Deloitte.

The new benchmark for catastrophe preparedness in Australia

A review of the insurance industry's response to the 2022 floods in South East Queensland and New South Wales (CAT221)

October 2023

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Acknowledgement

The social, economic and environmental devastation caused by CAT221 was, and remains, immense. In South East Queensland and New South Wales, CAT221 will be a defining event that will act as an historical marker – i.e. 'before the flood' and 'after the flood'.

In conducting this review, Deloitte consulted with a variety of stakeholders to understand the insurance industry's response to CAT221. As such, Deloitte would like to acknowledge and thank these stakeholders for their time and valuable input and insights. They included policyholders; local government representatives; reinsurers; regulators; representatives of reconstruction authorities; consumer and industry groups; and researchers. In particular, we thank the residents of the flood-affected communities for taking the time to speak with us about their experiences and reflections. We also acknowledge that a review of this nature, covering a large geography, many communities and all major insurers, cannot fully reflect the day-to-day experiences of those affected by CAT221.

Allianz Australia Insurance Limited

QBE Insurance

Munich Re

Legal Aid Queensland

Australian Prudential Regulation Authority

Hutchinson Builders

Gold Coast City Council

Logan City Council

Federal Member for Lilley

Federal Member for Rankin

State Member for Lismore

Northern Rivers Reconstruction Corporation

Auto & General Insurance

Royal Automobile Club of Queensland

Swiss Re

Legal Aid NSW

General Insurance Code Governance Committee

Repairhub

Gympie Regional Council

Moreton Bay Council

Federal Member for Moreton

Federal Member for Richmond

State Member for Tweed

NSW Reconstruction Authority

Hollard Insurance

Suncorp Group

Financial Counselling Australia

Australian Financial Complaints Authority

Floodplain Management Australia

Ballina Shire Council

Ipswich City Council

Richmond Valley Council

Federal Member for Oxley

State Member for Ballina

National Emergency Management Agency

Insurance Council of Australia

Insurance Australia Group

Youi Insurance

Financial Rights Legal Centre

Australian Securities and Investments Commission

Housing Industry Association

Byron Shire Council

Lismore City Council

Tweed Shire Council

Federal Member for Page

State Member for Clarence

National Hazards Research Australia

Glossary

Acronym	Full name
ABS	Australian Bureau of Statistics
AFCA	Australian Financial Complaints Authority
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
CAT	Catastrophe
CSFS	Cash Settlement Fact Sheet
DRFA	Disaster Recovery Funding Arrangements 2018
GICOP	General Insurance Code of Practice
ICA	Insurance Council of Australia
IFRS	International Financial Reporting Standards
LGA	Local government area
mm	Millimetres
PDS	Product Disclosure Statement
RACI	Responsible, Accountable, Consulted and Informed
RBA	Reserve Bank of Australia

Executive summary

Between 22 February and 9 March 2022, widespread flooding in South East Queensland and New South Wales[i] (NSW) caused extensive insured losses across thousands of households and businesses. The event, known in the insurance industry as Catastrophe 221 (CAT221), was the costliest insured event in Australian history, with the loss estimated at over $6 billion, across 242,000 claims (as of August 2023).

The value of claims incurred exceeds the combined losses of the three next costliest catastrophes in Australia since the turn of the century.

A catastrophe of this scale demanded a proportionately large response from Australia's insurance industry. It is in this context that the Insurance Council of Australia (ICA) engaged Deloitte to review the insurance industry's response to CAT221.

About this review

The purpose of the review was to identify the lessons learned, including opportunities for improvement, that can inform the industry's response to future extreme weather events in Australia. This report presents the findings of this work.

Scope of the review

The review included the eight insurers most impacted by CAT221

A&G | Allianz | Hollard | IAG | QBE | RACQ | Suncorp Group | Youi

These insurers account for almost 99 per cent of CAT221 claims.

The review areas included, but were not limited to:

- Claims handling
- Complaint handling
- Communications with policyholders, affected communities and stakeholders
- Adequacy of resources
- Adequacy of frameworks and institutions used by the insurance sector to manage catastrophe responses
- Management of pressures associated with large catastrophes
- Interaction with other stakeholders, including the government

The review focused on property damage claims against the following three insurance products:

Personal building and contents	Personal motor	Small to medium sized enterprises (SMEs)

Almost 95 per cent of the claims related to CAT221 were in relation to these products, the remaining claims were predominantly commercial claims which were not considered in this review.

[i] The weather event inundated South East Queensland from Gympie southward, before generating record-breaking flooding in the Northern Rivers and continuing south to the Hawkesbury-Nepean Valley and Sydney.

Out of scope of this review

The scope of this review does not extend to the following:

- The impact of the level of insurance protection within the community (i.e. insurance availability and affordability).
- How land use planning, building codes and requirements, preventive resilience and mitigation measures impacted the insurance industry's response to CAT221.
- An assessment of how products are designed, the policy terms and definitions, interpretation and coverage by insurers including exclusions and limitations.
- How policies were sold or distributed and whether they were suitable for the customers who purchased them.
- Any review or assessment of individual policyholders' claims or complaints, and therefore the accuracy of any decisions made by insurers.
- Assessment of the effectiveness of any third party suppliers (e.g. buliders, hydrologists, etc).
- The provision of legal opinions or development of new economic models or forecasts.

Structure of this report

Chapter 1 provides an overview of this report, including the scope of the review and activities undertaken to inform the review.

Chapter 2 provides an overview of the scale and impact of CAT221, including a description of the weather event and the scale of the devastation in the impacted communities of South East Queensland and NSW.

Chapter 3 provides an overview of the claims lodged in relation to CAT221, including the volume, closure rates and complaints.

Part I | External factors impacting the insurance industry's response to CAT221

Chapter 4 assesses the economic context at the time of CAT221, focusing on the availability of workers in the insurance industry, and on the construction, automotive and accommodation industries.

Chapter 5 assesses the regulatory and broader government context at the time of CAT221, including regulatory changes in the lead-up to CAT221 and points where government and insurers' responses overlapped.

Part II | Insurance industry's response to CAT221

Chapter 6 presents five categories used to assess the insurance industry's claims and complaints handling effectiveness. This framework is the basis of Chapters 7 and 8.

Chapter 7 asks whether insurers were prepared for CAT221 and examines catastrophe preparedness across the industry to provide an answer.

Chapter 8 assesses the effectiveness of insurers' claims and complaint handling functions in response to CAT221, including people, processes, technology and operating models, communications and governance structure.

Chapter 9 provides an overview of the role of the ICA in insurance event management, and during CAT221 in particular. This chapter also assesses the effectiveness of the Extraordinary Catastrophe declaration.

Part III | Future preparedness

Chapter 10 provides observations about the industry's preparedness for future extreme weather events.

Part IV | Recommendations

Chapter 11 concludes with seven recommendations on the key areas for improvement that need to be addressed by the Australian insurance industry to meet community expectations on responding to a catastrophe.

Review scope and context setting

To contextualise the insurance industry's response to CAT221, it is first necessary to understand the scale and impact of CAT221, and the economic environment in which insurers were operating.

Review scope

8
insurers most impacted by CAT221

~99%
of CAT221 claims

80
staff across the eight insurers interviewed and over 400 documents reviewed

10
impacted local government areas consulted (councils, elected representatives, policyholders)

CAT221 Scale and impact

2.5 to 5
times the average monthly rainfall

23
lives lost

14,000
people needed emergency accomodation

5,000
uninhabitable homes

Economic conditions

1.32
unemployed people per job vacancy (February 2022)

10.1%
annual inflation in construction output prices (Marc 2022)

131
day delivery time for a new car (March 2022)

0.7%
rental property vacancy rate in Greater Brisbane (March 2022)

Facts about the CAT221 response

This review assessed insurers' response to CAT221 across five categories: 1) planning for catastrophes, 2) resourcing, 3) operating model including process and technology, 4) communications and 5) governance.

Claims data overview

242,351
claims lodged in relation to CAT221

6x
higher claim volume than the average for catastrophes since 2016

$6b
in insurance payments

3-14%
declines as a share of claims lodged

Insurers' reponse

39,334
claims outstanding 12 months after CAT221

19 percentage points
difference in closure rates across insurers 12 months after CAT221

19-87%
increase in claims workforce

CAT221-related complaints

34,269
complaints (IDR)

94%
complaints closed within 30 days

44%
complaints due to delay in claim handling

1,712
external complaints escalated to AFCA

Report overview

Summary

The scale of CAT221 exposed areas of weakness in insurers' claims and complaints handling responses. All insurers acknowledge the scale and complexity of CAT221 challenged the insurance industry's standard response to an extreme weather event, and exposed critical areas for improvement. These areas of improvement spanned catastrophe planning through to the execution of claim and complaint handling and communication with policyholders.

The findings of the review highlight that some insurers were more effective than others at responding to the scale and impact of CAT221. The review uncovered both good practices by insurers and practices that require improvement for the industry to meet community expectations when responding to future extreme weather events.

Improvements have been made as a result of CAT221, but there is more work to be done to improve policyholder outcomes. All insurers have plans, or have already taken action, to improve claims and complaints handling to better prepare for future severe weather events. Not all insurers, however, have made substantive changes or aligned future investment to the scale required to adequately address key areas of weakness; further work is needed by some insurers to turn plans into action. Of those insurers that have made improvements, these include investing in catastrophe response technologies, formalising and strengthening oversight of third-parties, enhancing the controls in place to monitor the development of claims and complaints to identify systemic issues, improving workforce planning, and developing education plans aimed at improving the community's understanding.

This report presents seven recommendations to improve the preparedness of Australia's insurance industry to extreme weather events, which relates to the categories of catastrophe planning, customer experience, resourcing capability, operational response, governance and transparency, co-ordination with government and review of the General Insurance Code of Practice (GICOP) in the context of a catastrophe. The findings and recommendations of this review will not apply to all insurers to the same extent.

Context

Between 22 February and 9 March 2022, South East Queensland and NSW were inundated by record-breaking rainfall that caused extensive riverine, creek and overland flow flooding in areas such as Lismore, Brisbane and Gympie. It was caused by three weather systems converging on, and beyond, Australia's east coast. Monthly rainfall was between 2.5 and 5 times the average and came amidst an already wetter than average summer, which had resulted in saturated catchments.

The ICA declared an insurance catastrophe (CAT221) on 26 February 2022 for South East Queensland and extended the declaration to NSW on 28 February 2022. Early claims numbers indicated that the large-scale nature of the event and the widespread impacts to people and property would necessitate escalation and prioritisation by the insurance industry.

The number of insurance claims related to CAT221 was unprecedented. As of August 2023, 242,351 claims had been lodged in relation to CAT221. By comparison, the number of claims from CAT221 was more than six times higher than the average received for catastrophes declared since 2016. This is also 1.7 times higher than the number of claims lodged from the next largest Australian catastrophe, where 143,084 claims were lodged.[ii]

The claims from CAT221 were in addition to an already high number of open claims, driven by 6 declared insurance events in 2021. Almost 240,000 catastrophe-related claims from a range of events were open in April 2022 – 73 per cent of which related to CAT221. For comparison, at the time of writing, there are around 34,000 open catastrophe claims across the country.

Almost 200,000 claims were processed and closed in the 12 months following CAT221. This was in addition to claims relating to three other flooding events in 2022 (totalling almost 60,000 claims) and business-as-usual claims. By the first anniversary of CAT221, 84 per cent of claims were closed. However, nearly 40,000 claims remained open.

Claim closure rates varied considerably across insurers – a year on from the event, there was a 19 percentage point difference between the fastest and slowest closure rates for in-scope products (refer to 'Scope of Review' above for details of in-focus insurance products). However, speed is not the only measure of insurer performance and there are many factors that can impact closure timeframes, including but not limited to exposure to the event, policy definition and the proportion of vehicle and contents claims. Nonetheless, delayed claims handling accounted for almost half of the more than 34,000 complaints lodged in relation to CAT221 (note that data was only available from seven insurers).

ii Multiple severe thunderstorms containing hailstones impacted Sydney, the Central Coast and surrounds in 2018 (CAT185). Most of the damage related to motor vehicles.

Part I | External factors impacting the insurance industry's response to CAT221

CAT221 highlighted the role of broader factors in determining the insurance industry's response to extreme weather events. This review investigated the impact of the economic context and governments' response to CAT221 on insurers' ability to respond. There were other important factors that impacted the broader response of the insurance industry to CAT221, including the level of insurance protection within the community (driven by insurance availability, affordability and suitability) land use planning, building codes and requirements, and preventive resilience and mitigation measures. These matters were not considered directly as part of this review. However, references have been made to where these were raised or where relevant to the recommendations.

Regulatory changes and the economic consequences of geopolitical tension and a global health pandemic (to name just a few) are not relics of history. These or similar factors continue to be, and will be, ever-present in some combination, and should be planned for accordingly.

Insurers do not currently capture information on the direct effect of these external factors on claims handling. The findings of this review show that these factors likely had a meaningful – although not currently measurable – impact on insurers' response to CAT221. The lack of systematic or aggregate evidence or data collection by the insurance industry regarding the impact of external factors makes it difficult to determine the extent and importance of each factor.

Economic context

External circumstances meant that responding to CAT221 was always going to be challenging. At the time of CAT221, the world was also grappling with the ongoing economic and social consequences of the COVID-19 pandemic, and Russia's invasion of Ukraine had exacerbated global economic vulnerabilities. Border closures, supply chain shortages, labour market disruptions, high demands on the construction industry, rising interest rates (during the recovery phase) and a multitude of other economic challenges were impacting the Australian economy and insurers' ability to respond to CAT221. The presence of these factors affected the industry's response but do not explain all aspects of insurer performance.

Of particular relevance for the Australian insurance industry:

Labour market

The historically tight labour market made hiring activity extremely challenging, with insurance industry workers, particularly, in short supply.

Building materials

The lack of building materials – and the historically high prices of those available – constrained insurers' ability to rebuild in a timely manner and impacted policyholders that opted for a cash settlement

Used cars

The price and availability of new and used cars made sourcing replacement vehicles and spare parts challenging and reduced the purchasing power of policyholders with a vehicle write-off.

Accomodation

Rental vacancy rates were at historic lows in Queensland and rebounding tourism during peak seasons (particularly Easter 2022) reduced the previous spare capacity and increased prices in the tourist accommodation market.

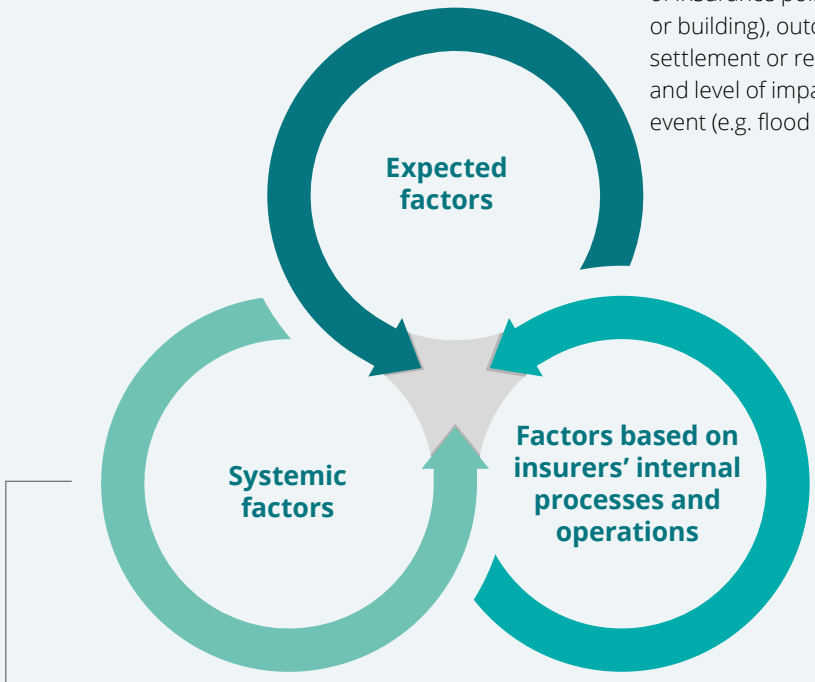
Interaction with government

Insurers were responding to a number of relatively new regulatory changes in the lead up to CAT221, including changes to the General Insurance Code of Practice, Claims Handling as a Financial Service and the Cash Settlement Fact Sheet obligation. While these had been foreshadowed in advance – in some cases, for years – the changes required insurers to undertake systems, processes and data infrastructure uplifts that were first tested during CAT221.

Insurers work alongside governments when responding to a catastrophe. In some instances, interactions between the responses by government and insurers negatively impacted policyholders and broader community stakeholders. Three key dependencies included: evidence of a declined insurance claim to access government funding, confusion and inconsistency about responsibility for clean-up and debris removal, and the need to co-incentivise building resilience investments.

Part II | Insurance industry's response to CAT221

There are many factors that impact the outcome of a claim process, particularly the timeframe for finalisation, including:



Expected factors such as the type of insurance policy (e.g. vehicle or building), outcome (e.g. cash settlement or rebuild), and the type and level of impact of the weather event (e.g. flood or bushfire)

Systemic factors such as the location of policyholders, their socioeconomic context and the economic environment.

CAT221 was most severe in the Northern Rivers. This complicated claim resolution and repairs because builders, trades people and suppliers were also recovering from the floods, making accessing necessary resources more challenging. In Lismore, for example, the local hardware businesses were flooded, making it harder to source building materials.

Factors based on insurers' internal processes and operations, such as the number of resources and capacity, the process for handling claims, the level of digitisation, the management of third-parties, and the design of policies.

This review focused on the factors caused by insurers' internal processes and operations. Consideration was given to expected factors and systemic factors; however, as noted above, the impact of these factors on insurers' response to CAT221 cannot be measured due to a lack of data.

To inform this review, the effectiveness of insurers' response to CAT221 was assessed across five categories:

Insurance assessment framework

	**Catastrophe planning** Analysed how insurers planned and prepared for CAT221.	***Chapter 7***
	**Resourcing** Analysed how insurers scaled up their claims and complaints resources to respond to CAT221.	***Chapter 8***
	**Process, technology and operating model** Analysed the scalability of processes, the operating model adopted and technology used for CAT221.	***Chapter 8***
	**Communications** Analysed the effectiveness of insurer communication with consumers throughout CAT221.	***Chapter 8***
	**Governance** Analysed how insurers maintained oversight of the claims and complaints operations.	***Chapter 8***

Catastrophe planning

CAT221 was beyond the scenario planning undertaken by, or the prior experience of, the Australian insurance industry at that time. While all insurers had a catastrophe plan in place, the extreme weather event of CAT221 occurred over such a widespread, heavily populated area of Australia that gaps in catastrophe plans were exposed and even the most comprehensive catastrophe plans or scenario planning activities by insurers were exceeded.

CAT221 – the event and the external factors playing out at the time – has set a new benchmark for community expectations around consistency and quality of catastrophe preparedness within the insurance industry. Policyholders and the broader community have higher expectations for future responses, and regulators will require action from insurers to improve policyholder outcomes.

To meet this new benchmark, an improvement in catastrophe planning is required to ensure a consistent level of baseline preparedness for extreme weather events. This baseline needs to reflect the increasingly complex climate, geopolitical and societal expectations of insurer performance (as a minimum), and flexibility and nuance in recognition of the different types of insurers and varying exposure to extreme weather events.

Resourcing

Insurer resourcing models and capacity to scale, onboard and train resources to meet increased demand is a critical component of the catastrophe response. Employees are at the core of the response and have a significant influence on whether policyholders feel supported or not following a catastrophe.

Insurers increased their claims workforce by between 19 per cent and 87 per cent in claims functions in response to CAT221. Insurers were already managing a shortage of skilled workers in the market relative to their requirements. As a result, some insurers recruited less experienced staff and, at the same time, relaxed training requirements. Consequently, in the early aftermath of the event, insurers were slower and less prepared to respond to the needs of policyholders. All insurers have increased the headcount in claims teams permanently as a result of CAT221, in anticipation of continued catastrophic events.

Whilst reactive recruitment is a necessary part of an insurer's response to large scale events, it is not effective as the only solution. Insurers need to balance preparing their workforce to respond to large scale events with the risk of under-utilising resources outside of these events. Recruitment needs to be contemplated alongside other tools to ensure a sustainable response to large scale catastrophes.

Process, technology and operating model

Responding to the scale of CAT221 tested insurers' processes, technology and operating models. CAT221 resulted in six times more insurance claims than the average seen in other major Australian catastrophes since 2016. This required significant scaling of processes, technology and operations and it took a number of months for these systems to scale to meet the demand of CAT221.

Process

Most claims processes withstood the volume of claims resulting from CAT221; these processes are tested daily through business-as-usual operations and other catastrophes. Triaging and batching claims provided an effective solution to the volume of CAT221 claims. However, testing claims processes at a scale never experienced before exposed weaknesses and identified areas for improvement. Key areas for improvement include:

- **Minimising** the need for two-step online claims lodgement processes.
- **Eliminating** the need for manual allocation of work to supply chain and third-parties.
- **Policy design**, where design features require expert assessments that are often in short supply (e.g. hydrologists), or require customers to make repairs to their property before a claim can proceed.
- **Communications processes**, which were significantly challenged by the scale of CAT221 and a record number of breaches were reported to the General Insurance Code Governance Committee.

Complaint handling processes were impacted by the same issues as claim handling, but to a lesser degree. Complaint handling timeframes required under Regulatory Guide 271 (RG271) were met for 94 per cent of internal complaints (based on data provided by seven insurers).

Technology

There were benefits and challenges with technology systems with benefits in claims handling efficiency from the use of advanced technologies. Two insurers' claims management systems had latency issues in the immediate aftermath of CAT221. The volume of user requests combined with legacy infrastructure resulted in data load delays. This technology issue created additional time delays for claims handlers during the initial response and introduced risks in recording information.

Several insurers still use DOS based systems. These systems are difficult to integrate with other systems, more inflexible in adapting to new functional requirements and ultimately impact negatively on the policyholder experience. While less of an issue for managing claims in a business-as-usual environment, this became more significant in a catastrophe situation.

Additionally, the lack of integration of the various systems which are used to handle claims and complaints added to the challenges in providing customers updates and progressing claims.

Operating model

Operating models were structured to provide dedicated leadership and oversight for CAT221, and some insurers stood up a dedicated catastrophe team and leadership structure. Most operating models in place at the time of CAT221 included governance, operational teams, supply chain management and quality assurance. In more mature operating models these included dedicated training, workforce planning, data analytics, business process improvement and technical capabilities.

Operating models included the need to manage third-party suppliers to assist with claims assessment, expert reports or services, rebuilding homes, and repairs or replacement of vehicles. Most insurers increased their panel of third-party suppliers to meet the demand of CAT221, particularly for building claims. Some insurers had pre-established supplier panels based on the requirements of extreme weather events (e.g. national coverage), and had agreements in place ahead of catastrophe season. Other insurers did not have a panel in place for hydrologists, which added to claim delays.

Communication

Communication practices and outcomes in relation to CAT221 did not meet community expectations. The number of claims associated with CAT221 was unprecedented, and insurers did not adequately scale their communication processes to meet this demand. In a smaller proportion of the total claims population this was associated with significant mental, social and financial costs for policyholders and the broader community.

Many insurers did not meet the timeframes set out in GICOP, including the requirement to provide a progress update every 20 business days for claims and every 10 business days for complaints. Insurers acknowledged it was difficult for customers to obtain updates on claim status, especially during the initial months of the response.

Feedback from regulators, policyholders and consumer representative groups indicated confusion regarding policy interpretations (such as maintenance and repair requirements) and frustration with technical aspects of the claims process (such as requirements for hydrologists to assess flood or stormwater runoff).

Further industry education regarding policy definitions, policy coverage and claims processes will help reduce confusion and associated policyholder stress during responses to extreme weather events. There is also a need for policyholders to better understand what to expect when a claim is made, and what evidence is required to support the claim, particularly during an extreme weather event.

Governance

There was a strong cultural commitment from senior leadership across all insurers to prioritise support towards those affected by CAT221 and there were well-established overarching governance frameworks. In the immediate aftermath of CAT221, insurers' senior leaders were on-the-ground to understand the impact and respond accordingly.

In responding to a disaster, data and information are needed to provide transparency, manage stakeholders and enable strategic decision making. Ongoing strategic decision making was impacted by a lack of access to data and reporting for some insurers. Some insurers had used data analysis to strategically triage and accelerate certain cohorts of claims; for example, those without flood cover (to support applications for government grants), vulnerable customers, or those that required significant repairs. For some insurers, however, limited data meant it was difficult to holistically understand the characteristics of the claims portfolio and make prompt decisions.

Insurers had varying approaches to driving consistency of outcomes in response to CAT221, particularly on the comprehensiveness of quality assurance frameworks. Most insurers relaxed quality assurance checking within claims teams as resource numbers and claims volumes scaled to meet the demand of CAT221.

Some insurers took a customer centric approach in the immediate aftermath of the event, including paying benefits that exceeded policy terms or where the policyholder had no cover under their policy. This included providing emergency cash payments to customers who were unlikely to have cover or extensions in temporary accommodation beyond the stipulated periods or where accommodation costs exceeded cover. There is insufficient data to capture the value of these types of ex gratia payments.

The role of the ICA

As the representative body of general insurers in Australia, the ICA played a co-ordinating role in the industry's response to CAT221. Overall, the ICA's response was well-received by communities, with local engagement, insurance industry coordination and the online data dashboard highlighted as positives. Stakeholders indicated that communities would benefit from ongoing contact beyond the immediate aftermath of the event, as well as improved relationship continuity outside disaster season.

A key element of the ICA's coordination role is to categorise events, which, in turn, informs the industry-wide response. The Extraordinary Catastrophe declaration within GICOP is the highest category of insurance event the ICA can declare; the declaration extends the timeframes for claims decisions, from four to 12 months. In response to CAT221, the ICA Board considered an Extraordinary Catastrophe declaration, given the extent of pressure on the insurance industry. However, this was not expected to improve customer outcomes nor meet community expectations, and it was not declared. In its current form, an Extraordinary Catastrophe is unlikely to be declared in the future and this component of GICOP needs to be reworked.

Part III | Future preparedness

We are now living in a world where high cost, billion-dollar insurance events should be expected almost yearly. Since the 1960s, 20 extreme weather events have exceeded $1 billion in insured damages (indexed to 2022 values). Of these, 15 have occurred since 1 January 2010. With the increase in frequency and severity of extreme weather events, the size and impact of catastrophes are not expected to moderate and may get worse.

CAT221 has set the new benchmark for catastrophe preparedness in Australia. Future catastrophes should benefit from the experience gained during CAT221, but only if the lessons learned result in meaningful change. The recommendations presented in this report have been designed with future preparedness at their core. With improvements, Australia's insurance industry could be in a leading position when it comes to responding to extreme weather events.

The insurance industry has started taking action to improve claims and complaint handling as a result of CAT221. In May 2023, the ICA completed an annual post catastrophe review exercise and identified opportunities for improved planning and engagement. At an individual insurer level, insurers have also established their own plans, or have taken actions, to improve claims and complaint handling for future extreme weather events.

Part IV | Recommendations

There is more work to be done to ensure the industry is prepared for future extreme weather events. This report presents seven recommendations on the key areas for improvement that need to be addressed by the insurance industry to meet community expectations.

Not all recommendations will apply to all insurers to the same extent, noting that performance varied considerably across insurers, and right-sizing will be needed to reflect insurer size, and risk exposure.

The high level recommendations are listed below, and detailed recommendations can be found on page 36.

R1	**Preparedness**	Insurers should improve catastrophe planning to meet community expectations of operating in the Australian environment. Specifically, uplift is required on preparedness for, and stress testing against, extreme catastrophes.
R2	**Customer experience**	Insurers should uplift the customer experience during catastrophes by improving how they communicate with policyholders and by delivering a consistent experience through claim handling, decisioning and any associated complaints.
R3	**Resourcing capability**	Insurers should redesign resourcing capability for catastrophe events, with particular focus on workforce planning, the catastrophe resourcing model, and catastrophe onboarding, training and competency management.
R4	**Operational response**	Insurers should assess the operational efficiencies delivered by investment in process, technology and infrastructure in the context of responding to a catastrophe.
R5	**Governance and transparency**	Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes. These insights should be used to assist management and boards with making strategic decisions in response to an event and preparing for future catastrophes.
R6	**Co-ordination with government**	More effective coordination between government and the insurance industry is required to deliver improved customer outcomes. Specifically, this includes supporting more rapid access to government funding, consistency in approach to clean-up and debris removal, and co-incentivising investments in resilience and adaptation.
R7	**Code review in the context of catastrophes**	The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review so that outcomes can be improved for policyholders and insurers.

Any investments in the operational response need to assess the improvements in claims handling during catastrophes, relative to premium affordability as well as any cost-benefit trade-offs that improvements will give in reducing claim handling costs.

Review findings and recommendations

This report has reviewed the insurance industry's response to CAT221, taking into consideration a range of perspectives, data and information sources. The review considered the insurance industry in aggregate and, as such, not all of the findings or recommendations will relate to every insurer, either because it did not impact them in their response or because they have subsequently taken steps to address the issue.

The key findings and recommendations established throughout the report are summarised below.

Context

Chapter 2 | Scale and impact of CAT221

To contextualise the insurance industry's response to CAT221, it is first necessary to understand the scale and impact of CAT221.

Finding 2.1

The scale and impact of CAT221 was devastating for many communities across South East Queensland and NSW

Between 22 February and 9 March 2022, South East Queensland and NSW were inundated by record-breaking rainfall that caused extensive riverine, creek and overland flow flooding in areas such as Lismore, Brisbane and Gympie. It was caused by three weather systems converging on, and beyond, Australia's east coast. Monthly rainfall was between 2.5 and 5 times the average and came amidst an already wetter than average summer.

- 23 lives were lost, more than 14,000 people needed emergency accommodation and 5,000 homes became uninhabitable.
- An insurance catastrophe was declared in South East Queensland on 26 February and in NSW on 28 February.
- The catastrophe caused $6 billion in insurance losses, the highest recorded from an extreme weather event in Australia's history.

Chapter 3 | CAT221 claims and complaints

The statistics on CAT221 claim volume, closure rates and complaints provide context on the scale of demand insurers were responding to and the measurable outcomes.

Finding 3.1

The number of claims related to CAT221 was unprecedented and added to an already high claim load

- 242,351 claims have been lodged in relation to CAT221, as at August 2023.
- The number of claims from CAT221 was more than six times higher than the average received for catastrophes declared since 2016. Claim numbers were also 1.7 times higher than the next largest catastrophe, a hailstorm that impacted Sydney, the Central Coast and surrounds in 2018 (CAT185), where 70 per cent of claims were for motor vehicles. In comparison, just 12 per cent of CAT221 claims were for motor vehicles.
- In April 2022 – two months on from CAT221 – there were 196,761 claims lodged for CAT221. There were already 85,953 open catastrophe claims across other events, and CAT221 tripled the existing load. By comparison, as at August 2023, there are 34,000 open catastrophe claims.

Finding 3.2

The rate of claim closures was slower than a comparable extreme weather event

In the initial aftermath of the event, claim closure rates for CAT221 were lower than for a typical extreme weather event. Claim closure rates continued to worsen for months as it took time for property to dry out and resourcing, systems and processes to catch up to demand. By October 2022 (seven months after the event) the CAT221 closure profile mirrored a typical event, albeit at a lower rate of closure.

Finding 3.3

The claim closure rate varied across insurers, but time is not a straightforward measure of performance

Claim closure rates differed across insurers; there was a 19 percentage point difference in closure rates 12 months after the event. This was due to a multitude of factors, including (but not limited to): different rates of exposure to CAT221 (and therefore claim volumes), proportion of vehicle and content claims (which are generally simpler to resolve), policy definition (particularly where flood cover is not standard), geographic coverage (some communities were impacted by further rainfall events and took time to dry out), resourcing, and effectiveness of planning, process, technology and operating models.

Finding 3.4

Delayed claim handling was the biggest driver of complaints

- More than 34,000 complaints were lodged with seven insurers in relation to CAT221 (note that data was only available for seven insurers, at the time of writing).
- 94 per cent of complaints were closed within (and inclusive of) the 30 calendar day resolution timeframe required under RG271.
- Complaints about delayed claims timelines accounted for almost half of internal complaints (44 per cent).
- Denial of claim due to an exclusion or condition, insurance coverage terms, or interpretation of product terms and conditions were also causes for complaint.

Part I | External factors impacting the insurance industry's response to CAT221

Chapter 4 | Economic context at the time of CAT221

The response of the insurance industry to CAT221 should be considered in the context of the economic climate of the time, and the external pressures faced across supply chains. These factors impacted the way in which insurers could respond, placing additional constraints on the insurance industry.

Finding 4.1

Historically tight labour market across the economy

The Australian labour market was at a historically tight level at the time of CAT221 and continued to tighten throughout the first half of 2022. This made hiring activity extremely challenging for businesses across the economy.

