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**Is There A Gap Between What The Industry Offers  
And What The World Wants ?**

**Cyclone Larry – What Was Covered And What Wasn't ?**

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**AILA NATIONAL CONFERENCE 2006**

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## 1. BACKGROUND TO CYCLONE LARRY

Cyclone Larry formed as a low pressure system in the Coral Sea on the 16<sup>th</sup> March, 2006 and subsequently developed into a severe tropical cyclone. Larry crossed the coast of Queensland near Innisfail around 6:00am on 20<sup>th</sup> March, 2006. Opinions vary on the intensity of the cyclone at this point and estimates range between a high Category 3 to a Category 5 strength. The path of devastation continued due west from Innisfail and to areas north and south causing damage and destruction to areas including Mareeba, Flying Fish Point, Babinda, East Palmerston, Silkwood, El Arish, Mission Beach and Kurrimine Beach. Lesser amounts of damage were also seen in Atherton and surrounding areas. It is also worth noting that a significant number of claims, more akin to normal storm damage, were reported from the Cairns area.

Industry estimates as at October 2006 indicate there were 25,200 domestic claims totalling \$275m. These figures exclude commercial and agricultural losses.

RACQ Insurance received around 2,700 claims of which 87% were household claims and 13% motor. As at October around 70% of these have been finalised.

Larry was the first cyclone of this intensity to impact a well populated area in Queensland since Cyclone Winifred in 1986. By any standards Larry was a large loss that had several added complexities including the remoteness of the affected area, the age and nature of building construction and the shortage of tradesmen generally.

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## 2. WHO WAS THE WORLD/ THE CUSTOMER

In addressing this sessions title, "Is there a gap between what the industry offers and what the world wants", it is probably important to identify, in RACQ Insurance's experience, who the "world" consisted of following Larry or in other words who were the main stakeholders ? This event was characterized by a large number of external stakeholders who required management on an ongoing basis.

Clearly first and foremost, the customer was our main priority and all insurers would of course say this. Our claims call centre began being inundated around 9:00am on the 20<sup>th</sup> March with calls for assistance and to lodge claims. However it is worth noting that the first group of calls came some 3-4 days prior to Larry crossing the coast more so to our sales areas which I will refer to later. The claims calls that we received ranged from very basic levels of loss and damage to the severe. An event of this nature has impacts for customers ranging from spoilage of frozen food in freezers to the complete destruction of the entire home and contents and in many cases motor vehicles. Clearly though our efforts at this early stage were wholly and solely directed towards dealing with the initial reporting and categorization of claims. An interesting fact always emerges in the lodgment process for events of any magnitude in that policyholders seem to self prioritise their claims based on relative severity. Those policyholders with less damage than the average tend to wait several days and in some cases weeks to report claims whereas those policyholders with damage in the upper level of severity relative to other peoples damage tend to report their claims first.

A variation to the definition of the customer other than the actual policyholders and their family include tenants, real estate agents and others who are involved with the occupancy of the property. In many cases we dealt with claims reporting from people within these categories.

Due to the scale and human impact of Larry, the Queensland State Government became quickly involved in terms of provision of immediate assistance to those affected and also in terms of dealing with the insurance industry directly with insurers and also through industry bodies. Various government bodies such as the Building Services Authority (BSA) were also quickly involved to assure building quality during the reconstruction process. The Federal Government also provided direct and immediate assistance via the army and other government agencies.

Subsequently the state government appointed General Peter Cosgrove as head of Operation Recovery. The recovery task force, dealt with a range of reconstruction issues ranging from assistance to affected residents, liaison with local councils and a range of other matters directly connected with the recovery effort. Several meetings with General Cosgrove and related parties

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were held early in the piece to ensure that consistency of approach and conformance with the overall plan and process was achieved across a range of stakeholders including the broader insurance industry. As part of this taskforce, the Building Co-Ordination Centre or BCC was established and staffed with experienced insurance personnel to deal with any residents concerns regarding interaction with their insurer. This group became a valuable point of contact between the industry and the taskforce.

On the industry body front, the Insurance Council, through the Insurance Disaster Response Organisation (IDRO), soon became involved as did the Insurance Ombudsman Service (IOS). Both of these groups were directly involved at the macro level with government, the press and insurers.

The electronic and print media also were quickly into action and were asking for statements and estimates of damage before the cyclone had even left the area. Over the period of the event the need to provide meaningful information to the press was important as was the consistency of the message that was delivered.

Last but not least, our reinsurers were obviously wanting information and estimates to enable them to quantify their losses. Our reinsurance brokers with their research and statistical facilities were also wanting preliminary loss information to enable loss modelling to commence.

