to the proposed draft wording, we suggest the following changes:

*Flood means the covering of normally dry land by water that has escaped or been released from the normal confines of:*

*A. any lake, or any river, creek or other ~~natural~~ watercourse, whether or not altered or modified; or*

*B. any reservoir, canal or dam.*

9. There does not seem to be any principled reason to distinguish between natural and other watercourses. The word "natural" should be deleted because it may be difficult to decide whether a watercourse is "natural" or otherwise, particularly given that the definition seems to anticipate that a watercourse can be "altered or modified" and yet still be "natural". Also, for a standard definition to be implemented, it would seem necessary not only to define the expression "flooding" (i.e. Type "B" flooding with reference to paragraph 17 of the consultation paper), but also to define at least flash flooding/stormwater runoff (i.e. Type "A" flooding).
10. We note some reluctance in the consultation paper towards allowing insurers to use any derivative of the word "flood" when describing other types of inundation events. We are not sure what alternative word could be used to describe such events without potentially misleading consumers. Further, the restriction may have the unintended consequence of making it difficult for insurers to provide coverage for Type "A" flooding (i.e. if the restriction is too wide it may mean that it is not possible to define Type "A" flooding in a policy).
11. The implementation of any terminology changes and/or proposed restrictions on the use of the word "flood" will come at a cost to the business and we need to ensure that the proposed changes will deliver the proposed consumer benefits.
12. Finally, we thought it might be useful to note some things which, in our view, a standard definition will *not* achieve.
13. First, a standard definition will not necessarily speed up the assessment of large scale flood claims in the future. This is because much of the delay is associated with the complexity of *the events themselves*, as opposed to any complexity in the definitions currently used. The recent flooding events in Queensland would remain difficult to categorise no matter what definitions were used.
14. Secondly, the adoption of any standard definition of flood will not assist consumers to assess the risk of flood in their specific location. This can only be achieved through the availability of appropriate data that can be accessed by both consumers and insurers.

## **Proposal 2: Key Facts Statement**

15. We have serious reservations about this proposal.
16. Overall, our view is that it is not possible, in a one page document, to accurately summarise a detailed insurance policy. In a practical sense, if this proposal is implemented, the result may be that an insurer cannot rely on anything that is not covered in the Key Facts Statement.
17. This is because the basic premise of this proposal is that consumers do not read Product Disclosure Statement (PDS) documents. RACQ Insurance always encourages its consumers to read their PDS. Any initiatives should consider and further explore whether consumers make the choice to not read their PDS and the reasons why.
18. It may be very difficult for insurers to make a claim determination based on the content of the PDS if that content is not also included in the Key Facts Statement. Simply including a message on the Key Facts Statement to the effect that the consumer should read the PDS is unlikely to avoid this.

19. There is an unintended risk that the Key Facts Statement would (in effect) become the terms of the policy. While the statement might be advantageous in terms of simplicity, it would of course come at a significant cost for the industry and have prudential implications.
20. Insurers are already required, by legislation, to ensure that a PDS is "clear, concise and effective". We believe that our PDS meets this requirement. This existing requirement is arguably sufficient to address the concerns which have motivated this review. Where a PDS is "clear, concise and effective", it is not clear that there is any need for a one-page summary.
21. There may be some merit in providing a warning statement to consumers highlighting the importance of reading their PDS and that if they do not, they may not understand their product, the coverage offered and how it relates to their individual situation and that it could have adverse consequences for them.

## Other Initiatives

### *Flood mapping development framework*

22. In order for insurers to be able to provide cover for flood events, it is critical that accurate, reliable and complete information is available. This information allows the necessary actuarial calculations to be performed to properly assess the risks.
23. The more of this information that is available, the easier it is for consumers to assess their individual risk and for insurers to assess (and therefore decide to provide) insurance for these risks.
24. RACQ Insurance strongly supports this initiative.

### *Time limits for claims handling*

25. RACQ Insurance supports the industry view on legislated time limits for claims handling which is outlined within the ICA's letter to the Assistant Federal Treasurer dated 20 April 2011.

### *Centre pay processing of premium payments*

26. RACQ Insurance would like to explore this proposal further.

## Conclusion

We believe it is important that insurers and consumers have the necessary information to make informed decisions about the risk of floods. We also believe that flood insurance should not be mandatory, and that consumers should be able to make an informed decision about whether they wish to purchase flood cover. If community sentiment is that there should be some imposed form of universal flood cover, then it should be provided at the cost of the community by way of government insurance and not imposed on the private sector.

We look forward to having the opportunity to make some further submissions to the committee and being involved in any meetings. As the CEO of RACQ Insurance, I would be happy to be personally involved and would also be willing to have members of my team available as needed.

We look forward to hearing from you.

Yours sincerely



**Bradley Heath**  
Chief Executive Officer  
RACQ Insurance Limited