- Vacancies were at a historic high relative to the number of unemployed Australians in February 2022.
- Furthermore, in the year leading into CAT221 the labour market had been through a historically fast tightening period.
- Labour market tightness went on to get worse before it got better as labour demand remained strong throughout the first half of 2022.
- In NSW the unemployment rate was at its lowest level on record at the time of CAT221 and continued to trend downwards during 2022.
- In Queensland the unemployment rate remained within historical bounds at the time of CAT221, but it was below average and went on to equal the previous low later in 2022.

Finding 4.2

Insurance industry workers in short supply

Workers required by the insurance industry to meet CAT221 claims handling requirements were in short supply.

- There were high numbers of job advertisements relative to employment for insurance investigators and surveyors in Queensland and NSW at the time of the event and during recovery.
- Following the event, employment in the occupation increased, but shortages remained high.
- Historical data shows this is typically how the industry mobilises workers to meet the surge in demand following an insurance event.

Finding 4.3

Unprecedented demand and price pressures on the construction industry

Work volume and price pressures on the construction industry during the CAT221 recovery were unprecedented. This constrained insurers' ability to rebuild homes in a timely manner and impacted policyholders that opted for a cash settlement rebuilding.

- Backlogs of building work in Queensland and NSW had grown at a record pace in the 18 months (six quarters) prior to CAT221, a trend that continued following the event.
- Construction prices were at historically high levels in March 2022 and were increasing at the fastest pace on record. Price pressures accelerated further following CAT221 making it by some margin the worst period of construction price inflation on record in Australia.

Finding 4.4

Limited availability of new cars and historically high prices for used cars

The availability of new cars was severely constrained around the time of CAT221, while used car prices had risen to historical highs. This made sourcing replacement vehicles and spare parts challenging and reduced the purchasing power of policyholders with a vehicle write-off.

- Global car production was around 15 per cent below pre-pandemic levels over 2020 and 2021 leading to wait times of up to five months for a new car.
- Used car prices had increased significantly and were at all-time highs during the CAT221 recovery phase.

Finding 4.5

Limited availability of rental cars

A lack of availability in the market for rental vehicles during the recovery phase of CAT221 constrained insurers' ability to source temporary vehicles for policyholders.

- Reports suggest car rental prices were 50-100 per cent above pre-pandemic levels at the time of CAT221. Reports indicate that there was no rental car availability in Brisbane and the Gold Coast over Easter 2022.

Finding 4.6

Prices for accommodation were high and availability was low, particularly during peak tourism periods

On average, there was some spare capacity in the accommodation market, but this was largely in more expensive accommodation types and capacity was constrained during peak tourism periods. This created challenges for those seeking temporary accommodation over Easter 2022 and increased the cost of accommodation.

- The rental market was tightening, particularly in Queensland where the rental vacancy rate was at an historic low at the time of CAT221.
- On average, there was some capacity in the tourist accommodation market, although in the areas most impacted availability was focused on more expensive accommodation types. Reports also indicate issues with accommodation availability around peak times (e.g. Easter 2022).
- Average nightly tourist accommodation rates were 15-40 per cent above pre-pandemic levels in the regions most affected by CAT221.

Chapter 5 | Interaction with government and regulators

The insurance industry's response should also be considered in the context of the role of government in a catastrophe, and where this role overlaps with the insurance industry. The regulatory context and co-ordination between the insurance industry and governments both impacted the insurance industry's response to CAT221.

Finding 5.1

Implementation of the Cash Settlement Fact Sheet in close proximity to the event caused operational challenges for insurers and confusion for policyholders

The Cash Settlement Fact Sheet (CSFS) obligation came into effect not long before the CAT221 event. Changes were introduced shortly after the event to provide relief in limited circumstances under the Australian Securities and Investments Commission's (ASIC's) legislative instrument: *ASIC Corporations (Cash Settlement Fact Sheet) Instrument 2022/59*. The implementation of the obligations during the biggest catastrophe event by insurance claims volume, and subsequently adapting to the new relief and conditions was challenging for most of the insurers, and policyholders correspondingly felt confused about the lack of context and implications of another fact sheet or disclosure document from the insurers while dealing with the devastating impact of the catastrophe.

Finding 5.2

Record breaches of GICOP communication timelines

There were record levels of breaches of GICOP communication timelines, which require updates to be given to customers. Insurers found it difficult to adhere to the timeframes, particularly in the first few months after the event due to capacity constraints.

Insurers need to improve communications with customers in a catastrophe in order to meet community expectations and improve the customer experience. This could be achieved through a more deliberate communication plan for catastrophes, which aims to maximise the impact of communications and meet the principles of the code.

The solution is not a blanket extension of timelines, as this would not meet community expectations. Any revised approach to communication in catastrophes would need to build confidence that customer experience and communications would improve overall.

Any changes to the Code would need to be considered as part of the upcoming independent code review and be accepted by the General Insurance Code Governance Committee (***see Recommendation 7***).

Finding 5.3

Denied insurance claim required by government funding programs

Eligibility criteria for many major state government funding programs include evidence of a denied insurance claim (where the applicant holds an insurance policy). Where funding windows were time limited, some flood-affected residents were unable to access government support as they were waiting on the denied claim. This meant that some customers had to wait months to be able to access government support.

Finding 5.4

Inconsistent approach to clean-up and debris removal

With different guidelines for clean-up of debris and damaged contents in the aftermath of CAT221, there was confusion for policyholders as to when clean-up processes could begin. This was further complicated by policies that were inconsistent across insurers. Governments tasked with clean-up and waste removal were required to visit the same street/area multiple times. Local governments noted that this led to inefficient use of council resources. This issue is currently being worked on by the ICA.

Finding 5.5

Retrofitting to enhance disaster resilience is typically not covered by insurance

Affected residents faced challenges when seeking to retrofit their properties to enhance resilience. Many insurance policies only cover repairs that return the property to its original condition and resilience level. While there is an allowance for improvements to meet new building codes, this does not normally extend to increasing flood or disaster resilience.

Part II | Insurance industry's response to CAT221

Chapter 6 | Insurer assessment framework

Insurers' response to CAT221 was assessed across five categories:1) planning for catastrophes, 2) resourcing, 3) operating model including process and technology, 4) communications and 5) governance.

Finding 6.1

CAT221 exposed areas of weakness in insurers' claims and complaint handling response

Notwithstanding the complex context that CAT221 occurred in, the event exposed areas for improvement across the insurance industry. These areas of improvement ranged from catastrophe planning through to the execution of claim and complaint handling as well as communication with policyholders.

Finding 6.2

Insurer performance was varied

Insurer performance on the five review domains varied across the industry. The review uncovered both good practices by insurers and practices that require improvement for the industry to meet community expectations when responding to future extreme weather events. The findings and recommendations of this review will not apply to all insurers to the same extent.

Chapter 7 | Were insurers prepared for CAT221?

CAT221 was beyond the expectations of the insurance industry. Insurers had catastrophe plans in place, however these varied in applicability and usefulness in response to the scale of CAT221. CAT221 occurred over a widespread, densely populated area of Australia, which meant that even the most comprehensive plans were exceeded and those that were not comprehensive were limited in value.

Finding 7.1

CAT221 exceeded the bounds of catastrophe planning

Most insurers noted that whilst they had a catastrophe plan in place, the severity of CAT221 and related economic conditions had not been anticipated in the design of the plan, which limited the applicability and usefulness. Catastrophe plans across the industry varied in depth, structure and content. Some catastrophe plans were very comprehensive, while others were not.

Finding 7.2

Operational scenario planning was limited and varied across insurers

Operational scenario planning is used to help insurers prepare for and stress test their operations to cope with extreme weather events. This planning was not completed or valued consistently across the industry in the lead up to CAT221.

Finding 7.3

Post event reviews led to improvements after CAT221, but there is scope for further improvement

Learning from catastrophic events and implementing changes is one of the most effective ways of improving insurer preparedness for future events. Insurers have already implemented changes as a result of CAT221; however, there is still more to do. Some insurers have taken over 18 months to finalise post event reviews.

Chapter 8 | Review of claims and complaints handling

Resourcing

The insurance industry faced significant challenges securing a workforce of the scale required to meet CAT221 demand. While most insurers were able to recruit significant volumes of staff, the combination of a less experienced workforce, training standards being relaxed and a range in competency measurements impacted the quality of claims and complaints management.

Finding 8.1

Range of maturity in workforce planning functions

There was a range of maturity in workforce planning functions that were used by insurers to identify the number of resources required to respond to CAT221 for both claim and complaint handling teams. Where third-parties were used, some insurers extended planning to include the capacity of third-parties, while others did not.

Finding 8.2

Insurers significantly increased their workforce to respond to CAT221 and this put pressure on operations

Insurers reported an increase in their headcount in claims and complaints teams by over 2,200 people following CAT221. This was in the context of extremely tight labour market conditions and, therefore, staff recruited were largely unskilled in claims and complaints management. This level of recruitment put increased pressure on insurer operations.

Whilst recruitment is an integral part of an insurer's response to large scale events, it is not effective as the only solution. Insurers need to balance preparing their workforce to respond to large scale events with the risk of under-utilising resources outside of these events. Recruitment needs to be contemplated alongside other levers so that insurers can sustainably respond to large scale catastrophes.

Finding 8.3

Training standards for new staff were relaxed to respond to CAT221, which impacted the policyholder experience

Given the large number of resources that insurers had to on-board as CAT221 unfolded, training standards for new staff were relaxed. This had an impact on policyholders' experience, particularly in the initial period after the event.

Some insurers did not have well established training and competency frameworks in place, and this impacted their ability to adequately train large numbers of staff in a short timeframe.

Process, operating model and technology

The severity of CAT221 and the extent of disruption caused by CAT221 presented unexpected and unplanned for demand on the insurance industry. Processes, technology and operating models should be reviewed such that insurers are better equipped to face extreme weather events in the future.

Process

Finding 8.4

Policyholders were unclear on claims timelines

Insurers did not set out the expectation of claim timelines in a standard way to policyholders. This led to misunderstandings and a mismatch between the expectations of policyholders and insurers regarding how long claims management would take. Delays in claim handling was the number one reason for complaints and this caused significant stress in the system.

Finding 8.5

Multiple factors impacted claim timelines, but the extent to which these factors caused issues cannot be determined by insurers due to data limitations

It was difficult to assess which factors had the greatest impact on claim timelines and which areas of processes caused the largest delays; there are many interrelated factors that impacted claim timelines. Some of these factors were expected, some were caused by external and economic conditions, whilst others were within insurers' control and could have reasonably been mitigated. The impact of each type of delay on timelines cannot be quantified as insurers did not capture information in a way that can be analysed.

Finding 8.6

CAT221 exposed areas of weakness in the claims process, particularly in manual processes

Claims processes were tested at a scale never experienced before and this exposed areas of weakness, particularly where the processes were manual. Insurers faced challenges with two-step lodgement processes, manual allocation of cases to third party suppliers where systems were not integrated and where policy terms required expert assessments, yet experts were in short supply (e.g. hydrologists).

Finding 8.7

Record breaches of GICOP communication timeframes

Insurers did not meet the requirements for communication processes and this resulted in a record level of breaches of the General Insurance Code of Practice reported to the Code Governance Committee

Finding 8.8

Complaint handling was impacted by the same issues as claim handling, with External Dispute Resolution being most impacted

Complaint handling timeframes were met for 94 per cent of complaints. Resourcing, process, operating model and technology issues impacted complaints functions and require improvement for future events, though to a lesser degree than claims functions. Complaint handling was absent from most catastrophe planning undertaken by insurers.

Delays in providing customers updates on their claim every 10 days were significant, especially in the early stages of the response. Delays in responses to the Australian Financial Complaints Authority (AFCA) were also a challenge for most insurers during the initial stages of the event, and two insurers were outside of agreed timelines for resolving EDR complaints for at least four months following the event.

Finding 8.9

Triaging and batching claims provided an effective solution to the volume of CAT221 claims

In a catastophe environment where there were signifcant volumes of claims, triaging and batching for bulk resolution was an effective solution in driving faster resolution. It had the added benefit of increasing consistency of customer experience. Triage was not adopted consistently by all insurers.

Finding 8.10

The execution of vulnerability frameworks lacked consistency and it was difficult to identify all customers experiencing heightened vulnerability

Most policyholders are likely to experience a level of vulnerability at some point in the aftermath of such a significant event. During CAT221, some policyholders experienced elevated levels of vulnerability, for example domestic violence or financial abuse.

Insurers have invested in frameworks to support vulnerable customers; however, the execution of these frameworks – and the policyholder experience during CAT221 – lacked consistency and it was difficult for insurers to identify all customers experiencing heightened levels of vulnerability.

Operating model

Finding 8.11

Dedicated teams and leadership structures were established to oversee CAT221

Insurers had dedicated teams and leadership structures to oversee CAT221, some of which were set up in response to the event itself and have since been made a permanent feature of organisational structures.

Insurers with more advanced operating models included operational excellence capabilities such as business process improvement, workforce planning, data and technology and training. These improvements enabled a higher level of agility in a time of catastrophe.

Finding 8.12

Most insurers increased their panel of third-party suppliers to meet the demand of CAT221

Insurers manage a number of third-party suppliers as part of the claim handling process. This requires dedicated structures to manage third-parties, which can include (but is not limited to): expert assessors, builders, vehicle towing, car repairers, loss adjusters and outsourced claims management. During CAT221, almost all insurers increased their panel of suppliers, which created further challenges in the context of the macroeconomic environment. Third-parties should be reviewed as part of catastrophe and scenario planning.

Technology

Finding 8.13

Technology capability can significantly improve policyholders' experiences or exacerbate frustrations

The volume of claims put strain on some legacy systems. Additionally, the lack of integration of the various systems which are used to handle claims and complaints, added to the challenges in providing customers updates and progressing claims.

Investment in technology and underlying systems can improve the timeliness for handling claims, as well as customer and staff experience. Improvements in technology systems should also reduce overall costs to handle claims for insurers. Some insurers have invested in automation, machine learning and AI to improve the claims and complaints process.

All insurers have either upgraded some element of their technology systems since CAT221 or have a roadmap for technology investment planned.

Communications

Frequent and clear communication of claims handling and decisions are essential for policyholders. CAT221 tested both internal and external communication procedures, and should be improved for future events.

Finding 8.14

Communication practices did not meet community expectations

Communication practices and outcomes in relation to CAT221 did not meet community expectations. The number of claims associated with CAT221 was unprecedented, and insurers did not adequately scale their communication processes to meet this demand. In a smaller proportion of the total claims population this led to significant mental, social and financial costs for policyholders and the broader community.

Finding 8.15

Poor quality communications and customer experiences led to complaints about coverage, policy terms and other service related issues

Aside from delays, the top reasons for complaints included poor experiences in relation to the explanation of terms, interpretation of terms and conditions and other service-related issues.

During consultations policyholders and representatives said they had to repeat themselves regularly through the claims and complaint handling process. In addition, they did not have a sound understanding of what to expect from insurers regarding the policy response, claims handling and the rebuild/repair processes. This led to confusion and misaligned expectations about next steps and timeframes, which was exacerbated by a lack of proactive communication by insurers.

Governance

The governance structures within the insurance industry were not always robust in the face of CAT221. A review of such structures can support both insurers and policyholders in future extreme weather events.

Finding 8.16

Governance was well established and decisions were made quickly in the immediate aftermath of the event

Insurers had a strong cultural commitment from senior leaders to prioritise support towards those affected by CAT221. Decisions were made quickly, where needed, as the event unfolded.

Overarching governance frameworks were well established. Insurers had clear cadences in place for operational, management and board meetings, which were elevated and maintained during the catastrophe response.

Finding 8.17

As the event progressed strategic decision making was impacted by the lack of data and information, particularly from third party suppliers

For some insurers, the ability to make ongoing strategic decisions was impacted by the lack of access to data from third-party supplier systems (e.g. builders, hydrologists and loss adjusters). Tactical solutions via spreadsheets were put in place to plug gaps in information during the event.

Finding 8.18

There were varied governance frameworks to support consistent claims decision making

Insurers had varying levels of governance frameworks in place to support consistent decision making in claims and complaints functions. In the early aftermath of the event some quality assurance and governance standards were relaxed which impacted customer outcomes. The benefits of getting decisions 'right-first-time' include reduced processing times, reduction in rework, reduced costs (including leakage), and reduced frustration and poor experiences for policyholders.

Finding 8.19

Some policy terms exacerbated claim handling delays

There were some policy terms that resulted in longer claim handling timeframes; for example, because the policy term required an expert assessor that was likely to be in short supply. With the volume of claims impacted by CAT221 and other floods, this exacerbated delays, and customer frustration as well as insurer costs.

Finding 8.20

Australian insurers more likely to manage the rebuild process than other countries

Australian insurers provide policy benefits that result in the insurer taking control of rebuilding or repairing a property. Cash settlements are used for emergency payments and other scenarios when rebuild or repair is not appropriate (e.g. when the cost of repair exceeds the sum insured). This reduces the burden on policyholders as they are not required to project manage the rebuild or repair of their property in a challenging economic environment and, in most cases, is a better outcome for policyholders.

This is a benefit that is not widely offered in other countries. For example, in the United States and Japan, most insurers provide cash settlements and, in the United Kingdom and Canada, insurers provide a mix of cash settlements and insurer-led rebuild or repair.

Finding 8.21

Incorporating external views and particularly a 'customer voice' into governance leads to improved future outcomes

Good governance includes capturing external views. There is benefit in having a 'voice of customer' embedded within the business for both claims and complaints functions and some insurers already have a customer advocate in place as well as regular connection points with consumer groups. Anecdotally, these insurers were named more frequently as providing a good experience for policyholders during consultations.

Engaging with consumer representatives who are often on the frontlines supporting some of the insurers' most vulnerable customers is a valuable exercise that can improve outcomes for insurers and policyholders. Having a formal mechanism to engage with them and embed learnings will assist insurers in minimising the likelihood of repeat issues across future events.

Chapter 9 | Role of the ICA

The ICA plays a number of important roles preceding, during and following an extreme weather event, including industry-wide coordination and the declaration of catastrophes to mobilise resources. The ICA's response to CAT221 was, overall, well-received; however, there remain areas for improvement.

Finding 9.1

The ICA's response was well-received by communities and assisted in providing clarity to broader stakeholder groups

Overall, the ICA's response was well-received by communities, with local engagement, industry coordination and the online data dashboard highlighted as positives. Stakeholders indicated, however, that communities would have appreciated on-going contact outside of events, especially during the recovery, as well as improved relationship continuity outside disaster season.

Finding 9.2

An Extraordinary Catastrophe was not declared for CAT221 and, in its current form, is unlikely to be declared in the future

The Extraordinary Catastrophe declaration was designed to provide industry-wide relief on claim decision timeframes, extending the Code timeframe from four to 12 months. However, this relief is one sided; policyholders do not benefit if an Extraordinary Catastrophe is declared. An Extraordinary Catastrophe was not declared by the ICA Board for CAT221 because a timeframe extension was not expected to improve customer outcomes nor meet community expectations. Industry stakeholders expect that – in its current form – it is unlikely to be declared in the future.

Part III | Future preparedness

Chapter 10 | Preparedness for future extreme weather events

Future catastrophes should benefit from the CAT221 experience, but only if the lessons learned result in meaningful change. Insurers already have plans in place to improve claims and complaints handling practices and to better prepare for future severe weather events.

Finding 10.1

Improvements have been made as a result of CAT221

All insurers have plans, or have already taken action, to improve claims and complaints handling to better prepare for future severe weather events.

All insurers acknowledge the scale of CAT221, coupled with the economic and regulatory context at the time, challenged the insurance industry. As a result, each insurer either has a plan – or has begun developing a plan – to improve the effectiveness of claims and complaints handling functions. This includes (but is not limited to):

- Investing in catastrophe response technologies, such as enhancements to weather alerts, deploying geospatial mapping capabilities to effectively monitor the risk profiles of severe weather events, proactively contacting policyholders to prepare for events and to identify impacted policyholders for claim reminders.
- Formalising and strengthening oversight of external partners or third parties.
- Enhancing the controls in place to track and monitor the development of claims and complaints to identify systemic issues.
- Improving workforce planning functions to support with forecasting resources required during catastrophe season.
- Developing education campaigns to remind policyholders to prepare for severe weather events, and to clarify the policy requirements regarding maintenance and wear and tear.

Part IV | Recommendations

Chapter 11 | Recommendations

This report presents seven recommendations on the key areas for improvement that need to be addressed by the Australian insurance industry to meet community expectations on responding to a catastrophe.

Not all recommendations will apply to insurers to the same extent, noting that performance varied considerably across insurers, and right-sizing will need to reflect insurer size, and risk exposure.

R1 **Recommendation 1** | Catastrophe Preparedness

Insurers should improve catastrophe planning to meet community expectations of operating in the Australian environment. Specifically, uplift is required on preparedness for, and stress testing against, extreme catastrophes.

Five key areas that would make a significant improvement in catastrophe preparedness are:

1. **Catastrophe response plans**
   Catastrophe plans should contain sufficient detail on: event declaration protocol, roles and responsibilities, resourcing strategy, communication strategy, logistical management, risk management, staff health and safety measures, reporting and governance to act as a reliable course of action and build confidence in the business response.

2. **Scenario planning and stress testing**
   Insurers should conduct operational and economic stress testing to identify and understand vulnerabilities within their product portfolio, operations and dependencies on market conditions when responding to catastrophes. The stress testing will need sufficient allocated resources and should be conducted alongside normal business activity to simulate realistic catastrophe operating environments.

3. **Post event reviews**
   Post event reviews should be completed within 12 months of the initial event and should have clear outcomes, actions and owners to drive areas of identified improvements. Insurers should consider getting an "outside-in" view of performance as part of any review.

4. **Design of policies for catastrophes**
   Where policy terms are known, or expected, to create bottlenecks or claims handling delays during periods of high claim volumes, insurers should consider how or if the policy terms or associated claims processes can be changed.

5. **ICA planning**
   The ICA should consider introducing a baseline category as part of the Insurance Event Management Plan to support industry and community preparedness for extreme weather events.

R2 **Recommendation 2** | Customer experience

Insurers should uplift the customer experience during catastrophes by improving how they communicate with policyholders and by delivering a consistent experience through claim handling, decisioning and any associated complaints.

Four areas that would make a significant improvement in customer experience are:

1. **Communication**
   Communication should be improved through a holistic review and improvement of the customer journey before, during and after catastrophes. This should include consideration of purpose, important touchpoints, type of communication, channel, reasonable frequency and supporting tools, templates and technology. Communication plans should address both the scale of demand and community expectations about customer service during a time of largescale trauma.

2. **Claim handling**
   Insurers should improve the consistency of the customer experience through decision making, by enhancing governance and quality assurance standards. Where governance and quality standards are relaxed in the early aftermath of an event (due to processing constraints), insurers should undertake proactive reviews and remedial work to correct issues without customers needing to identify them.

3. **Customer treatment strategy**
   Insurers should review the effectiveness of the definition, identification and support of vulnerable customers during catastrophes. Consideration should be given to other ways of categorising and supporting customers through events given that, after a large-scale catastrophe, most customers will be, in some way, vulnerable.

4. **External voice of customer**
   Insurers should improve the ways they embed a "voice of customer" into their operations, through a customer advocate or alternate means, and take meaningful action to incorporate lessons learned.

R3 **Recommendation 3** | Resourcing capability

Insurers should redesign resourcing capability for catastrophe events, with particular focus on workforce planning, the catastrophe resourcing model, and catastrophe onboarding, training and competency management.

Three areas that would make a significant improvement in resourcing are:

1. **Workforce planning**
   Workforce planning functions should be reviewed or bolstered, where necessary, to support better management during catastrophes. Workforce planning should be used by insurers to understand the impact of resourcing levels on claims and complaints timelines, and drive decision making regarding resourcing needs. This should include any third-party workforces.

2. **Catastrophe resourcing model**
   Resourcing models for catastrophes should be diversified to mitigate against risks and dependencies in the labour market and broader economic conditions. Resourcing models should consider more than one channel to increase skilled capacity (e.g. recruitment, redeployment, utilising global networks, modifying work hours, and using third-parties).

3. **Catastrophe onboarding, training and competency management**
   Onboarding, training and competency frameworks to prepare new hires for claims and complaint handling roles during a catastrophe should be reviewed or established. Consideration should be given to the maximum number of resources the training and onboarding team can manage at any one time during a catastrophe to maintain a baseline level of skills and quality of handling. Insurers should also consider providing claims and complaints staff with industry recognised accreditation or certificate level training.

Insurers should take steps to minimise the required increase in resources during catastrophes through improvements in technology and process infrastructure. (See Recommendation 4).

R4 **Recommendation 4** | Operational response

Insurers should assess the operational efficiencies delivered by investment in process, technology and infrastructure in the context of responding to a catastrophe.

Five areas that would make a significant improvement in the operational response are:

1. **Reduction in manual processes**
   Insurers should review the manual processes that result in bottlenecks during catastrophes, to consider how digitisation or re-engineering would improve claim processing.

2. **Accelerated triage**
   Insurers should consider triaging to accelerate claims in a catastrophe, including batching, automating and bulk processing cohorts of claims. For triage to be successful, insurers need a level of consistency in policy definitions and terms across the portfolio, robust data capture, and pre-identification of processes that can be automated or handled in bulk.

3. **A single claims (customer) view**
   Insurers would benefit from an integrated infrastructure that allows them to understand, track and monitor claims, including third-party supplier involvement, to enable improved decision making and better interaction and information provision to customers.

4. **Customer application**
   To support customer communication, insurers could consider an app or portal for customers to self-serve information on claim process, status, time to next update, key contact details etc. Further advancements could include the ability to extract claim details for third-parties (e.g. government, banks).

5. **Advanced technologies**
   Insurers should consider the commercial feasibility of technologies such as machine learning, automation and generative AI to improve handling times and customer experience, particularly in the context of responding to a catastrophe

R5 **Recommendation 5** | Governance and transparency

Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes. These insights should be used to assist management and boards with making strategic decisions in response to an event and preparing for future catastrophes. The ICA should actively work with insurers to collate and communicate claims data in a way that meets community expectations on timeliness and quality.

Two areas that would make a significant improvement in governance and transparency are:

1. **Data capture, modelling and reporting**
   Insurers should improve data capture, modelling and reporting to assist with identifying and mitigating against factors that impact their ability to progress claims in response to a catastrophe, including bottlenecks (e.g. hydrology reports).

2. **ICA data capture**
   To provide greater transparency on the industry's response to catastrophes, the ICA should develop a data dictionary to enhance industry-wide reporting and investigate the feasibility of extending data capture to other claim outcome measures such as closure rates, quality and complaints.

R6 **Recommendation 6** | Coordination with government

More effective coordination between government and the insurance industry is required to deliver improved customer outcomes. Specifically, this includes supporting more rapid access to government funding, a consistent approach to clean-up and debris removal, and co-incentivising investments in resilience and adaptation.

Three areas for more effective coordination with government that would deliver significant improvements for policyholders and their communities are:

1. **Government funding eligibility**
   Improved coordination between insurers and government is required when access to government disaster funding requires evidence of an insurance claim status. Improvements should focus on removing unnecessary information requirements, agreeing the format and nature of information required, and alignment on timeframes.

2. **Clean-up and debris removal**
   Standardised guidance should be jointly developed by the insurance industry and government on clean-up processes after a severe weather event. This guidance should be consistent across all insurers and levels of government and communicated to policyholders and other stakeholders in the waste removal process.

3. **Co-incentivise resilience investments**
   Improvements should be made to encourage investments in resilience and adaptation when rebuilding following a catastrophe or severe weather event (where this is cost-beneficial). This should involve coordination between government and the insurance industry to co-incentivise these investments to create mutually beneficial outcomes for the government, insurance industry and more importantly, the customer and their community.

R7 **Recommendation 7** | Code review in the context of catastrophes

The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review so that outcomes can be improved for policyholders and insurers.

In reviewing the Code, consideration should be given to two key areas.

1 **Objective definition**

An objective definition of an Extraordinary Catastrophe should be developed. This definition should be based on factors such as the type and scale of a weather event, the size of the population impacted and the macroeconomic conditions.

2 **Type of relief**

The type and level of relief provided to insurers in an Extraordinary Catastrophe should be considered, as should the consequences for fair and efficient claims handling. This includes:

- The timing of the relief – before the event, in the immediate aftermath and up to 12 months following the event.
- Factors other than timeframes that could be subject to relief.
- The minimum commitments insurers are expected to meet; for example, prioritising vulnerable customers, supporting policyholders with emergency situations, including temporary accommodation, and communication standards.

1 About this report

Key points

- Deloitte was engaged by the Insurance Council of Australia to conduct an external review of the insurance industry's response to the South East Queensland and New South Wales (NSW) floods in February and March 2022 ("CAT221").
- This report presents the findings and recommendations of the review.

1.1 Scope of the review

The Insurance Council of Australia (ICA) engaged Deloitte to review the insurance industry's response to CAT221 to identify the lessons learned – with regards to both better practice and opportunities for improvement – that could inform the industry's response to future extreme weather events in Australia.

Scope of the review

The review included the eight insurers most impacted by CAT221

A&G | Allianz | Hollard | IAG | QBE | RACQ | Suncorp Group | Youi

These insurers account for almost 99 per cent of CAT221 claims.

The review areas included, but were not limited to:

- Claims handling
- Complaint handling
- Communications with policyholders, affected communities and stakeholders
- Adequacy of resources
- Adequacy of frameworks and institutions used by the insurance sector to manage catastrophe responses
- Management of pressures associated with large catastrophes
- Interaction with other stakeholders, including the government

The review focused on property damage claims against the following three insurance products:

- Personal building and contents
- Personal motor
- Small to medium sized enterprises (SMEs)

Almost 95 per cent of the claims related to CAT221 were in relation to these products, the remaining claims were predominantly commercial claims which were not considered in this review.

1.1.1 Out of scope of this review

The scope of this review does not extend to the following:

- The impact of the level of insurance protection within the community (i.e. insurance availability and affordability).
- How land use planning, building codes and requirements, preventive resilience and mitigation measures impacted the insurance industry's response to CAT221.
- An assessment of how products are designed, the policy terms and definitions, interpretation and coverage by insurers including exclusions and limitations.
- How policies were sold or distributed and whether they were suitable for the customers who purchased them.
- Any review or assessment of individual policyholders' claims or complaints, and therefore the accuracy of any decisions made by insurers.
- Assessment of the effectiveness of any third party suppliers (e.g. buliders, hydrologists, etc).
- The provision of legal opinions or development of new economic models or forecasts.

Other reviews and the House of Representatives Standing Committee on Economics' inquiry

Several other reviews have considered, or are considering, the interactions between policyholders and insurers in relation to CAT221. The scope of each review is tailored to the inquirer and its stakeholders; however, the scope of each review complements or overlaps with Deloitte's review.

Deloitte has considered the findings of the reviews available at the time of writing, including (but not limited to):

- ***REP 768 Navigating the storm: ASIC's review of home insurance claims***, ASIC, released 16 August 2023
- ***2022 Flood Inquiry***, NSW Government, released 29 July 2022
- ***South East Queensland Rainfall and Flooding February to March 2022 Review***, Office of the Inspector-General of Emergency Management, released 31 August 2022
- ***Community experiences of the January – July 2022 floods in New South Wales and Queensland***, Natural Hazards Research Australia, released 3 May 2023

Following a reference from the House of Representatives on 7 August 2023, the House of Representatives Standing Committee on Economics commenced an inquiry into insurers' responses to 2022 major floods claims, including CAT221. The committee is to report by 30 September 2024. No findings have been released at the time of writing this review.

1.2 Approach to the review

In reviewing the insurance industry's response to CAT221, Deloitte's approach combined detailed analysis of insurers' claims and complaints handling processes with stakeholder perspectives on insurer outcomes. This included stakeholders internal to the insurance industry, regulators and broader community stakeholders. (See overleaf for an overview of the specific activities undertaken as part of the review).

In addition, Deloitte conducted supporting research to validate or challenge findings from the analysis of insurers' claims and complaints handling processes in response to CAT221. This included investigating the impact of external factors on insurers' ability to respond, particularly the economic context and overlap in insurers' and governments' responses.

Activities undertaken as part of the review

80 staff members

\We interviewed more than 80 staff members across the eight insurers in 34 interviews over 45 hours. These staff represented a range of executives, heads of departments and managers.

400 documents

More than 400 documents were requested and reviewed, and system walkthroughs were undertaken. These covered catastrophe response plans, claims and complaints handling documents, management reports and board reports.

Claim and complaint data

Quantitative data was reviewed for eight insurers on claims and complaints, to identify the measurable outcomes of claims and complaints handling.

27 responses

There were 27 responses to a public survey inviting policyholders to provide insights into their experience with their insurer.

50 people

More than 50 people impacted by the event were consulted, including policyholders, 10 elected representatives of 10 local governments, to understand their experience with their insurer and/or the community's experiences with the insurance industry more broadly.

