



Suncorp's Response to Reforming Flood Insurance – Clearing of Waters

May 2011



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Section 1

Introduction/overview

The Suncorp Group welcomes the opportunity to respond through this submission to Treasury's Consultation Paper, Reforming Flood Insurance, Clearing the Waters – April 2011.

The Suncorp Group consists of a range of financial services providers including:

- **Personal Insurance** - AAMI, Apia, GIO, Shannons, Just Car Insurance, Suncorp Direct, Vero Travel and two internet insurers, Bingle and InsureMyRide
- **Commercial Insurance** – GIO, Vero and AAMI
- **Banking** - Suncorp Bank
- **Suncorp Life** - Suncorp Investment Management Limited (SIML), Suncorp Financial Services (SFS) Asteron (Australia and New Zealand), Standard Pacific, Guardian Financial Planning and Cameron Walshe.

Suncorp is the major general insurer in Queensland. Suncorp provides automatic flood cover under its home and contents policy for its retail customers. This cover is extended to other brands, such as Apia and Shannons and is also available to businesses via its commercial lines division (e.g. Vero).

The first quarter of 2011 saw an unprecedented number of events for the Suncorp Group including flooding in Queensland and Victoria, an earthquake in New Zealand, bushfires in Western Australia, a major cyclone in Queensland (Yasi) and a large storm in Melbourne.

These events have accumulated in over 90,000 claims for the Suncorp Group – claims that were processed quickly and efficiently due to Suncorp's industry leading emergency response processes and capabilities. On writing, Suncorp has approved approximately 97% of claims received so far. It is now well underway with the daunting task of helping Queenslanders rebuild their homes and businesses.

As the major insurer in Queensland and one of a few companies to offer flood insurance as a standard feature in most of its insurance policies, Suncorp is particularly interested in achieving an outcome that simplifies disclosure for Australian consumers whilst minimising the complexity and red tape that could be counterproductive to the review's intended benefits.



The key points made in Suncorp's submission include:

- Suncorp supports the introduction of a standard definition for flood in home and contents policies as a way to engender greater understanding of flood insurance cover, regardless of the provider.
- The introduction of a standard definition for flood needs to be viewed in context. While disclosure will be improved, it will not increase the take-up or availability of flood insurance. Insurers will continue to make commercial decisions about the level of cover included in their insurance products. Accessibility to flood insurance is best facilitated through rigorous mitigation strategies and widely available digital flood mapping to encourage insurers to underwrite the risk
- Insurers will need a two year transition period if changes are required to be made to Product Disclosure Statements (PDSs) – due to renewal processes and the length of time it takes to rewrite and reprint PDSs. This process would be better facilitated by passing legislation that allows insurers to distribute PDS's electronically. This should be done with the draft changes that have already been made to Section 77 of the Insurance Contracts Act Amendment Bill 2009 which is yet to pass through federal parliament.
- Changes should be made to the Corporations Act 2001 to make it easier and less costly for direct general insurers to provide personal advice to consumers about their own risk profile and which products best suit their needs. This will help ensure consumers are aware that they live in a flood risk area (or indeed any other high risk area) aiding them to make an informed decision about the level of cover they purchase.
- Key Facts Statements (KFSs) are a welcome development to simplify initial disclosure and provide a high level summary of cover. However, policy outcomes need to ensure that they are not used as a replacement for a PDS, rather that they compliment, to ensure consumers are fully informed about the product that they are buying. It is vital that consumers are encouraged to continue to read their PDSs for a full understanding of their level of cover, the general exclusions and requirements on themselves (such as maintenance).
- Contents within the KFS need to be prescribed to avoid creating unintended liabilities for insurers arising from potential misrepresentation of the product by the KFS. If an insurer is compliant with the prescribed KFS requirements a legislated safe harbour should exist.

If you have any further questions in regards to this submission, please do not hesitate to contact Annabelle Butler, EM Public Policy and Stakeholder Management – General Insurance



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Section 2 - Standard Definition of Flood

Consultation Questions

28 A Are the concerns noted above regarding consumer confusion about flood cover still valid?

Suncorp supports a standard definition for flood. Suncorp believes it serves to provide consumers with greater certainty about flood coverage and improve disclosure.

