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TRANSCRIPT OF PROCEEDINGS

O/N H-919889

THE HONOURABLE K. HAYNE AC QC, Commissioner

**IN THE MATTER OF A ROYAL COMMISSION
INTO MISCONDUCT IN THE BANKING, SUPERANNUATION
AND FINANCIAL SERVICES INDUSTRY**

MELBOURNE

9.30 AM, THURSDAY, 20 SEPTEMBER 2018

Continued from 19.9.18

DAY 58

**MS R. ORR QC appears with MR M. COSTELLO as Counsel Assisting with MR M.
HOSKING and MS S. ZELEZNIKOW**

MR P. O'HIGGINS appears for Youi

MR J. KIRK SC appears with MR D.A. LLOYD for AAI

<JASON LEONARD STOREY, ON FORMER AFFIRMATION [9.30 am]

<CROSS-EXAMINATION BY MS ORR

5

THE COMMISSIONER: Ms Orr.

10 MS ORR: Mr Storey, I want to come back to Mr Sutton's claim which I was asking you questions about yesterday afternoon. Do you accept that there were significant delays in dealing with Mr Sutton's claim?---Yes, I do.

15 Now, does Youi have any policies or processes in place for monitoring claims that have taken a long time to be finalised?---At the time that this claim was in play, the processes in place at the time was a 20 day follow-up task that was generated for our claims advisers to conduct follow-up with customers. In more recent times we've made some significant changes in that area, and introduced a number of different time points and – and significantly reduced time points, at which time aged claims are reviewed with a view to certainly more timely finalisation.

20

Now, you say those changes were made in more recent times?---Yes, yes.

When were they made?---Introduced from approximately May/June this year.

25

All right?---Yes.

Could I ask that you look at YOU.0026.0005.0046. Are you familiar with this document, Mr Storey?---Yes, I am.

30

Now, there's no date on this document, which is entitled Contentious Claims Review. But the metadata produced to the Commission tells us that it's dated 8 August this year?---That's correct.

35

Does that accord with your understanding of when this document - - -?---Yes.

- - - was produced?---Yes, I requested this document.

40 And was there something else that happened prior to this that you were referring to in May or June?---Yes. To – going back actually further than that, probably to November last year, it was a – something that I identified with my head of claims in Youi that I was concerned at the number of outstanding claims and their age. So what I was referring to was certainly some focus back then. In around May/June, as I referred to, is when we started to set some significant targets and review points. What you're looking at here is – is taking that another step further where this was the
45 basis, essentially, of a business case for a – for a new position at Youi.

Yes?---The – that would eventually be called the – the complaints claims – complaints manager.

5 Yes?---Yes. So this was certainly – document was to put a bit more process around that position and how they would operate.

10 So - - -?---And that – and that position has been in place approximately a month now, because I’ve received the first report of the – that’s mentioned in there as one of the deliverables.

I see?---Yes.

So we see from the first part of this document that it records that:

15 *Recently, the claims department introduced certain tolerance levels on aged claims.*

?---That’s – that’s what I was referring to, yes.

20 They were introduced in the May/June period. Is that right?---Yes.

Continuing:

25 *This way we deliver awesome service end to end when our customers use the product we sell and advocate every day.*

And do you see then the document says that:

30 *To ensure we are living up to our customer expectations end to end, we have introduced multiple review mechanisms to understand what our customers’ experience is on these older claims. If we pick up any complaints not dealt with correctly we can ensure we take ownership to resolve, if there are any stalemates, introduce independent reviews and action to resolve, ensure our customers are placed back in their pre-claim position in a timely manner,*
35 *customers are updated during the restore process, and if we cannot get to a resolution point with the customer, make sure the customer knows what their next steps are to dispute.*

40 Now, can you explain – we see that that paragraph refers to multiple review mechanisms with those objectives?---Yes.

45 What are the review mechanisms that Youi has implemented?---That’s referring to the mechanisms being at certain levels of claims management, what is expected of them and the timeframes at which they review their outstanding claims.

So there are review mechanisms to ensure that there are certain levels of claims management. Is that right?---Yes. Yes. So - - -

5 And how do they work, Mr Storey?---So there's an expectation from a – from a team manager's perspective. They will have a portfolio of claims under their management with their team that claims are reviewed – outstanding claims, so that's claims that are not finalised – are reviewed on a weekly basis. It's an expectation of our claims management, so that's the level higher there that those team managers would report into, that all claims over six months of age that haven't been finalised as yet are reviewed by them at least monthly.

10 I see?---With the opportunity being, you know, for them to intervene or to use their mandate to – to guide – to provide guidance on those claims to finalisation.

Now, none of those review mechanisms existed at the time of Mr Sutton or Ms Murphy's claims?---Certainly not to the – to the diligence that I've outlined just now.

15 And should they have, Mr Storey?---Certainly.

20 Does Youi undertake reviews of past claims to figure out what went wrong and to try and learn from those issues?---Certainly the – we have a – with our service quality team – so that's a – that's a team that sits within our risk and compliance department. They do conduct spot audits on past claims for various outcomes.

And how do they select the past claims that they're going to audit?---My understanding, that is a random selection.

25 And do you think you should have a system that enables your audits to be conducted on claims that are contentious claims, as this document describes them, claims that have been unresolved for a very lengthy period of time, and in which complaints have been made by the claimant?---Yes. Well, that – that's what this document demonstrates to – to deliver.

30 But this is not about looking back at past claims, is it? This is about dealing - - -?---No, sorry.

35 - - - with the claim - - -?---This is trying to get ahead of the complaints. Yes.

I see. I tender this document, Commissioner.

40 THE COMMISSIONER: Contentious claims review 8 August '18, YOU.0026.0005.0046, exhibit 6.352.

**EXHIBIT #6.352 CONTENTIOUS CLAIMS REVIEW 8 AUGUST '18
(YOU.0026.0005.0046)**

45 MS ORR: Now, I want to turn, Mr Storey, to the temporary accommodation arrangements for Mr and Mrs Sutton?---Yes.

Mr and Mrs Sutton moved into temporary accommodation at the end of March 2017 after the cyclone?---Yes.

5 And when it became clear that their house was unliveable, Youi asked them to arrange their own temporary accommodation for which they would be reimbursed?---Yes.

10 Is that the usual way that Youi provides temporary accommodation, the insured person organises it and Youi reimburses them?---It was one of the ways at the time but not the usual way. But - - -

15 It was not the usual way?---Well, it was one of the options that – that we would use the customers’ knowledge of the local area and – and their needs to – to assist us, and some customers do prefer that option. We also, at the time, have an arrangement with a corporate traveller partner to assist us to also locate accommodation, but I believe – and as we’ve discussed over the course of this case study – accommodation was certainly at a premium in that region and – and we – we didn’t have that option available to us at the time. So it’s fair to say that we certainly relied on Mr and Mrs Sutton’s - - -

20 So did you use the corporate travel organisation?---I don’t believe it was used in that region. I don’t believe they had options in that region.

25 Is it common for Youi to ask the insured to organise their temporary accommodation in regional or remote areas?---It would be, yes.

30 And which people at Youi have primary responsibility for organising the reimbursement of temporary accommodation expenses?---That would be the claims adviser.

Now, in this case we know it was Mr and Mrs Sutton’s claims adviser, Abigail Botes?---Correct, yes.

35 And when was she located?---In Centurion in South Africa.

In South Africa?---Yes, in South Africa. Ms Botes works in our claims team in South Africa.

40 Could you explain just briefly the process for approving and paying the reimbursement of temporary accommodation expenses?---Yes. The temporary accommodation expenses, if we’re talking about the case where it’s reimbursement, we would request the invoices from the customers, so the proof of payment, as such, and there may – depending on the cost of those, I would think most of those would – the cost of that would fall within the claims adviser’s mandate, so it should be a fairly simple process of processing that payment and reimbursement.

45 It should be a fairly simple - - -?---It should be, yes.

- - - process of getting the reimbursement done?---It should certainly be, yes.

5 All right. Could we look at the claims notepad for Mr Sutton, YOU.0001.0004.4226. YOU.0001.0004.4226 and could we go to 4230 within the document where we see that on 19 April the cyclone having occurred in March – on 19 April we see a note about a call from Mr Sutton. Do you see that?---It's at 1.53 pm?

10 I think – do I read IBC as inbound call? Is that what that refers to?---That's a new one on me, to be honest, Ms Orr, but I would accept that, yes.

Continuing:

From our insured wanting to speak to Abi.

15 ?---Yes.

That's Abigail Botes?---Yes.

Continuing:

20

Advised Abi in South Africa office our insured wants to return her call.

And then further down on 3 May at 9.05 am, we see that a note is left in the claims notepad for Ms Botes?---Yes.

25

Continuing:

30 *Hey, Abigail, IBC from our insured re temporary accommodation. Our insured needs reimbursed ASAP as he is starting to struggle with paying both mortgage and temporary costs. Could you please follow up.*

?---Yes.

Continuing:

35

With our insured. Thank you.

Do you see that?---Yes, I do.

40 If we go over to 4231 we see that on 4 May at the top of the page at 7.47 another entry in relation to the temporary accommodation:

45 *Our insured called in wanting to know if we had received his invoice for temporary accommodation. Nothing on file. Gave him your email to send. Please give him a ring as he really wants to chat to you. Happy our insured, just stressed about the money side of things.*

See that?---Yes, I do.

Later that evening there are some entries made by Ms Botes. Do you see that?---Yes.

5 Continuing:

Please see temporary accommodation receipts and action. Our insured is desperate. Thanks.

10 And another one:

Hi there, please see our insured email with temporary accommodation invoices and assist urgently. Thanks.

15 ?---Yes, I see that.

Do we see from those entries that Ms Botes was asking the loss assessor to approve the payments for temporary accommodation?---Yes, that's what I believe was happening there.

20

And is that standard process?---It was not the process. I think Ms Botes had – had confused the process.

So the - - -?---The only time - - -

25

I'm sorry?---Sorry, the only at which a claims adviser would seek advice from an assessor would be on timeframes for – for temporary accommodation, and – and perhaps even to make sure that the temporary accommodation is a fairly close match to what our insureds had within their own home so - - -

30

So it was not - - -?---Not to approve a cost.

It was not necessary - - -?---No.

35 - - - for Ms Botes to seek the loss assessor's approval but she did?---But she did. I believe she was confused there.

And lower down on 9 May, so five days later at 6.08 pm, we can see that Ms Botes emailed the loss assessor again:

40

Hi there. There is a receipt on file for our insured's temporary accommodation for \$1452. Can you please review and let me know if I can cash settle - - -

?---Cash settle, yes.

45

Continuing:

With our insured for this one. I have paid \$1200 for receipt from 15 April to 22 April and 22 April to 29 April. There is also a receipt for \$600 for 29 April to 6 May. Please let me know if it's okay to cash settle on this one as well.