External stakeholders

Other critical stakeholders were consulted, including regulators, the Australian Financial Complaints Authority (AFCA), General Insurance Code Governance Committee, reinsurers, reconstruction authorities, consumer groups, researchers and businesses in the supply chain (including in the construction and automotive industries) to gain deeper understanding of the external factors affecting insurers' responses.

Insurance experts

Insurance experts in the United Kingdom, Canada and New Zealand were consulted, to understand how other countries respond to catastrophes and identify lessons that can be learned.

Previous inquiries

Key findings and recommendations from previous inquiries into CAT221 were reviewed, as well as inquiries into other recent extreme weather events in Australia.

1.3 Structure of the report

Chapter 2 provides an overview of the scale and impact of CAT221, including a description of the weather event and the scale of the devastation in the impacted communities of South East Queensland and NSW.

Chapter 3 provides an overview of the claims lodged in relation to CAT221, including the volume, closure rates and complaints.

Part I | External factors impacting the insurance industry's response to CAT221

Chapter 4 assesses the economic context at the time of CAT221, focusing on the availability of workers in the insurance industry, and on the construction, automotive and accommodation industries.

Chapter 5 assesses the regulatory and broader government context at the time of CAT221, including regulatory changes in the lead-up to CAT221 and points where government and insurers' responses overlapped.

Part II | Insurance industry's response to CAT221

Chapter 6 presents five categories used to assess the insurance industry's claims and complaints handling effectiveness. This framework is the basis of Chapters 7 and 8.

Chapter 7 asks whether insurers were prepared for CAT221 and examines catastrophe preparedness across the industry to provide an answer.

Chapter 8 assesses the effectiveness of insurers' claims and complaint handling functions in response to CAT221, including people, processes, technology and operating models, communications and governance structure.

Chapter 9 provides an overview of the role of the ICA in insurance event management, and during CAT221 in particular. This chapter also assesses the effectiveness of the Extraordinary Catastrophe declaration.

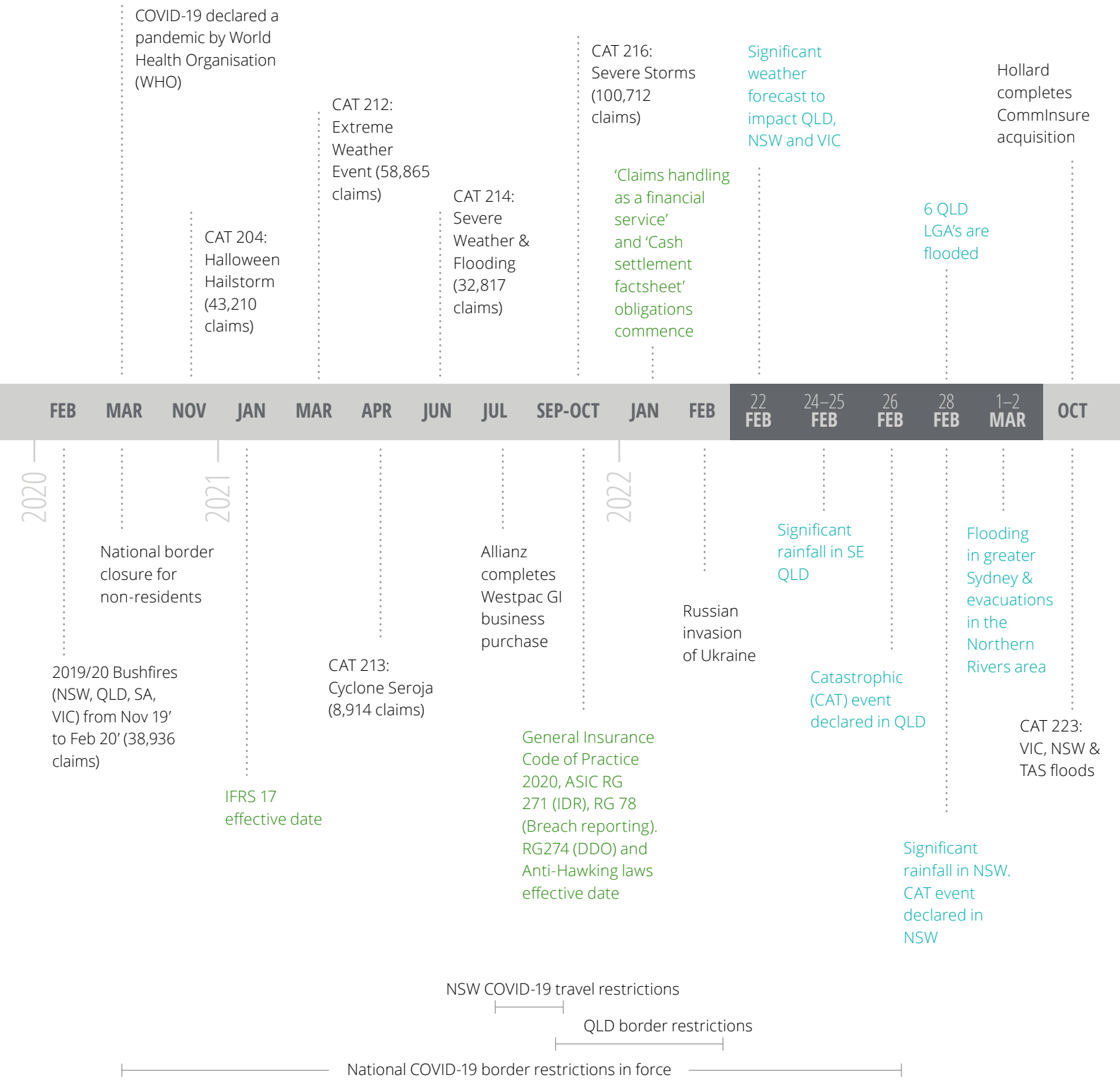
Part III | Future preparedness

Chapter 10 provides observations about the industry's preparedness for future extreme weather events.

Part IV | Recommendations

Chapter 11 concludes with seven recommendations on the key areas for improvement that need to be addressed by the Australian insurance industry to meet community expectations on responding to a catastrophe.

Timeline
CAT221 & proximal events



2 Scale and impact of CAT221

Key points

- Between 22 February and 9 March 2022, South East Queensland and NSW were inundated by record-breaking rainfall that caused extensive riverine, creek and overland flow flooding including areas such as Lismore, Brisbane and Gympie.
- Individual and community trauma caused by this extreme weather event was immense – 23 lives were lost, more than 14,000 people needed emergency accommodation, 5,000 homes became uninhabitable and the effects on mental health will play out for decades to come.
- An insurance catastrophe was declared in South East Queensland on 26 February and in NSW on 28 February.
- The catastrophe caused $6 billion in insurance losses, the highest recorded from an extreme weather event in Australia's history.

2.1 South East Queensland and NSW flooding event

The water had nowhere to go but up

The severity of CAT221 was largely due to a 'perfect storm' of weather conditions that converged before and during the rainfall event.

In the months leading up to CAT221, three climate drivers – a La Niña weather pattern, a positive Southern Annular Mode and a negative Indian Ocean Dipole – contributed to above average rainfall and soil saturation in areas that would later flood.[1] These weather conditions created a scenario that would intensify the effects of heavy rainfall in subsequent periods.

The rainfall that caused CAT221 occurred between 22 February and 9 March 2022. It was caused by three weather systems converging on and beyond Australia's east coast, leading to heavy rainfall.[2] The heavy rainfall was supplemented by localised thunderstorms.

The Bureau of Meteorology (BoM) issued its first heavy rainfall warning for South East Queensland on 21 February. The next day, severe thunderstorms developed between Gympie and Moreton Bay on the Queensland coast. At 11:21pm, the first flood warning was issued for Gympie's Mary River.

The next day, the BoM issued more warnings for the Queensland coast, down to the Upper Brisbane River. Heavy rain and strong winds continued to batter Queensland's coast between Gympie and Brisbane over 23–24 February. By 25 February, near-uniform major flood warnings had been issued across South East Queensland.

Between 25 and 27 February, a slow-moving trough deepened, delivering intense rainfall – coined a 'rain bomb' – along the coast. Further, despite predictions that the system would move offshore before it reached NSW, its course steadied and continued onwards towards the Northern Rivers in Northern NSW.[3]

Across South East Queensland and NSW, monthly rainfall was between 2.5 and 5 times the average. Brisbane recorded 78 per cent of its yearly average rainfall during 23–28 February alone.[4] The most intense falls occurred on 27 February, Brisbane recorded its highest daily rainfall at the current gauge (228.4mm). On the same day, Upper Springbrook (about 25 kilometres south-west of the Gold Coast) topped state gauges with daily rainfall of 530mm.

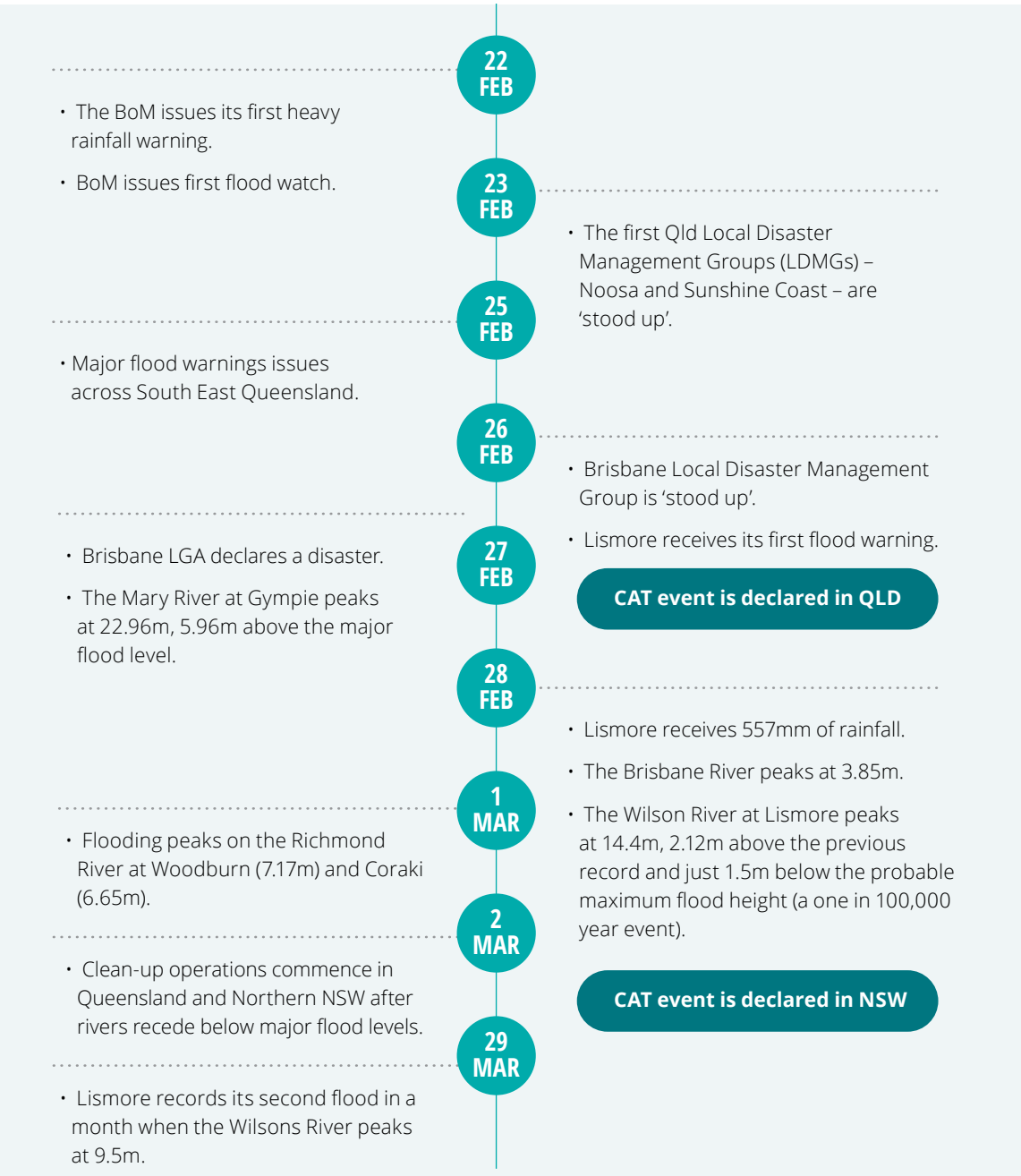
Though the intensity of rainfall exceeded that of the 2011 Brisbane Floods, additional capacity at Wivenhoe Dam meant that riverine flooding in the Queensland capital (where the Brisbane River peaked at 3.85m) did not reach the heights of 2011 (4.46m).[5] Other areas experienced unprecedented creek and overland flow flooding (runoff that pools or travels over the land), due to the soil saturation and the intensity and duration of the rainfall.[6]

Further south, Northern Rivers' catchments received seven day rainfall that eclipsed records by between 37 per cent and 61 per cent. Dunoon, north of Lismore, recorded 775mm of rain on 27 February, the second-highest total of any site in NSW since records began.[7] Catchments were saturated, leading to riverine flooding throughout the region. The Wilsons River at Lismore reached 14.4m on 28 February, 2.3m above the previous record and 5m above the major flood level.[8] On 1 March, flooding peaked downstream, with areas like Woodburn, Coraki and Ballina experiencing inundation that was 1–2m above previous records. Flooding in Ballina was also exacerbated by king tides on the Richmond River.[9]

In the subsequent week, the weather systems moved further south, where moderate to major flooding ensued in the Hawkesbury-Nepean Valley and parts of Sydney. Flooding in the Hawkesbury-Nepean region was exacerbated by pre-existing soil saturation and limited water storage options, with the region's main facility (Warragamba Dam) already at 98 per cent capacity on 22 February.[10]

Around four weeks later (on 29 March 2022), Lismore flooded again. This flood was classified as moderate, with the Wilsons River peaking at 9.5m.[11]

Figure 2.1: CAT221 event timeline



Sources: BOM, 2022; Inspector-General for Emergency Management, 2022; Gilmore Council, 2022; NSW Government, 2022

2.2 Impact of CAT221

'Natural hazards on their own are not disasters – they are merely earth systems in operation. Disaster occurs when natural hazards intersect with people and things of value, and when impacts of hazards exceed our ability to avoid, cope or recover from them.'

– Royal Commission into Natural Disaster Arrangements Report, p65

The immense individual and community trauma is ongoing

The floods had a devastating human and social toll. Twenty-three people died during the event and support services received more than 160,000 calls.[12] Over 14,000 people had to be evacuated – many are still unable to live in their homes.[13]

The flood's impacts, however, are not just tangible. The aftermath of CAT221 saw over 22,000 psychological first aid visits completed in Queensland alone.[14] The number of psychological trauma victims that seek help is generally a fraction of the true prevalence, and the mental health impacts of exposure to traumatising events like CAT221 can be lifelong.[15] Mental health impacts are particularly severe for victims of multiple extreme weather events, like communities affected by CAT221 that were also exposed to past catastrophes like the 2011 Brisbane floods and the Black Summer bushfires in 2019/20. While never perfectly quantifiable, Deloitte Access Economics has estimated that the mental health costs of CAT221 in Queensland alone exceeded $1.9 billion.[16]

While the BoM considered its forecasts satisfactory, it acknowledges that its modelling underestimated how slowly the weather systems moved on.[17] The unexpected escalation of the weather event meant it tested individual and government preparedness more than it would have if it had followed a more predictable path.

In work conducted for the Queensland Reconstruction Authority, Deloitte Access Economics estimated the total financial, economic and social cost of the South East Queensland component of the catastrophe at $7.7 billion.[18] The population density of the region and the associated built infrastructure (public, residential and commercial) had a significant impact on costs.

Figure 2.2: CAT221 impact metrics

Lives lost	23
Homes uninhabitable	Approx. 5000
People in emergency accommodation	14,298
Evacuation centres opened	104
Calls for support	163,000+
LGAs activated under DRFA	84
Roads damaged or closed	3,700+ km
Insurance loss value	$6.004 billion
Claims incurred	242,351
QLD/NSW claims split	55/45%

Source: ABC, 2022; Queensland Inspector-General for Emergency Management, 2022; NSW Government, 2022; ICA, 2022; ICA, 2023; ABS, 2021a; ABS, 2021b

Not all regions were impacted equally by CAT221

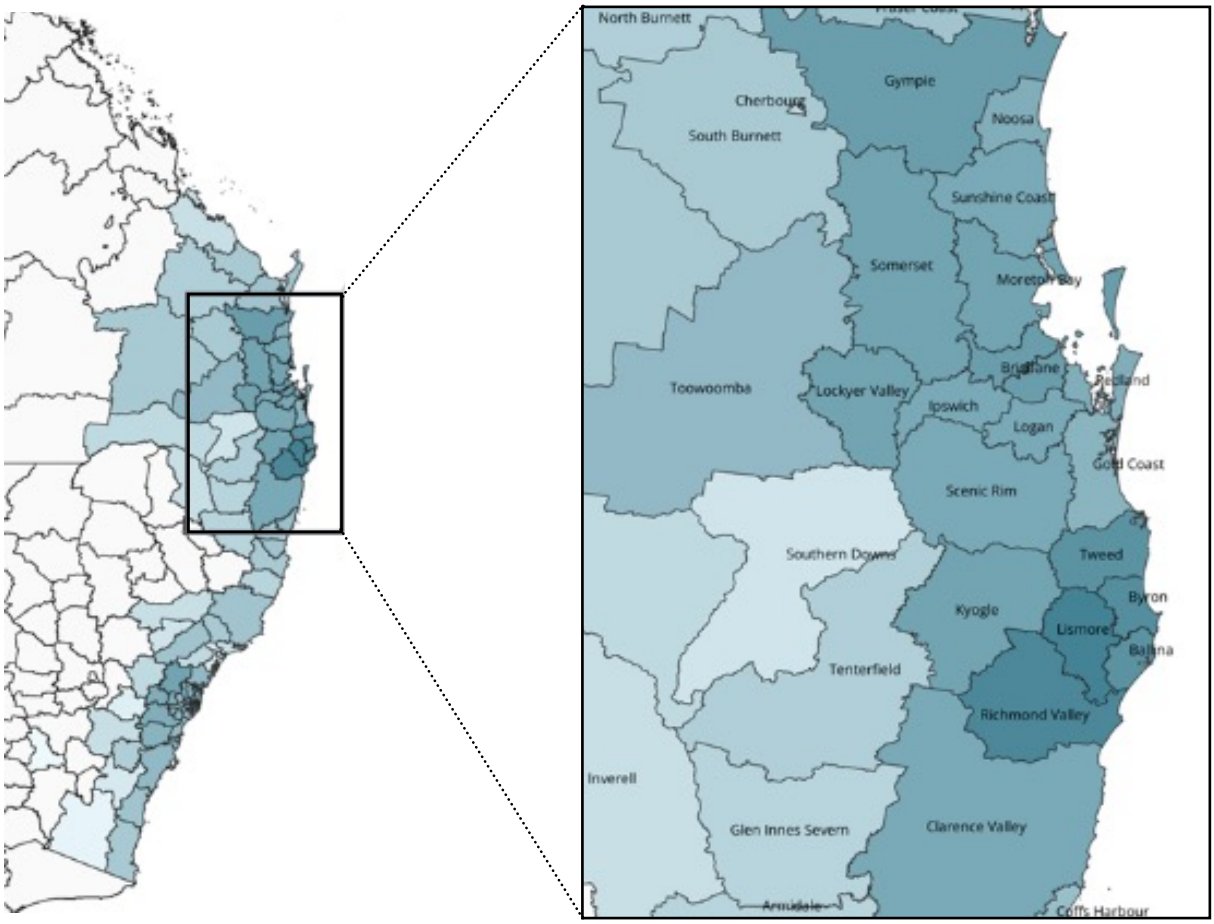
The impacts of CAT221 were spatially diverse. A variety of natural and man-made factors – including rainfall intensity, topography and built infrastructure – contributed differing effects across the Disaster Recovery Funding Arrangements (DRFA) activated area.

Figure 2.3 shows how these regional differences manifested. While there is an identifiable trend towards greater impacts on the coast, variations in colouring indicate divergent impacts across regions. Gympie, Brisbane and the Northern Rivers LGAs (see Lismore and the surrounding LGAs) each suffered more intense impacts than their neighbouring regions, as measured by the average insurance losses per household across each LGA.[iii]

On the Gold Coast, for example, impacts varied substantially within the LGA. Rainfall over the flood week varied by more than 500mm across the LGA, and construction on the M1 was found to intensify flooding in some areas.[19] Lismore, conversely, is nicknamed 'the Wok' for its positioning in a valley, which means the Wilson River that runs through it accumulates more water, more quickly than rivers that pave flatter terrain.

Differences in flood impacts and responses extend to recovery speed and capacity. Regions like Lismore and the Richmond Valley, which experienced significant flooding and higher socioeconomic vulnerability, have recovered more slowly than regions that were relatively less affected (for example. the Sunshine Coast) or those that have more funds to invest in recovery and resilience (e.g. inner Brisbane).

Figure 2.3: Geographic distribution of CAT221 claims



Source: ICA, 2023

[iii] Calculated as the number of claims in a LGA divided by the number of households in the LGA.

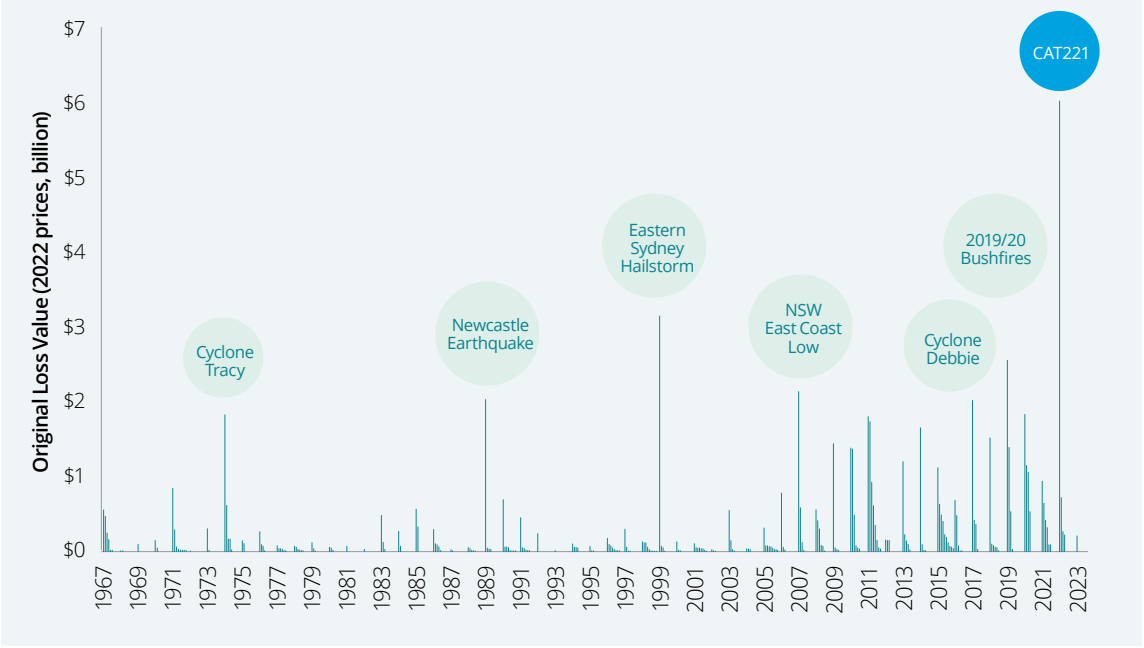
2.3 A catastrophe in impact *and* name

Insurance losses were unprecedented

The ICA declared an insurance catastrophe (CAT221) on 26 February 2022 for South East Queensland and extended the declaration to NSW on 28 February 2022.[20] Early claims numbers indicated that the large-scale nature of the event and the widespread impacts to people and property would necessitate escalation and prioritisation by the insurance industry.

Insurers received more than 3,500 insurance claims from South East Queensland in the three days before 26 February 2022.[21] At the time of writing, insurers had incurred over 242,000 claims – with a loss value of over $6 billion – in relation to CAT221. Such an insurance loss is unprecedented in the Australian extreme weather event context.

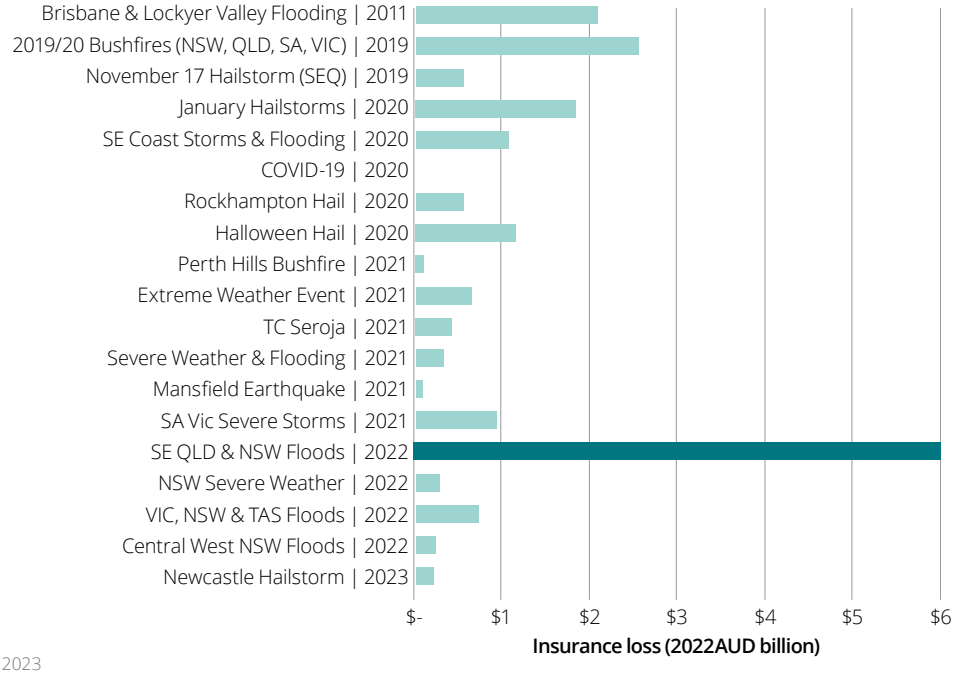
Chart 2.1: Insurance losses from extreme weather events in Australia (10 highest loss events per year)



Note: Indexed to 2022 dollars, using CPI. The ten highest insurance loss events for each year have been charted above.

Source: ICA, 2023, Deloitte, 2023

Chart 2.2: Comparison of CAT221 with recent insurance events



Source: ICA, 2023

2.4 CAT221 in the broader catastrophe context

One after another: the cumulative effects of catastrophes

Consecutive catastrophes have a compounding effect on resilience – personal, community, institutional, ecological, business and economic. When CAT221 hit, the affected regions (and Australia more broadly) were coping with an imposing array of catastrophes that had accumulated over the previous few years, eroding the capacity to respond and recover.

Chart 2.2 maps the timeline of catastrophes pre-and-post-CAT221.[iv] From the Black Summer bushfires in 2019/20 (CAT195) to the 2023 Newcastle Hailstorm (CAT231), Australians experienced 18 declared catastrophes and severe events over about five years.

These severe events and catastrophes capture the events with the greatest impact on the insurance sector, but it's important to note that it is not a complete picture of the surrounding extreme weather context for CAT221. Weather events like Tropical Cyclone Seth, which caused flooding across regions that would later be affected by CAT221 and led to regional DRFA activations, are not classified as catastrophes.

The wider historical context of the extreme weather event had weakened the resilience of the affected region. At the same time, the following events had affected the ability of the rest of Australia to assist when the region needed help.

[iv] The 2011 Brisbane Flooding (CAT112) is included as a reference point to illustrate the scale of CAT221.

COVID-19 pandemic

Australia was still recovering from the COVID-19 pandemic (CAT203). While Australia's response has been perceived by citizens and think tanks as above the global average, the resources expended on recovery reduced what is available when other catastrophes emerge.

Black Summer bushfires

Some communities impacted by CAT221 were still experiencing the effects of the Black Summer bushfires (CAT195), which were the most significant bushfires in more than a decade. The compounding impacts of disasters have a tangible effect. They increase the recovery effort needed in areas where significant resources have already been dedicated to trying to restore a 'normal' way of life. They also have dire psychological consequences for those exposed.

QLD extreme weather (21/22)

Many of the regions exposed to CAT221 were also affected by other extreme weather events in the 2021/22 season. In Queensland, 21 of the 23 LGAs activated for measures under the DRFA for CAT221 were also activated for other events over this period.

The South Burnett, North Burnett, Gympie and Bundaberg LGAs were activated for four events over the 2021/22 extreme weather season. These long-term disruptions affect local communities more than isolated extreme weather events, which usually involve a stronger resource base and smaller gap to bridge to return to normal.

More flooding catastrophes (22)

In 2022, more flooding catastrophes were recorded in Australia than in any other year on record. This meant that resources needed for flood recovery were stretched thinner than they might have been if CAT221 was an isolated flood event.

Section 4 discusses in detail the broader economic context occurring around the time of CAT221.

Finding 2.1

The scale and impact of CAT221 was devastating for many communities across South East Queensland and NSW

Between 22 February and 9 March 2022, South East Queensland and NSW were inundated by record-breaking rainfall that caused extensive riverine, creek and overland flow flooding in areas such as Lismore, Brisbane and Gympie. It was caused by three weather systems converging on, and beyond, Australia's east coast. Monthly rainfall was between 2.5 and 5 times the average and came amidst an already wetter than average summer.

- 23 lives were lost, more than 14,000 people needed emergency accommodation and 5,000 homes became uninhabitable.
- An insurance catastrophe was declared in South East Queensland on 26 February and in NSW on 28 February.
- The catastrophe caused $6 billion in insurance losses, the highest recorded from an extreme weather event in Australia's history.

3 Overview of CAT221 claims and complaints

Key points

- CAT221-related insurance claims reached 242,351 as at August 2023.
- This was more than six times higher than the average claims for catastrophes declared since 2016 (when claims volumes were first recorded), and 1.7 times higher than the next largest catastrophe.
- In April 2022, insurers had almost 240,000 catastrophe-related claims open from a range of catastrophes.
- By the first anniversary of CAT221, 84 per cent of claims were closed. Nearly 40,000 claims remained open.
- Insurers' closure rates varied considerably, with a 19 percentage point difference across insurers according to the data available 12 months following the event for in-scope products (refer to 'Scope of Review' above for details of in focus insurance products).
- Insurers often cited external factors as affecting their ability to close claims; however, there was no systematic reporting or data that could quantify the extent to which these factors impacted their ability to respond.

This chapter presents an overview of the claims lodged in relation to CAT221, including the volume, closure rates and complaints. These statistics provide context on the scale of demand insurers were responding to.

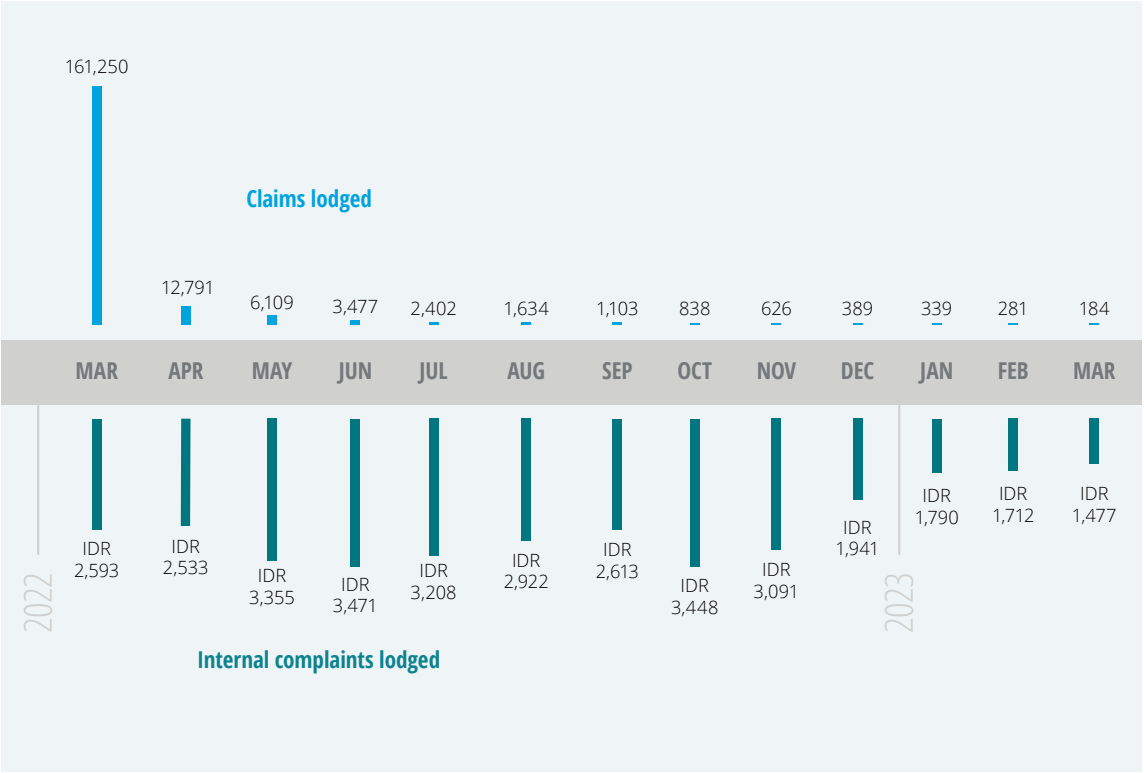
3.1 CAT221 claims

The number of insurance claims was unprecedented – 242,351 claims as at August 2023

Figure 3.1 illustrates the profile of claims and complaints associated with CAT221. In March 2022 more than 160,000 claims were lodged just in relation to CAT221.