Unless consumers actually read their documentation, there will always be confusion about cover. This is not just an issue that pertains to flood. The confusion between what is flood and what is not (i.e. stormwater run-off) will still exist regardless because:

- a. the definition proposed is not that dissimilar to many used currently; and
- b. the distinction is not intuitive to the average consumer.

28 B If so, is a standard definition of flood cover a suitable means of addressing consumer confusion?

While Suncorp supports the concept of a standard definition for flood, it's important this issue is looked at in context. Firstly, the introduction of a standard definition for riverine flood will not force insurers to offer this cover. Insurers will continue to make commercial decisions about the levels of cover offered in their insurance products. Secondly, having a standard definition will be a moot point if people don't read their PDSs or the KFS deters consumers from reading their actual policy (an issue of concern). It should also be noted that the Corporations Act requires that disclosure be "clear, concise and effective". Suncorp believes that its PDSs achieve this across all of its insurance brands, regardless of the extent of cover provided. If a consumer believes disclosure is not "clear, concise and effective" there are remedies available to them through ASIC and the Financial Ombudsman Service (FOS).

Although consumers are currently taking more interest in their insurance and the exclusions, this will in all likelihood be a short term outcome. While consumers are encouraged to shop on price, without being encouraged to understand the coverage of the policy, this issue will remain.

Insurance is not a commoditised product, especially in the home building and contents genre, therefore different levels of cover are available, which is appropriate in a free and competitive market. This allows choice for the consumer, to best fit their own needs.



29 A Is the proposed wording of the standard definition appropriate?

The proposed wording is appropriate, however it should be clarified to include the words storm water (or manmade) channel under section (b) to ensure that it is clear that it includes manmade water channels as well as natural channels.

29B Are there different wordings or different approaches that should be considered?

There are many different wordings and approaches that could be used to standardise the definition of flood across the industry. However there is no one approach that is going to meet all of the needs of all of the stakeholders. We believe that the proposed definition provides an appropriate balance between the objectives of consumers and insurers (as set out in paragraph 29).

Any changes that are needed to insurer PDSs need a long transition time, especially for the larger insurers who offer multiple home building/contents products. Updating and changing PDSs takes time and is expensive. As always all costs will eventually be borne by the consumer, therefore it is in the consumer's interest to keep costs low. Allowing insurers to distribute PDS's electronically will make it easier for insurers to update their PDSs and help save money.

30 A Should water escaping from water channels constructed within natural watercourses be treated in the same way as water escaping from natural watercourses for the purposes of the proposed standard definition?

Please see answer to 29A, yes manmade structures such as channels should be included. It would be difficult for insurers at times to differentiate between the two, and claims processing times would be put under pressure if detailed information was required. The specific inclusions contained in a standard flood definition need to be kept simple and easy to apply in a claims situation.

30 B Does the language in proposed paragraph (a) cover those water channels and if not, would it be appropriate to add some further elements to paragraph (a) or (b) to ensure that such water channels are included?

Please see the answer to 29A above. It should be put into Part (b).

32 A Are there other options that should be considered?

Agreed that the requirement needs to be made independently of Section 35, to ensure that the definition is compulsory.



32B If the standard cover regime is not used as the platform for the standard definition, should the definition of “flood” for that purpose also be aligned with the standard definition required to be used in policies?

Yes.

35 A Are the considerations valid, and what other factors should be considered?

As Treasury already outlines in their paper, the majority of business insurance is purchased via brokers. An insurance broker has a fiduciary duty to act in the best interests of their client and provide sound practical advice which is independent of any insurance company's influence. If this does not occur remedies are available to that broker's customer.

A large amount of the cover purchased is regarded as wholesale by the Corporations Act. To then impose a 'retail/domestic' definition over a different regulatory regime would become very complex, therefore costly without any apparent benefit to business.

35 B If the scope of the rules were extended beyond home buildings and home contents policies, how should the broader class of policy be defined?

As stated above, the scope should not be extended.

39 A Are there many cases of consumer confusion about flood cover unrelated to the application of category B (riverine flooding risk)? If so what is the source of the confusion?

