



Information Release

24 October 2013

Central Bank publishes findings from the Household Property Claims themed inspection

The Central Bank of Ireland today (24 October 2013) published its findings of a themed inspection into household property claims resulting from water damage. The Central Bank considered it appropriate to consider these types of claims given the increased frequency of floods in recent years. The inspection examined compliance with the Consumer Protection Code (the Code) between 1 July and 31 December 2012 in 10 of Ireland's largest non-life insurer's (approximately 90% of the Irish property insurance market).¹

Director of Consumer Protection, Bernard Sheridan said: *"The Central Bank expects all regulated insurers to work in the consumer's best interest by selling suitable insurance policies, providing clear information and handling claims properly when they arise, directly or through a third party such as a loss adjuster. Consumers can often feel vulnerable when they experience damage to their home. It's important that firms deal with their claims in a prompt and fair way.*

"We are concerned by the findings of this inspection which has identified a lack of controls when using third parties to handle claims, a lack of transparency around the claims retention policy and policy terms that consumers need to be aware of at time of purchase and when making a claim. We also considered that policy booklets contained a number of terms and conditions which may not be fair or transparent to consumers."

¹ Desk-based research was undertaken in 10 firms, and on-site inspections were undertaken in 7 of these firms between April and June 2013. A total of 188 claim files were reviewed.

The main issues identified during the inspection include:

- weak oversight and controls over outsourced claims handling (loss adjusters)
- isolated incidences of potentially unfair settlements
- poor transparency in policy documentation and a lack of consumer awareness of the terms and conditions
- a lack of transparency around the practice of insurers retaining a portion of the agreed settlement (typically 30%) until reinstatement has been completed and final invoices have been submitted (known as retention) and the extent to which consumers are not claiming the portion retained
- the appropriateness of building insurance sold to some apartment owners.

The Central Bank is issuing an industry letter today drawing the attention of insurers to the inspection's findings and emphasising the requirement to be in full compliance with the Code when handling claims, either directly or through a third party. The Central Bank is also following up directly with the insurers inspected to address and further investigate specific issues identified, and is also considering whether enforcement action is appropriate in some cases.

Insurers are being instructed to review and improve controls over third party service providers, to review policy documentation to ensure terms identified are fair and transparent and that material information such as the practice of retention is included. Some insurers are already taking corrective action in respect of the transparency of their policy documentation.

The practice of retentions raises issues that the Central Bank intends to further engage with the industry on, to ensure the best interests of consumers are protected.

ENDS

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Notes to editors

The main findings from the review were as follows:

▪ **Outsourced Activity**

- *All of the insurers engaged a least one Loss Adjuster firm to settle claims on their behalf. The review identified that Loss Adjuster firms had issued introductory letters to consumers which did not clearly state they were acting in the interest of the insurer who had engaged them, or explained that the consumer could appoint, at their own expense, a Public Loss Assessor to act on their behalf.*
- *Each insurer held a service level agreement with their appointed Loss Adjuster firms for the processing of household property claims. However, the Central Bank noted that insurers had provided little or no training to the Loss Adjuster firms on the claims processing requirements of the Code.*
- *Given the number of suspected breaches of the Code, the majority of which had a minor impact on consumers, it was evident that monitoring of Loss Adjuster firms by some of the insurers was ineffective. Examples of suspected breaches originating from the activities of the Loss Adjusters include the failure to inform claimants that they act in the interest of the insurer, failure to advise claimants that they have the right to appoint a Public Loss Assessor at their own expense, failure to record conversations with the claimant, making offers on claims which did not take all relevant factors into account, and failure to observe deadlines prescribed in the Code to communicate decisions to claimants or issue payment of the claim.*
- *Insurers are being requested to carry out reviews of the oversight and controls they have on the outsourcing of claims handling.*

▪ **Suspected Unfair Settlements**

- *The Central Bank suspects that unfair settlement offers had been made in a small number of claims which is a breach of Provision 7.15 of the Code. In a small number of cases, insurers or their representatives were found to have made decisions to decline claims without fully validating the claim or made offers which were significantly lower than the value of*

their best estimate when all of the facts relevant to the claim were taken into consideration. The Central Bank is carrying out further investigations to determine whether these are isolated incidences and where consumer detriment is identified, insurers will be required to take appropriate action.

- **Transparency and Awareness**

- *A significantly high percentage of notified claims did not proceed to a claim settlement offer either because the insurer declined the claim or the consumer withdrew it.*
- *The most common reasons for insurers declining claims were either no insured peril or wear and tear that had occurred to their property, e.g. the sealant on a shower tray having fractured over time. It was also noted that many consumers had withdrawn their claim on learning that an excess of up to €1,000 would be deducted from any claim settlement offer, as well as the impact that the loss of no claims bonus would have on future renewal premiums.*
- *The Central Bank also considered that insurers' policy booklets contained a number of terms and conditions which may not be fair or transparent to consumers, and therefore insurers have been requested to review aspects of their respective policy booklets. Examples of the terms that insurers were asked to review include references to policy excess amounts or administrative fees without actually stating how much these are or where the consumer can find this information, and failure to include information about retaining a portion of the settlement until after reinstatement will be a condition of the claims settlement agreement.*

- **Retentions**

- *All of the insurers have a practice whereby a retention amount may be applied to a claim settlement offer and typically the retention withheld would be between 20% and 30% of the settlement amount. In order for a retention amount to be paid, consumers are required to provide either receipts, invoices or other proof that the repairs have been fully completed. The Central Bank noted that 23% of the monetary amount*

of all household property (water damage) claim retentions applied by the 7 inspected insurers during 2012 were never claimed by the consumer.

- *A review of insurers' policy booklets revealed that only one of the insurers clearly describes the practice of retentions in its policy booklet. Insurers have been requested to make clearer their policy on retentions at the time of the product being purchased and again when a claim is instigated.*

Product Suitability

During the course of the inspection, the Central Bank identified a small number of cases where apartment owners appear to have insurance which may not be appropriate to that type of property. The Central Bank is investigating this issue further.

The Code (Chapter 7, Section 7.6 – 7.21) outlines specific requirements to insurers concerning claims processes. The Code requires that insurers have a written procedure for the effective and proper handling of claims. It also requires, amongst other things, that:

- The insurer must offer to assist in the process of making a claim, including where relevant, alerting the consumer to policy terms and conditions that may be of benefit to the consumer;
- Where the services of a loss adjuster and / or an expert appraiser is engaged, consumers are informed of the contact details of the appointed loss adjuster and/or expert appraiser and that the loss adjuster and/or expert appraiser acts in the interest of the insurer;
- Consumers are notified that they may appoint a loss assessor to act in their interests but that such an appointment will be at their own expense;
- Any claim settlement offer made to the consumer is fair, taking into account all relevant factors, and represents the insurer's best estimate of the consumer's entitlement under the policy;
- Consumers must be informed within 10 business days in writing or other durable medium of the outcome of the investigation and explaining the terms and conditions of any settlement offer, and allow the consumer at least 10 business days thereafter to consider whether to accept or reject the offer;
- Insurers must discharge the claim within 10 business days of the consumer's decision to accept the offer.

The review did not examine the fairness or otherwise of individual claim settlement valuations but looked at the manner in which claims were processed in respect of rules contained within the Code.

The Consumer Protection Code is available to view on the Central Bank website [here](#).