The number of claims from CAT221 was more than six times higher than the average received for catastrophes declared since 2016. It was also 1.7 times higher than the next largest catastrophe, a hailstorm that impacted Sydney, the Central Coast and surrounds in 2018 (CAT185), with 143,084 claims. This event had a much higher proportion of vehicle claims than CAT221 (70 per cent versus 12 per cent).[22]

Figure 3.1: CAT221 profile of claims and internal complaints



Notes: "Claims lodged" means the total monthly claims reported, by date of event that fall within definition of CAT221 including declined/rejected claims and withdrawn claims. Data for March 2023 includes claims data for seven insurers. Data for all other months include claims data for eight insurers.

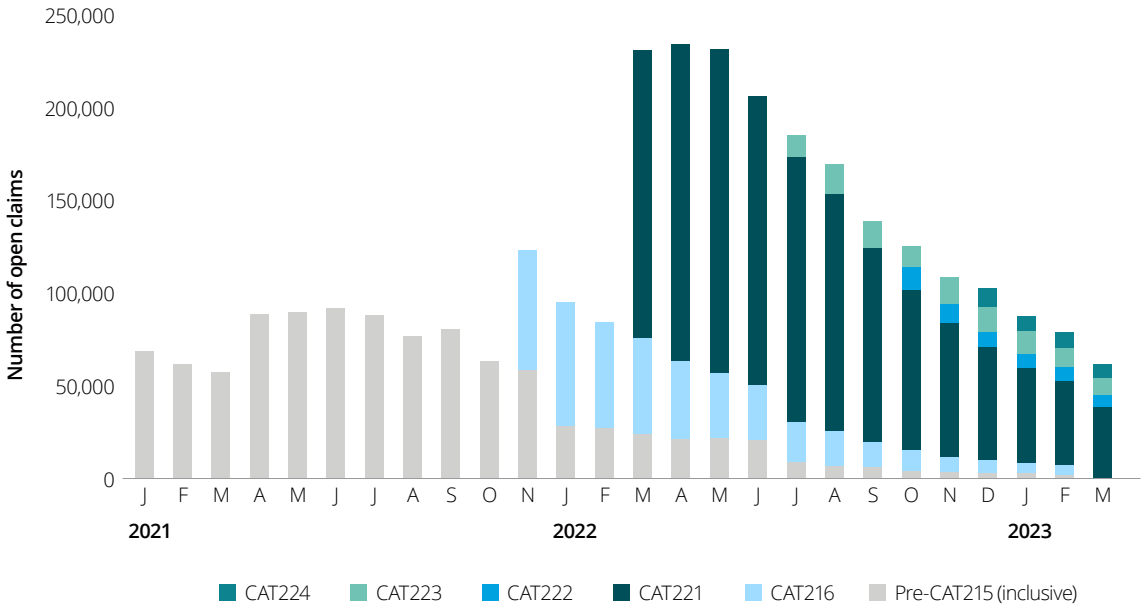
"Internal complaints lodged" means the total monthly complaints (IDR) reported that fall within the definition of CAT221 and figure represents the total number of complaints at the end of the calendar month. Data covers seven out of eight insurers. One insurer provided data between 1 October 2022 and 31 March 2023. Data covers Home-Building, Home-Contents, Motor Vehicle-Comprehensive internal complaints for five insurers, all products for one insurer and only Home-Building for one insurer.

Source: ICA, 2023; insurer data (7 insurers)

Almost 240,000 catastrophe-related claims from a range of events were open in April 2022 – 73 per cent of which related to CAT221

The claims from CAT221 were in addition to an already high number of open claims, driven by 6 declared insurance events in 2021. As Chart 3.1 highlights, the number of open claims at the time of CAT221 included claims linked to severe storms in South Australia and Victoria (CAT216), which resulted in 110,428 claims.

Chart 3.1: Catastrophe-related open claims by month, by catastrophe



Notes: 'Pre-215 (inclusive)' series includes open claim data for the following CAT events: 185, 192, 193, 194, 195, 196, 201, 202, 203, 204, 211, 212, 213, 214 and 215. No data available for December 2021.

Source: ICA, 2023

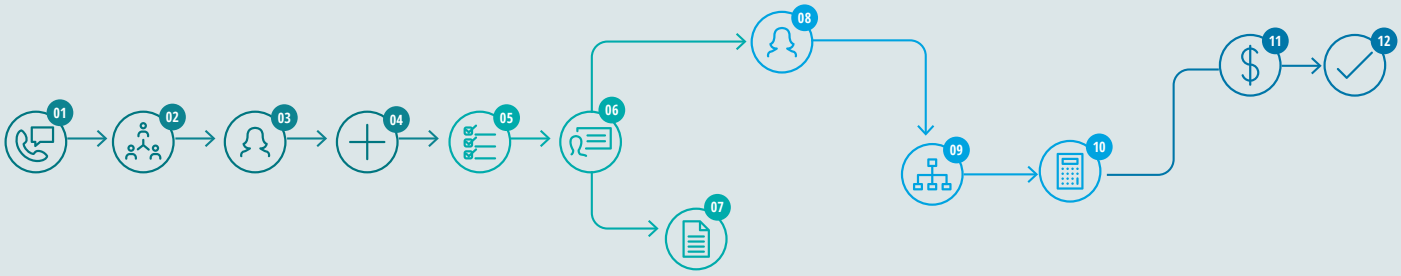
Finding 3.1

The number of claims related to CAT221 was unprecedented and added to an already high claim load

- 242,351 claims have been lodged in relation to CAT221, as at August 2023.
- The number of claims from CAT221 was more than six times higher than the average received for catastrophes declared since 2016. Claim numbers were also 1.7 times higher than the next largest catastrophe, a hailstorm that impacted Sydney, the Central Coast and surrounds in 2018 (CAT185), where 70 per cent of claims were for motor vehicles. In comparison, just 12 per cent of CAT221 claims were for motor vehicles.
- In April 2022 – two months on from CAT221 – there were 196,761 claims lodged for CAT221. There were already 85,953 open catastrophe claims across other events, and CAT221 tripled the existing load. By comparison, as at August 2023, there are 34,000 open catastrophe claims.

Figure 3.2: Typical end-to-end process of a general insurance claim

The claim and rebuild processes



Insurer keeps customer informed

Claim Lodgement

01 Insurer is notified of a claim via phone, online or broker/agent.

02 Claim lodged in system. Claim allocated to a Claims Officer and/or third-party panel provider.

03 Claim number is sent to insured, broker or agent.

04 Claims Officer may request further information from insured/broker, such as photos or other relevant evidence.

Initial Assessment

05 Claims Officer determines whether claim is covered under the Policy and performs preliminary assessment to determine immediate action e.g. arrange a temporary accomodation.

06 Claims Officer may appoint in-house or third-party assessors, loss adjusters, hydrologists or other third-party provider to assist with assessing the claim (e.g. extent of damage, liability, quantum).

07 If insured is not covered under the Policy, the Claims Officer sends declinature letter to insured/broker.

Claim Management

08 If insured is covered under Policy, the Claims Officer manages the claim.

09 Claims Officer collaborates with third-party providers to manage claim.

10 Negotiate process to resolve claim with insured/broker. This may be monetary payment, repairs, replacement, a combination of these, or other appropriate action to address the loss.

Outcome

11 Once approach to resolve claim is agreed, Claims Officer to implement that approach (e.g. process payments or arrange for necessary repairs or services). Interim payments may occur in earlier steps.

12 File closed and claim resolved.

Notes: Not all steps outlined will be followed; the steps may vary depending on the type of insurance (e.g. motor, contents only, property), the insurer's policies and procedures, and the the nature and amount of the claim. The processing time for each claim will differ due to numerous variables.

Figure 3.3: Illustrative house rebuild process

Immediate assistance

Insurers may provide immediate assistance, such as temporary accomodation and/or cash payments

Policy review

The insurer will review the Policy to determine what is covered. Different policies may cover various types of damage, such as fire, flood or storm

Claims process

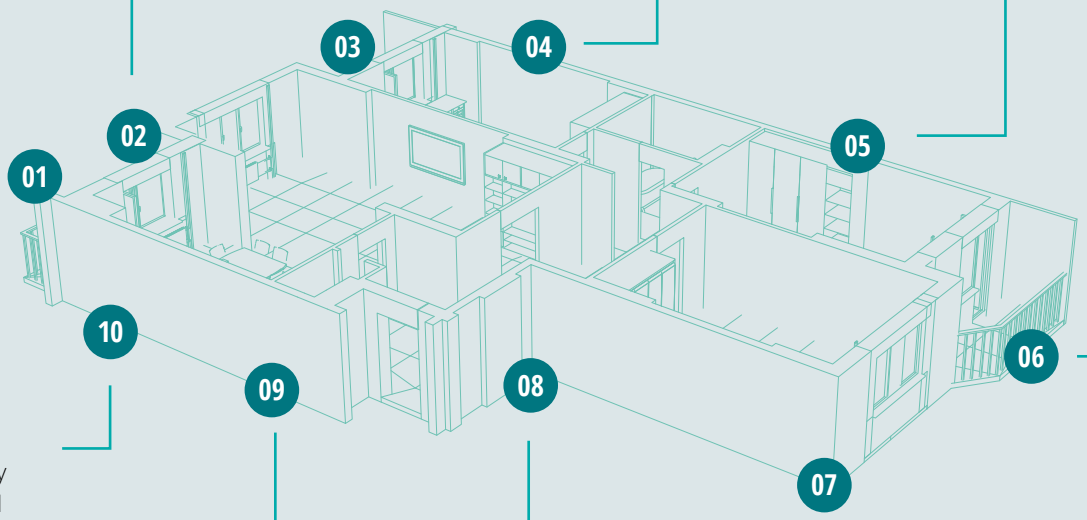
A claims officer will manage the claim. A loss adjuster and/or builder may be appointed to evaluate the damage

Approval

If the claim is covered under the policy, the insurer (and representatives) will commence the process for rebuild / repairs, including obtaining permits, developing a rebuild plan / scope of work and obtaining quotes

Contact insurer

Insurer notified of claim



Coverage

Insurance policy is reviewed and updated to ensure it adequately covers home and contents

Claims finalisation

The insurer will finalise any outstanding costs of the claim and the owner can move back into the home

Inspection

Once the rebuild/repair is complete, a final inspection is typically conducted to ensure the home meets safety and building code requirements. Any necessary adjustments will be made

Rebuild/repair

The insurer's selected contractors will commence the rebuild/repairs

Demolition

If necessary, the damaged parts of the home will be demolished and cleared away

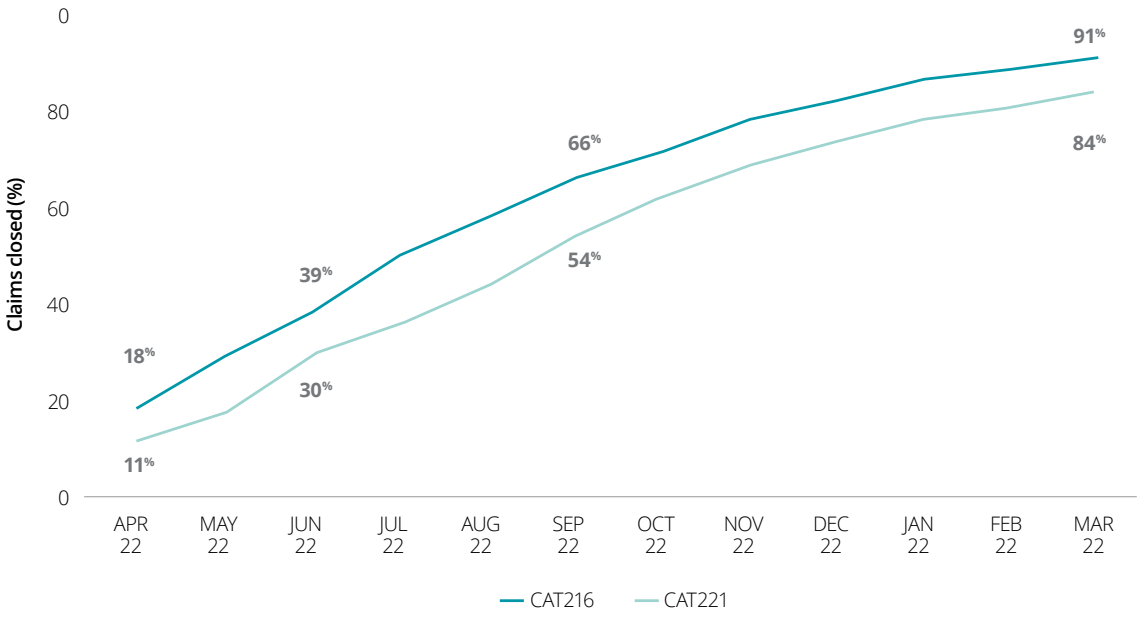
By the first anniversary of CAT221, 84 per cent of claims were closed. However, nearly 46,000 claims remained open

Almost 200,000 claims were processed and closed in the 12 months following CAT221. This was in addition to claims relating to three other flooding events in 2022 (totalling almost 60,000 claims) and business-as-usual claims.[23]

A point of comparison is needed to gauge whether this performance is commensurate with the industry standard or not. CAT216 – a series of severe storms that affected South Australia and Victoria in 2021 – is the most comparable contemporary catastrophe with good data available. The comparison isn't perfect as this event resulted in about half the number of claims when compared to CAT221 and was due to a storm, not a flood. While closure rates are driven by a multitude of factors, Chart 3.2 illustrates several points:

- By June 2022, CAT221 claim closure rates were lower than the comparator closure profile.
- Between June 2022 and September 2022, a 12 percentage point gap opened up between CAT221 and CAT216.
- From October 2022 onwards, however, the CAT221 response mirrored the closure profile of CAT216, albeit from a lower level.
- At the one year anniversary, the closure rate for CAT221 was 7 percentage points lower than CAT216.

Chart 3.2: Profile of claim closure rates – comparison of CAT221 and CAT216



Source: ICA, 2023

Finding 3.2

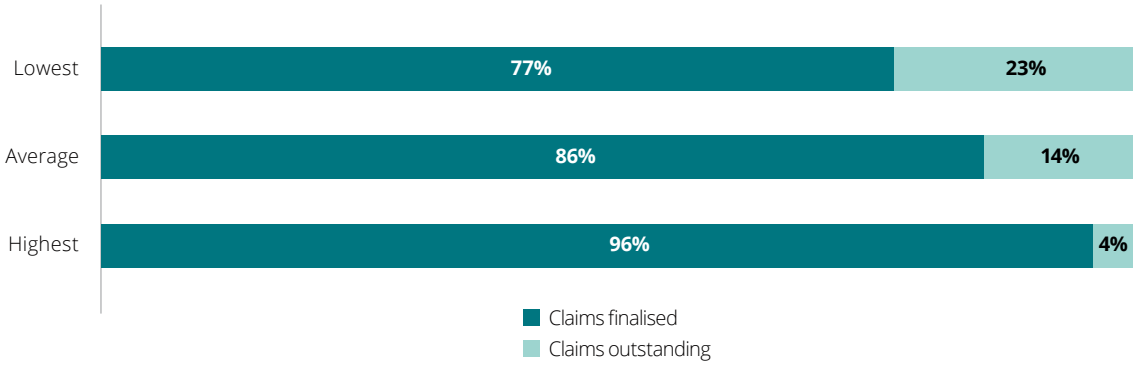
The profile of claim closures was slower than a comparable extreme weather event

In the initial aftermath of the event, claim closure rates for CAT221 were lower than for a typical extreme weather event. Claim closure rates continued to worsen for months as it took time for property to dry out and resourcing, systems and processes to catch up to demand. By October 2022 (seven months after the event) the CAT221 closure profile mirrored a typical event, albeit at a lower rate of closure.

Closure rates varied considerably across insurers

Policyholders often cited inconsistency across insurers as a cause of confusion and frustration. Chart 3.3 compares the proportion of claims closed across insurers. By the 12 month anniversary of CAT221, the highest proportion of claim finalisation was 96 per cent, whereas the lowest proportion of claim finalisation was 77 per cent. On average, at the 12 month mark, 86 per cent of claims were finalised.

Chart 3.3: CAT221 claims finalised and outstanding



Note: "Claims finalised" data include withdrawn claims. Data as at March 2023 for seven out of eight insurers, and as at February 2023 for one insurer.

Source: ICA, 2023

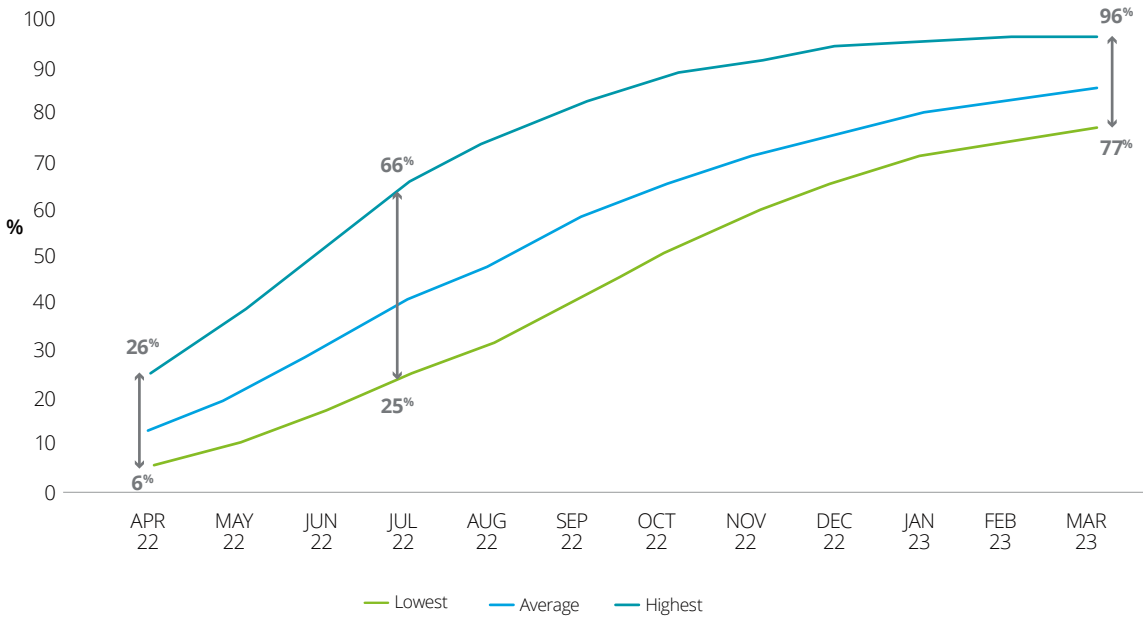
Faster isn't always better when it comes to closing claims

There are many factors that can impact the timeline a claim takes to be completed. For example, the timeframe to complete a cash settlement or car repair is very different to a home rebuild. When interpreting the results below it should be noted that:

- The two insurers with the fastest closure rates had substantially fewer claims related to CAT221, relative to the average number of claims across the insurers.
- On average, vehicle and contents claims – which are generally simpler to resolve than housing claims – had a higher proportion of claims closed.
  - For example, after 12 months of development, the insurers had, on average, closed 97 per cent of personal motor claims for CAT221. This is compared to 84 per cent for personal building claims relating to CAT221.

Charts 3.5 and 3.6 show the closed rate of development for CAT221 personal motor and personal building claims respectively (with average closure rate indicated).

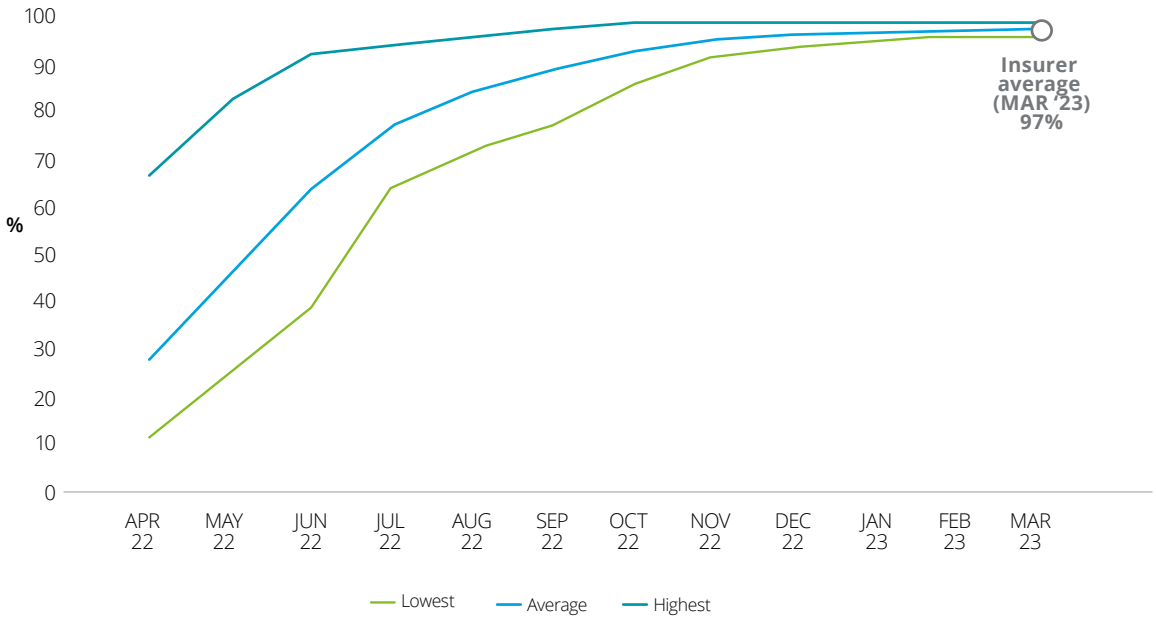
Chart 3.4: CAT221 profile of claims closure rates



Note: No data was received from one insurer between October 2022 and November 2022, and no data was received from another insurer between April 2022 and May 2022 - the values during these periods were linearly interpolated to estimate the curve where values were missing. No data was received from one insurer in March 2023.

Source: ICA, 2023

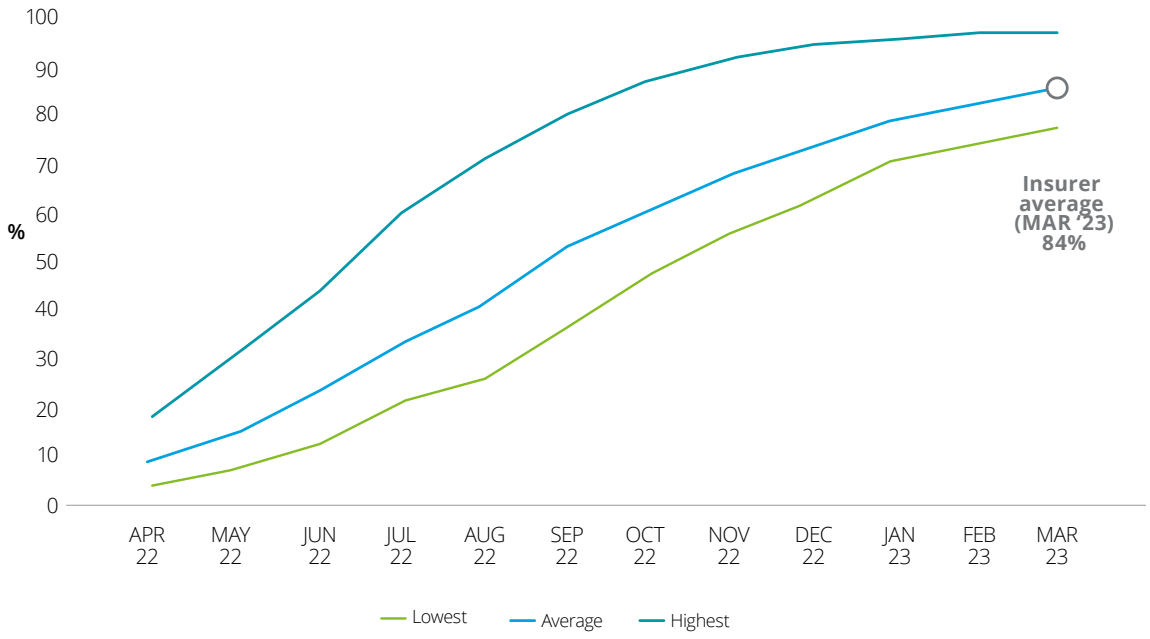
Chart 3.5: CAT221 closed claim development - personal motor



Note: No data was received from one insurer between October 2022 and November 2022, and no data was received from another insurer between April 2022 and May 2022 - the values during these periods were linearly interpolated to estimate the curve where values were missing. No data was received from one insurer in March 2023.

Source: ICA, 2023

Chart 3.6: CAT221 closed claim development - personal building



Note: No data was received from one insurer between October 2022 and November 2022, and no data was received from another insurer between April 2022 and May 2022 - the values during these periods were linearly interpolated to estimate the curve where values were missing. No data was received from one insurer in March 2023.

Source: ICA, 2023

Finding 3.3

The claim closure rate varied across insurers, but time is not a straightforward measure of performance

Claim closure rates differed across insurers; there was a 19 percentage point difference in closure rates 12 months after the event. This was due to a multitude of factors, including (but not limited to): different rates of exposure to CAT221 (and therefore claim volumes), proportion of vehicle and content claims (which are generally simpler to resolve), policy definition (particularly where flood cover is not standard), geographic coverage (some communities were impacted by further rainfall events and took time to dry out), resourcing, and effectiveness of planning, process, technology and operating models.

Insurers often cite external factors as affecting their ability to close claims

The potential causes of the slower closure rates and the wide range between insurers bears consideration. In consultations, insurers often cited external factors, including labour shortages and supply chain pressures, particularly in building and construction, motor vehicles and accommodation. As Chapter 4 explains, these markets were under considerable strain in the recovery period for CAT221. This would have had an impact on the insurers' recruitment of staff, including claims handlers and assessors, and timeframes for property and vehicle repairs, and rebuilds.

As Chapter 7 explains, there was no data reporting available that could substantiate the extent to which these macroeconomic factors affected their ability to respond.

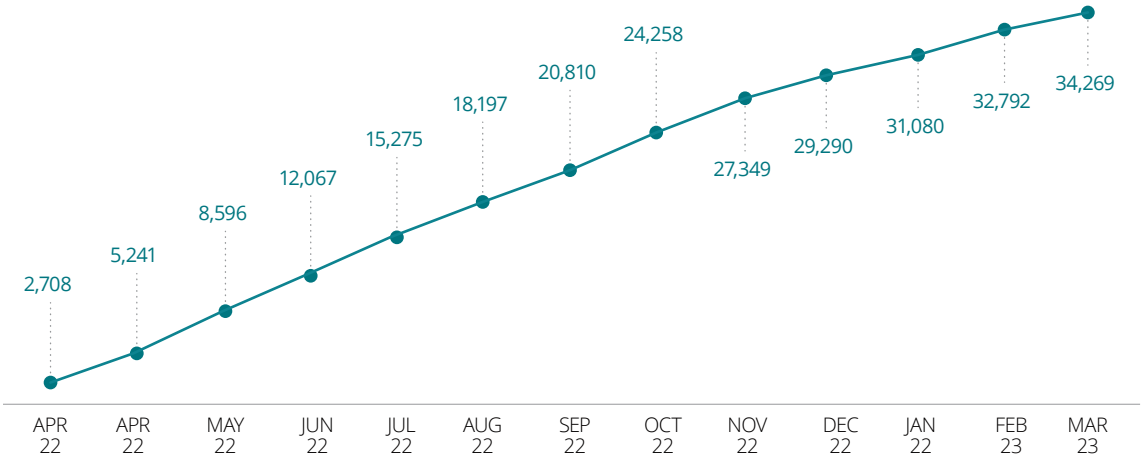
3.2 CAT221 complaints

The dispute resolution process gives policyholders the means to escalate complaints

Under the Insurance Code of Practice, insurers are required to act efficiently, honestly and fairly when handling and settling claims. If a policyholder is unhappy with their insurer – in relation to a decision or general dealings – they can lodge a complaint with their insurer (internal dispute resolution [IDR]). Insurers must make a decision about the complaint within 30 calendar days. If further escalation is required, the policyholder can lodge a dispute with AFCA (external dispute resolution).

More than 34,000 internal complaints were lodged with seven insurers in relation to CAT221. Chart 3.7 shows the profile of internal complaints lodged (based on data from seven insurers). Complaints rose rapidly in the months following CAT221, with the largest increases occurring between May 2022 and June 2022 (3,471 new complaints received), then between months September 2022 and October 2022 (3,448 new complaints received). Anecdotal evidence suggests this is when policyholders were becoming increasingly frustrated with delays. The number of new complaints slowed from December 2022 onwards, which is when claim closure rates improved.

Chart 3.7: Total IDR complaints raised for CAT221 over time



Notes: Chart includes data for seven out of eight insurers. Of the seven insurers which provided data, one insurer only provided data between 1 October 2022 and 31 March 2023. Data covers Home-Building, Home-Contents, Motor Vehicle-Comprehensive internal complaints for five insurers, all products for one insurer and only Home-Building for one insurer. Data covers open and closed complaints, except for two insurers that only reported 'closed' complaint data.

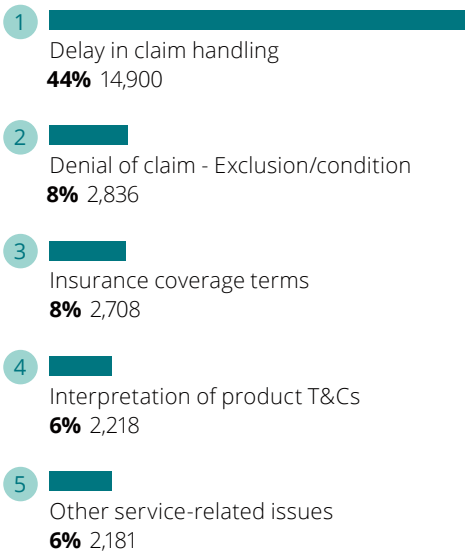
Source: Insurer data (7 insurers)

Delayed claims handling accounted for almost half of internal complaints (44 per cent) (based on data from five insurers)

Consistent with stakeholder feedback, denial of claim due to an exclusion or condition, insurance coverage terms, or interpretation of product terms and conditions were also causes for complaint.

While delays in claims handling were the single biggest driver of complaints, almost all (94 per cent) complaints were closed within (and inclusive of) the 30 calendar day resolution timeframe prescribed by RG 271 internal dispute resolution.

Chart 3.8: Top five reasons for internal complaints



Notes: Chart includes data for five out of eight insurers. Data represents the primary complaint reason for internal complaints received until 31 March 2023. Data covers Home-Building, Home-Contents and Motor Vehicle-Comprehensive internal complaints for four insurers and only Home-Building for one insurer.

Source: Insurer data (5 insurers)

Finding 3.4

Delayed claim handling was the biggest driver of complaints

- More than 34,000 complaints were lodged with seven insurers in relation to CAT221 (note that data was only available for seven insurers, at the time of writing).
- 94 per cent of complaints were closed within (and inclusive of) the 30 calendar day resolution timeframe required under RG271.
- Complaints about delayed claims timelines accounted for almost half of internal complaints (44 per cent).
- Denial of claim due to an exclusion or condition, insurance coverage terms, or interpretation of product terms and conditions were also causes for complaint.

Part I | External factors impacting the insurance industry's response to CAT221

4 Economic context at the time of CAT221

Key points

- In the period preceding CAT221, the recovery from COVID-19 was in full swing. Pockets of stress were emerging though, notably through rising inflation and a historically tight labour market.
- Workers required by the insurance industry to handle CAT221 claims were in short supply.
- Work volume and price pressures on the construction industry during the CAT221 recovery were unprecedented. This constrained insurers' ability to rebuild homes in a timely manner.
- The availability of new cars was severely constrained, while used car prices had risen to historic highs. This made sourcing replacement vehicles challenging and reduced the purchasing power of policyholders with a vehicle write-off. A lack of availability in the rental car market constrained insurers' ability to source temporary vehicles for policyholders.
- On average, there was some spare capacity in the accommodation market, but this was largely in more expensive accommodation types and likely limited at peak times. This created challenges in finding temporary accommodation over Easter 2022 and increased the cost of claims.