Suncorp offers different types of flood cover depending upon the brand. Suncorp itself offers automatic flood cover (other than all actions of the sea, there are some exclusions), whereas AAMI does not offer cover for riverine flood. These facts are clearly explained in the appropriate PDSs and at the point of sale via an oral disclosure.

One of the main sources of confusion is with regard to how mixtures of the various types of inundation are dealt with. It is very common for stormwater and floodwater to both cause damage at the same address, either one after the other or by the two sources merging prior to inundation happening. Likewise, tidal actions may play a role in riverine flooding. Whether a claim is covered in these circumstances is tricky as it depends on what water hit first and the level of damage it created. A standard definition for flood will not resolve this confusion.

It needs to be noted that prior to the floods happening there was much confusion among customers at sales time around why they needed flood cover. Many customers were unaware of the risk to



their property; therefore despite clear disclosure about the level of cover across Suncorp's brands, consumers were unable to make the distinction about their own particular risk.

As Suncorp does not provide personal advice to its direct customers for the majority of its brands (Apia currently does), Suncorp staff are unable to advise consumers on their own risk profile and which products best suit their own needs. As stated to Treasury during recent consultations during the FOFA process, the limitations and subsequent requirements of the advice regime under the Corporations Act, make it uneconomical for large direct general insurers to provide advice. If general insurance products were pulled out of this regime, for example, by pulling out Tier 2 products (as suggested), then consumers would benefit greatly, as more targeted information on risk would be provided. Although Suncorp appreciates that Treasury has recommended that scalability be built into the Corporations Act to try and aid this process, it is still unlikely that insurers will provide advice, due to the complexity of complying with this notion on a large scale.

39 B Are the possible advantages and disadvantages of standardising a broader spectrum of inundation risk noted above valid, and are there other factors that should be considered?

Generally, the more complicated this becomes the less likely the consumer will understand it. Standardising definitions in an insurance contract for all types of inundation risk will not improve available coverage levels. Appropriate risk mitigation processes and digital mapping will achieve this aim. This will also be a complex process to produce the final definitions, as flood will have to also be looked at from other aspects, e.g. leaking fish tanks or water beds.

While the specific definitions of insured events such as flood are not likely to be significant sources of innovation or cover (noting that the provision of the cover itself could be a product innovation or competitive advantage); if the categories with standard definitions were expanded, then there would be an argument saying it should not stop at inundation but should also include other aspects such as what a "building" is defined as. This would certainly stifle product innovation and competition eventually.

It needs to also be noted that the more changes that are required – the longer the transition period will need to be. If all domestic building and contents policies across Australia will need to be re-written and resent to the consumer (with presumably an explanatory note, explaining the wording has changed but the cover has not), the transition period for this to be completed will need to be at least two years.

Suncorp as stated above, recommends that the industry be provided with at least an 18 month transition period to update PDSs/send SPDSs (if appropriate). The more complex the re-write the longer this will take.



Section 3 - Key Facts Statements (KFS)

Consultation Questions

57 Are there any disadvantages with a combined key facts statements where a PDS is also combined?

No. A large number of consumers bundle both products together. It is common practice for there to be one PDS for both products and a combined KFS will mirror this – providing less confusion.

60 Is the proposed treatment of policy type appropriate?

Suncorp is aware that consumer advocates are concerned that consumers do not understand what type of policy they purchase for home building. Additionally they wish to encourage consumers to purchase “total replacement cover” to help prevent under insurance in the event of a total loss. It needs to be noted that going through the process of purchasing a policy requires people to either establish the sum insured (often by way of answering various questions in a sum insured calculator regarding the home and its characteristics), or in the instance of total replacement cover provide information to the insurer about the property to allow the insurer to understand and price/underwrite the risk. The concept of total replacement cover is fully explained during this quote process.

Suncorp and GIO also offer “safety nets” in some of their policies, either as standard (GIO) or an option (Suncorp) - which requires the consumer to make a conscious decision. It is therefore assumed that they have some understanding about their cover at point of sale and are aware of the type of policy they have purchased.

