


GENERAL INSURANCE


CONSUMER TIPS & URBAN MYTHS FOR DISASTER RECOVERY


MAY 2010


Australia is a country prone to flooding, bushfires and severe storms. Holding adequate insurance over your assets helps prudent Australians to recover when homes, contents, vehicles or businesses suffer damage and loss. The Australian insurance market is highly competitive and there is a wide range of choice between products – However, there are a number of general principles that are similar in terms of how a claim is made and managed following a disaster event.


The following universal tips may assist consumers who hold a valid insurance policy in making a claim and understanding what a typical insurance claim process looks like, you should however clarify with your insurer at the time of making a claim what that insurance company's precise process will be:


1  **Safety First.** Take the advice of any emergency services who have attended your property in terms of reoccupation. If the property is not safe, do not re-enter. Make sure you, your family or your colleagues remain safe at all times..


2  **Minimise the loss.** Apart from it being the sensible thing to do, many policies require a policyholder to take reasonable steps to prevent further loss. If it is safe to do so, you should ensure that you take immediate steps to minimise your loss. For example, temporary repairs such as a tarp over a broken roof, or moving undamaged possessions from a damaged part of a property to an undamaged room. Damaged or soiled items that might be a health hazard can often be removed to a safe area, or disposed of after being photographed or recorded in some way by the owner, to present later as part of an insurance claim. Check with your insurer first.

3  **Contact your Insurer.** To make an insurance claim immediately call your insurance company or your insurance broker. Claims hotlines for insurers are listed on the next page. Surprisingly, in nearly 20% of cases where a policyholder complains about an insurer to the Insurance Council, the policyholder has not yet made a claim or contacted the insurer. Contacting your insurer is critical in order to make a claim. If you have lost your policy documents and don't know who your insurer is, you can call the Insurance Council's **Hotline 1300 728 228** and a search will be initiated for an insurer that holds your details.

4  **Make an Inventory of the Loss.** Many policies operate on the basis of re-establishing your property and/or contents to a state as close as possible to pre-event, usually within the constraints of the insured value you have nominated. It will usually assist with your claim if you make a list of what has been damaged or lost. This list will help insurance assessors and the insurance company to understand the value of your loss and to process the claim quickly. It can be challenging to remember all items, at the very least record the major items that were insured and be prepared to work with the insurance assessor to develop a more comprehensive inventory when the time comes.

5  **The Insurance Assessor.** Most large claims will involve a visit from an insurance assessor. In very large disasters assessors may be drawn upon from all over Australia to enable rapid first assessments of damage. The assessors task is to examine the loss, its value and circumstances, and then report back to the insurance company who will make a decision on the claim. In some circumstances specialist examinations may be required by engineers, trades, hydrologists or fire experts. All of this activity is designed to determine how the claim will be managed. Work as quickly and expeditiously as possible with the insurance assessor in order to progress the claim.

6  **Quotes & Scope of Works.** As part of the assessment process, or following it, trades will usually be despatched to measure and quote for the repair work. In some instances you may be asked to secure your own quotes from tradesmen for the insurer to consider. Working with your insurer to allow quotes and if necessary a scope of works to be agreed is a critical step towards having the repairs carried out or a cash settlement agreed. Many insurance companies have strategic relationships with large contracting and building companies to enable high quality work to be carried out to the standards of the insurer.

7  **Repairs or Cash Settlement.** Once quotes and scopes of work have been agreed, start dates will be agreed with required trades. In large disaster events this could understandably take some time and insurers will typically prioritise those most in need. In some instances insurers may offer a cash settlement or you may request one. It is important to note that under most policies the insurer will only cash settle for the value of the works at the rates their own builders could complete them for. Cash settlement for contents may be at new for old prices, depending on your policy, or may be through vouchers for departments stores where equivalent replacement goods can be found.

Not sure about something? If you have questions about your claim you should speak to your insurer in the first instance. If you have further questions you can also contact the Insurance Council's Hotline on **1300 728 228**. The Insurance Council operates an Insurance Taskforce for each major event and can raise your matter with executive management in each insurance company in order to quickly clarify any issues, before formal dispute processes are unnecessarily entered into.

Formal disputes, once launched, are managed under the industry code of practice, with external dispute resolution managed by the Financial Ombudsman.

Myth Number 1 - Insurers don't pay claims OR Insurers try to avoid paying claims.