5 So, again, this is Ms Botes seeking the approval of the loss assessor for the payments?---Yes.

And then at 4232 over the page, it seems that later that evening at 8.53 pm – do you see that towards the top of the page?---Yes.

10

Ms Botes paid an amount for temporary accommodation?---Correct.

So we see from these notes that Mr Sutton contacted Youi on 3 May saying that he was in financial difficulty because Youi hadn't reimbursed him, and it took until 9
15 May for Youi to organise the payment. Is that acceptable to you?---No, not acceptable.

And after this happened, did Youi put in place a system to make sure that Mr Sutton would be reimbursed for his accommodation expenses in a timely way?---Certainly
20 not soon enough.

By late June, it had happened again, hadn't it?---It had, yes.

Mr Sutton was waiting to be reimbursed in late June around \$4000 - - -?---Correct.
25

- - - in accommodation expenses. Now, could I ask that you look at YOU.0001.0005.0146. Now, this is a series of emails from Ms Lawson. I think you explained yesterday who Ms Lawson was. Could you remind us who she was?---Yes, Ms Lawson worked in our – in our client services department, so - - -

30

Yes. Emails from Ms Lawson to Kelsey Stone, Abigail Botes and Michelle De Winnaar:

Trying to arrange for someone to contact Mr Sutton and reimburse him for the \$4000 in rental invoices.
35

?---Yes.

Now, Ms Botes was based in South Africa. Was Ms Stone also in South
40 Africa?---Yes, she was, yes.

And Ms De Winnaar, she was in South Africa?---Yes, yes.

And we see – I will tender those emails.
45

THE COMMISSIONER: Emails 28 June '17 from between Lawson of customer relations department, Botes and other, YOU.0001.0005.0146, exhibit 6.353.

**EXHIBIT #6.353 EMAILS 28 JUNE '17 FROM BETWEEN LAWSON OF
CUSTOMER RELATIONS DEPARTMENT, BOTES AND OTHER
(YOU.0001.0005.0146)**

5

THE WITNESS: Ms Orr, could I just make a correction there. I said client services. Ms Lawson was in our customer relations department.

10

MS ORR: Thank you?---My apologies.

THE COMMISSIONER: The email title will be adjusted accordingly.

15

MS ORR: Now, you accept that these emails show that there were attempts being made to arrange for someone to call Mr Sutton?---Yes.

20

To discuss reimbursement of his accommodation expenses, but by late July he still hadn't been reimbursed for those expenses?---Correct, yes.

Part of the amount was paid in early August. Is that right?---Yes, I believe so, yes.

But Mr Sutton was still at that time out of pocket by \$1800?---Correct.

And he needed to keep chasing Youi?---Yes.

25

For reimbursement?---He did, yes.

30

Do you have any observations to make about that, Mr Storey?---The only observation I – I would make about that is – and it's a – it's a change that occurred within Youi in August last year where it was recognised that it was not ideal for our claims advisers based in South Africa to be trying to manage claims, essentially outside of core Australian business hours, particularly claims such as home claims which – which require multiple contacts, with multiple parties, not least the customer. And so we made a change that any claims lodged outside of core business hours, which is what our South African claims team's primary responsibility would be, are handed over to our Australian claims team located on the Sunshine Coast in Queensland to be managed from there onwards to completion.

35

When did you make that change, did you say?---That change was made in August 2017.

40

And - - ?---Then – but unfortunately it was not made retrospective. So claims that remained – so claims that had already been in the management of the South African advisers remained in their care.

45

Like Mr Sutton's claim?---Like Mr Sutton's, yes.

So his claim continued to be managed by those in South Africa?---Yes, I believe it was up until January of this year when – when it was reallocated to one of our Sunshine Coast claims advisers.

5 And do you accept that that resulted in delays - - -?---Definitely, yes.

- - - in the handling of Mr Sutton’s claim?---Yes, I do.

10 Now, could I take you back to the claims notepad at YOU.0001.0004.4226. And if we could go to 4241 in that document. Do you see down the bottom of the page on 19 September at 8.36 am we see a suggestion from the loss assessor:

Hi, Abi, could we put a reminder on this claim for LOR payments.

15 LOR?---I think the – the assessor has just got his acronyms mixed up there and I think that would be – he said loss of rent where it should have been temporary accommodation.

I see?---Yes.

20

Continuing:

Could we put a reminder on this claim for loss of rent payments to save us some grief with the client. I believe his rent is weekly.

25

Do you see that?---Yes.

Did anyone take up that suggestion and implement a system to make sure that reimbursement of Mr Sutton’s rental payments didn’t fall behind?---No, they didn’t.

30

And they should have, Mr Storey?---Certainly.

And if we turn to 4242, we see in the middle of the page that on 29 September, Ms Lawson recorded another communication from Mr Sutton:

35

Inbound call from our insured. Really unhappy that rental invoice are not paid again. We really need to implement something here to have them paid fortnightly as per the assessor’s notepad.

40 ?---Yes.

You see that?---Yes, I do.

45 And then on 3 October, Ms Lawson followed this up with Ms Botes again, to Abigail Botes:

5 *Hello, are you able to organise payment to new temporary accommodation saved to file on 3 October. You may need to call client to see what has been paid and what hasn't. I see notes from the assessor requesting a fortnightly set up to pay these so the client isn't out of pocket for long periods of time. This hasn't been actioned. Can we please bring the client's temporary accommodation reimbursements up to date, thanks, ASAP. Our insured very unhappy here.*

10 ?---It appears we missed multiple opportunities to get this right.

Yes. By this time, Mr Storey, Mr Sutton was \$5000 – \$5200 out of pocket?---Yes.

Is that acceptable for an insured person - - -?---Definitely not, no.

15 - - - to be out of pocket for that amount for his accommodation expenses?---Certainly not.

And that amount was finally paid on 4 October?---Yes, I believe so, yes.

20 And did Youi take any steps to discipline Ms Botes as a result of these failings – I will ask you that question first?---Yes.

You did. And what steps were taken?---So I believe Ms Botes has received written warnings over this failure.

25 And when did she receive those written warnings?---I believe that was in about May this year on – on review of the file and – and investigation into that, yes.

In May this year?---I believe it was May this year, yes.

30 For these events that occurred in July, August, September, October of last year?---Yes.

35 What caused the disciplinary action to be taken against Ms Botes in May of this year?---Well, certainly, a complete review of this file.

And why was a complete review of this file done?---Because of this Commission.

40 I see. And as a result of the Commission's attention, you decided to take some disciplinary action - - -?---Well, that was - - -

- - - against Ms Botes?---Certainly. As this was certainly uncovered, yes.

45 And the disciplinary action was that she received a written warning?---She has received a written warning, yes.

Did Youi take any steps as a result of these failings at this time, to assign someone else to take care of the temporary accommodation arrangements for Mr Sutton?---Not – not at that time, no.

5 And should it have done?---Yes, it should have, yes.

Could I ask that you look at YOU.0001.0005.0612. We see here an email to Ms Botes dated 10 October last year. And if we could blow up the portion above the blue text, we see it's an email from Kelsey Stone, and it relates to Mr Sutton's case,
10 does it not?---Yes, it does.

And the handling of the temporary accommodation reimbursements?---It does.

Continuing:

15

Abi, this is seriously unacceptable. What is going on? I am shocked at the lack of urgency from your side. You are ignoring me and I will not accept this. What is outstanding on this claim and when will you wrap this up?

20 ?---Yes.

No disciplinary action was taken at this time?---No.

Should it have been, Mr Storey?---It – it should have been and I believe Ms Stone has received disciplinary action also for not conducting that in a timely manner.
25

And when did Ms Stone receive her disciplinary action?---At the same time.

In May this year?---Yes.

30

As a result of the Commission's attention?---Correct.

I will tender that email, Commissioner.

35 THE COMMISSIONER: Email 10 October '17, Stone to Botes
YOU.0001.0005.0612, exhibit 6.354.

40 **EXHIBIT #6.354 EMAIL 10 OCTOBER '17, STONE TO BOTES
(YOU.0001.0005.0612)**

MS ORR: Can I take you to an email from the following day,
YOU.0001.0005.0719. I'm sorry, I am incorrect in saying it's the following day.
45 The email I took you to a moment ago was 10 October. And this one is 9 November.
We see here another email from Ms Stone to Ms Botes:

Abi, I keep asking you and you are just not coming to the party. See previous email attached.

And that was the earlier email that I took you to?---Yes.

5

Continuing:

You are forcing me to take disciplinary action. Why do you keep ignoring my notepads? This is embarrassing for me and you. It looks like you really just don't care. Please take this as your final warning. If you fail to reply to one of my notepads again, I will be taking disciplinary action. For the sake of awesome service, we cannot drop the ball like this. This can result in wall complaints, feedbacks, etcetera. I have to keep everything I send you because I know I will have to follow up with you. It's just not fair, Abi. Please.

10
15

Do you have any explanation for why Youi did not take disciplinary action at this time, Mr Storey?---Just a – nothing more than total inaction by that manager to act when she should have, yes.

20 So inaction by the claims adviser, Abigail Botes?---And certainly Ms Stone.

And by her supervisor, Ms Stone?---Correct.

And we see in this email:

25

For the sake of awesome service we cannot drop the ball like this. This can result in wall complaints.

30 What are wall complaints?---So Youi has a – a wall forum, so a social media forum that's available to all of our customers to comment on either, you know, positive experiences or negative experiences.

35 So the focus was on wall complaints and the impact of those on the business rather than on the impact of this inaction on Mr Sutton?---Yes, by that it would appear that way, yes.

I tender that email, Commissioner.

40 THE COMMISSIONER: Email 9 November '17, Stone to Botes, YOU.0001.0005.0719, exhibit 6.355.

**EXHIBIT #6.355 EMAIL 9 NOVEMBER '17, STONE TO BOTES
(YOU.0001.0005.0719)**

45

MS ORR: Now, the issue with reimbursing Mr Sutton for his temporary accommodation extended into the new year?---It did, yes.

5 Could you please look at YOU.0001.0005.1355. This is an email that I took Mr Sutton to from 2 February this year. It was exhibited to his statement. He gave it as an example of a communication he had with Youi following up on the reimbursement of his temporary accommodation expenses?---Yes.

10 Do you recall that?---I do, yes.

And if we go to 1356. Have you seen the spreadsheet that was attached to this email, Mr Storey?---I may have. I honestly can't recall that, yes.

15 In case we don't have the spreadsheet on the system, do you accept that by the date of this email Mr and Mrs Sutton were \$8000 – over \$8000 out of pocket?---It's – I don't have the exact figure but I believe our accounting of the outstandings was slightly less than that.

20 I see?---But still, a substantial amount that was unacceptable.

We will see if we can have that brought up shortly to show you that on Mr Sutton's calculations it was \$8525?---Yes.

25 Now, can I ask that you look at YOU.0001.0001.4080. The email that we had on the screen before was an email to Mr Keane. Do you recall that?---Yes.

Who Mr Sutton had engaged to assist him in his dealings with Youi?---Yes.