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### 3. WHAT DID THE WORLD WANT ?

As can be guessed from the above list of stakeholders there was quite a list of what everyone “wanted”.

In RACQ Insurance’s experience, customers were extremely patient and cognizant of the relativities of an event of this level of severity. There were many customers who believed that despite their own level of major damage there were others worse off who should be dealt with first.

Our main priority, the customer, collectively wanted the following –

- Immediate access to knowledgeable claims staff who could lodge their claim and advise them what to do.
- Immediate assistance with the necessities of life – in many cases people had lost most, if not all, of their home contents.
- Information on what would happen next. The question of when would an assessor come to inspect the damage was common as were questions around the availability of sufficient trades people and materials to deal with repairs quickly.
- Options available for alternative accommodation if their home was not water proof or was not otherwise habitable ? Part of this issue surrounded the fact that electricity was not generally available for some days afterwards.
- An expectation to be kept informed as to the status and progress of their claim. People in general were content to wait for their claim to be dealt with however they wanted to receive regular and clear communication around waiting times and the status of their claim. There was also a clear expectation that where possible they would be dealt with on a face to face basis especially where their damage was more severe.
- In many cases customers wanted the opportunity to have their claim cash settled rather than repaired or replaced. It was and remains critical that customers felt a sense of confidence with their insurer, i.e. that they were there for them.

A variation of what the customer wanted was occurring before Larry even crossed the coast. Perhaps more so because of the impending severity of Larry, our sales call centres and branches received a large number of requests for cover to be issued and sums insured increased. While this is a feature of any impending event over the years, on this occasion, the number of calls was significant. Each insurer makes their own decision as to whether to issue cover or increase sums insured or at what point prior to an event they will cease to do so in the

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affected area. Many policies also have a “delay period” for storm cover to take effect following the policy being issued.

The level of external contact and requests for data was a feature of this event that was well outside the experience that we have with a “normal” sized catastrophe. The publicity around this event was extreme and the consequent number of external parties who were involved or who felt the need to become involved was more than we had previously experienced. Outside of what customers wanted, the following are some of the matters that we dealt with immediately and for some time after the event –

- Immediate and sustained inquiries from a variety of sources around the quantum of the loss. This came from the press, government, the recovery taskforce, Insurance Council, internal sources and reinsurers. When I flew to Cairns in the first week, the person across the isle turned out to be an ABC journalist who, once he realized we were from RACQ Insurance, insisted on conducting a recorded interview across the plane’s isle in mid flight. The appetite from journalists for information, statistics and the inevitable angle was an ongoing management issue.
- We and our service providers had significant involvement with the BSA from the first week onwards. The BSA was tasked with the job of ensuring that the reconstruction effort was performed according to building and other regulations and that insurers and tradesmen complied with legislation and local government processes. As such they engaged in early and ongoing dialogue with insurers, loss adjusters and builders. Regular meetings were held with the BSA and insurer committees where rebuild procedures and policies were dealt with.
- The Cosgrove led Operation Recovery taskforce was also in constant contact often as conduits for bodies such as the BSA. Again, regular meetings were held with the taskforce and the BCC. The taskforce was also requesting a range of statistics and information from early in the piece. Some of these requests could be categorized as difficult to respond to simply because the format and contents of the requested statistics were not necessarily in a format and type that we would generally collect and report on internally.
- It goes without saying that reinsurers wanted loss information and this is a perfectly normal process that is dealt with at regular intervals in any event.

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#### 4. WHAT WERE THE GAPS AND HOW WERE THEY ADDRESSED ?

Catastrophe events are never exactly like any other previous event in that the management method for each varies based on the unique circumstances of the event and the nature of its impact.

From the customer viewpoint, a dedicated customer team was sent to Innisfail and was able to enter the town and surrounding area the day after the event. A street-side office was set up outside the local RACQ agent's office which was an important aspect to enable us to deal with the myriad of individual issues and circumstances that would invariably arise. For customers, many of whom were in some state of shock, having a person that they could talk to face to face was important as was having staff there who had the authority to act on individual cases.

The theme of having dedicated and focused claims management people continued with the formation of the Cyclone Larry Customer Care Team within the RACQ Insurance claims department. This team was lead by our Executive Manager Claims and consisted of experienced claims staff whose sole role was to ensure that Larry claims were handled in the correct and appropriate manner. This included effective and consistent communication to customers as well as implementation of settlement strategies which were appropriate for the event for all stakeholders and which would also ensure that the RACQ Insurance brand values were protected.