False – The general insurance industry exists to pay claims. The Financial Ombudsman Service reports that over 98% of insurance claims are paid without dispute. The Australian Prudential Regulation Authority reports that Australian insurers pay an average of \$95 million in claims each working day to the Australian community. This significant daily injection of funds, compensating individuals and businesses for losses, is often described as the economic oil that keeps the community functioning. Without this daily recovery effort in Australia, many businesses would fail and individuals would find themselves with no way to replace their hard earned possessions and lifestyle.

Insurers will not pay for claims that fall outside of the terms and conditions of the insurance policy or claims that are made fraudulently.

A free service exists for managing disputes with your insurer through the Financial Ombudsman Service. There are no costs for consumers for the process and decisions made by the Ombudsman are binding on participating insurers.

1

Myth Number 2 – Insurers should have known the precise circumstances and condition of my assets before agreeing to insure me.

False – Insurers work with consumers to help them accurately detail the assets to be covered. Many insurers use online questions, calculators and customer service representatives to assist customers to do this accurately. However, ultimately property owners will always know more about their assets than the insurer and it is very important that all details are disclosed correctly. Insurers ask consumers questions about the property that are required to be answered accurately. Some examples of questions asked are - How old is the property? Is the property well maintained? What is the roofing material used?

Some insurers also carry out site inspections for complex industrial and commercial premises, but to do so for every residential property or asset would make many products far more expensive.

It is critical that consumers take the time to answer these questions accurately as the insurer makes actuarial assumptions about the risks to your property based upon your answers. Providing incorrect information can be grounds in some instances for denying liability for a claim made.

2

Myth Number 3 – Insurers have collected my premiums for years, insurers are therefore obliged to cover me for any damage whatsoever that I might claim.

False - All policies have limitations and exclusions of one form or another. Without these exclusions the cost of insurance would be astronomical as the policy would be required to compensate the policyholder for all manner of incalculable risks.

Policy terms and conditions exist to protect the consumer. Insurance policies cover a wide variety of circumstances and issues that policyholders seek to protect themselves from through purchasing insurance. It is important, for both the insurer and the policyholder, to carefully define and understand what is covered under the policy and what circumstances are not covered.

No insurance policy will cover the policyholder for every imaginable risk without limitation. Consumers should carefully research their insurance needs and then seek out products that provide the desired insurance cover at a price the consumer is willing to pay.

For example, some insurance policies exclude some forms of flooding as damage that can be claimed under the policy – Consumers who identify that they need a particular type of flood cover should research different products until they find a policy that offers cover for this risk.

Under Australian Law insurers must make available a Product Disclosure Statement (PDS) to policyholders so that these terms and conditions can be read and understood. Policyholders are usually required to formally acknowledge receipt of the PDS and that they have understood the terms and conditions. Consumers should read the PDS before purchasing a product to ensure that they understand how the product operates and what their entitlements to make a claim are.

3

Myth Number 4 – Acts of god are excluded from property insurance policies.

False - A frequently heard rumour following disaster events and the subject of occasional Hollywood movie scripting. “Acts of God” are not exclusions used in insurance policies for property in Australia.

4

Myth Number 5 – Insurers are responsible for managing risks around my property, for example overhanging trees that might one day damage my property.

False – Property owners are responsible for managing their own risks. Insurance provides an agreed level of indemnification if an insured event occurs and damages your insured property. In some instances insurance policies require that the property is well maintained in order for the cover to operate. Overhanging and dangerous trees that cause damage and that should have been maintained could lead to a denial of cover in some cases. Another example occurs where hail damage has occurred to a roof that is rusted or already damaged and therefore not capable of resisting hail, claims in this instance could be denied on grounds of poor maintenance.

5

Myth Number 6 – I want to cleanup my property or discard damaged and soiled items, but can't until an insurance Assessor has visited my property.

False – If there are damaged or soiled items on your property that are presenting an ongoing health hazard then you should contact your insurer and inform them that the items will need to be removed urgently. It is generally acceptable to photograph the items or make a list, with as much detail as possible, of what has been discarded. Insurers need to verify the existence and value of items that you are claiming, however you should not put your health at risk by keeping them in the home. Store them in another location, or record them with as much detail as possible and then discard them after speaking to your insurer.

6

Myth Number 7 – Insurers use preferred builders instead of local builders, so they can save money, go slowly on my claim or deny work to local firms.