30 And Mr Keane forwarded that email to Ms Ahern, Russell Eager and Trevor Devitt at Youi?---Yes.

35 Now, this email at 4080 shows us that on 3 February down the bottom of the page – perhaps if we could bring up the second page at the same time. We see there the forwarding of Mr Sutton's email by Mr Keane to the people I mentioned on the right-hand side of the screen. Do you see that?---I do, yes.

And in response to that email, Mr Eager, the head of property assessing, said at the bottom of the left-hand side of the screen:

40 *Hi Kat. Concerning comments. Overview please ASAP, thanks.*

That was Mr Eager's response?---Yes.

45 And above that we see Ms Ahern's response on 5 February. She noted that there were a number of outstanding tasks assigned to Ms Botes?---Yes.

Do you see that?---I do, yes.

And she suggested that the claim be allocated to an Australian manager?---Correct, yes.

And when did that happen?---I believe it was – yes, on or around that time.

5

Now, according to your statement it happened on 11 February?---Okay, yes.

This year?---I will accept that.

10 Is that right?---Yes.

All right. Could I tender this email.

15 THE COMMISSIONER: Emails 3 February '18 concerning Sutton claim, YOU.0001.0001.4080, exhibit 6.356.

EXHIBIT #6.356 EMAILS 3 FEBRUARY '18 CONCERNING SUTTON CLAIM (YOU.0001.0001.4080)

20

MS ORR: And we now have the spreadsheet on the system that was annexed to Mr Sutton's email. If we could bring that up. YOU.0001.0005.1356. Do you see there Mr Sutton's indication that he was out of pocket at that point by \$8525?---Yes.

25

And then he was going to need to pay additional money for his rent in advance. You see that below?---Yes.

I tender that document, Commissioner.

30

THE COMMISSIONER: With or without the email?

MS ORR: The email is already in evidence as an annexure to Mr Sutton's statement.

35

THE COMMISSIONER: I see. And what annexure to the Sutton statement? I will just use that?

MS ORR: It is exhibit – exhibit GS-6 to Mr Sutton's statement, Commissioner.

40

THE COMMISSIONER: Spreadsheet attached to exhibit GS-6 to the statement of Mr Sutton, YOU.0001.0005.1356, exhibit 6.357.

45 **EXHIBIT #6.357 SPREADSHEET ATTACHED TO EXHIBIT GS-6 TO THE STATEMENT OF MR SUTTON (YOU.0001.0005.1356)**

MS ORR: Now, Mr Storey, did anyone from Youi apologise to Mr and Mrs Sutton for the continuing delays in reimbursement of their temporary accommodation expenses?---At – at that time, Ms Orr?

5 Yes?---I – I couldn't say with confidence, sorry.

You can't say?---No.

10 And has there subsequently been an apology?---Certainly, yes.

And when did that occur?---There have been a number of our staff who have had face-to-face meetings with the Suttons.

15 And when have those face-to-face meetings occurred?---They've been generally from May, June this year, I believe.

After the Royal Commission's involvement?---Certainly.

20 Now, I want to put to you that one of the causes of Youi's repeated failures to reimburse Mr and Mrs Sutton for their temporary accommodation expenses was Youi's systems for remunerating its claims staff. Do you agree with that?---No.

25 All right. Do you accept that throughout 2017 the performance indicators for claims staff rewarded the lodging of new claims?---That's one of the parameters, yes.

Did they reward staff for managing existing claims after a decision on that claim had been made?---There was a portion to claims finalisation, yes.

30 What portion was there to claims finalisation?---I think it varied over the – the years being examined by this Commission, but - - -

I'm talking about last year, 2017?---Approximately 10 per cent, I believe, yes.

35 And what did that 10 per cent relate to. You described it as claims finalisation?---Claims finalisation, yes.

40 So how was that measured, that 10 per cent?---I can't recall exactly but it – the exact metric off the top of my head, but it was – I believe it would be numbers of claims finalised against claims lodged.

So it's about the finalisation - - -?---Yes.

- - - of the claim?---Yes.

45 And what percentage of the performance indicators was referable to lodging new claims?---I think that was up to 30 per cent, yes.

Now, earlier this year Youi proposed changes to that performance indicator structure. Is that right?---Correct.

5 Could I ask that you look at YOU.0026.0005.0072. This is a document we see from January this year?---Yes.

And are you familiar with this document, Mr Storey?---I am, yes.

10 And we see from the overview that:

15 *Currently in claims, our claims advisers lodge and process claims end to end. There is a productivity target of 75 per cent in line with the rest of the business, where they are required to be available to take calls. Our philosophy is that our clients will have one point of contact throughout their claim for us to offer awesome service. The reality is that clients don't always get to speak to their adviser if they should call in, as advisers are often on the phone lodging new claims which ensure they earn money on their PBS. Advisers also sit with many SUMMIT sessions open –*

20 That's the claims management system?---Correct, yes.

Continuing –

25 *so that they can administer their claims at the same time as lodging new claims to meet the productivity expectations. In our current environment, we have the following concerns: increased staff errors due to advisers doing multiple things at one time, increased staff frustrations at not being able to tackle their big claims often resulting in staff staying back after hours to administer; customer delays on these claims due to them being put to the side; poor*
30 *customer claims experiences based on claims management and remuneration structure of the claims role; inability to service a growing book of clients unless we increase headcount given the depth of the work requirements on staff (high work volumes); staff frustrations at never being able to get on to their bigger claims due to the constant incoming calls; and inefficiencies resulting*
35 *in over 100 processes for the staff to remember in each skillset.*

Do you agree that these were issues with Youi's claims handling processes as at January this year?---Actually, even before that, Ms Orr.

40 Yes?---And – and I say that because I - - -

45 And I mean to suggest well before that but this was recorded as a problem in January this year?---Yes, this was – so going back to around November last year, not long after I had been in the role, I put a proposition to our claims management to restructure the department for – for better operation, and – and to address many of these issues as raised, and what that has entailed is to be able to have a separation of duties there now between lodging claims and management of claims. So – and

particularly for claims like of the nature that we've been discussing these last two days, that are – that are quite complex claims, home claims can be that. That they are handed to a dedicated claims adviser that's sole focus is to manage that claim end to end without having any of the distraction of – of taking inbound calls. So
5 essentially an outbound skill set. As of – and that has now been in place since July – August, sorry.

Since August?---August, yes.

10 So this is a very recent change?---Yes. This is quite a large change for our claims department that has essentially for almost, you know, 10 years run quite differently, you know, where the claims advisers handled all aspects of claims management. Further to that – and we have currently put in place another team of part-time
15 advisers that will further reduce any inbound calls coming to the main claims management skill set as a further advancement to that, and I expect to have that up and running by the end of this month.

But do you accept that in the period prior to those changes, in August of this year, that the productivity targets for your claims-handling staff were focused on
20 lodgement of new claims?---It was certainly one of the focuses, yes.

Which meant that the sorts of problems outlined in this experience with the – in this document with the handling of claims once they had been accepted, arose?---Sorry, could you just say that again.
25

Sorry, I put that very poorly. The consequence of the productivity targets which were referable to the lodgement of new claims, was that the problems listed in this document occurred?---They – they could do, yes.

30 And we see that those problems included your claims handlers felt unable to spend time on handling claims that had been accepted?---Yes, hence why we've made those changes, yes.

Yes. I will tender that document, Commissioner.

35 THE COMMISSIONER: Claims specialisation role split, January '18, YOU.0026.0005.0072, exhibit 6.358.

40 **EXHIBIT #6.358 CLAIMS SPECIALISATION ROLE SPLIT, JANUARY '18 (YOU.0026.0005.0072)**

MS ORR: I have no further questions for Mr Storey, Commissioner.

45 THE COMMISSIONER: Thank you. Mr O'Higgins.

MR O'HIGGINS: Thank you, Commissioner.

<RE-EXAMINATION BY MR O'HIGGINS

[10.11 am]

5

MR O'HIGGINS: Mr Storey, can I just ask you to take up your – the originals of your witness statements – or the copies that you have in front of you, please?---Copies, yes.

10

If you just have a look at the statement for Rubric 4-15 which is to do with Ms Murphy's situation?---Yes.

15

Could I just ask you to have a look, please, at the exhibit behind tab 53. Can you – that's YOU.0019.0001.0006?---Sorry, I've got 000 – I've got - - -

Sorry?---Behind 53?

20

Yes, sorry?---I have it as the – the last of that number as 0001.

Can you just describe the document that you're looking at there, Mr Storey?---Feedback notes.

25

Mr Storey, I'm just going to ask you to have a look at two fresh copies of your witness statement. Commissioner, this is a matter that I've spoken to Senior Counsel Assisting about. And I just want to correct a matter that is a problem with the exhibits to Mr Storey's statements, one relating to Sutton was attached to the Murphy statement and the one relating to Murphy was attached to the Sutton statement.

30

THE COMMISSIONER: Yes. So which was – what's the – what are the exhibits we're dealing with?

35

MR O'HIGGINS: So the last tabs in both statements have been swapped around, Mr Storey. Can I just ask you to have a look at that one again, please. So it's tab 53 to the statement for Rubric 4-15?---Yes. Yes, there's a number of documents here.

So the last exhibit behind tab 53, YOU.0019.0001.0006?---The last one?

40

Yes?---Behind 53 ends in 0008 in this copy.

Sorry, can you just turn back to the first page of that document?---Yes, that's 0006, yes.

45

And what is that document?---This appears to be a notepad entry.

And does it relate to the Murphy claim?---Yes, it does.

And in your – the document I took you to a moment ago in the other statement, is that the same document or is that a different document?---It's a different document.

5 And does that relate to the Murphy claim or the Sutton claim?---That's the Sutton claim.

10 Okay. So having a look at that document, in the – in the new statements that you've just been handed, is that now the correct attachment for the statement that you've given in Rubric 4-15?---Yes, it appears to be, yes.

And can I ask you to turn to paragraph 64(a) of your statement, please, which is YOU.9999.0008.0029, please, Mr Storey. Sorry, it's 0001 but at page 0029?---64(a), yes.

15 And do you see that that now refers to tab 53 with the same document number?---Yes, it does.

20 And with that change, Mr Storey, can you confirm that this statement is true and correct to the best of your knowledge and belief?---I can, yes.

Can I ask you to sign that statement, please, Mr Storey?---Yes. I'm running out of room up here.

25 I tender that statement, Commissioner.

THE COMMISSIONER: Amended statement of witness concerning Rubric 4-15 will be exhibit 6.359.

30 **EXHIBIT #6.359 AMENDED STATEMENT OF WITNESS CONCERNING RUBRIC 4-15**

35 MR O'HIGGINS: Mr Storey, if you could just put that to one side, please?---Yes.

And can you take up the new statement that you've been given for Rubric 4-21, please, in relation to the Sutton matter, which is YOU.9999.0009.0001?---Sorry, Mr O'Higgins, where did you direct me then?

40 If you have a look at tab 62, please?---The new statement?

Yes?---Yes.

