

Case summary

The circumstances

Policy-holder A owned a property in regional Australia that was affected by the February 2022 NSW and Southeast Queensland Floods (CAT221).

The policy-holder had a home and contents policy with Allianz Australia Insurance Limited (Allianz), which did not include flood cover. The policy did, however, include cover for damage caused by “storm, cyclone, rainwater, or run-off.”

The policy stipulated:

- If rain or storm run-off combined with flood water, the damage was excluded from cover.
- If rain or storm run-off occurred before the influx of flood water, the damage caused by the rain or storm run-off was included in the cover.

On the basis that the inundation of Policy-holder A’s property was due to flood waters, not from rain or run-off, Allianz denied the claim. It based this decision on several documents, including a report from a hydrologist.

Investigation

We launched an investigation into this matter on 22 February 2023 after receiving information that Allianz’s management of this claim denial may have breached the General Insurance Code of Practice (the Code). The referral alleged that two properties that were in the neighbourhood of Policy-holder A’s property received a different claim outcome from Allianz, even though the policies also excluded flood cover.

During the course of our investigation, Allianz advised that it reviewed the case, and then expanded the scope to include an additional 47 claims linked to CAT221.

The review focused on claims that were either denied or partially denied, where neighbouring properties received different outcomes.

Following the review, Allianz accepted five previously denied claims in part or full. The decisions to change the initial decisions and accept the claims were based on topography, location, site-specific hydrology reports, and reports from neighbouring properties.

Allianz also changed its initial decision on Policy-holder A’s claim to partially accept it. Allianz attributed its initial decision to deny the claim to the quality of the hydrology report it had

commissioned, specifically noting discrepancies between statements made in the body of the report and the report's conclusion.

Other factors that contributed to Allianz's decision to partially accept Policy-holder A's claim included the failure of internal processes to identify inconsistencies in the body of the site-specific hydrology report.

In response to our investigation, Allianz cited, as a mitigating factor, the significant operational challenges it faced in the aftermath of CAT221, which resulted in the need for more than 1800 hydrology reports for the affected areas.

Our considerations

We acknowledge the challenges that insurers faced in the aftermath of CAT221. However, the purpose of a 'catastrophe declaration' is to escalate and prioritise responses to policy-holders affected by the natural disaster that triggered the declaration.

We believe that the onus was on Allianz to have systems and processes to ensure the quality and consistency of the expert reports that it relied on for decisions on claims.

Allianz had multiple opportunities to detect inconsistencies in the original hydrology report for Policy-holder A's claim but failed to do so. We believe that by not establishing processes to support consistent decisions on claims in certain locations, Allianz amplified adverse impacts on customers.

Specifically, for our determination on Allianz's compliance with the Code of Practice, we considered the following factors:

- The failure to adequately consider the plausibility of damage caused by water run-off accumulation as indicated in the body of the hydrology report in the case of Policy-holder A.
- Allianz's failure to identify inconsistencies in the hydrology report, resulted in a second opinion not being sought (as would have been Allianz's process had the inconsistencies been identified).
- The failure to detect inconsistencies in the hydrology report despite multiple opportunities to do so.
- The failure to ensure adequate quality assurance prior to a claim being denied. This includes:
 - a. Failing to identify the inconsistencies in the hydrology report despite having multiple opportunities to do so
 - b. The failure to ensure that the expert opinions it uses to inform claims decisions are sound, with facts and evidence within the body of the report supporting any findings or recommendations.
- The failure to consider the outcomes of neighbouring properties for which information was available, particularly when Allianz was unable to appoint hydrologists on a geographic basis.

The outcome

We determined that Allianz significantly breached their obligation to consider all relevant facts when assessing claims.

This obligation is set out in paragraph 69 of the Code.

We found that Allianz's failure to identify inconsistencies in the hydrology report in the case of Policy Holder A, together with the absence of effective controls and processes to mitigate the risk of inconsistent claims decision processes, constituted a significant breach.

Following our investigation, we decided to sanction Allianz for non-compliance with the Code.

Allianz is required to pay a community benefit payment of \$50,000 to a registered charity and must also publish details of this significant breach of the Code on its website.

In addition to the sanction, Allianz paid out \$216,807.44 for Policy-holder A's claim and the additional five claims on which it changed its decisions.

Allianz has since implemented improvements in its claims-handling processes, ranging from expanded resourcing of its claims staff to an external review of its claims-handling model. Allianz is also exploring the use of technology to provide a more automated solution to provide greater visibility of claims outcomes by location.

We believe that insurers must consider the risk of inconsistent decision-making processes and implement effective controls and processes to mitigate these risks.

We urge insurers to review their operations and ensure that they have adequate systems, processes, and quality controls to verify the quality and consistency of expert reports, especially during times of increased demand.