This chapter focuses on the economic context at the time of CAT221 and considers the impact on insurers' ability to respond to the catastrophe. It includes a spotlight on four markets that were important to insurers' responses: the market for insurance industry workers; the construction industry; the automotive industry; and the accommodation industry.

CAT221 occurred amid a number of complex external factors including compounding catastrophes, regulatory changes, the economic consequences of increasing geopolitical tensions and a global health pandemic. The presence of these factors likely affected industry performance but do not explain all aspects of insurer performance. Importantly, these factors aren't a once off. These, or similar, will, in some combination, be ever-present, and will continue to have an impact on the industry and should be planned for accordingly.

4.1 Global economic drivers

The grand reopening after COVID-19

The COVID-19 pandemic and its impact on global economies has caused long-lasting and pervasive economic disruption that has underpinned the economic context of the last three years. Disruptions to global supply chains caused significant delays to a number of different industries, such as the construction industry. In many cases, these disruptions have continued to have an impact on the price and availability of goods or services. Further, border closures across the globe impeded labour mobility, limiting the availability of labour in places of high demand. This was all in the context of high levels of uncertainty, as it was unclear, at the time, how long Australia and the world would remain in lockdown, and the extent that this would impact global economies.

Ultimately, the pandemic led to a challenging economic context to operate within, exacerbating challenges faced by industry and stretching resources within the domestic economy. However, the economic recovery following COVID-19 gave rise to another set of complexities.

The start of 2022 brought a turning point for the global economy. Two years on from the onset of the COVID-19 pandemic, many advanced economies were transitioning to a new normal. Vaccines had reduced levels of severe illness, resulting in many countries – including Australia – removing the health restrictions that had limited economic activity over the preceding two years.

This sudden and uncoordinated return of global economic activity created issues. The rebound of demand in advanced economies had been remarkable, partly fuelled by very accommodative economic policy settings.

Interest rates remained low, while households had money to spend after two years of restricted activity and large-scale government support. At the same time, in many developing countries, critical to global markets, mobility remained restricted. This created additional pressures in global supply chains, resulting in rising prices for goods and lengthening delivery times.

Changing global economic conditions also brought new risks. Inflation was starting to pick up and central banks responded with many starting to raise interest rates in the first half of 2022. Russia's invasion of Ukraine in February 2022 also generated significant economic uncertainty and caused price spikes in global energy and food markets. COVID-19 also continued to be a significant hinderance, with the ongoing risk that a new variant could emerge that was resistant to vaccines and would set back the economic recovery. In combination, each of these elements continued to create a challenging economic climate, impacting every industry within Australia's economy.

4.2 Australia's economic context

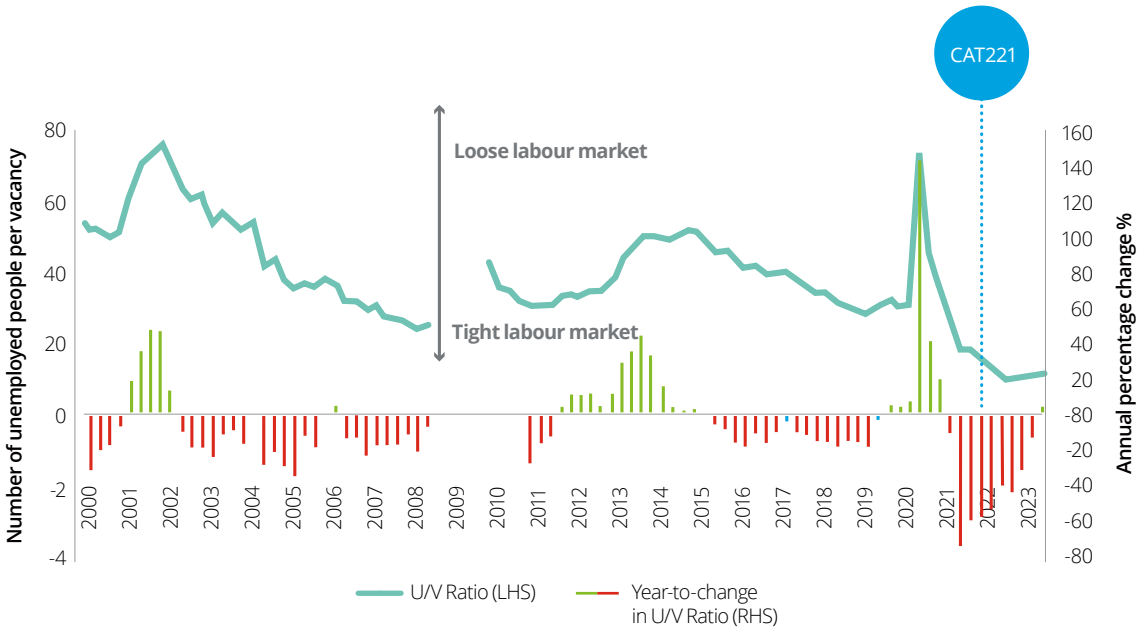
An economy running hot and starting to sweat

After a COVID-19 impacted 2020, followed by further lockdowns in many states in 2021, optimism about the Australian economy was high at the start of 2022. Domestic health restrictions had been lifted and economic activity had rebounded strongly and quickly, driven by strong consumer spending and very favourable trade conditions. As a result, in 2021, Australia's economy grew at its fastest pace since 1994. The outlook for 2022 was also strong with the Reserve Bank of Australia (RBA) forecasting growth of 4.25 per cent - well above the pre-pandemic trend.

The Consumer Price Index increased by 3.5 per cent in 2021 – above the RBA target range. Throughout 2022, with strong economic activity, inflation emerged and continued on an upward trend. The main drivers were new dwellings, fed by rising construction costs and fuel prices. At the time of CAT221, the RBA had kept interest rates on hold at a record low of 0.1 per cent, however this soon changed with rates starting to rise in May 2022.

The Australian labour market was also at a historically tight level. The fast rebound in economic activity meant that businesses needed more people; however, Australia's labour force had shrunk during the pandemic as border closures halted inward migration. This made hiring activity extremely challenging for businesses, with vacancies at a historic high relative to the number of unemployed Australians. While Australia reopened its borders in February 2022, persistently strong demand meant that the labour market continued to tighten throughout the first half of 2022. New South Wales saw record low unemployment rates for much of 2022, meanwhile Queensland equalled its previous low towards the end of the year.

Chart 4.1: The unemployment to vacancy ratio, Australia[v]



Source: Deloitte Access Economics, ABS

Finding 4.1

Historically tight labour market across the economy

The Australian labour market was at a historically tight level at the time of CAT221 and continued to tighten throughout the first half of 2022. This made hiring activity extremely challenging for businesses across the economy.

- Vacancies were at a historic high relative to the number of unemployed Australians in February 2022.
- Furthermore, in the year leading into CAT221 the labour market had been through a historically fast tightening period.
- Labour market tightness went on to get worse before it got better as labour demand remained strong throughout the first half of 2022.
- In NSW the unemployment rate was at its lowest level on record at the time of CAT221 and continued to trend downwards during 2022.
- In Queensland the unemployment rate remained within historical bounds at the time of CAT221, but it was below average and went on to equal the previous low later in 2022.

[v] Series break between 2008-09 due to break in the ABS vacancies data series

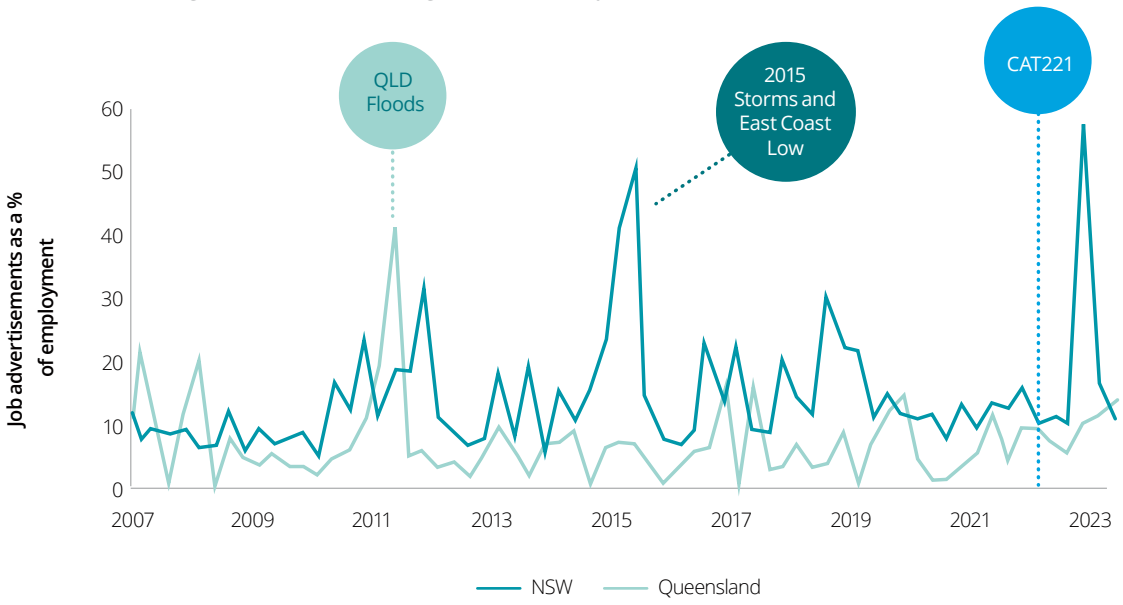
4.3 Spotlight: Insurance industry workers

There were shortages of insurance investigators and surveyors – not for the first time

In Queensland and NSW, insurance investigators and surveyors were already in short supply before CAT221, with the situation going on to worsen later in 2022 in the aftermath of the floods. Insurance investigators and surveyors were among the top occupations for job advertisements as a share of employment in both states in February 2022 - indicating relatively large shortages in the occupation at the time of CAT221. Following the floods, occupational employment increased in both states, but so did job advertisements, meaning shortages remained elevated. In NSW in particular shortages went on to spike to historic highs later in 2022 during the recovery.

Labour shortages are not a new issue for these occupations with employment levels historically very reactive to external events. Shortages have often been high and volatile following large events like the 2011 Queensland floods. Trends around previous natural disasters show that, often, occupational employment has fallen before an event, potentially reducing industry preparedness. Following an event, job advertisements invariably increased, but the increase in employment often lagged this, likely generating short-term frictions in the industry's response.

Chart 4.2: Shortages of insurance investigators and surveyors in QLD and NSW



Source: Deloitte Access Economics, Jobs & Skills Australia, ABS

The market for call or contact centre workers was also constrained at the time of CAT221. In February 2022, total vacancies ranked in the 9th percentile of all occupations, while vacancies as a share of employment was 7 per cent, placing it in the 3rd percentile of all occupations.[24] This operating environment indicates that there was strong competition for claims handling staff following the catastrophe.

Finding 4.2

Insurance industry workers in short supply

Workers required by the insurance industry to meet CAT221 claims handling requirements were in short supply.

- There were high numbers of job advertisements relative to employment for insurance investigators and surveyors in Queensland and NSW at the time of the event and during recovery.
- Following the event, employment in the occupation increased, but shortages remained high.
- Historical data shows this is typically how the industry mobilises workers to meet the surge in demand following an insurance event.

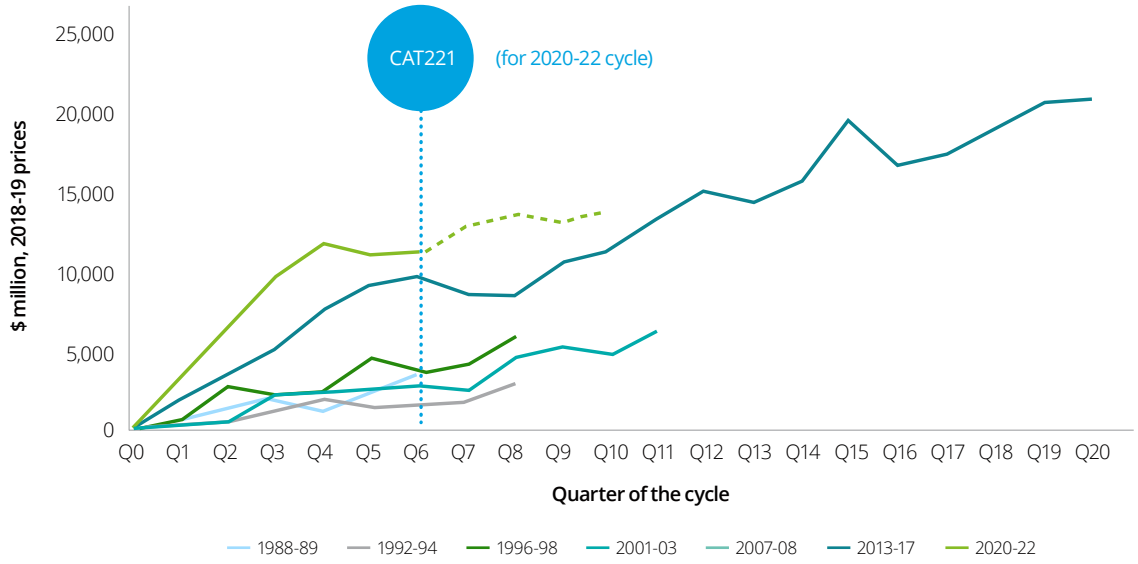
4.4 Spotlight: Construction industry

There was too much work and not enough materials to work with

At the time of CAT221, the construction industry was already under pressure due to a strong demand pipeline and supply chain disruptions. Work on the large public infrastructure pipeline was ramping up and there was a backlog of private residential work following on from the Federal Government's Homebuilder policy introduced in 2021. Meanwhile, global supply chain issues had increased delivery times and prices for construction materials. This exacerbated challenges to delivering work. Job advertisements were also rising in many construction occupations, although rates were moderate relative to those seen in other occupations. These pressures have eased in the past year compared to the preceding one, but the sector is expecting that material prices will continue to push construction costs upwards over the next 12 months.[25]

These factors meant the construction industry in Queensland and NSW was already in the midst of a historically large boom at the time of CAT221. The local industry had seen record fast increases in the gap between building work approved and work done in the 18 months (six quarters) leading into CAT221. The catastrophe added to this, putting additional strain on the local industry and widening the gap.

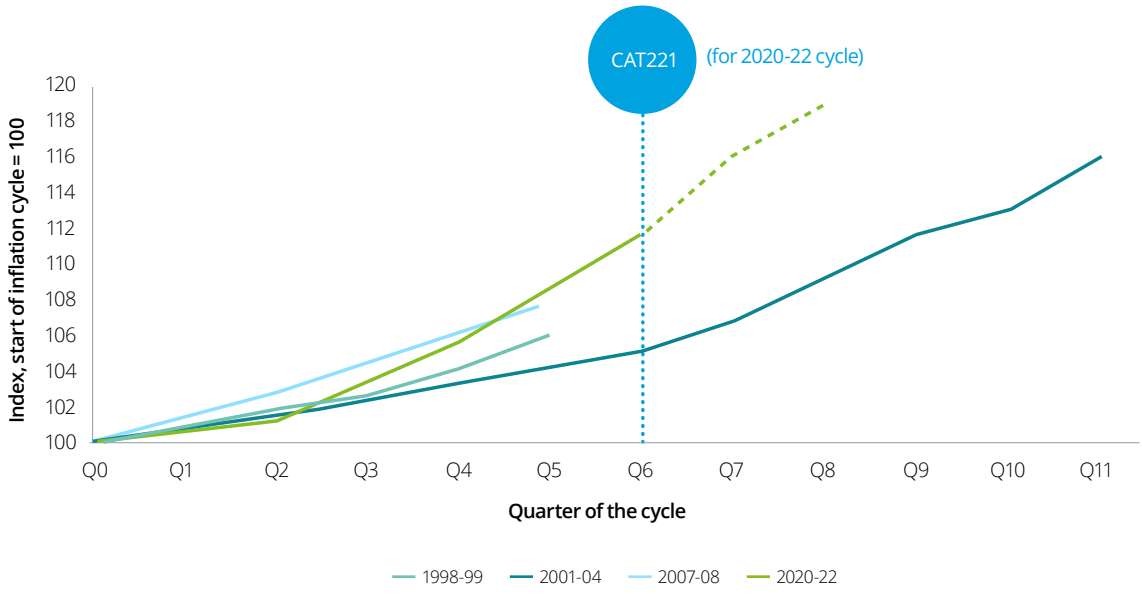
Chart 4.3: The gap between work approved and work done during QLD and NSW construction booms



Source: Deloitte Access Economics

The backlog contributed to construction prices that were at historically high levels and increasing at the fastest pace on record. Construction price inflation was running at 10.1 per cent in March 2022, after rising since mid-2020. The sector had previously been through inflationary cycles, but none of the same speed or magnitude. Following CAT221, price pressures accelerated further, making 2020/22, by some margin, the worst period of construction price inflation on record in recent Australian history. This contributed to the high cost of the rebuild following CAT221.

Chart 4.4: Construction output prices during previous inflationary cycles



Source: Deloitte Access Economics

Finding 4.3

Unprecedented demand and price pressures on the construction industry

Work volume and price pressures on the construction industry during the CAT221 recovery were unprecedented. This constrained insurers' ability to rebuild homes in a timely manner and impacted policyholders that opted for a cash settlement rebuilding.

- Backlogs of building work in Queensland and NSW had grown at a record pace in the 18 months (six quarters) prior to CAT221, a trend that continued following the event.
- Construction prices were at historically high levels in March 2022 and were increasing at the fastest pace on record. Price pressures accelerated further following CAT221 making it by some margin the worst period of construction price inflation on record in Australia.

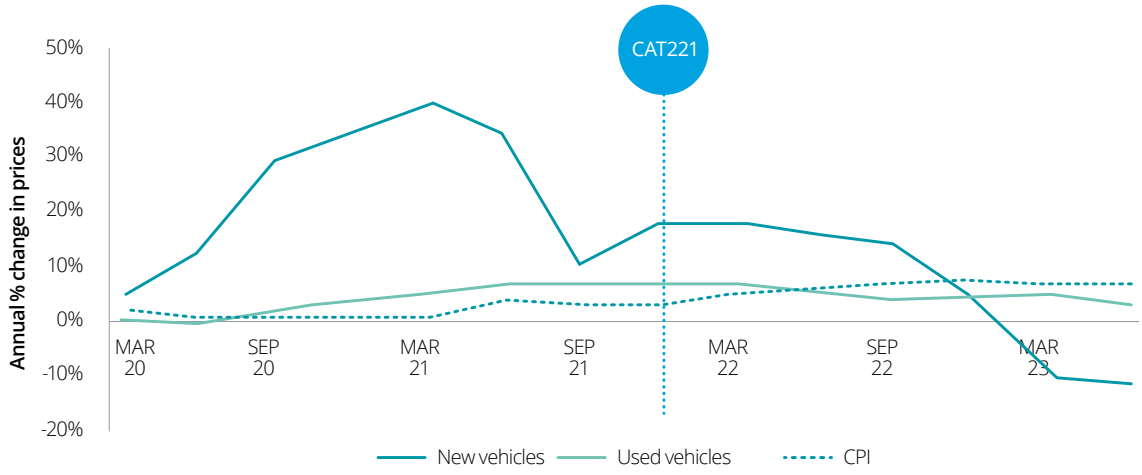
4.5 Spotlight: Automotive industry

Consumers had to wait for a new car or pay handsomely for a used car

Global car production was severely constrained after the pandemic, which lengthened delivery times for new cars. The primary cause was the global semiconductor shortage. Semiconductors are a critical input to motor vehicles, so shortages constrained capacity at car production plants around the world. Global vehicle production was around 15 per cent below pre-pandemic levels in 2020 and 2021. This led to a quadrupling of the average waiting time for a new car in Australia between January 2020 and February 2022 (CAT221). The wait time reached a high of around five months in mid-2022.

Faced with long wait times for new vehicles, buyers turned to the used car market where prices rose to all-time highs. Reduced car production led to fewer new vehicle sales in Australia, as consumers either could not get a new car or would not wait for one. As a result, demand switched en mass to the used car market causing large price spikes. Used vehicle inflation reached a high of 40 per cent in 2021 and remained elevated at 18 per cent at the time of CAT221 which would have fed through to the cost of insurance claims.

Chart 4.5: New and used vehicle inflation, Australia



Source: ABS, Moody's Analytics

Finding 4.4

Limited availability of new cars and historically high prices for used cars

The availability of new cars was severely constrained around the time of CAT221, while used car prices had risen to historical highs. This made sourcing replacement vehicles and spare parts challenging and reduced the purchasing power of policyholders with a vehicle write-off.

- Global car production was around 15 per cent below pre-pandemic levels over 2020 and 2021 leading to wait times of up to five months for a new car.
- Used car prices had increased significantly and were at all-time highs during the CAT221 recovery phase.

Sourcing temporary vehicles was challenging due to conditions in the rental car market. While data is limited, numerous reports suggest car rental prices in Australia were 50-100 per cent above pre-pandemic levels around the time of CAT221. The availability of rental cars may also have been an issue with news outlets reporting that rental cars were booked out and unavailable in Brisbane or the Gold Coast over Easter 2022.[26,27]

Finding 4.5

Limited availability of rental cars

A lack of availability in the market for rental vehicles during the recovery phase of CAT221 constrained insurers' ability to source temporary vehicles for policyholders.

- Reports suggest car rental prices were 50-100 per cent above pre-pandemic levels at the time of CAT221. Reports indicate that there was no rental car availability in Brisbane and the Gold Coast over Easter 2022.

4.6 Spotlight: Accommodation industry

As travel returned post-COVID, peak season pressures affected the availability of accommodation

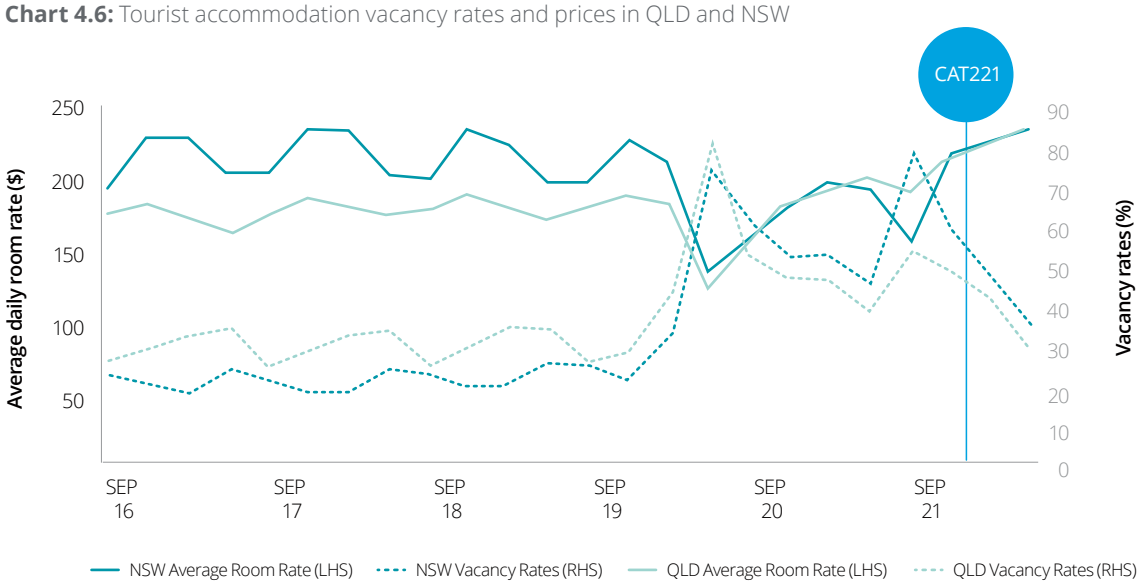
There were two potential sources of temporary accommodation for people whose home was damaged or destroyed by the CAT221 floods: the rental market and the tourist accommodation market.

The rental market was growing increasingly tight at the time of CAT221, particularly in Queensland. Vacancy rates had fallen to an (at that time) historic low of 0.7 per cent in Greater Brisbane as demand growth outstripped growth in housing stocks. While vacancy rates had also fallen in Greater Sydney, they remained within historical bounds. In line with this trend, rental price inflation was rising in both regions, although remained below previous highs.

The tourist accommodation market was, on aggregate, still showing some spare capacity, but demand was picking up with nightly rates rising and capacity likely limited at peak times. Vacancy rates had been falling since winter 2021 as domestic and international travel demand recovered. On average, vacancy rates remained above pre-pandemic levels though.

However, within the regions most impacted by CAT221, there are signs that availability was more limited, particularly for cheaper accommodation types (e.g., holiday parks, motels and guesthouses). Average nightly rates had also increased and were 15-40 per cent above pre-pandemic levels in the regions worst affected by CAT221.

Chart 4.6: Tourist accommodation vacancy rates and prices in QLD and NSW



Source: STR

Finding 4.6

Prices for accommodation were high and availability was low, particularly during peak tourism periods

On average, there was some spare capacity in the accommodation market, but this was largely in more expensive accommodation types and capacity was constrained during peak tourism periods. This created challenges for those seeking temporary accommodation over Easter 2022 and increased the cost of accommodation.

- The rental market was tightening, particularly in Queensland where the rental vacancy rate was at an historic low at the time of CAT221.
- On average, there was some capacity in the tourist accommodation market, although in the areas most impacted availability was focused on more expensive accommodation types. Reports also indicate issues with accommodation availability around peak times (e.g. Easter 2022).
- Average nightly tourist accommodation rates were 15-40 per cent above pre-pandemic levels in the regions most affected by CAT221.

5 Other external factors

Key points

- The role of government in a catastrophe is multifaceted, and includes emergency response, regulation, funding and policymaking. Across each of these roles, insurers are both impacted by, and can impact, the outcomes achieved by governments.
- CAT221 was the first time a series of new regulations were put into practice by the insurance industry. These changes were well known and understood, as some were foreshadowed years in advance.
- Key regulatory changes included, but were not limited to, International Financial Reporting Standards (IFRS) 17, Regulatory Guide (RG) 278: Breach Reporting, an update to the General Insurance Code of Code of Practice, RG 271: Internal Dispute Resolution, Claims Handling as a Financial Service (*Corporations Act 2001*) and Cash Settlement Fact Sheet (CSFS) obligation (*Corporations Act 2001*)
- 18 major state and federal disaster recovery and support programs were put in place to respond to CAT221. Most of these programs were designed and delivered at the state level, and funded through the DRFA.
- Consultations revealed points of overlap in the CAT221 response that negatively impacted policyholders and broader community stakeholders. These included:
  - Evidence of a declined insurance claim needed to access government funding.
  - Confusion over responsibility and timing for debris clean up and removal.
  - Lack of co-ordination between government and insurers on retrofitting and resilience.

This chapter covers additional external factors that impacted insurers' ability to respond to CAT221, namely the regulatory context and the broader response of governments.

5.1 Role of government in a catastrophe

Governments play a multifaceted role in a catastrophe

Extreme weather events require governments to act as emergency responders, regulators, funders and policymakers.

Emergency response

The states and territories are primarily responsible for recovery and response to natural disasters. The Australian Government's role in natural disasters is largely a supporting role to the states and territories.

Policymaker

Governments at all levels set disaster management policies and frameworks and coordinate economic, social and environmental recovery after a catastrophe.

Regulator

Commonwealth legislation governs the insurance industry, and the Australian Prudential Regulation Authority (APRA) and ASIC regulate the industry.

Funding support

The Australian Government provides the majority of disaster funding to the states and territories through the Disaster Recovery Funding Arrangements 2018 (DRFA). State and territory governments are then responsible for designing, coordinating and delivering these schemes.

Insurers work alongside governments when responding to a catastrophe

Insurers can affect – and be affected by – the outcomes governments achieve in each of the above roles. Regulations and policy decisions set by government define the way in which insurers can responds to and prepare for disasters, whereas emergency response supports to alleviate the impact of the disaster on affected communities. Government funding support works in conjunction with the insurance industry to support communities recovering from disaster, providing differing levels of support to both the insured and uninsured.

5.2 Regulatory context

5.2.1 Overview of insurance industry regulation in Australia

The insurance industry is governed by three primary pieces of legislation

In Australia, the insurance industry is governed by the *Insurance Act 1973* (Cth) and the *Insurance Contracts Act 1984* (Cth). The Australian Prudential Regulation Authority (APRA) is responsible for general administration of the Insurance Act 1973 and sets prudential standards for the general insurance industry. ASIC is the corporate regulator responsible for the general administration of the Insurance Contracts Act, including monitoring and promoting market integrity and consumer protection, and licensing.[28]

Additionally, Chapter 7 of the *Corporations Act 2001* regulates the broader financial services industry, which includes the insurance industry, particularly in relation to the financial services licensing regime obligations.

The Insurance Council of Australia, as the representative body of the general insurance industry, oversees the General Insurance Code of Practice

GICOP is a voluntary code that sets out the standards that general insurers must meet when providing services to their customers, such as being open, fair and honest. It also sets out the timeframes for insurers to respond to claims, complaints and requests for information from customers.[29] The General Insurance Code Governance Committee is an independent body that monitors and enforces insurers' compliance with the Code.[30]

5.2.2 Regulatory context at the time of CAT221

The regulatory landscape leading into CAT221 was complex, but regulatory changes had been foreshadowed for years

Insurers were responding to a number of relatively new regulatory changes in the lead up to CAT221. The key regulatory changes that came into force in the year leading into CAT221 in February/March 2022 included the following:

January 2021

- International Financial Reporting Standards (IFRS) 17: Insurance Contracts

October 2021

- Regulatory Guide (RG) 278: Breach Reporting amendments
- Update to General Insurance Code of Code of Practice (GICOP)
- RG 271: Internal Dispute Resolution
- RG 274: Product Design and Distribution Obligations (under *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019*)
- RG 38: The Hawking Prohibition (under the *Corporations Act 2001*)

January 2022

- Claims Handling as a Financial Service (under the *Corporations Act 2001*)
- Cash Settlement Fact Sheet (CSFS) obligation (under the *Corporations Act 2001*)

These regulatory changes required insurers to undertake significant systems, processes and, in particular, data infrastructure uplifts to comply with the regulatory requirements. However, these changes were generally well understood or known by insurers, as they were foreshadowed in advance.

Cash Settlement Fact Sheet (CSFS) caused confusion for insurers and policyholders

The CSFS obligation, which required insurers to provide CSFS when providing cash settlement offers for insurance claims, were raised by regulatory bodies, insurers, consumer representatives and policyholders as an area that created confusion for policyholders.

This obligation was foreshadowed in December 2020 following the Hayne Royal Commission and came into effect in January 2022, about a month prior to CAT221. This meant that CAT221, the biggest catastrophe event in Australia in terms of claims volume, was the first major insurance event that tested the insurers' ability to comply with the new obligations at scale.

Moreover, in light of CAT221, ASIC issued a legislative relief (ASIC Corporations (Cash Settlement Fact Sheet) Instrument 2022/59), which came into effect in February 2022, to streamline the process for insurers to advance policyholders up to $5,000 in cash in emergency situations without first having to issue CSFS, subject to various conditions prescribed by ASIC. This relief required changes to the insurers' internal processes and updated guidance to staff members regarding the CSFS obligations and exemptions, while the industry was navigating and responding to the significant event.

Many insurers noted that the CSFS obligation was challenging to implement, and consumer group representatives and policyholders correspondingly noted that the factsheets often lacked context, and were difficult to understand, including where cash settlement offers may only relate to part of the claims instead of the whole claim.

Finding 5.1

Implementation of the Cash Settlement Fact Sheet in close proximity to the event caused operational challenges for insurers and confusion for policyholders

The Cash Settlement Fact Sheet (CSFS) obligation came into effect not long before the CAT221 event. Changes were introduced shortly after the event to provide relief in limited circumstances under the Australian Securities and Investments Commission's (ASIC's) legislative instrument: *ASIC Corporations (Cash Settlement Fact Sheet) Instrument 2022/59*. The implementation of the obligations during the biggest catastrophe event by insurance claims volume, and subsequently adapting to the new relief and conditions was challenging for most of the insurers, and policyholders correspondingly felt confused about the lack of context and implications of another fact sheet or disclosure document from the insurers while dealing with the devastating impact of the catastrophe.

Insurers are required to update policyholders on claim and complaint progress under the General Insurance Code of Practice (the Code)

The objectives of the Code include promotion of better, more informed relations between policyholders, and the maintenance and promotion of trust and confidence. These, and the other objectives of the code, require transparent, regular communication from insurers.

The Code also sets out the timeframes for which insurers should communicate with policyholders about key aspects of their claim or complaint (e.g., the insurer will tell the policyholder about the progress of their claim at least every 20 business days or that they will provide updates on complaints every 10 days). Most insurers took this to mean that it required a personalised communication, i.e, not an automated update.

Inadequate communication with customers was the main issue raised during our policyholders and other stakeholders. Some policyholders had little or no communications from their insurers for extended periods of times during the aftermath of the event.