45 Which is YOU.0019.0001.0001?---It is, yes.

Now, does that document relate to the Sutton matter?---Yes, it does.

Thank you. And then if I could just ask you again, Mr Sutton, to go back to your statement – sorry, Mr Storey, YOU.9999.0009.0001. And at page 0023?---Yes.

And at paragraph 56A?---Yes.

5

Does that now refer, where it refers to tab 62 to the matching document number behind what I just took you to a moment ago?---It does, yes.

And with that correction, is that statement true and correct to the best of your knowledge and belief?---Yes.

10

Can I ask you to sign that statement, please, Mr Storey. I tender that, Commissioner.

THE COMMISSIONER: Amended statement of witness with respect to Rubric 4-21 is exhibit 6.360.

15

EXHIBIT #6.360 AMENDED STATEMENT OF WITNESS WITH RESPECT TO RUBRIC 4-21

20

MR O’HIGGINS: Could I just have a moment, please, Commissioner?

THE COMMISSIONER: Yes.

25

MR O’HIGGINS: Mr Storey, you were asked yesterday a question by Senior Counsel Assisting regarding the Commission being given information about what was called the complaints notepad. The reference is at transcript from yesterday at page 6226 around line 44, Commissioner. Do you recall being asked those questions - - -?---Yes.

30

- - - Mr Storey. And you said that you weren’t certain of the – of whether the Commission had been provided with that information. Do you recall that, Mr Storey?---Yes.

35

Could the witness be shown, please, YOU.9999.0010.0001, please. Could I just ask you to have a look at that document, please, Mr Storey.

THE COMMISSIONER: Yes.

40

MR O’HIGGINS: Mr Storey, does that document assist you in resolving that uncertainty about that question?---Yes.

I tender that document, please, Commissioner.

45

THE COMMISSIONER: Letter from King & Wood Mallesons to solicitors assisting Commission, 29 June ’18, YOU.9999.0010.0001, exhibit 6.361.

**EXHIBIT #6.361 LETTER FROM KING & WOOD MALLESONS TO
SOLICITORS ASSISTING COMMISSION, 29 JUNE '18
(YOU.9999.0010.0001)**

5

MR O'HIGGINS: Mr Storey, you were also asked some questions yesterday about records of conversations held by Youi. Do you recall that?---Yes.

10

The reference, Commissioner, it starts at about transcript page 6224. If I could just ask you to have a look at tab 53 of your witness statement, please, of the Murphy witness statement, please, which is YOU.0019.0001.0006. I am going to ask you to have a look at two pages over at 0019.0001.0008?---Yes.

15

You see some entries there dated 22 November 2017?---Yes.

Are those the types of entries that you were referring to when you talked about records of conversations?---Yes, they are.

20

Nothing further, Commissioner.

THE COMMISSIONER: Yes. Thank you, Mr O'Higgins. Ms Orr.

25

MS ORR: Commissioner, nothing that arises from that for the witness but I do want to put some matters on the record in terms of this chain of events involving the production of that document.

THE COMMISSIONER: Yes. Thank you very much, Mr Storey, you may step down?---Thank you.

30

<THE WITNESS WITHDREW

[10.25 am]

35

THE COMMISSIONER: Yes, Ms Orr.

40

MS ORR: Commissioner, on 17 May, the Commissioner issued a notice to produce, number 381, requiring Youi to produce the entirety of the file held by Youi in respect of the claim made by Ms Murphy and her partner by 10 am on 24 May. And the document ID for that notice to produce is RCD.0002.0001.2537. I will tender that notice.

THE COMMISSIONER: Notice to produce number 381, RCD.0002.0001.2537, exhibit 6.362.

45

**EXHIBIT #6.362 NOTICE TO PRODUCE NUMBER 381
(RCD.0002.0001.2537)**

5 MS ORR: And on 24 May Youi produced a first tranche of documents under that notice and the cover letter accompanying that production stated that the documents did not comprise complete production and that Youi was reviewing a relatively small batch of audio files. That correspondence is RCD.9999.0071.0026. I tender that letter.

10 THE COMMISSIONER: Letter King & Wood Mallesons to solicitors assisting the Commission dated 24 May '18, RCD.9999.0071.0026, exhibit 6.363.

EXHIBIT #6.363 LETTER KING & WOOD MALLESONS TO SOLICITORS ASSISTING THE COMMISSION DATED 24/05/2018 (RCD.9999.0071.0026)

15 MS ORR: The following day, 25 May, Youi produced a second tranche of documents under that notice and the letter accompanying the production stated that the further documents comprised “complete production in the time available” in response to the notice. That letter is RCD.9999.0071.0028.

20 THE COMMISSIONER: Exhibit 6.364, letter King & Wood Mallesons to solicitors assisting Commission, 25 May '18, RCD.9999.0071.0028, exhibit 6.364.

25 **EXHIBIT #3.364 EXHIBIT 6.364, LETTER KING & WOOD MALLESONS TO SOLICITORS ASSISTING COMMISSION DATED 25/05/2018 (RCD.9999.0071.0028)**

30 MS ORR: On 7 June, the Commission sent an email to Youi's representatives noting that the Commission had noticed from listening to the audio recordings that had been produced that Youi representatives appeared to update notes in a database and that we had not received notes from a database. And we indicated that in our view, those notes would form part of the entirety of the file that was sought under notice to produce 381. That correspondence is RCD.9999.0071.0030.

35 THE COMMISSIONER: Email from solicitors assisting Commission to King & Wood Mallesons, RCD.9999.0071.0030 the email being of 7 June '18, exhibit 6.365.

40 **EXHIBIT #6.365 EMAIL FROM SOLICITORS ASSISTING COMMISSION TO KING & WOOD MALLESONS DATED 07/06/2018 (RCD.9999.0071.0030)**

45 MS ORR: Now, in response, on 8 June Youi provided a copy of the claims notepad for Ms Murphy's claim by email, and that email is RCD.9999.0071.0030.

THE COMMISSIONER: That's the same number I've had, I think.

MS ORR: Yes, it is, I'm sorry. They're part of the same email chain. Then the claims notepad was formally produced on 12 June. The cover letter for that production is RCD.9999.0071.0033.

5 THE COMMISSIONER: Letter King & Wood Mallesons to solicitors assisting 12 June '18, RCD.9999.0071.0033, exhibit 6.366.

10 **EXHIBIT #6.366 LETTER KING & WOOD MALLESONS TO SOLICITORS ASSISTING DATED 12/06/2018 (RCD.9999.0071.0033)**

MS ORR: Then on 22 June in response to questions from the Commission about the telephone call made by Mr De Sa to Ms Murphy or her partner on 22 November 15 2017, Youi told the Commission that it had not recorded that call and that the file notes for that call would be in the claims notepad document. And that correspondence is the correspondence I tendered yesterday as exhibit 6.343. On 29 June, Youi produced five additional documents in response to the notice and a notice 20 that related to Mr Sutton's file, and one of those documents was the complaints notepad which contained the brief file note of the conversation that was on the screen earlier with Ms Murphy's partner on 22 November. And that has now been tendered as exhibit 6.361.

And following the provision of that document, on 29 June, Youi did not clarify their 25 response to the Commission in the letter dated 22 June, which is exhibit 6.343. That's all we wish to say about that matter, Commissioner.

THE COMMISSIONER: Yes.

30 MS ORR: Commissioner, the next case study involves a different entity. If we could have a brief adjournment to reset the bar table, that would assist.

THE COMMISSIONER: Yes. So if I come back 25 to?

35 MS ORR: Yes, thank you, Commissioner.

THE COMMISSIONER: Yes.

40 **ADJOURNED** [10.31 am]

RESUMED [10.36 am]

45 THE COMMISSIONER: Yes, Ms Orr.

MS ORR: Commissioner, the next case study is a case study concerning Suncorp, and the first witness is Mr Gary Dransfield from Suncorp.

THE COMMISSIONER: Yes.

5

<GARY CHARLES DRANSFIELD, AFFIRMED [10.36 am]

10 **<EXAMINATION-IN-CHIEF BY MR KIRK**

THE COMMISSIONER: Thank you, Mr Dransfield. Do sit down. Yes, Mr Kirk.

15 MR KIRK: Your name is Gary Charles Dransfield?---Yes.

Your professional address is 266 George Street, Brisbane?---Yes.

20 Your current position is chief executive officer insurance of the Suncorp Group?---Yes.

You've held that position since 13 October 2017?---Yes.

25 You've received a summons from this Royal Commission to appear at this hearing?---Yes.

Do you have the original of that summons there?---Yes.

I tender that summons, Commissioner.

30

THE COMMISSIONER: Summons to Mr Dransfield, exhibit 6.367.

EXHIBIT #6.367 SUMMONS TO MR DRANSFIELD

35

MR KIRK: Commissioner, there are three further statements of Mr Dransfield that I will seek to tender. Each of them have one or two minor corrections, so I will do it one by one, if I may.

40

THE COMMISSIONER: Yes, please.

MR KIRK: Starting with statement 4-19, Mr Dransfield, have you got a copy or the original – in fact, it's probably best to work off the original. Have you got the original of statement 4-19 to hand?---Yes.

45

Could you turn to page 38, please. And paragraph 96(b)?---Yes.

And I will just lead, if you don't mind, Commissioner.

THE COMMISSIONER: Yes.

5 MR KIRK: Do I understand correctly, Mr Dransfield, that that last documentary reference which is SUN.0793.1303.0029 should in fact be a reference to SUN.0704.0005.0023?---Yes.

And is that correction made on the original?---No, it is not.

10

Commissioner, do you want the correction made on the original?

THE COMMISSIONER: Yes, please, and if you could make it and initial it, Mr Dransfield, thank you very much?---Could I just ask you to take me through the number again, please.

15

MR KIRK: Yes, of course. It's SUN.0704.0005.0023. Did you get all that?---Yes, and I just struck out the other reference.

20 If you could initial that too, please?---Yes.

Subject to that correction are the contents of this statement true and correct to the best of your knowledge and belief?---Yes.

25 Commissioner, I tender that statement.

THE COMMISSIONER: Sorry, what date is it, Mr Kirk?

MR KIRK: Sorry, it is 13 June 2018.

30

THE COMMISSIONER: Statement of Mr Dransfield and its exhibits, statement dated 13 June '18 concerning Rubric 4-19, exhibit 6.368.

35 **EXHIBIT #6.368 STATEMENT OF MR DRANSFIELD AND ITS EXHIBITS, STATEMENT DATED 13/06/2018 CONCERNING RUBRIC 4-19**

40 MR KIRK: Mr Dransfield, if I could then go to – sorry, I should go back a step, Commissioner. When I said I tender that statement I meant to tender as well the exhibits referred to in that statement.

THE COMMISSIONER: Yes.

45 MR KIRK: Thank you. If I could then go to Rubric 4-39 which is a statement dated 24 June 2018. Have you got the original to hand there, Mr Dransfield?---Yes.