Additionally in the future, it is not out of the question that a different variant will happen as part of product innovation, how would that be represented in this scenario? Would the Insurance Contract Act or Corporations Act (depending on which legislative instrument is used) need to be changed to allow for new product types?

Arguably it is just as important that consumers understand what aspects of the building/contents are covered under the policy and to what extent the policy benefits are paid from within or outside the sum insured. For example, in some cases temporary accommodation benefits are paid in addition to the policy sum insured and these may be for a significant amount of money after events such as the recent Queensland floods and Cyclone Yasi. This detail would not fit within the KFS which reiterates



the point that consumers need to refer to their PDS to ensure they understand the extent of their cover.

However if it is preferred that this information appear on the KFS then the current proposal is acceptable (tick on the appropriate box on the front of the KFS with an explanation on the back). There should only be two categories, sum insured and total replacement cover. For some insurers the option of having a sum insured plus margin is optional. The customer chooses to pay an extra premium for this product. Therefore how would the KFS reflect this variable?

61 Should the wording of a note on how to use the statement be prescribed?

Yes, one of Suncorp's major concerns in relation to the KFS is that the consumer will use the summary of cover as a potential copy of the policy itself. By its very nature (2 pager) the summary will not show a complete picture of cover and exclusions – this needs to be made very clear to the consumer – the wording should be prescribed and very clearly stated on the front on the KFS. The inclusion of this wording should allow some form of legislative safe harbour for the insurer in regards to potential liability arising from the KFS. The current suggested wording is too long and not clear enough.

63 A – What advantages and disadvantages would there in prescribing events that should be addressed in the 'what is covered' list?

Suncorp prefers that events are prescribed by the Insurance Contracts Act. This will provide comfort to Suncorp that their KFSs meet legislative requirements, which reduces complexity for implementation. It should also help provide an easier method of comparison between products for consumers. However if the insurer wishes to go beyond the prescribed list (for example if they wish to highlight another key feature that is not prescribed) they should be have the flexibility to do so.

The disadvantage of not prescribing the 'what is covered' list is that it will fall on the insurer to determine what goes in the list, thus potentially exposing the insurer to the risk of misleading the consumer.

63B Is the list of prescribed events in the standard cover regulations suitable for that purpose?

It is Suncorp's view that the list is too long, and it will not be practical to meet the Government's aim for a one page summary. Treasury should conduct a process via research with consumers (potentially using the Financial Services Working Group) to establish which parts of the standard cover provisions are most relevant to consumers, work with the insurance industry and consumer advocates to confirm and then legislate appropriately.



63C If an order of events were to be prescribed, what is an appropriate way to determine the order?

Treasury needs to research consumers to discover what are the key events and key exclusions and prescribe in this manner.

64 Should there be any prescription of how the covered event is described in the list? What sort of rule could be appropriate?

Suncorp is of the view that only the event name should be given. Any more detail has the potential to confuse the consumer by implying it is the strict policy definition and potentially increase the risk of the document being misleading – the consumer should be referred to the PDS for more detail.

65 If a covered event is subject to a special benefit limit, should that limit be disclosed together with the covered event, in the adjacent ‘what is not covered space’, or otherwise?

Yes, part of the issue that occurred in Queensland is that some insurers were saying they covered flood in their policy summary at the front of the PDS, however conditions applied, e.g. limited sum insured. While the Financial Ombudsman Service and/or ASIC may find these PDSs to be misleading, the issue still remains. If better disclosure is the stated policy aim, it’s crucial the KFS clearly explains limitations on sum insured or total replacement if applicable.

However further limits should not be outlined as there are potentially many limits on cover. It should be noted that the benefit limit most relevant to the customer will depend upon the claim scenario. Thus, any attempt to highlight some but not all limits (other than those applicable to sum insured or total replacement) would risk misleading the customer.

Further, the KFS should also refer consumers to their PDS’s for further detailed and important information about their policy.

68A Is it feasible, in a single page format, to require all derogations from standard cover to be mentioned in the ‘what is NOT covered’ list?

No –it would not fit on one page.

68B What other exclusions/conditions should be required to be included on the ‘What is NOT covered list?’