False – The primary goal of insurers is to re-establish your assets quickly and to the highest quality possible under the policy, consistent with what you had before the insured event. To achieve this many insurers have strategic relationships with large builders, specialist suppliers and project management firms, selected on the basis of capacity, quality and cost. These firms are contractually responsible to the insurer for ensuring that agreed works are carried out quickly and to the required standards. The large contracted firms often sub-contract work to local firms where it can be guaranteed that work can be achieved at the required standard and within very tight time frames.

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Myth Number 8 – I have Compulsory Third Party insurance on my car, the Insurer must replace the car if it is damaged or destroyed.

False – All States require that motorists purchase Compulsory Third Party insurance prior to or with the renewal of car's registration. This insurance provides compensation for bodily injury caused by the car.

An insurance policy to meet the cost of repair to vehicles damaged or to third party property would need to be purchased separately. This insurance is commonly referred to as Comprehensive Car Insurance or Third Party Property insurance.

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Myth Number 9 – I don't need insurance – I have never experienced damage or loss to my assets, if I do the government will replace my assets or assist me.

False - Most Australians experience a financial loss at some point in their lives. Insurance is about protecting yourself and your family from a loss that you would otherwise not be able to financially recover from.

Most Australian's do not routinely have enough savings to rebuild a house or pay off a mortgage if your current property is destroyed. Some consumers feel that they have paid premiums for years without any need to make a claim, but insurance is about protecting yourself against large financial impacts that may only occur once or twice in a lifetime if you are prudent.

Managing your risks, avoiding accidents, protecting and maintaining your property to lower the probability of having to call upon your insurance demonstrates sound judgement, something that is usually reflected in your insurance premium.

In recent years State and Federal governments have offered limited financial assistance to non-insured individuals who are the victim of a large disaster events. Insured individuals often do not qualify for this assistance simply because they have taken prudent steps to protect themselves through insurance. There are two compelling reasons why you should spend money on insurance premiums to help yourself, irrespective of the possibility or otherwise of obtaining any government assistance

Firstly, the assistance offered by government to the non-insured is often relatively small and will only cover initial emergency requirements. Payments from the government of between \$1000 and \$2,000 are typical in these circumstances. These amounts are not designed to allow the individual to replace contents, rebuild a property, replace a vehicle or recovery a business – it is emergency assistance only, designed to help with bare essentials such as food.

Secondly, governments typically only offer assistance in large declared natural disasters, where there are considerable numbers of victims and significant media attention. Government relief is not offered in events where single houses are destroyed or damaged or where your car is stolen from outside of your house. Insurance, or savings, is one of the best ways to effectively recover from such events.

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Myth Number 10 – Insurers can take as long as they like to determine my claim – there is nothing I can do.

False - General insurers in Australia operate under a code of practice that is monitored by the Financial Ombudsman Service (FOS). Under the code of practice insurers have 10 business days from lodgement of all required claims materials in which to communicate an initial assessment of your claim (except for CTP claims). There are options under the code of practice for consumers if this timeline is not met. Consumers can review the code of practice at www.codeofpractice.com.au

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Myth Number 11 – Premiums are too expensive and don't reflect the real world.

False - Insurance works on the principal of placing a cost on the risk of an event occurring that causes damage to an asset owned by a policyholder.

Insurers rely upon actuarial evidence to help determine premiums. Insurers invest heavily in the science of calculating and understanding certain risks, for example crime rates for certain postcodes, the risk of flooding, hail, fire or cyclones. Insurance works on the principal of placing a cost on the risk of an event occurring that then causes damage or loss to an asset owned by a policyholder. If the risks to insured assets is shown to be increasing, then there will generally be a corresponding increase in the costs of accepting those risks (ie Premiums). Policyholders can often reduce premiums by reducing the risks to their assets, for example by installing security systems, maintaining the property or choosing to build from materials that are more resistant to hazards in the area.

Some costs on insurance are beyond the control of insurers and policyholders, for example taxes imposed by government on insurance products, in some cases almost doubling the cost of a premium.

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Myth Number 12 – All insurers are the same, there is no difference in products or price.

False - APRA reports that there are currently 111 general insurers licensed to operate in Australia. This number of general insurers brings with it a large number of choices for consumers. Products offered by individual companies differ significantly in terms of coverage, terms & conditions, exclusions and costs. Consumers should ensure that they research each purchase of insurance to make sure that they are buying cover that suits their particular circumstances and needs.