Could I ask you to turn to page 40, paragraph 110?---Yes.

And do I understand that you wish to delete the first seven words, namely:

5 *When no response was received from ASIC,*

?---Yes.

10 Could you please make that change and initial it on the original. Subject to that correction, are the contents of this statement 4-39 true and correct to the best of your knowledge and belief?---Yes.

I tender that statement and its exhibits, Commissioner.

15 THE COMMISSIONER: Statement of Mr Dransfield of 24 June '18 concerning Rubric 4-39 and its exhibits, exhibit 6.369.

20 **EXHIBIT #6.369 STATEMENT OF MR DRANSFIELD DATED 24/06/2018 CONCERNING RUBRIC 4-39 AND ITS EXHIBITS**

25 MR KIRK: Finally, Mr Dransfield, can I take you to a short statement dated 29 August 2018 headed Rubric 6-64?---Yes.

And could I ask you to turn to page 5, paragraph 16?---Yes.

30 And in the fourth line there's a reference to a manual review undertaken of 108 claims. Do I understand that should be a reference to 107 claims?---Yes.

Could I ask you to make that change and initial it, please?---Yes.

35 And then similarly in the following paragraph 17, second line, there's again a reference to the 108 claims. That again should be 107, should it?---Yes.

And finally, if I could ask you to turn to page 6, paragraph 19, at the end of the second line there are four words:

40 *With a CRC option.*

Do I understand correctly you want to strike out those four words?---Yes.

45 So if you could do that and initial it, please. Subject to that correction, is that statement headed Rubric 6-64 and dated 29 August 2018 true and correct to the best of your knowledge and belief?---Yes.

Commissioner, I tender that statement and its exhibits.

THE COMMISSIONER: Statement of Mr Dransfield of 29 August '18 concerning Rubric 6-64 together with its exhibits, becomes exhibit 6.370.

5 **EXHIBIT #6.370 STATEMENT OF MR DRANSFIELD DATED 29/08/2018
CONCERNING RUBRIC 6-64 TOGETHER WITH ITS EXHIBITS**

MR KIRK: That's Mr Dransfield's evidence.
10

THE COMMISSIONER: Thank you. Yes, Ms Orr.

15 **<CROSS-EXAMINATION BY MS ORR** [10.42 am]

MS ORR: Mr Dransfield, we heard that you are the chief executive officer of insurance at the Suncorp Group?---Yes, that's correct.

20 And you report to the chief executive officer and managing director of the Suncorp Group - - -?---Yes.

- - - Mr Michael Cameron?---Yes.

25 And you joined Suncorp in August 2009?---Yes.

Now, Suncorp's general insurance activities are carried out through AAI Limited?---Yes.

30 And you bear primary responsibility for the management of AAI?---Yes.

And AAI issues products through a number of different brands. Is that correct?---Yes.

35 37 different home and contents insurance products are issued by AAI?---Yes.

Using 13 different brands for the products?---Yes.

40 Now, some are issued through what you refer to in your statements as four mass market brands. Which brands are those?---AAMI, Apia, Suncorp and GIO.

45 And the remainder are issued through what you refer to as specialist brands which appeal to particular segments of the home insurance market. Which are the specialist brands?---So Terri Scheer Insurance is one of those, Vero, Shannons home insurance Newcastle Permanent, there are – I should add there are a number of those brands that are representative of particular channels to market as opposed to, perhaps, being completely specialised in – in home insurance.

Across all of those brands, AAI issued over two million home and contents policies last year?---Yes.

As it did in 2016 and in 2015?---Yes.

5

And last year, AAI received premiums of over \$2 billion from its home and contents policies?---Yes.

Again, as it did in 2016 and in 2015?---Yes.

10

Now, you've been put forward by AAI to give evidence about a number of topics. I want to start by focusing on AAIs complete replacement cover, building insurance policies, and AAIs handling of claims arising out of the fires at Wye River on Christmas Day in 2015?---Yes.

15

Now, other topics dealt with in your statements we will deal with separately. So can I start with the complete replacement cover product. Most of AAIs home and contents insurance products require a consumer to nominate a sum for which their home and the contents of their home will be insured. Is that correct?---Yes.

20

And they're known as sum insured products?---Yes.

But AAI has two types of home and contents products that are not sum insured products and, therefore, don't require a customer to nominate the sum insured?---If – if I could just clarify.

25

Yes?---Typically they are options.

Yes?---So the complete replacement dimension is an option with sum insured as the default for that product.

30

And it's an option on two of your products. Is that right?---Yes.

And they're both AAMI-branded products?---Yes.

35

They are the AAMI Building Complete Replacement Cover product and the AAMI Landlord Complete Replacement Cover product?---Yes.

Now, you refer to those two products in your statement as the CRC products?---Yes.

40

Now, AAMI hasn't – I am sorry, AAI hasn't issued complete replacement cover products through any brands other than AAMI. Is that right?---Yes, not in my time.

And the two AAMI complete replacement cover products cover damage or loss to a person's home for the total amount it would cost AAI to repair or rebuild the building. Is that right?---Yes.

45

Which means that there's no need for the customer to nominate any particular sum insured?---That's correct, for the building component.

5 Now, as you've explained, the complete replacement cover is optional cover with those products. Is that right?---Yes.

So the customer can elect when buying one of those products to have complete replacement cover with the product?---Yes.

10 Now, you tell us in your statement that since 2015, of the policies issued by AAMI where complete replacement cover was an option, the customer opted in to complete replacement cover just under 70 per cent of the time?---Would it be possible to refer to the relevant part of the statement?

15 Of course. That's paragraph 31 of your statement dealing with the complete replacement cover products. You have that statement there, Mr Dransfield?---Yes, I do, thank you. Perhaps the only clarification I – I would add to that is over the course of the – the period in which the – the relevant periods being described, the proportion of total building policies that have the CRC option have declined and my
20 recollection in percentage terms in the final full year period is around about 60 per cent.

Okay. So from this table it appears, on our calculations, to be just under 70 per cent. But you would qualify that in the way you've just stated?---In terms of the declining
25 - - -

That's right?--- - - - proportion over time, yes.

30 Yes. To bring it back down to closer to 60 per cent?---Yes.

Okay. Now, the complete replacement cover products were introduced by AAMI in September 2006?---Yes.

35 And they were the first products of their kind in the Australian market?---Yes.

And why were they introduced, Mr Dransfield?---There had been a – a significant bushfire in the Australian Capital Territory in around 2003 and ASIC, subsequent to that, undertook a review of potential under-insurance in home insurance – home buildings insurance in Australia. AAMI, which was not an AAI company at the time
40 – because this predated a merger – introduced that product as a way of helping to mitigate the risk of under-insurance in those kinds of scenarios.

45 And how does the complete replacement cover product help mitigate against the risk of under-insurance?---It – in first – in the first instance, it relieves the customer of selecting a sum insured, as you indicated earlier, and one of the dynamics that – that we do see in home insurance when customers are considering a sum insured and are – and are presented potentially with a range for – for sum insured from a building

calculator is – is that they can, in quite a high proportion of cases, tend to the lower end of the range in selecting the sum insured in part to, perhaps, manage premium and the price that – that they will be asked to pay. So – so firstly, in terms of the behaviour of the customer and the way the customer engages with selecting cover, and then secondly, in that there is not a capped sum insured applied at the point that a claim is made in terms of enabling a total replacement for that property, whether it requires complete rebuild or a substantial repair.

So as with your other home and contents policies, under the complete replacement cover policy, AAI can choose to either repair or rebuild a property or cash settle a claim. Is that right?---Yes.

And so for the complete replacement cover policies to be effective in reducing the risk of under-insurance, any cash settlements under those policies have to represent the true cost of repairing or rebuilding the insured home. Do you accept that?---Yes.

Now, in each of 2015, '16 and '17, we see from paragraph 31 of your statement that AAMI received over \$420 million in premiums from policies in which the complete replacement cover had been opted into?---Yes.

Now, before turning to the bushfires near Wye River on Christmas day in 2015 and how those bushfires affected your policyholders, I want to ask you briefly about how AAI deals with natural disaster events. In the period from 1 January 2013 to 30 April this year, Suncorp, you tell us in another of your statements, had received 89,158 claims arising from natural hazard events?---Yes, that's correct, the Suncorp brand.

The Suncorp brand had. And of those 89,000-odd claims, the vast majority were resolved solely or partly by a cash settlement?---May I refer to - - -

Yes?--- - - - the particular part of the witness statement?

That's Rubric 4-06 and paragraph 21 of your statement.?---Yes, that's correct, but may I just expand slightly on - - -

Yes, Mr Dransfield?--- - - - the partial cash settlement component of that.

Yes?---That can refer to scenarios where a – a small proportion of the claim is resolved with a cash settlement. And so, for example, food spoilage or it could be a small allowance for exploratory costs in – in assessing damage. So it can be, and often is, a small proportion of the total settlement.

I understand?---Though it's captured in partial.

I understand. But you accept that of those 89,000-odd claims, the vast majority were resolved either solely or partly by a cash settlement?---Yes. Can I just add – I should have added one further clarification – and I just want to confirm that that table – I'm

just trying to confirm that that is – yes, okay. So that will also include contents claims, which quite frequently are either partly or wholly cash settled.

I see?---So contents and buildings.

5

Now, does that include – do those figures include policies with the optional complete replacement cover offered by AAI?---No, it does not. This was in response to the specificity of the Rubric in relation to Suncorp Insurance.

10 Now, turning to the Victorian bushfires on Christmas Day in 2015, you tell us in your statement dealing with the complete replacement cover products that by 27 December 2015 – this is paragraph 36 of that statement, Mr Dransfield – 334 properties in the Wye River and Separation Creek areas had been affected by the bush fires?---Yes, that’s correct.

15

And 116 of those properties had been destroyed?---Yes.

And at paragraph 76 of your statement you tell us that AAI received 63 claims in relation to the fires?---Yes.

20

And 34 of those claims related to AAMI-branded products?---Yes.

Now, most of those were claims on policies with complete replacement cover?---Yes.

25

28 of the 34?---Yes.

Now, the majority of the claims received by AAI were resolved wholly or partly by a cash settlement. I will direct you to paragraph 78 of your statement, Mr Dransfield?---Thank you. Yes.

30

We see from paragraph 70 that the majority of claims about contents were settled within the first few weeks?---Yes.

35 And those claims could be settled relatively quickly because you generally didn’t require access to the affected site for those claims. Is that right?---Yes.

But the building claims, and some of the more complex contents claims, took longer to settle?---Yes.

40

And some took significantly longer to settle?---Yes.

So long that a Member of Parliament felt it necessary to intervene?---Yes, the Member of Parliament did – did intervene.

45

You tell us at paragraph 81 of that statement that on 7 November 2016, Sarah Henderson, the member for Corangamite, made a speech to Parliament in which she criticised AAMIs handling of insurance claims from the Wye River bushfires?---Yes.