As stated previously, Treasury needs to conduct consumer research to establish what, out of common derogations, is important to consumers and what order they need to be disclosed in. It should be noted that the list provided to date is event specific exclusions; it needs to be considered whether general exclusions should also be listed, for example. “wear and tear”.

69 A Is it feasible to summarise the key elements of home buildings and home contents policies in that format?

As stated above, limitations to sum insured and total replacement cover should be clearly stated. However trying to address all other forms of limitations would challenge the space available and choosing some over others could potentially mislead the consumer, as their own personal circumstances dictate what is appropriate.

In practice, most cover has some form of limits, so categorising coverage as a ‘tick’, ‘cross’, or ‘partial’ would generate a list of ‘partials’.

Finally, the format at paragraph 69 would make it difficult for the coverage to be prescribed by legislation. It is Suncorp’s strong preference that coverage be prescribed.

69 B Would a list of prescribed events/risks in that format provide advantages for comparison of policies or otherwise, compared to the ‘what is covered’ and what is NOT covered’ lists set out in the draft sample key facts sheet?

Consumers do not use the word risk (as used in the alternative version). Suncorp is of the view that the draft sample KFS is simpler to use, however this should be consumer tested. Whatever the outcome it needs to add value to the consumer.

However, for the reasons outlined above Suncorp is not in favour of this format.

72A Should the wording of this statement be prescribed?

Absolutely, however the word risk should not be used (this is an insurance term). One question that remains (especially in the event of flood) is how would the consumer know about the risk? This is one of the issues that has clearly emerged from the Queensland floods. Consumers were either unaware of the risks that they faced in their property, hence they purchased inappropriate cover, or they shopped on price and chose not to purchase the appropriate cover.



72B Would the statement be better placed as a generic statement on the reverse side?

No, all warnings of this nature need to be on the front and made very prominent.

73 Cooling off rights – should the wording of this statement be prescribed?

Suncorp is agreeable to it being prescribed, however as cooling off regimes vary between insurers – some are 14 days, some are longer, some refund in full, others deduct administrative or other fees – any form of prescriptive disclosure will have to be carefully considered and cannot refer to the length of the cooling off period or the amount refunded. The statement would need to be broad, e.g. “a cooling off period applies to this product, please see the PDS for details”.

75 A Excesses – is it feasible to require that a standard excess be disclosed (in dollar value) and a note to the effect that it may be varied (if applicable)?

No, not all of Suncorp’s brands have standard excesses. The consumer chooses his/her excess when they obtain a quote or purchase a policy, whether it be by appropriate age, or dollar amounts to increase or reduce the shared risk. This is a deliberate process to aid consumers with affordability, if needed. Additionally all excess information is already contained on the quote/insurance schedule or renewal, which are tailored to the consumer’s requests. Therefore it would add no value and cause the KFS to be individualised – which would be expensive and repetitive as the information would already have been provided. There appears to be no clear benefit to the consumer.

Again if a statement were to be included, it would need to be fairly generic, e.g. “an excess applies to this product, please see your insurance schedule/renewal for full details of the excesses you have chosen”.

75 B Excesses – if there is a reference to the PDS, is it feasible to refer to specific pages/paragraphs rather than tot the PDS generally?

No, these vary from time to time plus the personalised information is on the schedule/renewal. The PDS generally describes what an excess is and refers the consumer to the schedule.

76 A Are the above matters suitable to prescribe for inclusion on a generic reverse side?

Item b – needs to be combined into the warning on the front of the KFS – i.e. that the KFS is not a binding document, it is a summary of cover and the consumer needs to read the PDS for a full explanation of what the policy covers and excludes.



Item d – Suncorp is unsure what value this will add, other than being a generic statement. Consumers are aware that there are other insurance products available, studies of shopping behaviour by consumers confirm this.

76 B What other matters could be mentioned as part of such generic information?

An additional disclosure regarding the duty of disclosure or misrepresentation (depending on which behaviour is being relied upon as not all insurers use the duty of disclosure) needs to be included.

The ability to include the new privacy notifications (arising from the UPPs – once legislated) should also be permitted, if the insurer chooses to notify this way.