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Myth Number 13 – I made a claim for something that wasn't my fault – I shouldn't lose my no claim bonus.

False - A 'no claim' bonus should generally be interpreted literally. If you make a claim, regardless of fault, you may lose any no claim bonus offered by the insurer. Insurers have different approaches to this issue and policyholders should refer to their Product Disclosure Statement or call their insurer for further information on how a no claim bonus works for their policy.

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Myth Number 14 – All insured properties are covered for flood damage.

False – Flood is defined in many different ways. Only a few insurers offer automatic flood cover where 'flood' includes water coming from a natural or man-made water course. Flood definitions in policies are necessarily precisely worded to ensure that policyholders can comprehensively understand what they are or are not covered for. If you live in a flood prone area or near a river or creek, you should carefully read your policy to determine if it covers flood damage from those sources. If you have any doubts, call your insurer and ask.

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Myth Number 15 – It is better to insure for less than full replacement value of my house because it is unlikely that it will be a total loss and I'll save money on the premium.

False - It is important that you insure for the full replacement value of your home or property. In the unfortunate event that you do experience a total loss that is when you need adequate cover the most. Many companies provide calculators to help you estimate the appropriate replacement value for your property. Another good way to determine the replacement value of your property is to get a quote from a local builder.

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AAMI	13 22 44	Hallmark General Insurance Company Limited	1800 800 230	SGIC	13 32 33
Chartis Insurance	(02) 9240 1711	HBF Insurance Limited	1800 198 066	RACV Insurance	13 19 03
AIOI Insurance Company Limited	1300 658 027	HDI-Gerling Australia Insurance Company Pty Limited	(02) 8274 4200	SGIO	13 32 33
Allianz Australia Insurance Limited	13 1000	ING Australia Limited	1800 815 688	Sompo Japan Insurance Inc	(02) 9390 6220
Ansvar Insurance Limited	1300 650 540	Insurance Australia Group Limited	(02) 9292 9222	Suncorp Metway Insurance Limited	13 25 24
AON Group Australia Limited	(02) 9650 0200	Insurance Manufacturers of Australia Limited	(02) 9292 9222	Sunderland Marine Mutual Insurance Co Limited	(03) 9650 6288
APIA	13 50 50	LawCover Insurance Pty Limited	(02) 9264 8855	Swann Insurance	1300 657 318
Assetinsure Limited	(02) 9251 8055	Lloyd's Australia Limited	(02) 9223 1433	Territory Insurance Office	1300 301 833
Auto & General Insurance Industry Company Limited	(07) 3377 8801	Lumley Insurance	1300 586 539	The Buzz Insurance	1300 729 870
Benfield (Australia) Limited	(02) 8209 4200	Medical Insurance Australia Pty Limited	1800 777 156	Tokio Marine & Nichido Fire Insurance Co Limited	(02) 9232 2833
Calliden Limited	1300 880 037	MIPS Insurance Pty Limited	1800 061 113	Vero Insurance Limited	1300 888 073
Catholic Churches Insurance	1300 655 001	Mitsui Sumitomo Insurance Co Limited	(02) 9222 7601	Virginia Surety Company Inc	(03) 9862 3222
CGU Insurance	1800 252 461	NIPPONKOA Insurance Company Limited	(02) 8224 4194	Wesfarmers Federation Insurance (WFI)	1300 934 934
Combined Insurance Company of Australia	1300 300 480	NRMA	132 132	Westpac General Insurance Limited	1300 369 989
CommInsure	13 24 20	NTI Limited	(07) 3290 3290	XL Insurance Global Risk	(02) 8270 1400
CUNA Mutual Australia Limited	1300 660 727	PMI Mortgage Insurance Limited	1300 367 764	Youi Pty Limited	1300 009 684
Elders Insurance Limited	13 56 22	Progressive Direct	1300 252 467	Zurich Financial Service Australia Limited	13 26 87
FM Global Company Limited	(03) 9609 1300	QBE Insurance (Australia) Limited	13 37 23		
Fortron Insurance Group Limited	1800 999 977	RAA Insurance Limited	1300 884 575		
Genworth Financial	1300 655 422	RAC Insurance Limited	13 17 03		
GIO General Limited	13 14 46	RACT	13 27 22		
Guild Insurance Limited	1800 810 213	RACQ Insurance Limited	13 72 02		