5 And she published that speech on her website?---Yes.

And she made similar comments in an interview with ABC Radio the following day?---Yes.

10 And in your statement you identify five key criticisms made by Ms Henderson in her speech and in her interview which related to claims handling?---Yes.

Now, can I take you to some of those criticisms. The first criticism which you deal with in 82(a) of your statement was that in respect of:

15

... some of the claims made under complete replacement cover policies, nearly 11 months on they are still in dispute and after almost a year the time for talk is over.

20 Those were the words used by Ms Henderson?---Yes.

And you accept at paragraph 89 of your statement that there is justification for this criticism about delay?---Yes. If I may just expand briefly on that.

25 Yes?---I do accept there is some justification for what we call the general delay criticism component of the member for Corangamite's overall concerns. We did feel that we could have communicated somewhat better to our customers early on in that process but there were also a range of factors in relation to the general delay particularly where rebuilding was to occur under a complete replacement policy that
30 were a feature of the nature of the catastrophe and the environment in which it occurred.

It was initially estimated that any cash settlements under claims from the fires would occur within a few months by early to mid-March 2016?---That – that was certainly
35 our hope at the beginning.

And that if a home was to be repaired by AAI, the scope of works would be finalised and the cost of repairs would also be established within a few months?---Yes.

40 And those timelines were not met for the majority of the claims?---That's correct.

Could I ask that you look at SUN.0760.0901.1435. This is not an annexure to any of your statements, Mr Dransfield, but it will come up on the screen. Now, we see, Mr Dransfield, that this is a hot issues brief created by Suncorp's external relations team
45 dated 13 April 2016?---Yes.

You see that? So this is about four months after the fire?---Yes.

And when does Suncorp's external relations team create a hot issues brief?---If there is the potential or reality of significant media interest in a – in a particular aspect of the business operations.

5 Now, by the date of this document, which is 13 April 2016, we see from the table that 60 claims had been lodged under home insurance policies?---Yes.

This is for the Wye River claims. And only 13 had been finalised?---Yes.

10 And 47 remained active?---Yes.

And three had been withdrawn or rejected?---Yes.

I will tender that document, Commissioner.

15

THE COMMISSIONER: Hot issues brief of 13 April '16, SUN.0760.0901.1435, exhibit 6.371.

20 **EXHIBIT #6.371 HOT ISSUES BRIEF OF 13 APRIL '16
(SUN.0760.0901.1435)**

25 MS ORR: Now, you tell us in your statement that there were some factors outside AAIs control that contributed to that delay?---Yes.

And they included things like delays in obtaining council plans?---Yes.

30 And delays with the centralised demolition and clean-up of the affected areas?---Yes.

30

And delays in the provision of a bushfire attack level by the Colac Council?---Yes.

35 But leaving those external matters to one side, AAI accepts that it also contributed to the delays experienced by a number of policyholders affected by the Wye River fires?---I certainly agree that we could have communicated better. I don't necessarily agree that – or I don't agree that at that point our actions were the source of delay.

40 At what point, Mr Dransfield?---It – subsequent to this phase of the activity, the nature of the negotiation and interaction with the customers on complete replacement necessarily elongated the process, compared to a sum insured policy.

45 Right?---But, again, I feel on review of the chronologies of a number of the claims, that they were moving at a – at a pace that I would have expected, given the – the circumstances there.

So what were you referring to in paragraph 89 of your statement when you said:

There is some justification for the general delay criticism in relation to some claims made under the CRC option of AAMIs home building insurance product.

5 ?---I do think an element of the criticism was the way in which that context that – that we had been communicating with our customers and the frequency of that. So I do accept that – that that – that component of that part of the criticism is – is valid.

10 But that statement is not about communication, is it? That statement in the first sentence of paragraph 89 of your statement?---I – I did see and I do see the communication fitting more relevantly under that element of the member for Corangamite’s criticisms.

15 But you dealt with the communications separately in paragraph 91 of your statement. Do you see there where you said:

In relation to all claims there is more that AAI could have done to keep customers informed as to the progress of their claims, and in particular, the delays that AAI was facing.

20 ?---Yes, so – so as I was indicating, I – I do believe that the elements of communication are – are relevant to – to accept criticism on in relation to the customer’s experience of – of – of that process and what they would have been perceiving as – as delay.

25 Separately to your communications with customers, do you accept that – well, sorry, do you accept that AAI contributed to the delay experienced by some policyholders who held the CRC option, as you’ve indicated in paragraph 89 of your statement?---Not – as I said, not separate from the communication, no.

30 I see. So your acceptance is confined, even if this might not be clear from your statement – your acceptance of that criticism is confined to you could have done more to keep customers informed as to the progress of their claims?---Yes.

35 I see. Now, in paragraph 91 you say that you:

... could have done more to keep customers informed as to the progress of their claims, and in particular the delays that AAI was facing in completing the necessary steps to complete the scope of works necessary to form the basis of an agreement as to how to proceed, be it repair, rebuild or cash settlement.

40 ?---Yes.

45 So the scope of works was important because it was the basis of that attempt to reach an agreement with the customer. Is that right?---Yes.

- And that's particularly important for complete replacement cover policyholders who need to agree a scope of works before there can be discussions about whether you would rebuild or give them a cash settlement?---Yes.
- 5 Now, a second criticism made by Ms Henderson was that AAI was underquoting the cost of rebuilding?---Yes.
- And there was a further aspect to that criticism that AAI would only reveal to its policyholders the cheapest quote that it had received?---Yes.
- 10 And you tell us in your statement that you don't consider those criticisms to be justified?---That's correct.
- And you say that the scopes of work against which builders were asked to quote were developed by a professional building consultant?---Yes.
- 15 And then two quotes were obtained?---Yes, generally.
- Generally?---Yes.
- 20 And the quotes were reviewed to ensure they were sufficient and appropriate to complete the scope of works?---Yes.
- And then AAI selected one of those quotes which was sent to the customer for review and further discussion?---Yes.
- 25 And that might have been the lowest quote?---Yes.
- And assuming all the quotes were sufficient and appropriate to complete the scope of works, AAI accepted the lowest quote?---Yes.
- 30 And the lowest quote was the basis on which AAI would cash settle a claim?---Yes.
- And that quote related to the amount that it would cost AAI to repair or rebuild?---Yes.
- 35 And AAI's costs would likely be less than what it would cost an individual to repair or rebuild themselves?---I don't believe in all cases that would be the case.
- 40 And why do you not believe that, Mr Dransfield?---Builders inform their quotes in a range of ways. So it's – it's not always the case that – that a – that a customer's own builder quote will – will be higher than – than perhaps the lowest quote that we may receive.
- 45 But AAI receives volume and other discounts from those who prepare the quotes, does it not?---To some degree but could I just expand on – on that?

5 Yes?---In terms of materials which are, you know, a big part of a repair, the panel builders that we use will often use subcontractors that – that are local and who would be themselves, perhaps, providing the quote of choice to a homeowner if they were to source a quote locally. It is likely they will be sourcing materials in the same environments, or – or frequently would be doing so. So the material costs could be quite comparable. And as for labour and builders’ margins, they could also be quite comparable.

10 But do you accept that you receive volume and other discounts which are factored into the quotes which are provided to you?---Yes, occasionally, yes.

Only occasionally, you say?---Well, again, it’s relevant to the – the way in which a quote is formed by a range of builders. But I – I do accept that - - -

15 Generally?---Generally, yes.

Generally it’s the case that there are discounts factored into the quote that is sent to you?---Yes, generally.

20 But you don’t accept that that might result then in an underquoting of the cost for the customer to rebuild themselves pursuant to a cash settlement?---It could do.

25 It could do. Well, let’s take a look at how the quoting practices played out in practice in the Wye River claims. Can we go to tab 33 of your statement. That’s SUN.0760.0300.0120?---May I grab the folder?

Yes, yes?---Thank you.

30 Of course. Now, this was an internal status report on seven Wye River claims as at 22 November 2016?---Yes.

35 Now, of the seven Wye River claims listed in this document, which were all claims that had not been resolved at the time Ms Henderson made her speech, at least three of these policyholders had obtained their own quotes to complete the scope of works. Is that right?---Yes.

40 And in each of those cases, the quotes obtained by the individuals were considerably higher than the cash settlements offered by AAI. I can take you through the examples to make good that proposition, if that assists, Mr Dransfield?---Yes, thank you.

45 If we start at the claim referred to on the bottom of this page, we see from the first dot point that AAI had offered a cash settlement of about \$783,000. Do you see that?---Yes.

And if we look to the third dot point, the customer obtained their own quote of about \$833,000 from a local builder?---Yes, could I just clarify that it is noted that was in the form of a high level estimate based on square metreage of the home.

5 Yes, but you accept the difference between those two figures?---I do.

And if we turn to 0121 and we look at the first claim referred to at the top of that page?---Yes.

10 We see from the first dot point that AAI had offered a cash settlement in the amount of 499,000, approximately?---Yes.

And from the second dot point we see that the customers obtained their own independent quote based on the agreed scope of works, and that was in the amount of \$659,000?---Yes.

And in the sixth dot point we see that the customers had also felt frustrated about the fact that AAMI had refused to share to details of a second quote that it had obtained?---Yes.

20

And the second quote was subsequently provided and was in the amount of \$862,000, considerably higher than the 499,000 that had been offered as a cash settlement?---Yes.

25 And in respect of the second set of customers dealt with on this page, if we bring up the second half of the page, we see from the third dot point that for these policyholders, AAI had offered a cash settlement in the amount of \$677,000?---Yes.

And in the ninth dot point we see that those customers had obtained quotes from two local builders and a very high level estimate from another local builder, and that those quotes ranged from \$973,000 to \$1.1 million?---Yes.

30

So you accept that there were significant differences between the amounts offered in cash settlements to these three sets of policyholders and the amounts that they received in quotes from their own builders to conduct the works?---Yes.

35

Does that concern you, Mr Dransfield?---Yes, to the extent of the variation, but if I could just add that in the context of – of those sets of discussions, it was our expectation, as has occurred, that there would be a process with the customer to find out in the cases of a number of these from builders that they brought to the table, with a reconciled scope of works what – what they may be able to achieve this for themselves.

40

I just want to understand that answer a bit better. In each of these cases you offered a cash settlement - - -?---Yes.

45

- - - to the customers, based on an agreed scope of works?---Yes.

And the customers got their own quotes about what it would cost them to get that scope of works done, and in each of these instances it was going to cost them significantly more than the amount that was offered as a cash settlement?---Yes. Could – could I just add something?

5

Yes?---Sorry to keep doing that. In some of these cases, and – and I think in – in the one on the top of the document 121, there are items included in the quotes that we have relative to a scope of work that was put to the customer that were provisional sums based on some dimensions of the Wye River situation around a cost, a potential cost for, for example, stormwater and wastewater management solutions in a remote area, that – that were indicated as provisional sums. And the differential on those has been quite significant. So by virtue of the term “provisional sum” we were always expecting that they may be a different number that we would end up settling with the customer for.