As stated earlier, general exclusions need to be considered.

78 A When should a key facts statement be required to be provided, including for telephone/internet sales?

The KFS by its very nature would always be available on insurer's internet sites, as are PDSs currently. It should also be included in policy documentation when sent – during the cooling-off period, after initial purchase, in conjunction with the PDS and/or policy schedule.

The KFS should not be sent on renewal unless a new PDS is being provided on renewal.

78 B Could the document be incorporated into the PDS?

Potentially, flexibility in law should be provided to allow this, however Suncorp would not like to see it mandated.

Should this be required?

Suncorp's preference is for the KFS to be able to be sent separately from the PDS and be kept separate from the Insurance Contract Act's requirements for insurance contracts to be sent in writing.

Suncorp believes the consumer is more likely to read the KFS if it is a separate document– Suncorp's own research confirms that consumers would prefer to receive a summary and are more likely to read it than a whole PDS. However, as stated, the consumer needs to be encouraged to read the PDS as this contains the whole policy. Encouraging consumers to rely on a summary document is bad public policy as it would diminish community understanding of insurance.

As stated previously Suncorp is keen to have the Insurance Contracts Amendment Bill Section 77 passed as soon as possible to aid in the electronic sending of new PDSs/SPDs to consumers (e.g.



resulting from a common definition of flood). It is assumed that the KFS would be able to be sent this way as well, if requested, particularly as this may encourage a connection between the KFS and PDS by way of hyperlinks (for example).

An alternative option would be to use the General Insurance Code of Practice to regulate the KFS, however the Code would have to be mandated in law for all General Insurers offering the products it covers in Australia. From Suncorp's perspective this would not be a bad outcome as it would force some of the smaller general insurers, who are not currently signatories to the Code, to follow the claims handling and IDR requirements.

If the KFS statement is included in the PDS, Suncorp strongly contends that it should not be considered 'PDS content' for the purposes of Chapter 7 of the Corporations Act.

78 C What are the main advantages and disadvantages associated with the various options?

Clearly the concept requires that the KFS be sent with a policy during the cooling off period after purchase and would be done so with the PDS and the policy schedule. As stated above, if insurers were able to send the PDS (including the Insurance Contracts Act mandated 'in writing' notices) electronically with the schedule/renewal, this would make this process a lot cheaper and far more consumer friendly as the large majority of consumers prefer to receive documentation electronically.

In terms of sending with a written quote, it would be preferable to send the KFS to sending the entire PDS, as a large number of consumers shop around, and there is no perceived advantage to them receiving seven or eight different PDSs from insurers. If the KFS was truly comparable this should be more advantageous.

81 What is the appropriate sanction/remedy if an insurer:

- a. Fails to provide the key facts statement at the appropriate time; or**
- b. Provides a key facts statement which is non-compliant with the requirements?**

The power for ASIC to seek withdrawal of the product from the market until the defective statement is rectified appears to be over zealous. If the insurer has issued the product to the consumer it would have also sent the PDS, plus completed the oral disclosures (if applicable) via a call centre/face to face.

The concept of limiting reliance by insurers on exclusions that did not appear in the KFS would be very problematic, as there is no possibility that all exclusions would be included on one page.



In all instances it would be preferable to have penalties attached to the Sections as per the disclosure provisions of the Corporations Act. Clearly any penalty that resulted in the withdrawal of cover would be unwise from a public policy perspective.

82 Is there any need to clarify or prescribe the legal status of the key facts statement – in particular its relationship to the policy terms and conditions to the PDS?

Yes. It should be legislated that as long as the insurer meets the KFS requirements under the Insurance Contracts Act then the KFS can not be binding on the insurer or seen to be misleading or defective. There should be no increased exposure to liability for the insurer from providing this document. It cannot be used as a tool to interpret the cover provided by an insurance contract.

It should be prescribed that the KFS is not part of the contract of insurance and further that it is not PDS content (should it be combined in the PDS).

Should there be prescribed in detail the format (for example, font size) for various items, or is it preferable to leave some flexibility in presentation?

Suncorp is agreeable for this to be legislated, however the font can not be too small, plus the insurer's logo will need to be permitted.