While most insurers told us they tried to maintain compliance with Code timeframes, this often resulted in the insurers focussing resources and efforts on providing updates even when the claim had not progressed. Some insurers questioned the quality of the communications being provided in these updates, and noted resources may have been better used on other tasks to resolve claims. In one Post Event Review document, an insurer noted that they were "chasing code compliance".

Finding 5.2

Record breaches of GICOP communication timelines

There were record levels of breaches of GICOP communication timelines, which require updates to be given to customers. Insurers found it difficult to adhere to the timeframes, particularly in the first few months after the event due to capacity constraints.

Insurers need to improve communications with customers in a catastrophe in order to meet community expectations and improve the customer experience. This could be achieved through a more deliberate communication plan for catastrophes, which aims to maximise the impact of communications and meet the principles of the code.

The solution is not a blanket extension of timelines, as this would not meet community expectations. Any revised approach to communication in catastrophes would need to build confidence that customer experience and communications would improve overall.

Any changes to the Code would need to be considered as part of the upcoming independent code review and be accepted by the General Insurance Code Governance Committee (***see Recommendation 7***).

5.3 Broader response of governments to CAT221

For a detailed description of how governments responded to CAT221, see the NSW Government's 2022 Flood Inquiry[31] and the Queensland Government's *South East Queensland Rainfall and Flooding February to March 2022 Review.*[32]

18 major state and federal disaster recovery and support programs were put in place to respond to CAT221

Most of the programs that responded to CAT221 were designed and delivered at state level and funded through the DRFA. Payments were made through the following programs:

Adults and children whose home was severely damaged or who were seriously injured in the floods:

- NSW – ***Disaster Recovery Payment***
- QLD – ***Emergency Hardship Assistance Grant***

Payments to support people whose home was severely damaged, but who weren't covered by insurance:

- NSW – ***Disaster Relief Grant, Rental Support Payment*** and ***Back Home Grant***
- QLD – ***Essential Household Contents Grant*** and ***Structural Assistance Grant***

The Resilient Homes Program (co-funded by the Australian Government), which facilitated home buybacks, house raising and home retrofits.

The terms and timelines of government funds are set by the corresponding state government agency.

5.3.1 Areas of overlap in the responses of insurers and government

The CAT 221 response highlighted overlaps in the response by governments and insurers that negatively impacted policyholders and broader community stakeholders. Three key dependencies included eligibility criteria for government disaster recovery funds, debris removal and clean-up and coordination of resilience work.

Evidence of a declined insurance claim was needed to access government funding

Of the eight major funding programs in NSW, six required evidence of a declined insurance claim. In Queensland, four out of six programs required an applicant to provide evidence that an insurance claim was declined.

The interdependencies of eligibility for government and insurance support led to confusion and frustration for members of the community. This was particularly acute for those in the grey area between insured and not insured, especially policyholders without flood cover. Policyholders whose homes were severely damaged or destroyed were left waiting for insurance decisions, while being unable to access government support. In some instances, flood-affected residents missed the government-set deadline for support programs while waiting for a claim decision, leaving them with no financial support.

Finding 5.3

Denied insurance claim required by government funding programs

Eligibility criteria for many major state government funding programs include evidence of a denied insurance claim (where the applicant holds an insurance policy). Where funding windows were time limited, some flood-affected residents were unable to access government support as they were waiting on the denied claim. Some customers had to wait for months to be able to access government schemes.

Confusion over responsibility for debris clean up and removal

In the aftermath of CAT221, there was confusion regarding the clean-up process, with competing procedures in place from different authorities. Specifically, there was confusion around the removal of debris from flood impacted homes and who was responsible for coordinating this process. Debris removal may have been covered under some insurance policies (this was inconsistent across insurers) or by local councils or state governments, and residents were unclear on where to seek advice.

Similarly, there was uncertainty about when damage could be surveyed and/or cleaned up following the flooding. Guidance across insurers was also unclear about when flooded property could be accessed and damaged contents and building materials removed without impacts to insurance claims, causing confusion. This was further complicated by cases of delays to clearance processes from authorities as a result of safety concerns or lack of access to areas.

The confusion affected timeframes for claims handling and increased costs for local governments. It also had implications for human health – delays removing debris and cleaning up meant homes could not be ventilated and dried out in a timely manner. This allowed mould to build up, which poses a health risk and was not always covered by insurance.

Finding 5.4

Inconsistent approach to clean-up and debris removal

With different guidelines for clean-up of debris and damaged contents in the aftermath of CAT221, there was confusion for policyholders as to when clean-up processes could begin. This was further complicated by policies that were inconsistent across insurers. Governments tasked with clean-up and waste removal were required to visit the same street/area multiple times. Local governments noted that this led to inefficient use of council resources. This issue is currently being worked on by the ICA.

There was a lack of coordination between government and insurers on retrofitting and increasing the resilience of buildings

The damage left in the wake of CAT221 was immense, with thousands of residential and commercial properties requiring rebuilding or retrofitting. While the need to retrofit and build resilience into flooded homes was high, it was hard to balance this priority with the need to rebuild homes quickly and to get affected residents back into their homes. Further, governments and insurers' processes, roles and responsibilities in relation to rebuilding and retrofitting caused confusion. In some cases, government and insurance practices were in conflict, resulting in delays to retrofit works.

Some community members struggled to confirm their eligibility for government programs, with confusion about whether they could participate in a buyback scheme or access funding for rebuilding. Some policyholders said they delayed lodging their insurance claim due to confusion about their eligibility for government buy-back schemes. This may have led to some affected residents missing out on avenues of support.

Finding 5.5

Retrofitting to enhance disaster resilience is typically not covered by insurance

Affected residents faced challenges when seeking to retrofit their properties to enhance resilience. Many insurance policies only cover repairs that return the property to its original condition and resilience level. While there is an allowance for improvements to meet new building codes, this does not normally extend to increasing flood or disaster resilience.

Part II | Insurance industry's response to CAT221

CAT221 insurance outcomes

CAT221

242,351
claims received[33]

$6.004bn
loss value[34]

55%
of claims arose in Queensland[35]

45%
arose in NSW[35]

12 months after CAT221

84%
of claims closed[36]

97%
of personal motor vehicle claims closed[37]

84%
of personal building claims closed[38]

85%
of personal contents claims were closed[39]

19
percentage point difference in closure rates across insurers (highest: 96%, lowest: 77%, average: 86%)[40]

QLD
claims more likely to be closed than NSW claims[41]

Complaints

34,269
complaints[42]

44%
of complaints were due to a delay in claim handling[43]

8 days
Average of 8 days to close a complaint[44]

94%
of complaints closed within 30 calendar day timeframe[45]

1,712
complaints to AFCA[46]

Community perspectives on areas for improvement

As part of the review, Deloitte engaged with affected policyholders and community representatives to understand their perspectives on insurer performance and areas for improvement. This included fielding a web-based survey to enable policyholders to provide feedback, and conducting one-on-one consultations with policyholders and other stakeholders such as community members, local government representatives, elected representatives, reconstruction authorities and researchers.

Consultations aimed to elicit areas for improvement for the insurance industry, and, as such, the discussions generally centred on frictions between the community and the industry. Sentiment around these frictions was more moderate in communities that were less impacted by CAT221, while those from more affected regions were generally more critical of insurers' response.

Some of the frictions most frequently raised include:

Timeframes

Communities found the timeframes for insurance claim resolutions unjustifiably long, with initial claim assessments, repair planning and repair mobilisation highlighted. Insurance complaint response timeframes were also considered unreasonable.

Insurance cover

Policyholders' understanding of their cover and interpretation of some policy terms differed to insurers', with the following highlighted as problem areas:

- Maintenance/wear and tear – some claims were denied or delayed when insurers considered the damage to be due to a lack of maintenance. In some of these circumstances, policyholders believed they had performed regular maintenance, and that insurers' maintenance expectations were unreasonable or the weather event and flooding caused the damage.
- Flood and stormwater - policyholders were confused by the definitions and descriptions of flood and stormwater in their policies and how the two were described by insurers and their representatives. Some stakeholders commented that it was difficult for policyholders to understand the distinction between them without a knowledge of hydrology.

As a result, some policyholders were confused, frustrated, distressed and angry upon receiving their claim decision.

Debris removal protocols

Policyholders were confused by insurers' guidance around debris removal protocols. There was a belief among policyholders that they had to wait for their insurer to assess the damage before commencing clean up. Under some insurance policies and in some instances, this was correct, but there were also instances where misconceptions shared across communities had greater reach than debris removal advice from insurers or the ICA. Policyholders' belief that they had to delay the removal caused frustration, and some felt that earlier attention would have limited further damage. The delays also exacerbated black mould infestations (which adversely impacted the physical health of affected policyholders), and created inefficiencies in council clean-up (which was underutilised in instances where policyholders rejected these services due to the perceived effect on their claim).

Claim status communications

Policyholders indicated that they did not find insurer updates on their claim to be clear or timely, including both the temporary accommodation position and the claims process. They struggled to obtain information about their claim when contacting insurers and considered response times unacceptable. Some policyholders were unable to move on with their lives during this time, and found that being left 'in limbo' had a negative effect on their mental health. They also found it difficult to make importwant decisions (for example, whether to extend rental contracts) in the absence of clear information from their insurer on cover, timeframes and next steps. This was exacerbated when policyholders had to deal with more than one claim handler and where they had been provided with conflicting information by their insurer.

Outcome justification, hydrology and builder reports

Policyholders voiced disappointment with the justifications for claim declines or partial claim declines given by insurers and insurance representatives throughout the claims process. Hydrology reports created confusion for policyholders and neighbours at the assessment phase, where stakeholders noticed that similar claims sometimes received different outcomes and the reports lacked the supporting detail needed to explain the reason. Builders' assessment reports were also a cause of frustration and stress, with some policyholders finding that the proposed scope of works was not consistent with the extent of damage, resulting in lots of additional back and forth with their insurer.

Distribution of responsibility and cash settlements

Policyholders felt that the onus was on them to ensure that their claim was resolved. They felt that they had to continually contact their insurer to progress their claim and ensure it was not forgotten.

Some policyholders who opted for cash settlements found their insurance payout did not match the extent of repairs required. Policy coverage confusion and divergent expectations between insurers and repairers over the cost of repair were identified as the main drivers of such mismatches. Policyholders in the latter category described the process of aligning the price quoted by their repairers and the insurers' proposed payout as burdensome and stressful. Further, the cash settlement process caused confusion for some policyholders, as it was not clear to them that the settlement offered may only relate to part of the claim.

Policyholders who opted to have their insurer appoint the builder/supplier to manage repairs felt that insurers did not take adequate responsibility for overseeing the contracted third parties. This led policyholders to feel unsupported, and thus responsible for project managing the repairs/rebuild and ensuring that the work was completed to an appropriate standard. Further, stakeholders described how the elderly and vulnerable groups struggled to engage with their insurers and insurance representatives in the same way that others could, and felt that their insurance outcomes were less positive at times as a result.

Sensitivity

Stakeholders emphasised the importance of tailored services for vulnerable policyholders. These policyholders require additional support in order to have positive experiences. Some impacted policyholders found their experience with insurers and their representatives challenging, saying they did not feel staff were equipped to respond to customers experiencing trauma. Traumatised policyholders also found it painful to re-tell their story to different claim handlers, reinforcing the value of a single point of contact for each claim.

Complaint handling

Some policyholders who made complaints did not feel the insurer gave them the opportunity to supply additional information before a decision was made and that the complaint handler response was a repeat of the same information without demonstrating that there had been due consideration of the specific circumstances of the policyholder and case. Consistent with above, some policyholders considered that the insurer did not want to listen, did not have the time to show a genuine interest and did not understand their feelings and situation.

What does a good insurance response look like?

Common themes also emerged from consultation with policyholders who had a positive experience with their insurer:

Empathy

Good experiences with insurers consistently came back to the empathy displayed by the claim handler, assessor or other staff member.

Regular communication

Timely claim progress updates were considered critical to insurer performance.

Proactivity

Policyholders were appreciative of proactivity, the efficient management of claims and active management of third-party suppliers.

Transparency

Widespread appreciation for clear and informative communication through the claims handling process. Even among policyholders that received adverse decisions, there was an appreciation for clear justification of the insurer's decision.

6 Insurer assessment framework

Insurer assessment framework

The following five categories were used to assess the insurance industry's claims and complaint handling effectiveness. Regulations such as the General Insurance Code of Practice (GICOP), Claims Handling as a Financial Service (CHAFS) and Regulatory Guide 271 (RG271), and Prudential Standard CPS230 Operational Risk Management (effective in 2025) were considered when developing the assessment framework.

Figure 6.1: Insurer assessment framework

	**Catastrophe planning** Analysed how insurers planned and prepared for CAT221.	*Chapter 7*
	**Resourcing** Analysed how insurers scaled up their claims and complaints resources to respond to CAT221.	*Chapter 8*
	**Process, technology and operating model** Analysed the scalability of processes, the operating model adopted and technology used for CAT221.	*Chapter 8*
	**Communications** Analysed the effectiveness of insurer communication with consumers throughout CAT221.	*Chapter 8*
	**Governance** Analysed how insurers maintained oversight of the claims and complaints operations.	*Chapter 8*

Source: Deloitte

Finding 6.1

CAT221 exposed areas of weakness in insurers' claims and complaint handling response

Notwithstanding the complex context that CAT221 occurred in, the event exposed areas for improvement across the insurance industry. These areas of improvement ranged from catastrophe planning through to the execution of claim and complaint handling as well as communication with policyholders.

Finding 6.2

Insurer performance was varied

Insurer performance on the five review domains varied across the industry. The review uncovered both good practices by insurers and practices that require improvement for the industry to meet community expectations when responding to future extreme weather events. The findings and recommendations of this review will not apply to all insurers to the same extent.

7 Were insurers prepared for CAT221?

Key points

- Catastrophe planning provides a framework for each insurer to take effective steps before, during and after an extreme weather event, and to maintain the operational and service requirements and expectations of policyholders in response to the events.
- All insurers had catastrophe plans in place at the time of CAT221. However, there is no industry standard for insurance catastrophe planning. As such, some catastrophe plans in place at the time of CAT221 were robust and relevant. Others lacked details and were viewed as a 'guidebook' rather than a strategic plan to be implemented during severe weather events.
- Not all insurers had tested the plan with an extreme weather event, and no insurer had tested the catastrophe plan with an event the scale of CAT221.
- Due to the scale of CAT221, even the insurers with robust catastrophe plans had to make adjustments, while insurers with less robust catastrophe plans found them not fit-for-purpose.
- Most insurers completed a review of their operations in response to CAT221, allowing for timely actions and improvements with clear action plans. However some insurers' reviews are still underway 18 months following the event.

This chapter assesses the preparedness of insurers for catastrophes in general, and CAT221 in particular.

A range of performance was observed in the industry's response to CAT221

As explored in Part I, CAT221 occurred in a complex economic context, with many external factors impacting the insurers' ability to respond. However, CAT221 also exposed a number of weaknesses within the insurance industry. Areas for improvement span from planning through to the execution of claims and complaints operations as well as how insurers communicate with policyholders.

While CAT221 exposed a number of weaknesses across the industry, not all insurers performed the same. The review uncovered a number of examples of good practices and practices that require improvement from insurer to insurer. As a result, the findings and recommendations will apply to each insurer to a different extent. It should also be noted that all insurers have already taken steps post CAT221 to improve the response to future large-scale events (***see chapter 10***).

Finding 7.1

CAT221 exceeded the bounds of catastrophe planning

Most insurers noted that whilst they had a catastrophe plan in place, the severity of CAT221 and related economic conditions had not been anticipated in the design of the plan, which limited the applicability and usefulness. Catastrophe plans across the industry varied in depth, structure and content. Some catastrophe plans were very comprehensive, while others were not.

7.1 Catastrophe planning

There is no industry standard for catastrophe planning, and plans varied across insurers

Catastrophe planning is the way an insurer prepares for catastrophic events. This can include a document that outlines how an insurer plans for and responds to catastrophic events and any training or preparatory activities undertaken by an insurer whilst preparing for an event.

There is currently no industry standard or minimum requirements for insurers in planning and preparation for events, which was evident in the range of approaches observed to catastrophe planning across insurers, with variation in the depth, structure, testing and related training.

The severity of the CAT221 floods and related economic factors had not been contemplated or anticipated by insurers in their planning process. Given the likely increasing frequency and severity of events, and associated economic impacts, insurers would benefit from defining best practice approaches to preparing for catastrophes of an increasing level of severity and frequency.

Components of a better practice catastrophe plan:

- ✓ Event classifications
- ✓ How to declare an event internally
- ✓ Roles and responsibilities for an event
- ✓ Resourcing strategy
- ✓ Communication strategy (both internal and external)
- ✓ Staff health and safety measures
- ✓ Logistical management of staff deployed to impacted areas
- ✓ Supply chain management
- ✓ Data, reporting and governance arrangements
- ✓ Process for identifying and managing risks throughout an event
- ✓ Delegation limits in an event
- ✓ Training for events
- ✓ Technology and weather alerts
- ✓ Checklists to help staff prepare for, respond to, and close an event.

7.2 Scenario planning

Scenario planning is a useful tool in improving operational resilience

An insurer's response to an event depends on the volume of claims, the type of weather event, the geography of the event (e.g. regional versus city) and the economic factors in play, as well as the capacity and capability of the insurer's internal operations to respond. Operational scenario planning should identify areas of potential weakness in an insurer's response to catastrophes and strategic actions that should be taken to mitigate and manage risks and improve overall resilience.

Operational scenario planning was not completed consistently across the industry in the lead up to CAT221

Most insurers confirmed they completed scenario planning at least annually and incorporated learnings from the scenario planning into their catastrophe plans. However, they had not considered the scale of CAT221 claims or the economic context in their scenario planning. For example, one insurer noted that while they had completed scenario planning for a number of years, this considered scenarios of a spike of up to ~3,000 – 4,000 claims, which was significantly below the 10,000+ claims that the insurer received for CAT221.

Some insurers stress tested their supply chain as part of these exercises, which allowed them to understand where weakness may be in their overall response, so they could be addressed.

Some insurers noted they did not complete scenario planning in the lead up to CAT221. Due to the increased frequency of events, one insurer no longer saw the value in undertaking the exercise. Another insurer noted that they had planned to complete scenario planning, but a real event prevented the insurer from proceeding with the simulation.

Finding 7.2

Operational scenario planning was limited and varied across insurers

Operational scenario planning is used to help insurers prepare for and stress test their operations to cope with extreme weather events. This planning was not completed or valued consistently across the industry in the lead up to CAT221.

7.3 Lessons learned from post event reviews

Lessons from CAT221 have already resulted in improvements to catastrophe planning, although the comprehensiveness varies across insurers

It is important after an event like CAT221, which resulted in a significant volume of complaints and issues for policyholders, that insurers take steps to learn lessons to prevent these issues reoccurring. All insurers have learned lessons from CAT221 and are better prepared for an event of this degree and severity in the future.

Most insurers did this by completing a post event review and followed this by implementing recommendations to improve preparedness for future events. This included particular focus on workforce planning, management of third-party suppliers, policy response and technology uplift. Most insurers completed the review within 12 months of CAT221, allowing for timely actions and improvements with clear action plans.

A few insurers noted that reviews were still underway 18 months after CAT221.

Finding 7.3

Post event reviews led to improvements after CAT221, but there is scope for further improvement

Learning from catastrophic events and implementing changes is one of the most effective ways of improving insurer preparedness for future events. Insurers have already implemented changes as a result of CAT221; however, there is still more to do. Some insurers have taken over 18 months to finalise post event reviews.

8 Review of claims and complaints handling

Key points

- The review of insurers' claims and complaints handling considered resourcing, processes, technology and operating model, communications and governance.

Resourcing

- The volume of claims tested the industry's capacity to scale resources, as CAT221 resulted in six times the number of insurance claims of the average Australian catastrophe since 2016.
- Insurers needed to increase their claims workforce by up to 87 per cent to meet the demands of CAT221 at a time when the labour market was at its tightest level on record.
- Most insurers had resourcing plans, or alternative resourcing agreements in place to scale resources, which were operationalised during CAT221.
- Some insurers had established relationships with external recruitment firms, pre-tested outsource providers, and drawn up redeployment plans that included pre-training staff in the lead up to catastrophe season. Others did not have effective and formalised workplace planning in place prior to CAT221.

Process, technology and operating model

- At the time of CAT221, half of the insurers analysed did not have a formalised operating model for roles and responsibilities, workforce planning, quality assurance and oversight of third parties. This made it difficult for insurers to consistently scale to meet demand.

Communications

- On-the-ground insurer support in the immediate aftermath of CAT221 was extremely well received by policyholders and other stakeholders.
- Communication plans were in place, but the scale of CAT221 meant that insurers prioritised other aspects of the claim process. Many insurers did not meet the timeframes set out in GICOP, including the requirement to provide an update on the progress of a claim every 20 business days and to respond to routine requests for information within 10 business days.

Governance

- There was a strong commitment from senior leadership to understand the impact of CAT221 and prioritise the response accordingly. However, ongoing strategic decision making was impacted by a lack of data and reporting for some insurers.
- Some insurers strategically triaged and accelerated certain cohorts of claims (e.g. vulnerable customers). However, the limited ability of other insurers to track monitor and bulk extract claims data meant it was difficult to make proactive decisions.
- Policy terms should be designed with the catastrophe claims handling process in mind as they affect customer outcomes and the claim handling experience.
- Insurers would benefit from an external or independent 'voice of customer' in their claims and complaints operations.

This chapter focuses on the effectiveness of insurers' claims and complaint handling functions in response to CAT221, including people (resourcing models), processes, technology and operating models, communications, and governance structure.

8.1 Resourcing

Strategic resource planning for extreme weather events improves the speed of response

Insurer resourcing models and capacity to scale, onboard and train resources to meet increased demand is a critical component of the catastrophe response. From claims lodgements and processing, coordination and management of third-party suppliers, to claims closure and complaints handling, employees are at the core of the response and have a significant influence on whether policyholders feel supported or disregarded following a catastrophe.

In the lead up to February 2022, insurers were not expecting an event the size and scale of CAT221. This was largely due to weather patterns being more hazardous than forecast (***see Chapter 2***). Insurers were also already managing a shortage of skilled workers in the market relative to their requirements (***see Chapter 4***).

Most insurers had mature workforce planning functions in place, which were used to forecast the number of resources required for claims teams. Where third-parties were used, some insurers extended the planning to understand the capacity of third-parties; others did not. While the forecasting may have required revision once the impact of CAT221 was fully understood, the revision was able to be operationalised quickly.

The same insurers, generally, also had a resourcing model that considered more than one channel to increase capacity in the claims function. This included: recruitment of resources, redeployment of resources from other areas within the business, increasing the hours of the existing workforce (where part-time) and using third-parties (on-and-off-shore) to handle claims. Having an omni-channel approach to increasing capacity better prepared insurers to adjust according to labour market conditions or other economic pressures during the event, as well as maximising the possible capacity available in a sustainable way.

Some insurers had limited or immature workforce planning or established resourcing models, which put them in a highly reactive position during CAT221. These insurers generally relied upon recruitment only, which created challenges during the event because the industry as a whole was recruiting. Where third-parties were used, stress-testing on capacity to respond was not sufficient. At least two insurers said that their third-party claims preparers had to hand claims back to them shortly after the event because they did not have the capacity required to manage claims.

Finding 8.1

Range of maturity in workforce planning functions

There was a range of maturity in workforce planning functions that were used by insurers to identify the number of resources required to respond to CAT221 for both claim and complaint handling teams. Where third-parties were used, some insurers extended planning to include the capacity of third-parties, while others did not.

Insurers increased their claims workforce by up to 87 per cent to meet the demands of CAT221 yet timelines for communicating with customers were still pressured

Insurers increased their claims workforce by between 19 per cent and 87 per cent in claims functions in response to CAT221. This was in an environment where the labour market was at its tightest level in recent history.

Insurers had a "whatever it takes" attitude to increasing headcount, when faced with the recruitment challenges. Some insurers developed innovative ideas to source a contingent workforce, including partnerships with universities, targeting the part-time carer workforce (i.e. those who could only work during school hours), and appealing to people in the impacted communities to take career breaks to work in claims management for the duration of the response to the event.

Due to the tight labour market and the whole industry competing for resources to meet the spike in claims and complaints function demands during CAT221, all insurers relaxed the skills requirement during recruitment.

Increasing headcount by this much at any time, particularly in an extreme weather event, puts pressure on supporting functions (e.g. training and compliance), as well as managers and leaders. This creates an initial slow-down in output of claims managed and can impact the quality of on-boarding and training, and therefore customer interactions. To some extent, this is expected in a catastrophic situation; however, insurers should give more consideration in their planning as to how to minimise the number of staff that need to be on-boarded in an event and, if significant recruitment is required, how to effectively train and uplift the capability of the new workforce (***see Recommendation 3***).

All insurers have increased the headcount in claims teams permanently as a result of CAT221, in anticipation of continued catastrophic events. However, insurers face the ongoing challenge of balancing a workforce ready for major events and a workforce with limited work to do, which creates a cost overhead and potential performance and cultural issues resulting from latency.

Finding 8.2

Insurers significantly increased their workforce to respond to CAT221 and this put pressure on operations

Insurers reported an increase in their headcount in claims and complaints teams by over 2,200 people following CAT221. This was in the context of extremely tight labour market conditions and, therefore, staff recruited were largely unskilled in claims and complaints management. This level of recruitment put increased pressure on insurer operations.

Whilst recruitment is an integral part of an insurer's response to large scale events, it is not effective as the only solution. Insurers need to balance preparing their workforce to respond to large scale events with the risk of under-utilising resources outside of these events. Recruitment needs to be contemplated alongside other levers so that insurers can sustainably respond to large scale catastrophes.

Balancing comprehensive training for new staff with speed to productivity was a challenge

Most insurers had comprehensive training frameworks in place in claims functions. However, there was general acknowledgment across insurers that the training framework was relaxed or shortened due to the need to respond to the large volumes of claims related to CAT221.

For some insurers, prior consideration had been given to how training would be delivered in a catastrophe, where significant resources need to be onboarded. In addition, catastrophe event training refreshers had been delivered for existing staff in the lead up to a catastrophe when the business had capacity.

The gap in initial training was filled by ongoing training through the catastrophe response, either from training not delivered during on-boarding or as a result of training needs identified through quality assurance testing.

Some insurers had little or no formalised training framework. For these insurers, heavy reliance was placed on experienced staff providing 'buddy' support to the new starters, which created additional workloads for these experienced staff members who were responding to record call volumes and claims.

The way insurers determined an individual staff member's competency varied. Some insurers had formalised testing requirements to ensure claims staff could perform their role to an acceptable standard. This involved a competency matrix which considered training attended, a formal checking of cases, and team leader observations. Others relied on role-play activities during training which has limited effectiveness in assessing a person's readiness or claims handling capability once they are in a live environment.

Finding 8.3

Training standards for new staff were relaxed to respond to CAT221, which impacted the policyholder experience

Given the large number of resources that insurers had to on-board as CAT221 unfolded, training standards for new staff were relaxed. This had an impact on policyholders' experience, particularly in the initial period after the event.

Some insurers did not have well established training and competency frameworks in place, and this impacted their ability to adequately train large numbers of staff in a short timeframe.

8.2 Process, technology and operating model

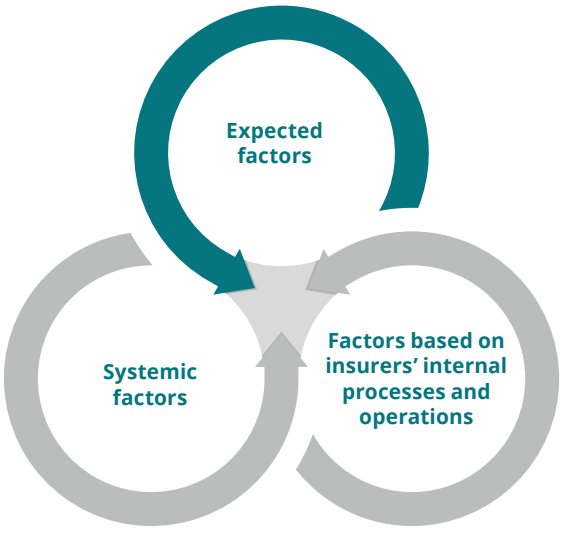
Responding to the scale of CAT221 tested insurers' processes, technology and operating models

CAT221 resulted in six times more insurance claims than the average Australian catastrophe since 2016. This required significant scaling of processes, technology and operations. As the claim closure profile illustrates (see Chart 3.2), it took some months for these systems to scale to meet the demand of CAT221.

8.2.1 Process

There were multiple factors that impacted claims timelines

There are many factors that can impact the timeframe for claim finalisation and all of these impacted timelines in CAT221.



Expected factors

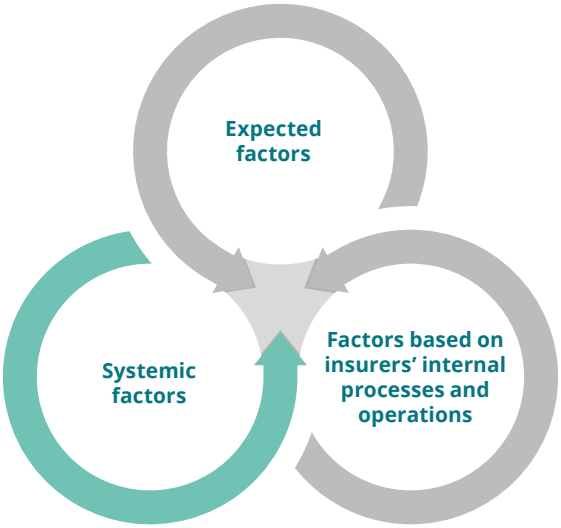
Some of these factors, are expected and additional time can be necessary for the claim to be handled appropriately, including:

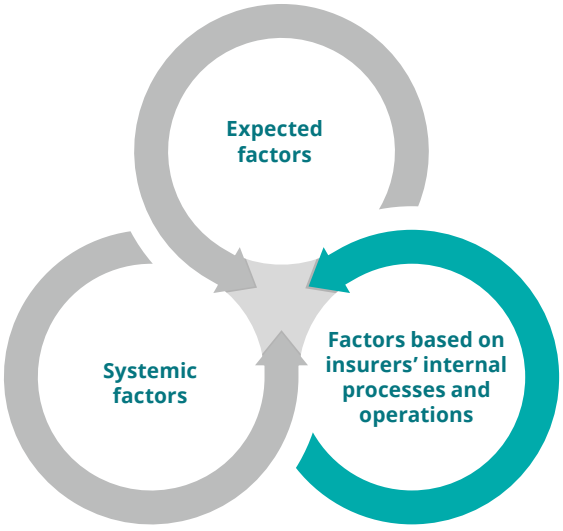
- **The type of insurance policy**
  (*E.g. motor versus property – it takes much longer to rebuild a home than replace a car*).
- **The settlement or outcome**
  (*E.g. a cash settlement payment can be made more quickly than a home can be rebuilt*).
- **The impact and type weather event**
  In the case of CAT221, areas that had more severe flooding took longer for the water to recede and for properties to dry out ahead of rebuilds commencing.

Systemic factors

There were some factors that were the result of the external environment, including:

- **The geographical location** of the impacted policyholder. As indicated by the value of claims incurred per household, CAT221 was most severe in the Northern Rivers region of NSW. This complicated claim resolution and repairs because builders, trades people and suppliers were also recovering from the floods, making accessing necessary resources more challenging. In Lismore, for example, the local hardware businesses were flooded, making it harder to source building materials.
- **The volume of claims** lodged in a short timeframe was six times that of an average catastrophe (since 2016).
- **The economic challenges** for supply chains for cars and building materials and access to expert skills.





Factors caused by insurers' internal processes and operations

There were some factors that were related to the way insurers design policies and handle claims, including:

- **The number of resources** and capacity to handle claims
- **The process** for handling claims and level of digitisation
- **The management** of logistics and third-party suppliers
- **The design of policies** and the ability of the related claims process to scale in scenarios where there are a large volume of claims.

Without data it is difficult for insurers to identify which factors resulted in faster claim closure rates and by how much

The impact of each of these factors – and therefore potential interventions to improve timelines – could not be assessed from the data provided by insurers.

Better practice data capture and modelling includes the ability to analyse factors such as:

- ✓ Variance to a baseline expected unit time in an event, including for each part of the claims process, key policy and product features, and settlement types.
- ✓ How resourcing capacity impacts claims and complaints timelines.
- ✓ How impacts on the supply chain affect claims and complaints timelines.
- ✓ How any geography-specific factors are impacting timelines (for example due to lack of access caused by flooding).

Finding 8.4

Policyholders were unclear on claims timelines

Insurers did not set out the expectation of claim timelines in a standard way to policyholders. This led to misunderstandings and a mismatch between the expectations of policyholders and insurers regarding how long claims management would take. Delays in claim handling was the number one reason for complaints and this caused significant stress in the system.