15

But you don’t say that that is the sole explanation for the difference between the amounts that you offered in cash settlement and the amounts quoted by the builders sourced by the policyholders, do you?---No, no, I don’t.

20 All right. I tender this document, Commissioner.

THE COMMISSIONER: This is - - -

MS ORR: I apologise.

25

THE COMMISSIONER: It’s tab 33.

MS ORR: I apologise. This is an exhibit to your statement?---Yes.

30 Thank you. Now, those matters that you just raised in that last answer, Mr Dransfield, did those matters mean that it was not appropriate in AAIs view to proceed to offer a cash settlement until those matters were resolved, the storm drainage, I think, matter that you referred to?---We felt that it was appropriate to offer a cash settlement, but recognising that they were provisional sums and that they may have needed subsequent adjustment.

35

What does that mean, that the cash settlement sum was a provisional sum?---That component of the total number was a provisional sum.

40 And what happens then if the customer accepts the cash settlement?---In one of the cases where this – this situation created a reasonably significant difference between the provisional sum and the customer’s own quote, we invited the customer to – to bring back the details of that when they were moving forward with their own build. And it formed part of an adjustment of the – the settlement amount with the customer.

45

5 So it's up to the customer, having accepted the cash settlement, to then come back to AAI and say that, "Your cash settlement did not adequately cover a particular part of the works, and you need to revise it"?---In that context, and in that case that I – I've used the stormwater and wastewater management, we make it clear to the customers that it is a provisional sum and, therefore, it may be different, and – and so we do draw it to the customer's attention that that may create a scenario where we need to adjust upwards the settlement subsequently.

10 And they still need to come back to you and satisfy you that in relation to that component of the cash settlement you ought offer them more?---Yes.

15 Yes, I see. All right. Now, do you take the view, Mr Dransfield, that in making an offer to cash settle, an insurer has to act fairly and ensure that an insured is able to properly complete all necessary repairs with that cash settlement?---Yes.

20 And do you think that AAI acted consistently with that proposition in the treatment of these policyholders at Wye River?---Yes, I do. Could I just add, though, in many of these cases homes have not been subsequently built, so it is difficult for us to then form a view of the quantum of cash settlement relative to an actual cost of rebuild.

25 Well, another claims-handling criticism that was raised by Ms Henderson – this one not during her speech or her radio interview – but in meetings with AAI, was that Wye River policyholders were being pressured into cash settlements. Do you recall that criticism being raised directly - - -?---Yes, I do.

- - - by Ms Henderson. And in what circumstances did AAI ask policyholders affected by the Wye River bushfires to accept a cash settlement?---Can I just ask you to put that question again?

30 In what circumstances did AAI ask policyholders affected by the Wye River bushfires to accept a cash settlement?---In – in the circumstances of the negotiation that we were having with them about a resolution to their claim, there were some situations where we – we, I think, approached the Wye River fire and the way in which we believed homeowners may want to move forward based on our prior
35 experience of bush fires. And that is that many customers, many homeowners, particularly in tragic bushfires with loss of life, which I acknowledge Wye River was not, have a desire to take a cash settlement and sell their – their land and move away. So I – I think we had a mindset at the outset of some of these conversations that that would be a preference for the customer. Through the course of conversation, we
40 would understand with individuals where that was not their preference, and particularly in the case of a couple of separate elderly customers that – that had a strong preference for – for us to manage a rebuild. And so that – that process of – of understanding the customer's preference and understanding what we thought we could achieve for them was occurring over those months.

45 So is that - - -?---Predominantly in the second half of the calendar year.

Does that mean that your starting point was a cash settlement starting point?---No, not necessarily. But we did have a mindset that that may well be a customer preference, again because particularly in Victoria with the experience of the Black Saturday fires, and I think the thing we had not recognised and the differences in the
5 Wye River situation were there were fewer residents – permanent residents affected and more owners of holiday homes, holiday accommodation and investment properties, and so that necessarily factored into the – the homeowner, the policyholders’ thinking around how they might want to approach reinstatement.

10 The product disclosure statement for the complete replacement cover products gave AAI the ability to decide whether it would cash settle a claim it accepted. That was at your discretion. Do you agree?---Yes.

And what did AAI do if a policyholder didn’t want to cash settle and wanted AAI to do the work instead?---In the cases where the customers – the policyholders absolutely insisted that they wanted us to build and – as I said, the two that come most to mind are the two separate elderly customers, we then undertook the – the build for them. I think there were other circumstances where the – the conversation with the customer and the negotiation moved through phases of – of different
15 thoughts for the customer.
20

So you said that when the policyholders absolutely insisted you did go ahead and manage a rebuild?---Yes.

25 Now, the question of whether you were pressuring policyholders to accept cash settlements was one of the matters that ASIC ultimately looked into, wasn’t it?---Yes.

Now, ASIC became involved after Ms Henderson spoke with Minister O’Dwyer’s office, the then Minister for Revenue and Financial Services, and the Minister referred her allegations about the complete replacement cover products to
30 ASIC?---Yes.

And on 16 November 2016, a bit over a week after Ms Henderson’s speech, ASIC
35 requested a meeting with AAI?---Yes.

And that meeting occurred the following day?---Yes, I – I believe it may have been a telephone meeting.

40 It was a telephone meeting, was it? This is the meeting referred to in paragraph 105 of your statement?---I will just refer to that. Yes.

Yes. So you say in 104 that a meeting was requested, and in 105, at the meeting held on 17 November 2016. So you say that that was not an in-person meeting, that was a
45 telephone meeting, was it?---I believe so, based on my review of the – the note that indicated the agenda items.

I see. Now, the focus of that meeting was on the operation of the complete replacement cover products in relation to the Wye River fires, and on AAIs claims-handling processes?---In relation to the – the Wye River fires, yes, and the CRC.

5 Yes. And after that ASIC conducted an investigation into various matters?---Yes.

Now, I want to ask you about a number of aspects of that investigation, but staying with the concerns about the administration of the products for now, can I show you tab 47 to your statement, a letter that ASIC wrote to AAI in March last year as part of that investigation. SUN.0760.0302.0553?---Yes.

Now, when that – it will come up on the screen as well but you have it there, Mr Dransfield?---Yes.

15 And can I ask you to turn to 0554, the second page?---Yes.

Now, we see there that ASIC expressed concerns about elements of the claims process, particularly around the cash settlement outcomes for those with complete replacement cover policies?---Yes.

20 And at 0555 over the page, ASIC said that:

...its review revealed that there were Wye River claimants who specifically asked for a rebuild but AAMI continued to only offer cash settlement.

25 ?---Yes, I see that.

What's your response to that statement, Mr Dransfield?---I think at the – the point that the review was undertaken by ASIC that this document refers to, that there were still discussions ongoing with customers, and the file notes and the claims notes that I've referred to in preparing my statement and for today indicated a – in effect, a back and forth conversation with customers at that point.

35 But it appears that people who had been spoken to by ASIC indicated that they had asked for a rebuild but AAIs response was only to offer a cash settlement?---I'm not sure that ASIC physically spoke to anyone. They conducted a file review in our premises under a reasonable time pressure, but I can't – can't categorically say they didn't speak to anyone.

40 No. And you accept from this letter that this is the view that they formed?---Yes.

45 And we know that the vast majority of total loss claims under the complete replacement cover products are cash settled. Do you agree with that?---I have seen reference – I have seen ASIC make reference to that in documentation, but in material that – that I have seen, I don't see – I haven't seen reference other than in ASICs commentary, to – and evidence that we vastly disproportionately cash settled CRC.

So is it correct or not that the majority of total loss claims made under the complete replacement cover products are cash settled?---I can't – I can't confirm that at the moment.

5 You don't know?---I don't have that data with me, no.

Okay?---As we've responded to – to other statements we've responded in the context of the overall buildings, home buildings and contents portfolio.

10 But you've seen the references to ASICs views on that topic?---Yes, I have.

Which are that the vast majority of total loss claims made under the complete replacement cover products are cash settled?---Yes, I have.

15 All right. Now, if we go back to 0554 at the top of the page?---Yes.

We see that ASIC records here that information provided by AAMI under a notice – this is partway through that first paragraph - - -?---Yes.

20 - - - a few lines from the bottom of that paragraph, Mr Dransfield:

Information provided by AAMI under a compulsory notice stated that for all AAMI home building insurance policies with complete replacement cover where a total loss was settled during the period from 1 October 2013 to 22 November 2016, 146 claims or 81 per cent were cash settled from a total of 181 total loss claims.

25

?---Yes.

30 All right. Now, Mr Dransfield, does AAI have a preference for cash settlement for total loss claims under the complete replacement cover policies?---It – it's circumstantial. So it is not an overriding – an overriding preference to – to cash settle.

35 What are the - - -?---But I - - -

What are the circumstances in which the preference arises?---It – in part in responding to a customer request to cash settle or to – to – if they don't specifically request a cash settle but are wanting to build something different to the property that is the subject of the complete replacement that we would not seek to do that, we would seek to only replace the property to the same standard and size that it was. And it's often our experience that customers will seek to do something different when they reinstate than the exact building that was there.

40

45 Well, what are the circumstances in which AAI has a preference for cash settlement for total loss claims under these policies?---Certainly, one circumstance would –

would be that if we felt that it was going to be a particularly elongated period of time to – to achieve a – a repair because of the circumstances of the environment.

5 Any other circumstances?---If – if I think there will be occasions where in – in the nature of a negotiation with a customer where we don't feel that we can reach a resolution that's satisfactory to them around the way in which we would rebuild.

10 What about a resolution that's satisfactory to you?---Well, certainly commercially we want to achieve what we feel is a reasonable claims cost outcome for – for us and for the customer.

15 Could I ask that you look at SUN.0760.0901.5464. Not an annexure to your statements, Mr Dransfield. So it will come up on the screen. Now, when it comes up, you will see, Mr Dransfield, that it's an email chain relating to a meeting between representatives of AAI and Ms Henderson on 9 November 2016, two days after Ms Henderson's speech in Parliament. You've seen this email chain before, Mr Dransfield?---Yes, I have. Yes.

20 Now, if we could bring up the second page as well, we see that the first email which starts at the bottom of the first page was sent by Lisa Backhouse who appears to have been part of the meeting with Ms Henderson?---Yes. Yes.

25 What is Ms Backhouse's role?---Her role at the time was executive manager for government and public policy – government relations and public policy.

30 Well, what does that role entail, Mr Dransfield?---Two major things, (1) interacting with all levels of government around our – our business interface with – with government, but also, from a public policy point of view, with public bodies such as Treasury and the like around our public policy stance on topics in – in – of interest or of relevance to our various operations.

35 What is your business interface with government?---So we deal with all levels of government around policy matters, generally in relation to the industries that we operate in. So to understand government and opposition priorities at all levels of government. We deal in regulated products. And to – where matters are and opinions are sought from us to – to put our opinion in terms of those public policy matters.