As for most major catastrophes, it quickly became apparent that conventional methods of dealing with major individual claims were not necessarily appropriate. Normally, alternative accommodation for a customer with an uninhabitable home is offered and generally accepted. There was not a significant amount of alternative accommodation available in the immediate area and customers would have had to relocate to the Cairns area to obtain suitable accommodation. This was not necessarily a practical alternative for a range of personal circumstances. We found that customers were loathe to move away from their home, initially because of fears of looting but later due to the desire to remain close to or in their home. In many cases we substituted policy entitlements for alternative accommodation for subsidies to purchase and run generators to allow customers homes to become livable so that we could satisfy their desire to stay in their home. Other alternatives included allocation of alternative accommodation benefits to purchase caravans or payments to allow them to reside with friends or family.

A key aspect of the process was the fact that many homes were severely damaged but not to the extent that they constituted total losses. This, added to the relatively high age of homes, meant that the repair process was not always as straight forward as we might experience with a more

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modern brick, gyprock and tile home built with standard roof trusses etc. This necessitated the use of engineers to inspect homes to assist the builder in providing a realistic and comprehensive quotation for all the damage – not just the damage that was immediately apparent. RACQ Insurance authorised around 800 engineering inspections . Significant issues arose around the requirements under building codes to retro fit cyclone building standards to many homes where the home was constructed pre 1982. The BSA and also local council naturally paid a significant amount of attention to this aspect especially when some initial political statements declared that “we will make Innisfail Cyclone proof”. All of this and our own internal desire to ‘get it right’ created an amount of pressure on the claims process and inevitably created a further delay in the process of managing customer’s claims. While most customers were appreciative of having their home inspected by an engineer the delays caused others to become frustrated.

It was however important to use engineers to inspect homes to ensure that the damage was properly identified and that the repair process was appropriate for the damage. Added to this was the necessity to determine if building certification by the local councils was required. This also allayed many fears of customers regarding the repair process. Early in the process, some councils had painted a “Y” which stood for can be rebuilt or a “N” can’t be rebuilt on homes. The “N” classification effectively putting a demolition order on homes before insurers had a chance to determine repair options. This created ramifications for those who were underinsured and to exacerbate matters councils then wrote to these home owners advising them of the demolition orders and the penalties for non-compliance. This naturally caused confusion and fear for many homeowners as to whether they were insured or not.

Normal claims cost control procedures were also not necessarily appropriate for many claims. Normally, quotes were required for damaged contents, however, this was generally not a sensible or effective method of settling a total loss or major claim for contents, where say the entire roof of the home was missing. Where a claim was a clear total loss then quote procedures were dispensed with. We also made many emergency payments to customers to allow them to purchase necessary items following in many cases the complete loss of their contents.

We also ensured that large or complex claims were dealt with on a face to face basis with the customer. This was an important feature of what the customer wanted and what was most effective in dealing with their claim. People whose homes were severely damaged were obviously anxious to ensure that their policy responded to the best financial advantage or outcome and it was critical that we were aware of all of a person’s personal circumstances in our settlement and management process. In many cases the customer was now without a personal income as a result of the crop and other commercial devastation. We took a position early in the piece to prioritise claims based on a combination of the severity of personal circumstances and

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the extent of damage including the extent to which the house was habitable. This ensured that those who were in most need of help were prioritized accordingly. The use of engineers early in the process gave significant confidence to many customers who were able to be assured that the damage to their homes had been accurately and fully identified.

Regular communication with customers was obviously paramount. Notwithstanding the requirements of the General Insurance Code of Practice, we instituted internal processes to ensure that regular communication was maintained. The same demands were placed on our external loss adjusters where they were dealing directly with a customer.

Some customers took a decision that they did not want to rebuild their home as the stress and trauma was too much. In some cases these homes were sold in an "as is" state. Some customers also decided to move away from the area and settle in other towns. In most cases these customers wanted a cash settlement and the method of dealing with these claims was obviously different to a customer who wanted their home rebuilt. It was important that traditional claims settlement methods that might avoid cash settlements be modified accordingly. Critical to getting the right outcome was understanding the insured's motivators or intentions.

Underinsurance was obviously an issue that will arise in such events. On our figures, underinsurance became a factor on about 75 or 3% of the Household claims we received. Our estimation would be that approximately 15%-20% of houses would have been underinsured however in most cases this didn't affect the outcome of the claim. We also have some indication that RACQ Insurance customers average sums insured tended to be on the higher side. Apart from the original sum insured being inadequate for any type of loss circumstance, underinsurance in these events will also potentially arise due to –

- Impacts of post disaster inflation. Building costs and the costs of materials invariably rise with demand. While some of this is exaggerated because of a small number of rogue builders, it is a factor that insurers and adjusters universally seemed to control well. The pressure on costs was also caused by many non-local builders incurring accommodation and travel costs and the like to be able to operate in an area that was often very remote from their home bases. Most insurers individually used various external mechanisms to monitor the cost of building work to ensure that proper price control was maintained.
- Additional costs of reinstatement due to compliance with building standards. The retrofitting of cyclone standards in many cases had a significant impact on the cost of rebuilding certain categories of homes.