Finding 8.5

Multiple factors impacted claim timelines, but the extent to which these factors caused issues cannot be determined by insurers due to data limitations

It was difficult to assess which factors had the greatest impact on claim timelines and which areas of processes caused the largest delays; there are many interrelated factors that impacted claim timelines. Some of these factors were expected, some were caused by external and economic conditions, whilst others were within insurers' control and could have reasonably been mitigated. The impact of each type of delay on timelines cannot be quantified as insurers did not capture information in a way that can be analysed.

Claims processes were tested at a scale they had never been before, and this exposed weaknesses

Most claims processes withstood the volume of claims resulting from CAT221; these processes are tested daily through business-as-usual operations and other catastrophes. The volume of claims exposed areas for improvement in claims processing for some insurers; examples included:

- **Two-step** online claims lodgement process.
- **Manual allocation** of work to the supply chain and third-parties.
- **Policy design**, where design features require expert assessments that are often in short supply (e.g. hydrologists), or require customers to make repairs to their property before a claim can proceed.
- **Communications processes**, which were significantly challenged by the scale of CAT221, and resulted in a record number of breaches reported to the GICGC (***see Section 7.3***)

Finding 8.6

CAT221 exposed areas of weakness in the claims process, particularly in manual processes

Claims processes were tested at a scale never experienced before and this exposed areas of weakness, particularly where the processes were manual. Insurers faced challenges with two-step lodgement processes, manual allocation of cases to third party suppliers where systems were not integrated and where policy terms required expert assessments, yet experts were in short supply (e.g. hydrologists).

Finding 8.7

Record breaches of GICOP communication timeframes

Insurers did not meet the requirements for communication processes and this resulted in a record level of breaches of the General Insurance Code of Practice reported to the Code Governance Committee

Complaint handling timeframes required under RG271 were met for 94 per cent of internal complaints (based on data provided by seven insurers)

IDR timeframes for handling complaints in 30 days were met for 94 per cent of complaints related to CAT221; 71 per cent of complaints were resolved within (and inclusive of) five days. This aligns to the qualitative information Deloitte was provided by most insurers, which said that whilst there was a surge in complaints, the volume did not significantly impact complaint handling timeframes. However, there were significant delays with giving customers updates every 10 days, especially in the early stages of the response.

Figure 8.1: CAT221 complaints

The infographics below provide key figures in relation to the IDR and EDR complaints related to CAT221, and the top reasons that led to complaints. Notably, on average, complaints took around 18 days to be resolved after CAT221 and 94% were resolved within the 30 day timeframe under RG271.

34,269

total number of complaints (IDR)

Source: Insurer complaints data

~8 days

avg. timeframe for handling complaints (IDR)^

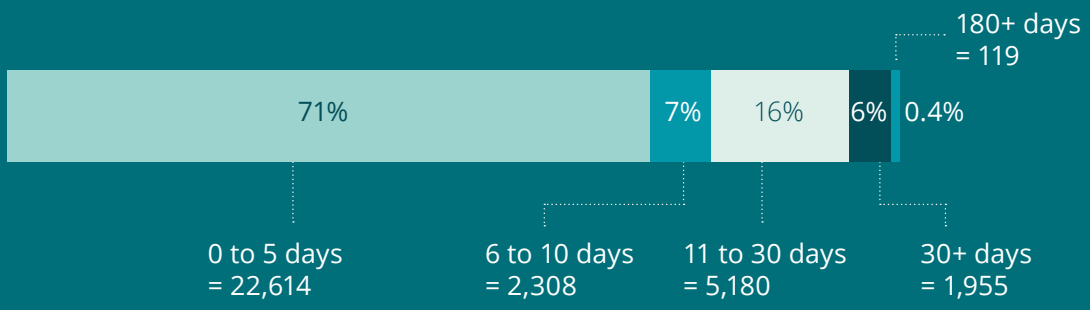
Source: Insurer complaints data

94%

complaints (IDR) closed </=30 days*

Source: Insurer complaints data

Complaint (IDR) handling timeframes



Notes: Figures cover internal complaints received until 31 March 2023, for seven out of eight insurers. One insurer provided data between 1 October 2022 to 31 March 2023 only. Data covers Home-Building, Home-Contents, Motor Vehicle-Comprehensive internal complaints for five insurers, all products for one insurer and only Home-Building for one insurer. For the figures marked with a ^, data covers open and closed complaints, except for two insurers that only reported 'closed' complaint data.

Source: Insurer data (7 insurers)

Most insurers also experienced delays with responding to AFCA in the initial stages of the response. Two insurers noted that the increase in complaints going to AFCA for an independent review (EDR) impacted resolution timeframes for those disputes and resulted in timelines to resolve EDR cases moving outside of agreed timelines.

Finding 8.8

Complaint handling was impacted by the same issues as claim handling, with External Dispute Resolution being most impacted

Complaint handling timeframes were met for 94 per cent of complaints. Resourcing, process, operating model and technology issues impacted complaints functions and require improvement for future events, though to a lesser degree than claims functions. Complaint handling was absent from most catastrophe planning undertaken by insurers.

Delays in providing customers updates on their claim every 10 days were significant, especially in the early stages of the response. Delays in responses to AFCA were also a challenge for most insurers during the initial stages of the event, and two insurers were outside of agreed timelines for resolving EDR complaints for at least four months following the event.

Intelligent triage can be used to accelerate claims handling timeframes

Some insurers used strategic triaging to accelerate certain cohorts of claims. For example, one insurer prioritised resolving claims with flood exclusions quickly. This insurer put in place an accelerated process to minimise delays for policyholders so they could apply for government funding, and provided temporary accommodation on an ex-gratia basis whilst the claim was reviewed.

Finding 8.9

Triaging and batching claims provided an effective solution to the volume of CAT221 claims

In the catastrophe environment where there were significant volumes of claims, triaging and batching for bulk resolution was an effective solution in driving faster resolution. It had the added benefit of increasing consistency of customer experience. Triage was not adopted consistently by all insurers.

Identification and management of vulnerable customers was challenging in an environment where most impacted policyholders were experiencing vulnerability

In the aftermath of a catastrophic event, it is likely that a significant portion of customers will be vulnerable due to displacement, financial burdens and the trauma of the event itself on the policyholder or the community. Some insurers looked at vulnerability in the context of a catastrophe (e.g. all customers may be vulnerable in some way), and additional training was provided to staff to help them manage an increased level of vulnerability. Situational vulnerabilities, such as domestic violence, were prioritised and escalated to specialised teams.

Most insurers provided trauma awareness training to staff either prior to or in the early stages of the event, which they said was gratefully received by staff.

Most insurers also encountered issues with consistently identifying vulnerable customers due to a range of factors, including: the volume of claims, lack of training and experience of newly recruited staff, or poor data capture by individual claim handlers.

Some insurers are using in-built data analytics capability in their complaints system, as an additional way to proactively identify vulnerable customers, with varying levels of effectiveness.

Finding 8.10

The execution of vulnerability frameworks lacked consistency and it was difficult to identify all customers experiencing heightened vulnerability

Most policyholders are likely to experience a level of vulnerability at some point in the aftermath of such a significant event. During CAT221, some policyholders experienced elevated levels of vulnerability, for example domestic violence or financial abuse.

Insurers have invested in frameworks to support vulnerable customers; however, the execution of these frameworks – and the policyholder experience during CAT221 – lacked consistency and it was difficult for insurers to identify all customers experiencing heightened levels of vulnerability.

8.2.2 Operating model

Operating models were structured with dedicated leadership and oversight over CAT221

Most insurers had a standalone team that managed CAT221, with a dedicated leadership structure. Two insurers established dedicated teams and leadership structures during CAT221 and intend to keep this in place on an ongoing basis.

One insurer has set up a dedicated catastrophe centre, which acts as a control room during events.

Most insurer operating models included governance, operational teams, supply chain management and quality assurance. In more mature operating models these included dedicated training, workforce planning, data analytics, business process improvement and technical capabilities.

Figure 8.2: Components of insurance operating models

Operating models included managing suppliers to assist with claims assessment, expert reports or services, rebuild of homes, repairs or replacement of vehicles

Most insurers have a dedicated team to oversee the various third-parties required to service building and motor vehicle claims. Insurers have dedicated panel arrangements for supply chain agreements. Most insurers had attempted to catastrophe-proof the panel by having agreements in place ahead of time, based on requirements in an extreme weather event (e.g. panels that covered national geographies, to have coverage across all regions).

Due to the scale of CAT221, most insurers had to increase the number of suppliers on the supplier panel, particularly for building claims (e.g. builders and hydrologists). Some insurers did not have panels in place for hydrologists prior to the event and as a result were trying to establish relationships during a time when these experts were already in short supply. This added to claim delays.

One insurer had a loss adjuster led model, where the loss-adjuster managed the repair or rebuilds. This meant the insurer had less oversight of the supply chain and reduced ability to add additional suppliers to panels. This insurer has since revised their model to allow them to be more agile during catastrophes.

Finding 8.11

Dedicated teams and leadership structures were established to oversee CAT221

Insurers had dedicated teams and leadership structures to oversee CAT221, some of which were set up in response to the event itself and have since been made a permanent feature of organisational structures.

Insurers with more advanced operating models included operational excellence capabilities such as business process improvement, workforce planning, data and technology and training. These improvements enabled a higher level of agility in a time of catastrophe.

Finding 8.12

Most insurers increased their panel of third-party suppliers to meet the demand of CAT221

Insurers manage a large number of third-party suppliers as part of the claim handling process. This requires dedicated structures to manage third-parties, which can include (but is not limited to): expert assessors, builders, vehicle towing, car repairers, loss adjusters and outsourced claims management. During CAT221, almost all insurers increased their panel of suppliers, which created further challenges in the context of the macroeconomic environment. Third-parties should be reviewed as part of catastrophe and scenario planning.

8.2.3 Technology

There were benefits and challenges with technology systems with benefits in claims handling efficiency from the use of advanced technologies

Technology accelerators – digitisation, automation and machine learning

Some insurers have invested in automation, machine learning and artificial intelligence (AI) to improve claims and complaints processes and to reduce overall costs. Insurers noted that upgrades in claims and complaint management systems included increasing speed of claims lodgement, automatic allocation of work to suppliers (builders and trades), and digital assessment via imaging. One insurer noted that a recent upgrade in their claim management system had reduced the time taken to lodge claims by up to 50 per cent.

Advanced data analytics techniques have been deployed by some insurers to proactively identify customers experiencing vulnerability and support the identification of potentially systemic issues.

Most insurers used, or have since invested in, geospatial imaging and flood mapping technology to understand more about the weather situation as the event unfolds to assist strategic decision making. One insurer had the ability to identify customers that appeared to have been impacted by a weather event, but not yet lodged a claim. The insurer could then make proactive calls to policyholders to encourage them to lodge a claim.

Some insurers are investigating whether flood mapping technology can assist in identifying key information about a flood that would assist with the assessment of building claims, for example the source and depth of the water. This type of technology, if effective, could help insurers to reduce reliance on experts such as hydrologists, and increase the ability to assess claims remotely, without the need to physically access sites or wait for water to recede.

Some insurers are in the process of designing a customer application that can be accessed remotely, where customers can lodge a claim and receive automatic updates on their claim progress.

Challenges with technology – legacy systems, lack of integration and no single customer view

Two insurers' claim management systems had latency issues in the immediate aftermath of CAT221. This was due to the volume of requests and users, as well as legacy infrastructure, which resulted in data load delays. This created additional time pressures for claims handlers, during the initial response as well as risks around information capture.

Several insurers still use DOS based operating systems. Whilst this is not an issue for managing claims in a business-as-usual environment, these systems are notably more difficult to integrate with other systems, more inflexible in adapting to new functional requirements and often have limitations that impact on customer experience, which all become more important in a catastrophe situation. Some insurers noted that DOS was difficult for staff to learn, which proved challenging with significant staff numbers being on-boarded and lacked preventative controls to manage risks.

During interviews, some insurers noted that claim managers were required to duplicate information in multiple locations due to a lack of integration between systems that were used for different parts of the claims process (or related complaints). Other insurers had multiple claim and complaint systems that were integrated. Data could move between systems without further manual input, creating a single view of a customer's interaction with the insurer.

Some insurers had no integration between the system builders and internal claim management systems. For at least one insurer, this meant the insurer could not get a view of how a customer's claim was progressing without logging into the Builder portal on a claim-by-claim basis. This caused challenges for management in understanding the progress of claims at a macro level.

Where insurers used third-party claims managers to handle claims on their behalf, there was on occasion a lack of integration between the respective systems. One insurer noted this as problematic because it meant that progress updates could not easily be provided to customers without referring them on. This increased the hand-off points and required customers to repeat their information.

Finding 8.13

Technology capability can significantly improve policyholders' experiences or exacerbate frustrations

The volume of claims put strain on some legacy systems. Additionally, the lack of integration of the various systems which are used to handle claims and complaints, added to the challenges in providing customers updates and progressing claims.

Investment in technology and underlying systems can improve the timeliness for handling claims, as well as customer and staff experience. Improvements in technology systems should also reduce overall costs to handle claims for insurers. Some insurers have invested in automation, machine learning and AI to improve the claims and complaints process.

All insurers have either upgraded some element of their technology systems since CAT221 or have a roadmap for technology investment planned.

8.3 Communications

Insurers are required to update policyholders on decisions and claim progress

The objectives of the Code include the promotion of better, more informed relations between insurers and policyholders, and the maintenance and promotion of trust and confidence. These, and the other objectives of the Code, require transparent, regular communication from insurers.

The Code also sets out the timeframes for which insurers should communicate with policyholders about key decisions in relation to their claim (e.g. the insurer will tell the policyholder about the progress of their claim at least every 20 business days or they will provide updates on complaints every 10 business days).

Communication plans were in place that assisted insurers to varying degrees

Most insurers had a communication strategy in place, outlining how customers would be communicated with before, during and after the event. Some insurers have communications they routinely distribute to policyholders prior to event seasons. In the days leading up to, and just after, the event most insurers sent policyholders information about what to do if their home was flooded, as well as reminding them how to claim on their insurance policy to encourage lodgement.

Most insurers also had some template communications for catastrophe events drafted and approved prior to CAT221. Some insurers had a basic strategy in place, which required significant tailoring for CAT221. Some insurers did not have templated communications pre-drafted for catastrophes.

One insurer noted that the lack of pre-drafted template letters in a catastrophe slowed them down because they had to develop the material and then obtain approval from stakeholders before they could be sent out.

On-the-ground support in the immediate aftermath of CAT221 was well received by policyholders and other stakeholders

Once it was safe to do so, all insurers were present in the communities affected by CAT221. This included representatives at Recovery Centres, attendance at forums organised by the ICA and, for some insurers, organising their own forums. This was well received by policyholders, with many noting that speaking with a person face-to-face made it easier to tell their very personal story.

Most insurers had multiple channels of communication available, such as email, phone, website, social media, SMS as well as a physical presence in affected areas.

Policyholders were generally understanding of delays, but this sentiment shifted as time elapsed

Many insurers did not meet the timeframes set out in GICOP and acknowledged it was difficult for customers to obtain updates about their claim status, especially during the early days of the response.

Initially, policyholders were accepting of the communication delays. The scale of CAT221 was widely understood and policyholders recognised the impact on insurers. However, as time progressed, policyholders became increasingly frustrated with the lack of communication and progress of claims and this was reflected in the rise in complaints. This led to uncertainty and confusion about next steps and in some cases, this also led to significant mental, social and financial costs for policyholders and the broader community.

Finding 8.14

Communication practices did not meet community expectations

Communication practices and outcomes in relation to CAT221 did not meet community expectations. The number of claims associated with CAT221 was unprecedented, and insurers did not adequately scale their communication processes to meet this demand. In a smaller proportion of the total claims population this led to significant mental, social and financial costs for policyholders and the broader community.

Consultations also highlighted the importance of the quality of communication

Policyholders reported multiple points of contact at the insurer level, requiring the same information, story, documentation already provided, written and verbal communication. This lacked empathy for the policyholders' circumstances and, alongside poor explanations of decisions, was noted by policyholders as a key communication issue.

One insurer noted that, post CAT221, a review was undertaken of template communications to policyholders, and acknowledged that the templates would have been difficult for anyone who was not an insurance or building expert to understand.

Finding 8.15

Poor quality communications and customer experiences led to complaints about coverage, policy terms and other service related issues

Aside from delays, the top reasons for complaints included poor experiences in relation to the explanation of terms, interpretation of terms and conditions and other service-related issues.

During consultations policyholders and representatives said they had to repeat themselves regularly through the claims and complaint handling process. In addition, they did not have a sound understanding of what to expect from insurers regarding the policy response, claims handling and the rebuild/repair processes. This led to confusion and misaligned expectations about next steps and timeframes, which was exacerbated by a lack of proactive communication by insurers.

8.4 Governance

Catastrophes require strong leadership, governance and accountability frameworks

Effective management and oversight of claims and complaints handling is essential for responding to a catastrophe. This includes strategic decision making by senior leaders to maximise outcomes for policyholders, staff and other key stakeholders, and to prioritise activities that will support customers experiencing extreme situations.

There was a strong cultural commitment from senior leadership to prioritise support towards those affected by CAT221 and a well-established overarching governance framework

In the immediate aftermath of CAT221, insurers' senior leaders were on-the-ground to understand the impact and respond accordingly. This included attending townhalls in affected communities to see and hear firsthand the extent of damage and the impact on policyholders. Following this, leaders were regularly briefed on the ongoing status of the response to CAT221 and management teams took active roles in decision making, as required to maintain progress through the event.

All insurers noted that the cadence of operational, management and board meetings was maintained during the CAT221 response, ranging from daily, weekly, monthly or quarterly to enable updates to be discussed and strategic and tactical decisions to be made. The meeting frequencies were reduced as insurers considered appropriate as the catastrophe response progressed.

Finding 8.16

Governance was well established and decisions were made quickly in the immediate aftermath of the event

Insurers had a strong cultural commitment from senior leaders to prioritise support towards those affected by CAT221. Decisions were made quickly, where needed, as the event unfolded.

Overarching governance frameworks were well established. Insurers had clear cadences in place for operational, management and board meetings, which were elevated and maintained during the catastrophe response.

Ongoing strategic decision making was impacted by a lack of access to data and reporting for some insurers

In a time of disaster, data and information are critical, to provide transparency, manage stakeholders and enable strategic decision making.

Some insurers had used data analysis to strategically triage and accelerate certain cohorts of claims, for example those without flood cover (to support applications for government grants, see chapter 4), vulnerable customers or those that required significant repairs. For some insurers, however, limited ability to track, monitor and bulk extract certain elements of claims data meant it was difficult to holistically understand the characteristics of the claim portfolio.

Those insurers expressed challenges in prompt strategic decision making due to inaccessible data or inconsistencies in the data relating to claims, complaints and third-party supplier progress (e.g. builders, hydrologists and loss adjusters) immediately after CAT221.

Finding 8.17

As the event progressed strategic decision making was impacted by the lack of data and information, particularly from third party suppliers

For some insurers, the ability to make ongoing strategic decisions was impacted by the lack of access to data from third-party supplier systems (e.g. builders, hydrologists and loss adjusters). Tactical solutions via spreadsheets were put in place to plug gaps in information during the event.

Consistent claim outcomes and getting it 'right-first-time' is critical for policyholders

Effective decision making related to claims is always important; however during a response to a catastrophe or significant event, particularly when challenging external factors exist, it becomes critical. The more those decisions are 'right first time', made at the 'right time', communicated in the 'right way', the more likely it is that the 'right outcomes' for customers, staff and the broader community are obtained.

Getting things 'right first time' reduces unit times in claims processes, costs and the number of complaints.

Insurers had varying approaches to driving consistency of outcomes; the most comprehensive frameworks had the following measures in place:

- ✓ Overarching claim and complaint handling principles, procedures and processes to guide staff on how to handle claims and complaints
- ✓ Decision libraries of past cases to assist in educating staff on decisions made
- ✓ Some functions had dedicated "continuous improvement teams" tasked with improving claim and complaint handling. These functions also looked at how to incorporate ASIC, AFCA and GI Code (CGC) guidance or feedback into its operations
- ✓ Decision forums or case clinics were held with technical and senior members of the business to support staff in handling complex cases
- ✓ An effective working relationship underpinned by a degree of independence between the claims and complaints teams. Learnings in complaints (including systemic issue analysis) were fed back to claims and tangible actions were taken as a result.
- ✓ Quality assurance frameworks were in place and regular testing occurred to check that staff were handling claims and complaints in line with guidance and principles.

Quality assurance frameworks existed to varying degrees in claims and complaints functions. Positive practices included:

- ✓ A formal framework for quality assurance or quality management. This included a methodology (how and what to check), a sampling approach (when and how much to check), a RACI (who will check) and a system where this information could be captured so that root causes could be analysed and action taken to address issues.
- ✓ A volume of checking that gives leaders a clear picture of individual and team performance, as well as training needs.

Less mature functions did not have formalised quality assurance frameworks. There may have been a process in place for informal checks or peer reviews to be completed by other staff or Team Leaders on phone calls. These checks were less likely to be documented and tended to be focused on compliance rather than on quality holistically.

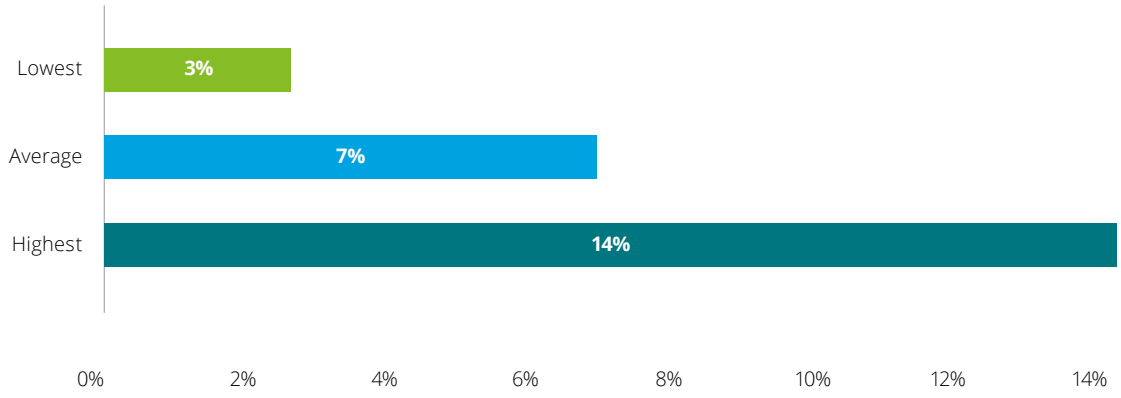
Most insurers relaxed quality assurance checking in claims teams as resource numbers and claim volumes scaled. Whilst necessary in the short-term to maximise lodgements and to keep claims progressing, this resulted in a reduction in the quality of outcomes for policyholders and likelihood of rework further down the line.

All insurers are undertaking a review of the issues raised in ASIC's *Report 768 Navigating the storm: ASIC's review of home insurance claims (REP 768)*, which was released during the course of this review. Insurers have foreshadowed that they will take relevant actions from the findings to improve claims decisioning. Claim outcomes were not directly assessed as part of this review.

The volume of declines as a percentage of claims lodged varied between insurers, from 3 per cent to 14 per cent, based on the data available

However, the data provided was of insufficient quality to determine key drivers. Anecdotally, claims from policyholders who opted-out of flood cover, or policies that had other exclusions related to stormwater at the time of purchase or renewal are likely to have had a substantive impact on the figures for those insurers. One insurer did not provide their declined claims data.

Chart 8.1: CAT221 Claims denied as a percentage of claims lodged



Note: "Claims denied" means the number of claims declined or rejected, which could be due to a lack of insurance policy, flood-cover opt out, policy coverage regarding stormwater and flood water, and other reasons. Data not available for one insurer. Available data as at March 2023 for six out of eight insurers, and as at February 2023 for one insurer.

Source: ICA, 2023

Finding 8.18

There were varied governance frameworks to support consistent claims decision making

Insurers had varying levels of governance frameworks in place to support consistent decision making in claims and complaints functions. In the early aftermath of the event some quality assurance and governance standards were relaxed which impacted customer outcomes. The benefits of getting decisions 'right-first-time' include reduced processing times, reduction in rework, reduced costs (including leakage), and reduced frustration and poor experiences for policyholders.

Better practice governance frameworks include:

- ✓ Overarching principles, policy, procedures and processes
- ✓ Decision libraries
- ✓ Decision forums and/or case clinics with appropriate technical and business experts
- ✓ Continuous improvement functions (including systemic issue analysis)
- ✓ Formalised feedback loops between complaints and claims
- ✓ Quality assurance frameworks that include sufficient levels of checking

Clear explanations from an insurer about a claim outcome led to higher levels of policyholder satisfaction, even when the decision was not favourable

The key areas relating to claims decisions raised by ASIC included poor communication to policyholders and leaving policyholders confused with regards to what decision had been made (e.g. partial decline or a decline in full). Further, in many instances, the level of detail provided to support the decline/partial decline decision was inadequate, leading to customer frustration.

Insurers provided additional support and benefits to policyholders on an ex gratia basis

There were examples of insurers taking a customer-centric approach in the aftermath of the event, often paying benefits that exceeded policy terms or where the policyholder had no cover under their policy. This included providing emergency cash payments to customers who were unlikely to have cover, or providing extensions to temporary accommodation beyond the stipulated periods or where accommodation costs exceeded cover.

Where policyholders did not have flood coverage under their policy, some insurers still provided temporary accommodation on an ex-gratia basis. One insurer had a policy of assuming a claim would be accepted until they had a hydrologist report to determine the source of the inundation. Hydrologists were one of the experts in short supply, and these claims took a long time to assess. This meant additional support and benefits were paid to those policyholders (for example, by way of emergency cash payments and temporary accommodation) outside of the policy terms.

Some policy terms caused confusion and, as a result of their design, resulted in a longer time to process claims

Policy design, the sales process or the affordability of insurance products were not assessed as part of this review. However, some policy terms caused issues in the claims handling process. In particular, the definition of flood, storm and stormwater run-off was identified as a source of confusion and frustration for policyholders and a cause for delays by insurers. First, policyholders did not have adequate understanding of the definitions of these terms. Second, the structure of the definitions meant that a hydrologist was often required to assess the source of the inundation of a property. Hydrologists were in short supply following CAT221 (and will likely always be in short supply after a flood or storm). As a result of this, claims impacted by these terms took longer to assess.

Finding 8.19

Some policy terms exacerbated claim handling delays

There were some policy terms that resulted in longer claim handling timeframes; for example, because the policy term required an expert assessor that was likely to be in short supply. With the volume of claims impacted by CAT221 and other floods, this exacerbated delays, and customer frustration as well as insurer costs.

Australians have access to policies where homes will be rebuilt or repaired, meaning they do not have to manage the rebuild of their home in a challenging economic environment

In the United States and Japan most insurers provide policy benefits for property claims in the form of cash settlements. Settlements are commonly based on an agreed value or based on the cost of the rebuild or repair to the house, up to the total sum insured. Insurers in the United Kingdom and Canada provide a mixture of cash settlement and insurer-led rebuild or repair.

Australian insurers provide benefits in the form of rebuilds or repairs of the property, with a cash settlement only for emergency payments or other scenarios (e.g. in the case of a repair costing more than the total sum insured). This type of benefit, for many policyholders, is a preferred outcome because policyholders are not required to project manage the repairs or rebuild. In a catastrophe, it is often challenging to source reliable builders, trades and other experts (as well as the supply chain, such as building materials. The burden on policyholders is reduced when this process is managed by the insurer.

Finding 8.20

Australian insurers more likely to manage the rebuild process than other countries

Australian insurers provide policy benefits that result in the insurer taking control of rebuilding or repairing a property. Cash settlements are used for emergency payments and other scenarios when rebuild or repair is not appropriate (e.g. when the cost of repair exceeds the sum insured). This reduces the burden on policyholders as they are not required to project manage the rebuild or repair of their property in a challenging economic environment and, in most cases, is a better outcome for policyholders.

This is a benefit that is not widely offered in other countries. For example, in the United States and Japan, most insurers provide cash settlements and, in the United Kingdom and Canada, insurers provide a mix of cash settlements and insurer-led rebuild or repair.

Customer advocates and representative groups are an important stakeholder for insurers when considering how to design policies and manage claims

There were many issues that came through the feedback sessions with customer advocacy groups, policyholders, local councils, GI CGC, AFCA and ASIC. The key themes and trends relating to customer experience and interaction with the claims and complaints process are consistent across all of these groups (*see Section 7 - Community Perspectives*). During the consultation process, a small number of insurers were repeatedly identified as causing issues for consumers during CAT221.

Many of the issues being raised were not new specific to CAT221. The themes and trends from similar catastrophic events are repeated across many years; some of the issues are likely, and expected, in the wake of a severe or complex catastrophe. However, the review also identified that insurers who had taken active steps to improve from previous events had significant success in doing so.

Insurers have differing approaches to taking learnings related to customer experience and driving improvements within their claims and complaint handling processes. Some insurers have formalised processes to engage customer advocacy groups and/or have a customer advocate who sits in their business to provide a 'voice of customer'. All insurers have a presence at the ICA Customer Advocate forum, though there are varying approaches to embedding learnings from these forums into the claims and complaints operations.

Finding 8.21

Incorporating external views and particularly a 'customer voice' into governance leads to improved future outcomes

Good governance includes capturing external views. There is benefit in having a 'voice of customer' embedded within the business for both claims and complaints functions and some insurers already have a customer advocate in place as well as regular connection points with consumer groups. Anecdotally, these insurers were named more frequently as providing a good experience for policyholders during consultations.

Engaging with consumer representatives who are often on the frontlines supporting some of the insurers' most vulnerable customers is a valuable exercise that can improve outcomes for insurers and policyholders. Having a formal mechanism to engage with them and embed learnings will assist insurers in minimising the likelihood of repeat issues across future events.

9 Role of the Insurance Council of Australia

Key points

- The ICA provides industry level coordination in response to insurance events.
- The ICA's response to the catastrophe was generally well received by stakeholders. Its local engagement and dashboard were highlighted as being particularly beneficial. However, there are areas for improvement, including improving community understanding of ICA's role.
- GICOP includes an option for declaring an Extraordinary Catastrophe. However, it has never been used and, while considered, was not declared in response to CAT221.
- Given the risks associated with declaring an Extraordinary Catastrophe, it is unlikely that it will ever be declared, which raises significant concerns of whether it is fit for purpose.

9.1 The ICA's role in insurance event management

As the representative body of general insurers in Australia, the ICA has an important co-ordinating role to play in responding to catastrophes

The organisation has several roles in supporting insurance event management. These generally involve providing industry-level coordination to enable an efficient and effective response to events.[vi] A key element of the ICA's coordination role is to categorise events, which, in turn, determines the level of action and resources deployed in response. The ICA will declare an event to be in one of three categories: Significant Event, Catastrophe or Extraordinary Catastrophe.

When a Catastrophe is declared, the ICA takes an active, on-the-ground role in event management to support the industry's response

This includes mobilisation and coordination of insurer working groups, coordinating industry presence at recovery centres, organising industry forums and consultations, liaising with governments, centralising data, coordinating industry-wide communications, and undertaking broader community outreach.

vi Insurance events are defined as situations that have an impact on the normal practices and operations of consumers, communities and the insurance industry.

9.2 The ICA's response to CAT221

Following the declaration of CAT221, the ICA enacted the Event Management Plan and took on the role of coordinating the insurance industry's public response.

The ICA's role and response to CAT221 was generally well-received by community stakeholders

The ICA's provision of information and data during and after the event was favourably received, particularly by local governments. The ICA's data dashboard, which collated and disseminated information that local governments would not have been able to access otherwise, was used to plan and mobilise local responses including community support and debris removal.

During consultations, community stakeholders also commended the ICA's local engagement. This included having representatives available at recovery centres and establishing community roadshows that connected policyholders with insurers in the immediate aftermath.

Stakeholders also praised ICA staff for being sensitive, engaged and proactive, and promptly escalating concerns referred to them. Stakeholders noted, however, that more effort could be made to follow up with individuals following staff changes, especially after a few months had passed since CAT221. Note that this should be considered in the context of ICA's small supporting workforce, especially within the catastrophe operations team.

Community stakeholders wanted more – and ongoing – ICA support

Some stakeholders supported the ICA's visibility and engagement in the immediate aftermath of the disaster. But they wanted a more permanent, regional ICA presence that was closely integrated with local disaster management authorities and communities. This would help build relationships and assist communities to prepare for future extreme weather events.

Stakeholders also found that communities could be better educated on the ICA's roles and responsibilities. Community engagement with recovery initiatives, such as the ICA roadshows, was perceived as softer in communities that lacked clear understanding of the ICA's roles and responsibilities. Stakeholders noted that improving community understanding of the ICA could enhance the effectiveness of its recovery initiatives.