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We tried to strike a balance between use of local builders and our own panel builders. Given the social and economic impact on the area we felt it important to support local trades where the cost and time to repair was competitive. While some customers had a preference to use their own tradesmen most were content to use the trades persons allocated to them. RACQ Insurance took direct control of the rebuilding efforts for our customers in order to ensure the right outcomes. We also took a fairly liberal approach to advance payments to builders to assist them in dealing with cash flow issue and the obvious requirement to bulk purchase materials in advance. As a general rule we used panel builders on a zonal based system which minimized their travel time and allowed more effective use of their resources across a large number of jobs at the one time.

There was considerable political pressure for insurers to “do the right thing” for those who were underinsured. It was up to each individual insurer to determine their approach to underinsurance and whether they were prepared to pay out more than the persons sum insured plus any policy benefits such as alternative accommodation, demolition etc. Due to the relatively small number of total losses and close to total loss claims, this problem did not eventuate in as many cases as it was originally thought. In our case, we reinforced existing processes that meant policyholders were always offered the full benefits of the policy to ensure they received the maximum cover available under the policy within the limits of the sum insured.

The appetite for statistics from external parties was also a major issue. The way in which insurers record and report on statistical information is not necessarily in the same format and granularity that is requested from external parties. Insurers will generally collect and report on their data in a format that suits internal operations and the needs of reinsurers. I am sure that many insurers had to modify their reporting systems to cope with the particular formats and dissection of data that was requested by the Recovery Taskforce, the press and other many other parties.

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## 5. IS THERE A GAP ?

On the whole the report card for insurer performance in dealing with Larry claims has been a positive one by any measure. A significant percentage of claims have been finalised and settled and the major proportion of remaining claims are being dealt with and most, if not all, homes will be waterproofed in time for the 1<sup>st</sup> December, 2006 target date. This has required an ongoing process of monitoring of builders and suppliers by our adjusters and claims staff.

The primary "Gap" that exists is the ongoing issue around underinsurance and the effect that this has on the ability of customers to rebuild their homes and their lives. Several market product innovations have become available in an attempt to eliminate the possibility of underinsurance and it is probably the case that policies which guarantee that customers will not be underinsured to reconstruct what they had will become commonplace in the future. My understanding is that all major insurers have these products under development or consideration and one has launched this style of cover. Certainly these types of policy benefits or designs have taken hold in other countries in recent years. The ability to adequately design and price a product that insulates customers from underinsurance, post disaster inflation and increased reinstatement costs due to building code compliance will be an ongoing need for customers. There will be a challenge to technically price this product and provide meaningful aggregate exposure data to reinsurers.

Another gap that is apparent is the industry's ability to adequately deal with the varied number of external influences as previously detailed in this paper. The insurer's primary task in an event is to deal with customer's collective and individual needs. The diversions that occur in the immediate aftermath of an event will always have the potential to distract insurers from the immediate main game. While the requirement to deal with all manner of external parties is often necessary and also often useful, it is the role of the Insurance Council to deal directly with many of these matters and where possible leave individual insurers to do what policyholders expect them to do.

Internal insurer processes must be flexible in dealing with the realities of a major event. While there seemed to be the odd demonstration of inflexible practices portrayed in the media, it is my experience that these were isolated instances and that all insurers were very conscious of "doing the right thing" by our customers. Nonetheless an event of Larry's magnitude multiplied will mean that internal processes will be again tested and may need a rethink. Internal and service provider resourcing, training and systems to deal with a larger version of Larry will also be on the agenda for all insurers and their service providers for this and future summers.

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In a one off total loss of a building say from a fire, the provision of alternative accommodation to a customer is straight forward. Accommodation is generally readily available usually close to the persons existing home and this allows their normal day to day life to go on – children can continue to go to school, weekend sport continues and generally the day to day routine can at least be preserved. Damage on this localised scale and with a relative population concentration meant that the availability of alternative accommodation closer than say Cairns was extremely limited. The industry's ability to deal with this aspect of policy coverage will be critical in future events especially if they are of the magnitude of say a Cyclone Tracy.

Insurance policies and insurance companies are continually being tested by event losses in Australia. Customers needs change over the course of time as do the circumstances that arise from any given event – the challenge for the industry is to continually be aware of and preferably anticipate the gaps and design products and claims processes that, in so far as possible, close the gap before it arises.