Finding 9.1

The ICA's response was well-received by communities and assisted in providing clarity to broader stakeholder groups

Overall, the ICA's response was well-received by communities, with local engagement, industry coordination and the online data dashboard highlighted as positives. Stakeholders indicated, however, that communities would have appreciated on-going contact outside of events, especially during the recovery, as well as improved relationship continuity outside disaster season.

Insurers and regulators acknowledged the ICA's co-ordinating role during CAT221, particularly in relation to government and the media

Consistent, clear communication with the public and other stakeholders is vital in the immediate aftermath of a catastrophe. For CAT221, the ICA was responsible for collating, co-ordinating and conveying the key messages on behalf of the insurance industry. The activities were well-received by both insurers and regulators, with the latter noting media engagement was a key strength.

During future floods insurers consider the ICA to be well-placed to take an active role in supporting the industry in a coordinating role where key issues arise. In the example of CAT221, where hydrology reports and experts were challenging to source, insurers considered that the ICA could oversee the use of hydrologists by overseeing a centralised panel of hydrologists and/or establishing minimum requirements for hydrology reports to foster greater consistency across the industry.

9.3 Declaring an Extraordinary Catastrophe

An Extraordinary Catastrophe declaration provides industry-wide relief on claims handling timeframes; however, such a declaration has never been made

GICOP sets out a benchmark for the conduct and standards that general insurers must meet when providing services to policyholders. This includes timeframes for claims handling, with insurers required to decide claims within four months of receiving them. However, extensions are allowed in certain circumstances.

The Extraordinary Catastrophe declaration is the highest category of insurance event the ICA can declare. It is designated for catastrophes that are so significant in size and/or magnitude, or that coincide with multiple other catastrophes, that it is considered extraordinary. This declaration extends the timeframes for claims decisions, from four to 12 months. Such a declaration is aimed at providing relief to the insurance industry when it is under immense, and unprecedented stress. However, this declaration does not provide relief to policyholders.

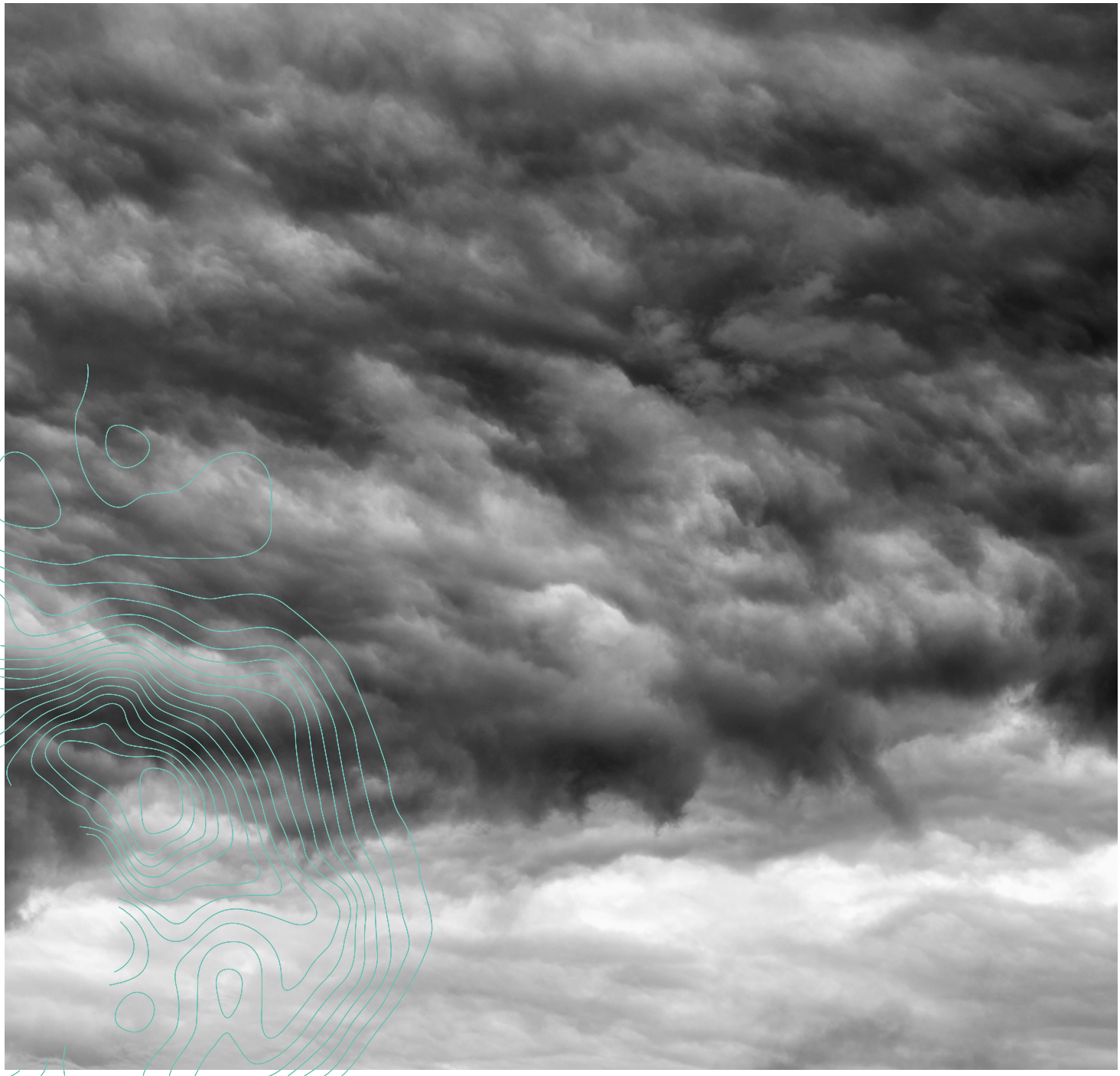
In response to CAT221, the ICA Board considered an Extraordinary Catastrophe declaration, given the extent of pressure on the insurance industry. When deciding whether to declare an Extraordinary Catastrophe, a set of criteria was used to assess the broad range of risks associated with declaring, or not declaring. Ultimately, it was decided that it should not be declared. As a result, an Extraordinary Catastrophe still has never been declared.

Because an Extraordinary Catastrophe declaration assists insurers but not policyholders, such a declaration would not deliver improved outcomes for policyholders or meet community expectations. Industry considerations following CAT221 are likely to have set the stage for future catastrophes, making it unlikely that an Extraordinary Catastrophe declaration will be made in the future – at least, while the declaration is in its current form.

Finding 9.2

An Extraordinary Catastrophe was not declared for CAT221 and, in its current form, is unlikely to be declared in the future

The Extraordinary Catastrophe declaration was designed to provide industry-wide relief on claim decision timeframes, extending the Code timeframe from four to 12 months. However, this relief is one sided; policyholders do not benefit if an Extraordinary Catastrophe is declared. An Extraordinary Catastrophe was not declared by the ICA Board for CAT221 because a timeframe extension was not expected to improve customer outcomes nor meet community expectations. Industry stakeholders expect that – in its current form – it is unlikely to be declared in the future.



Part III | Future preparedness

10 Preparedness for future extreme weather events

10.1 The changing climate

Australia and its communities are vulnerable in the face of a changing climate

Already prone to devastating natural disasters, the environmental, economic and social consequences of climate change will be an ever-present challenge. This is especially apparent given the rising frequency and intensity of extreme weather events, wearing on Australia's communities and their ability to respond and recover following an event.

Australia has reached a mean temperature rise of 1.47°C[47], which locks in a level of climate-related damage that cannot be avoided. For example, under a high-emission scenario, Australia's economy is expected to bear the costs of a changing climate, which will amount to approximately $1.3 trillion in present value terms by 2060, of which 26 per cent is attributable to increasingly frequent and intense extreme weather events.[48]

The insurance industry is particularly exposed to a changing climate

Rising temperatures and the increasing frequency and severity of extreme weather events threaten to affect every aspect of insurance, from availability and affordability to operation and management.

10.2 Insurance industry preparedness

We are now living in a world where highly costly, billion-dollar insurance events should be expected yearly

Since the 1960s, 20 extreme weather events have exceeded $1 billion in insured damages (indexed to 2022 values). Of these, 15 have occurred since 1 January 2010. With the increase in frequency and severity of extreme weather events, the size and impact of catastrophes are not expected to moderate and may, in fact, get worse.

CAT221 has set the new benchmark for catastrophe preparedness in Australia

As this report highlights, the impact of CAT221 was unexpected and it took the insurance industry many months to scale to meet the demand. Catastrophe planning, workforce planning, technology and systems had never been tested – either in reality or through scenario planning – for an event of this magnitude.

However, the standard has now been set. Future catastrophes should benefit from the CAT221 experience, but only if the lessons learned result in meaningful change. The recommendations presented in this report have been designed with future preparedness at their core.

The insurance industry has also started taking action to improve claims and complaint handling. In May 2023, the ICA completed an annual post catastrophe review exercise and identified opportunities for improved planning and engagement. At the time of writing this report, the ICA was planning to deliver the first annual industry catastrophe scenario planning and testing exercise in October 2023. At an individual insurer level, insurers have also established their own plans, or have taken actions, to improve claims and complaint handling for future severe weather events.

Finding 10.1

Improvements have been made as a result of CAT221

All insurers have plans, or have already taken action, to improve claims and complaints handling to better prepare for future severe weather events.

All insurers acknowledge the scale of CAT221, coupled with the economic and regulatory context at the time, challenged the insurance industry. As a result, each insurer either has a plan – or has begun developing a plan – to improve the effectiveness of claims and complaints handling functions. This includes (but is not limited to):

- Investing in catastrophe response technologies, such as enhancements to weather alerts, deploying geospatial mapping capabilities to effectively monitor the risk profiles of severe weather events, proactively contacting policyholders to prepare for events and to identify impacted policyholders for claim reminders.
- Formalising and strengthening oversight of external partners or third parties.
- Enhancing the controls in place to track and monitor the development of claims and complaints to identify systemic issues.
- Improving workforce planning functions to support with forecasting resources required during catastrophe season.
- Developing education campaigns to remind policyholders to prepare for severe weather events, and to clarify the policy requirements regarding maintenance and wear and tear.

Without strengthening future preparedness, the industry risks continuing to not meet community expectations

As of March 2023, there were 39,334 open that were claims lodged in response to CAT221. While there are a multitude of reasons for this – including claims lodged many months after the event occurred and the time required for properties to dry out – a proportion of these open claims would be closed if the industry had been better prepared. The absence however of consistent, aggregated data on the factors affecting claims handling means it is not possible to tell the proportion of open claims this impacts.

In the future, with CAT221 as the historical benchmark, the community's expectation for catastrophe responses will be higher. Without investments in preparedness to capture the learnings from CAT221, at some point in the future, the community may question whether the insurance industry sold a product that could not be delivered.

10.3 Australia can – and should – take a leading position globally in responding to extreme weather events

Australia might be the 'lucky country', but we're also the 'unlucky country' when it comes to extreme weather events

Australia is prone to extreme weather events – floods, hail, storms, cyclones, and bushfires – that have a devastating impact on our people, homes, communities, health, environment (to name but a few). Our children learn phrases such as "If it's flooded, forget it" and "Prepare. Act. Survive" from repeated exposure to community education campaigns about disaster preparedness. And CAT221 emphasised that the insurance costs of an Australian extreme weather event could be globally significant.

Australia's insurance industry should take a leading position globally in responding to extreme weather events

Australia has the conditions to underpin an insurance industry at the global frontier of responding to extreme weather events. Repeated exposure to such events, coupled with established disaster institutions and frameworks (such as the Hazard Insurance Partnership[vii]), means the Australian insurance industry is well placed to show the world how to respond effectively and efficiently to extreme weather events.

vii The HIP was established in 2023 in response to the increasing frequency and severity of natural disasters in Australia, and supports the National Strategy for Disaster Resilience. HIP brings together government and insurance to address insurance affordability and availability issues driven by natural hazard risk. This includes improving risk understanding through data sharing, reducing risk through improved land use planning, strengthened building codes and infrastructure upgrades, and improving affordability through government and the insurance industry working together on addressing the factors that increase insurance premiums.

Part IV | Recommendations

11 Recommendations

This report presents seven recommendations on the key areas for improvement that need to be addressed by the Australian insurance industry to meet community expectations on responding to a catastrophe. These recommendations are based on the findings of the review.

Not all recommendations will apply to insurers to the same extent, noting that performance varied considerably across insurers, and right-sizing will need to reflect insurer size, and risk exposure.

R1 **Recommendation 1** | Catastrophe Preparedness

Insurers should improve catastrophe planning to meet community expectations of operating in the Australian environment. Specifically, uplift is required on preparedness for, and stress testing against, extreme catastrophes.

Five key areas that would make a significant improvement in catastrophe preparedness are:

1. **Catastrophe response plans**
   Catastrophe plans should contain sufficient detail on: event declaration protocol, roles and responsibilities, resourcing strategy, communication strategy, logistical management, risk management, staff health and safety measures, reporting and governance to act as a reliable course of action and build confidence in the business response.

2. **Scenario planning and stress testing**
   Insurers should conduct operational and economic stress testing to identify and understand vulnerabilities within their product portfolio, operations and dependencies on market conditions when responding to catastrophes. The stress testing will need sufficient allocated resources and should be conducted alongside normal business activity to simulate realistic catastrophe operating environments.

3. **Post event reviews**
   Post event reviews should be completed within 12 months of the initial event and should have clear outcomes, actions and owners to drive areas of identified improvements. Insurers should consider getting an "outside-in" view of performance as part of any review.

4. **Design of policies for catastrophes**
   Where policy terms are known, or expected, to create bottlenecks or claims handling delays during periods of high claim volumes, insurers should consider how or if the policy terms or associated claims processes can be changed.

5. **ICA planning**
   The ICA should consider introducing a baseline category as part of the Insurance Event Management Plan to support industry and community preparedness for extreme weather events.

R2 **Recommendation 2** | Customer experience

Insurers should uplift the customer experience during catastrophes by improving how they communicate with policyholders and by delivering a consistent experience through claim handling, decisioning and any associated complaints.

Four areas that would make a significant improvement in customer experience are:

1. **Communication**
   Communication should be improved through a holistic review and improvement of the customer journey before, during and after catastrophes. This should include consideration of purpose, important touchpoints, type of communication, channel, reasonable frequency and supporting tools, templates and technology. Communication plans should address both the scale of demand and community expectations about customer service during a time of largescale trauma.

2. **Claim handling**
   Insurers should improve the consistency of the customer experience through decision making, by enhancing governance and quality assurance standards. Where governance and quality standards are relaxed in the early aftermath of an event (due to processing constraints), insurers should undertake proactive reviews and remedial work to correct issues without customers needing to identify them.

3. **Customer treatment strategy**
   Insurers should review the effectiveness of the definition, identification and support of vulnerable customers during catastrophes. Consideration should be given to other ways of categorising and supporting customers through events given that, after a large-scale catastrophe, most customers will be, in some way, vulnerable.

4. **External voice of customer**
   Insurers should improve the ways they embed a "voice of customer" into their operations, through a customer advocate or alternate means, and take meaningful action to incorporate lessons learned.

R3 **Recommendation 3** | Resourcing capability

Insurers should redesign resourcing capability for catastrophe events, with particular focus on workforce planning, the catastrophe resourcing model, and catastrophe onboarding, training and competency management.

Three areas that would make a significant improvement in resourcing are:

1. **Workforce planning**
   Workforce planning functions should be reviewed or bolstered, where necessary, to support better management during catastrophes. Workforce planning should be used by insurers to understand the impact of resourcing levels on claims and complaints timelines, and drive decision making regarding resourcing needs. This should include any third-party workforces.

2. **Catastrophe resourcing model**
   Resourcing models for catastrophes should be diversified to mitigate against risks and dependencies in the labour market and broader economic conditions. Resourcing models should consider more than one channel to increase skilled capacity (e.g. recruitment, redeployment, utilising global networks, modifying work hours, and using third-parties).

3. **Catastrophe onboarding, training and competency management**
   Onboarding, training and competency frameworks to prepare new hires for claims and complaint handling roles during a catastrophe should be reviewed or established. Consideration should be given to the maximum number of resources the training and onboarding team can manage at any one time during a catastrophe to maintain a baseline level of skills and quality of handling. Insurers should also consider providing claims and complaints staff with industry recognised accreditation or certificate level training.

Insurers should take steps to minimise the required increase in resources during catastrophes through improvements in technology and process infrastructure. (See Recommendation 4).

R4 **Recommendation 4** | Operational response

Insurers should assess the operational efficiencies delivered by investment in process, technology and infrastructure in the context of responding to a catastrophe.

Five areas that would make a significant improvement in the operational response are:

1. **Reduction in manual processes**
   Insurers should review the manual processes that result in bottlenecks during catastrophes, to consider how digitisation or re-engineering would improve claim processing.

2. **Accelerated triage**
   Insurers should consider triaging to accelerate claims in a catastrophe, including batching, automating and bulk processing cohorts of claims. For triage to be successful, insurers need a level of consistency in policy definitions and terms across the portfolio, robust data capture, and pre-identification of processes that can be automated or handled in bulk.

3. **A single claims (customer) view**
   Insurers would benefit from an integrated infrastructure that allows them to understand, track and monitor claims, including third-party supplier involvement, to enable improved decision making and better interaction and information provision to customers.

4. **Customer application**
   To support customer communication, insurers could consider an app or portal for customers to self-serve information on claim process, status, time to next update, key contact details etc. Further advancements could include the ability to extract claim details for third-parties (e.g. government, banks).

5. **Advanced technologies**
   Insurers should consider the commercial feasibility of technologies such as machine learning, automation and generative AI to improve handling times and customer experience, particularly in the context of responding to a catastrophe

R5 **Recommendation 5** | Governance and transparency

Insurers should improve their ability to capture and leverage data and insights to understand the impact of internal and external factors on performance during catastrophes. These insights should be used to assist management and boards with making strategic decisions in response to an event and preparing for future catastrophes. The ICA should actively work with insurers to collate and communicate claims data in a way that meets community expectations on timeliness and quality.

Two areas that would make a significant improvement in governance and transparency are:

1. **Data capture, modelling and reporting**
   Insurers should improve data capture, modelling and reporting to assist with identifying and mitigating against factors that impact their ability to progress claims in response to a catastrophe, including bottlenecks (e.g. hydrology reports).

2. **ICA data capture**
   To provide greater transparency on the industry's response to catastrophes, the ICA should develop a data dictionary to enhance industry-wide reporting and investigate the feasibility of extending data capture to other claim outcome measures such as closure rates, quality and complaints.

R6 **Recommendation 6** | Coordination with government

More effective coordination between government and the insurance industry is required to deliver improved customer outcomes. Specifically, this includes supporting more rapid access to government funding, a consistent approach to clean-up and debris removal, and co-incentivising investments in resilience and adaptation.

Three areas for more effective coordination with government that would deliver significant improvements for policyholders and their communities are:

1. **Government funding eligibility**
   Improved coordination between insurers and government is required when access to government disaster funding requires evidence of an insurance claim status. Improvements should focus on removing unnecessary information requirements, agreeing the format and nature of information required, and alignment on timeframes.

2. **Clean-up and debris removal**
   Standardised guidance should be jointly developed by the insurance industry and government on clean-up processes after a severe weather event. This guidance should be consistent across all insurers and levels of government and communicated to policyholders and other stakeholders in the waste removal process.

3. **Co-incentivise resilience investments**
   Improvements should be made to encourage investments in resilience and adaptation when rebuilding following a catastrophe or severe weather event (where this is cost-beneficial). This should involve coordination between government and the insurance industry to co-incentivise these investments to create mutually beneficial outcomes for the government, insurance industry and more importantly, the customer and their community.

R7 **Recommendation 7** | Code review in the context of catastrophes

The Extraordinary Catastrophe definition in the General Insurance Code of Practice should be reworked as part of the upcoming independent review so that outcomes can be improved for policyholders and insurers.

In reviewing the Code, consideration should be given to two key areas.

1 **Objective definition**

An objective definition of an Extraordinary Catastrophe should be developed. This definition should be based on factors such as the type and scale of a weather event, the size of the population impacted and the macroeconomic conditions.

2 **Type of relief**

The type and level of relief provided to insurers in an Extraordinary Catastrophe should be considered, as should the consequences for fair and efficient claims handling. This includes:

- The timing of the relief – before the event, in the immediate aftermath and up to 12 months following the event.
- Factors other than timeframes that could be subject to relief.
- The minimum commitments insurers are expected to meet; for example, prioritising vulnerable customers, supporting policyholders with emergency situations, including temporary accommodation, and communication standards.

12 Limitations of our work

12.1 General Use Restriction

This Report has been prepared for the Insurance Council of Australia (ICA) for the purpose of analysing the Australian insurance industry's response to the CAT221 event, as well as the broader external social, regulatory and economic environment proximal or at the time of CAT221. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. To the maximum extent permitted by law, we accept no duty, responsibility, or liability to any party, other than the ICA, in connection with the Report.

12.2 Assumptions and Limitations

Our work is advisory in nature and does not constitute a reasonable assurance (audit) or limited assurance (review) engagement in accordance with the Auditing and Assurance Standards Board (AUASB) standards and, consequently, no assurance is provided in accordance with the Auditing and Assurance Standards.

The scope of our work does not extend to obligations not specifically detailed in the Engagement Letter and the work described herein, and any interpretation of law. No legal opinions or financial advice are provided or can be assumed. No new economic models or forecasts have been developed.

This report does not include any review or assessment of individual policyholders' claims or complaints cases or outcomes related to CAT221.

This report does not consider the impact of the level of insurance protection within the community (i.e. insurance availability, affordability and suitability), land use planning, building codes and requirements and preventive resilience and mitigation measures on the insurance industry's CAT221 response.

Our assessment is based on the documents provided to us, and the information provided during the interviews conducted as part of our approach. Deloitte assumes that any information provided by the ICA, the general insurers, policyholders and additional stakeholders that participated in this Review, in relation to enquiries for this Report is true, complete and not misleading, and confirms that if the information is untrue, incorrect or misleading then the Report may be incorrect or inappropriate for its purpose. One of the insurers did not provide Deloitte data relating to declined claims or complaints and this may have impacted the findings.

The decision-making responsibility in response to the findings and recommendations of this Report resides solely with the ICA or the general insurers. We believe the statements made in this Report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the ICA or others. We have not attempted to verify these sources independently unless otherwise noted within the Report.

Statistical modelling ('generalised linear modelling') has been used to support some of the data analysis included in this Report. Please note, that such modelling has limitations, particularly when significant risk factors are missing from the data, and including these missing risk factors can change the model outcomes. Where statistical modelling has been used, the results are based on a significance level of 95% and only when this level is exceeded are items shown as more or less likely to occur with other outcomes being classified as 'statistically insignificant'.

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[38] ICA data provided to Deloitte.

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[40] ICA data provided to Deloitte.

[41] ICA data provided to Deloitte. Generalised linear modelling techniques were used to analyse the data. Refer to 'Commentary and Limitations' section above for commentary and limitations associated with statistical modelling techniques used.

[42] Insurer data (7 insurers)

[43] Insurer data (5 insurers)

[44] Insurer data (7 insurers)

[45] Insurer data (7 insurers)

[46] Insurer data (7 insurers). Figure covers internal complaints referred to EDR, received until 31 March 2023. One insurer provided data between 1 October 2022 to 31 March 2023 only. Data covers Home-Building, Home-Contents, Motor Vehicle-Comprehensive internal complaints for five insurers, all products for one insurer and only Home-Building for one insurer.

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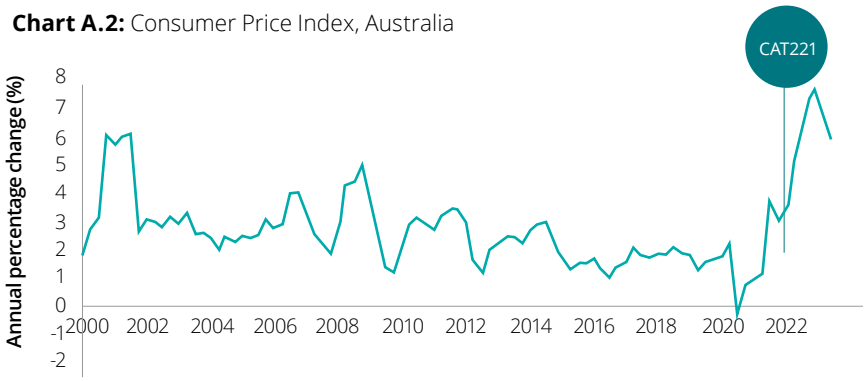
Appendix A
Part I - Additional detail

A.1. Macroeconomic context

Chart A.1: Real GDP Growth, Australia

Chart A.2: Consumer Price Index, Australia



Source: ABS

A.3. Top occupations for job advertisements as a share of employment, February 2022

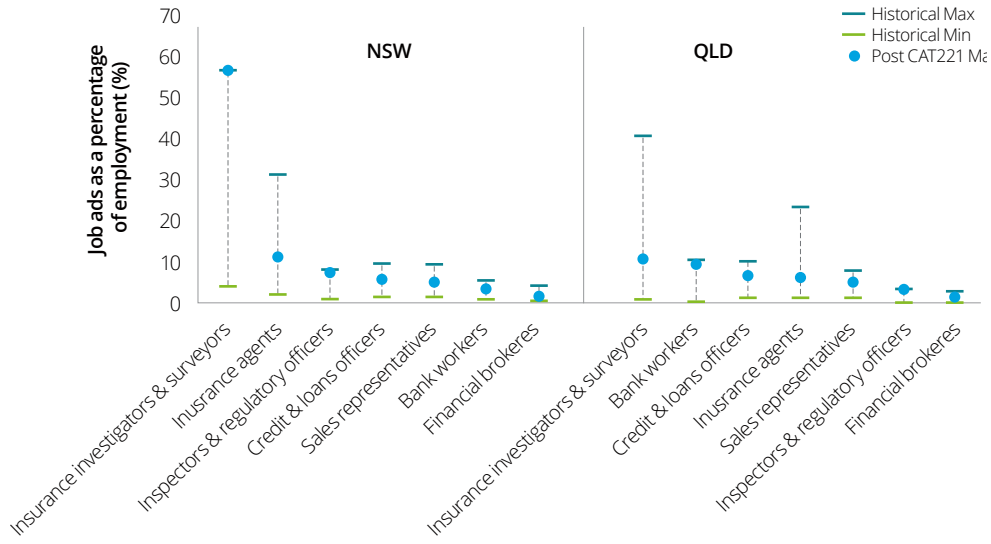
Chart A.3: Top occupations for job advertisements as a share of employment, February 2022

	New South Wales	
#	Occupation	%
1	Chemists	16%
2	Cooks	15%
3	IT Business & systems analysts	14%
4	Models & sales demonstrators	14%
5	Sheetmetal trade workers	13%
6	Panel beaters	11%
7	Training professionals	11%
8	Therapists	11%
9	**Insurance investigators / surveyors**	**10%**
10	Quality controllers	10%

	Queensland	
#	Occupation	%
1	Intelligence & policy analysts	13%
2	Dentists	13%
3	Sheetmetal trade workers	12%
4	Community welfare workers	12%
5	Podiatrists	12%
6	Actors, dancers & entertainers	10%
7	Bank staff	10%
8	**Insurance investigators / surveyors**	**9%**
9	Policy & planning managers	9%
10	Miscellaneous labourers	8%

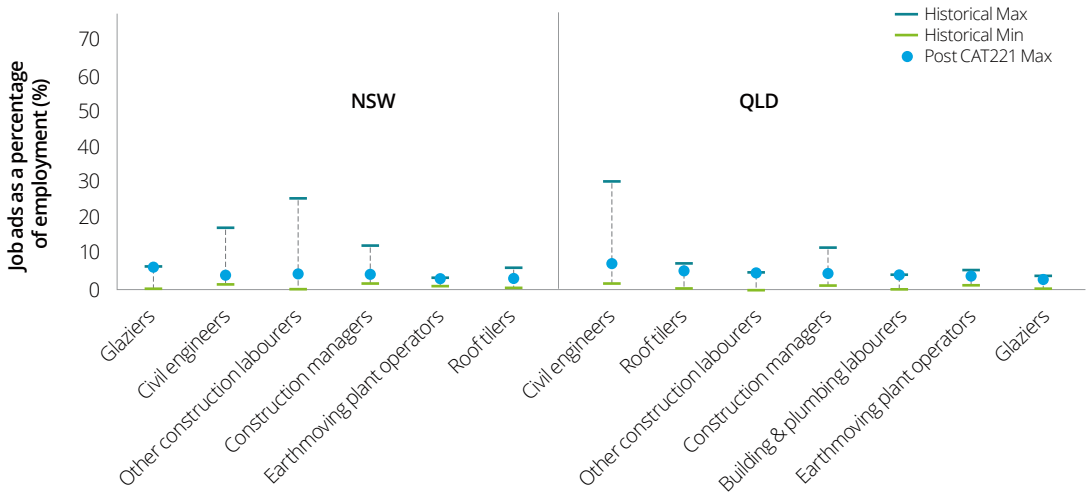
Source: Deloitte Access Economics, Jobs and Skills Australia, ABS

Chart A.4: Historical benchmarking of labour shortages in insurance related occupations



Source: Deloitte Access Economics, Jobs and Skills Australia, ABS

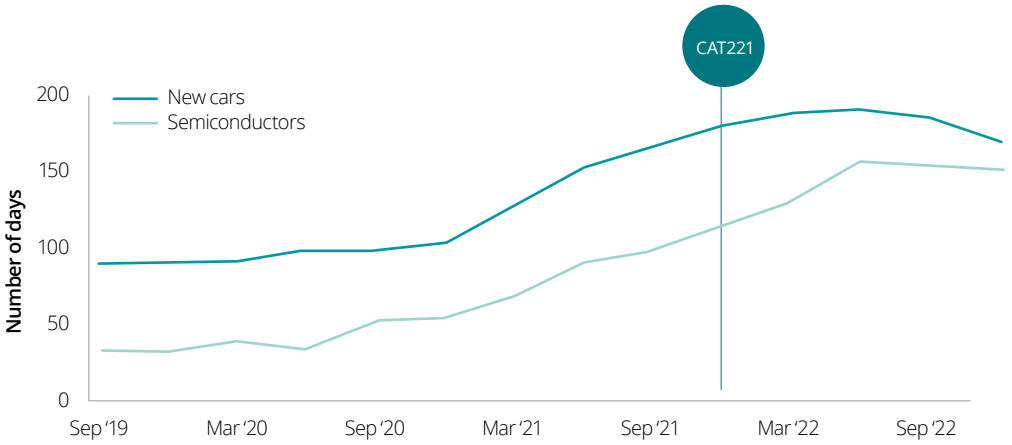
Chart A.5: Historical benchmarking of labour shortages in construction related occupations



Source: Deloitte Access Economics, Jobs and Skills Australia, ABS

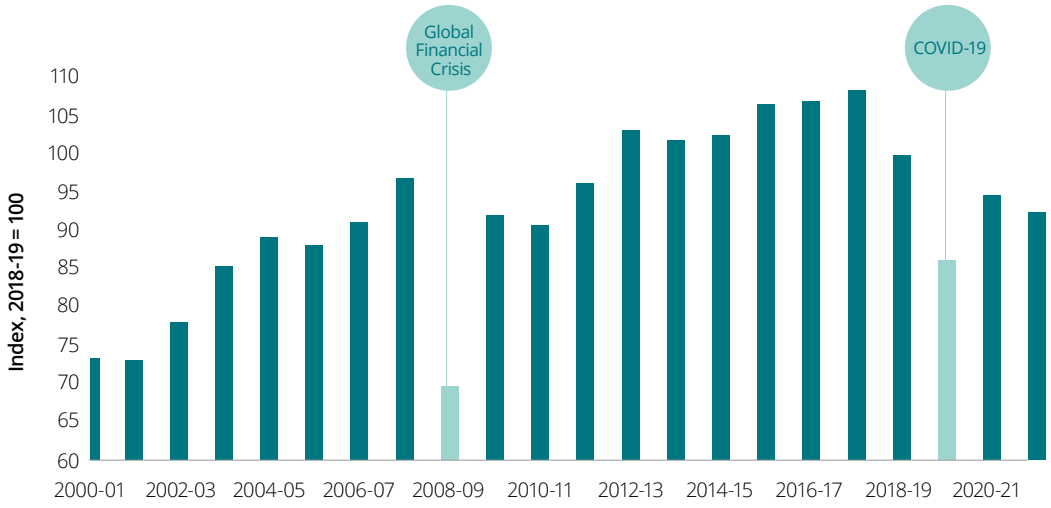
A.4. Automotive industry

Chart A.4: Average delivery times for semiconductors and new cars



Source: Pricemycar, Statista. Note: semiconductor wait times are global, car wait times are for Australia

Chart A.7: New motor vehicle sales, Australia



Source: Federal Chamber of Automotive Industries

A.5. Accommodation industry

Chart A.8: Rental vacancy rates and prices, Greater Brisbane and Greater Sydney

Source: ABS, SQM Research

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