40 So in the first part of the answer that you gave about the role involving:

interacting with all levels of government around your business interface with government"

45 you then went on to deal - - ?---It was a bit convoluted, sorry.

Well, you then went on to deal with policy stance. I'm just trying to understand if the business interface with government is about policy issues or something else?---It

can be policy issues or it can be matters such as – as the one that’s before us, where a matter of interest to somebody in the – in the political spectrum has arisen that we need to respond to.

5 I see. And are there instances where it is you, Suncorp, who is actively reaching out to the member of government rather than a Minister reaching out to you?---Yes, that can occur.

10 And in what circumstances does that occur?---Again – so if it were not related to a topic that was ongoing, that – such as this one that we’re talking about, it will be in relation to a – a public policy issue that – that is occurring or is likely to occur that we would want to put our – our view on.

15 And who do you put those views to in government?---Relevant Ministers, relevant Shadow Ministers, federally and state, and at a – at a local government level in relation to matters associated with planning. So, of course, we care as an insurer about land use and land planning, and so we’re – where a matter is of relevance that we can add to the public debate on, we seek to do that.

20 And what do you do to secure an audience with Ministers and Shadow Ministers?---It’s – it’s a request, usually by this – this avenue, this channel, the government – the government relations team. And then it is open to the – the other party to – to deny that request.

25 And do the requests tend to be accepted or denied?---A mix. Sometimes topics are not of as great interest to other parties as they are to us.

30 All right. Now, the second email in this chain which starts towards the bottom of the first page is from Michael Cameron, the CEO of the Suncorp Group on 14 November 2016. It’s an email to Mr Day who was then the CEO of insurance, the position you’re in now?---Yes.

35 And Mr Cameron was keen to resolve the issues raised by Ms Henderson and wanted to know why there was such a difference between “our internal story and what appears to be happening”?---Yes.

40 And then the final email, which starts at the top of the first page, is Mr Day’s response to the CEO of insurance on 14 November 2016. And in that response we see a few paragraphs down, in the paragraph starting “although”, that Mr Day told your CEO:

45 *We will put a bit more money on the table to finalise the claims where we need to. My sense is that all customers will take cash except for one. Our preference and contractual right is cash rather than full rebuild since customers invariably want to rebuild something different than what was there in the past which pushes timeframes and additional risks on to us.*

You see that?---Yes.

So you see the stated preference for cash settling claims in Mr Day's email to Mr Cameron?---Yes.

5

Is the preference for cash settling claims also informed by the fact that if AAI undertakes the repairs, it provides a lifetime guarantee on the repair work?---It can be. Could I just expand on that slightly? Particularly, and not so much in relation to a complete replacement of a building where this issue doesn't arise but it frequently arises with repairs and substantial repairs of properties after weather and event damage, the interaction between a potentially undamaged part of a property that we will not be repairing that has not been the subject of the damage caused by the event, and the damaged part that we're repairing, and the concern can often arise around the ability to warrant to provide the lifetime guarantee on the underlying work that we undertake while there may be another part of the property that could contribute to – to damage and – and trigger that – that warranty.

10
15

Well, leaving that qualification to one side, is the fact that you generally offer a lifetime guarantee on repairs conducted by AAI another factor that contributes to the preference to cash settle?---Could I frame that slightly differently?

20

We will see. We will see, Mr Dransfield?---I am sure you will let me know. My – my response to that is the lifetime warranty that we're very happy to step up to the lifetime guarantee in relation to builders that we know and select. And so, yes, there is a valid concern in providing a – a warranty where we are not selecting and appointing the builder and it's not a builder known to us. So I think that's a very long way of saying yes, it can – it can factor into the decision.

25

Okay. Now, I will tender this email chain.

30

THE COMMISSIONER: Emails concerning Wye River update Sarah Henderson meeting between 10.11.16 and 14.11.16 SUN.0760.0901.5464, exhibit 6.372.

35 **EXHIBIT #6.372 EMAILS CONCERNING WYE RIVER UPDATE SARAH HENDERSON MEETING BETWEEN 10.11.16 AND 14.11.16 (SUN.0760.0901.5464)**

40 MS ORR: Now, the five criticisms that you've identified made by Ms Henderson in your statement, as well as the additional criticism that I took you to about pressuring customers into cash settlements - - -?---Yes.

45 - - - can I ask you whether in addition to those concerns, in your view, there was any other aspect of AAIs handling of the Wye River claims that was problematic?---Is it okay to refer to that – that portion of the detail in the criticisms?

Yes. I'm asking you to think beyond those - - -?---Yes.

- - - matters?---Yes.

5 But the five criticisms you've referred to in paragraph 89 of your statement?---Yes.

82, I'm sorry?---Thank you. Could I just ask you to put the question again?

10 What I'm trying to understand is whether you believed there were any other aspects of the way AAI handled the Wye River claims that was problematic?---Yes, I do. I believe that we could have and should have been clearer with customers early in the process on the potential for – for – for the – the – a more elongated claims experience than – than if they were to have had a total loss with a sum insured. I think we did get ourselves into a claim process, and I – I don't think we recognised at the time that
15 we needed to give customers more of an understanding or a better understanding than we had done of those uncertainties and the – the way in which they could contribute to a longer time to – to resolution of their claim than – than others that were in their community might have been experiencing.

20 Are you aware that AAI sent home and contents policy renewal letters to policyholders whose properties had been destroyed in the fires?---Yes, I am.

25 And as a result, those policyholders were charged premiums for home and contents policies for properties that were destroyed and were no longer habitable in any way?---Yes, I am, and we should not have done that.

Your Group CEO, Mr Cameron, wrote to the Prime Minister about this, didn't he?---I believe that was a draft letter that was not sent but, yes, there is a reference to that in – in the letter of that tab.

30 The draft letter that was not sent. Is that right?---A letter that was not sent, yes.

All right. Could I take you to that document. It's SUN.0760.0301.1646?---Is that behind a particular exhibit or will you - - -

35 No, it will come up on the screen, Mr Dransfield. Is this the letter you're referring to, a letter dated 17 November 2016 from Michael Cameron to Malcolm Turnbull?---Yes, it is.

40 Why was this letter written?---I believe that the Prime Minister had taken an interest in the Wye River event over the – over the period it occurred in and around Christmas and the New Year of 2015 and 2016. And that also following, clearly, the – the interest that – that Ms Henderson had – had brought to this matter, that there
45 was a feeling that, perhaps, the Prime Minister might want to know what was happening.

So this letter was drafted for that purpose, to inform him?---Yes.

And why was it not sent?---I do not know.

We see from the second last paragraph of this letter:

5 *It has also been brought to our attention that regrettably policy renewals have been sent to customers whose properties were lost in Wye River. We will immediately refund the cost of those premiums and extend liability cover at no charge.*

10 You see that?---Yes.

And that:

15 *Customers with outstanding claims will receive a personal apology when we meet with them individually over the coming days.*

?---Yes.

20 Do you consider, Mr Dransfield, that requiring policyholders whose homes had been destroyed by the fires to continue to pay full premiums for close to a year, do you consider that that's conduct that would fall below the standards that the community would expect?---So can I respond to that in – in two parts? Firstly, the nature of an annual policy where it has been paid is that in the case of a total loss, that that would be exhausted and there should not be a renewal sent in the course of handling a total
25 loss claim. So in the – in the circumstance of the unexpired portion of the premium, I think it is appropriate for the policy to stay on foot until the claim is settled but I agree that sending those renewals beyond the point at which a policy was in force at the time of the fires was not appropriate and we should not have done that.

30 And you didn't just send the renewals. Premiums were charged to those customers?---Yes.

Do you accept that that was conduct that fell below the standards that the community would expect?---I do.

35 All right. Could I tender the draft letter to Mr Turnbull, dated 17 November 2016.

40 THE COMMISSIONER: That draft letter SUN.0760.0301.1646 becomes exhibit 6.373.

EXHIBIT #6.373 DRAFT LETTER TO MR TURNBULL DATED 17/11/2016 (SUN.0760.0301.1646)

45 MS ORR: Now, can I ask whether that conduct, the conduct of sending out the policy renewal letters and charging premiums under the new policies, was conduct

that was acknowledged in the correspondence to the Commissioner earlier this year to be conduct that fell below community standards and expectations?---I can't recall if that's specifically referred to in our voluntary submission.

5 Should it have been, Mr Dransfield?---If it is not there, it should have been, yes.

Thank you. Now, before I leave this topic, on 22 December 2016, AAI obtained a copy of ASICs initial – I'm sorry, of ASICs initial review that had been submitted to Kelly O'Dwyer's office on 16 December 2016. Is that right?---Yes.

10

How did AAI obtain a copy of that document?---I've made inquiries and my – my understanding – and I say I've made inquiries because the relevant staff member doesn't work with the organisation any more that was at the meeting, but I – I believe it was provided by a member of the Minister's office.

15

A member of Ms O'Dwyer's office provided that document - - -?---Yes.

- - - that she had received from ASIC to AAI?---That's my understanding, yes.

20 I see. Now, could I ask you to look at paragraph 46 – I'm sorry, tab 46 of your statement. SUN.0760.0301.1656?---Yes.

Now, is this the document that was obtained by AAI from a person – I think you indicated in Minister O'Dwyer's office?---Yes.

25

And we see that this document outlined further work that ASIC proposed to undertake?---Yes.

And at 1659?---Yes.

30

Do you see down the bottom of the page under Next Steps that this document from ASIC made clear that the action that ASIC could take in relation to the handling of claims was limited because claims handling is excluded from the definition of financial service in the Corporations Act?---Yes.

35

Now, Suncorp is aware that the handling of insurance claims is explicitly excluded from the definition of a financial service?---Yes.

40 You agree? And, therefore, that ASICs powers are limited?---Yes, in – in this respect, though I am aware there is a provision in the Insurance Contracts Act for ASIC to review claims management.

45 Is Suncorp aware that the Minister for Revenue and Financial Services has asked Treasury to undertake a targeted consultation of the merits of removing the exclusion of claims handling from the definition of financial services?---Yes.

And what is Suncorp's position on whether the handling of insurance claims should continue to be excluded from the definition of a financial service?---I can give you my perspective if – if that's okay because I've not - - -

5 I was hoping you could give me Suncorp's perspective, Mr Dransfield?---At this stage it's not a well-formed perspective inside the group. We've not had significant debate about the topic but as the CEO of insurance, my perspective should be somewhat relevant, I hope. And that is I'm – I'm quite open to it in – in the sense that if it were to improve consumer outcomes, that would be a positive thing. I have
10 not turned my mind to – and I believe we do need to turn our minds to the way in which there could be unintended consequence from that for the interaction between our claims staff and policyholders at the point of claiming. And if I may expand slightly on – on that.

15 Yes, please?---There – there are conversations and there are actions that occur from the point of lodgement of a claim through to conclusion between our – our staff and customers that I hope in many cases are helpful to – to the customer in trying to get to a satisfactory resolution of their claim. One of the potential consequences of that exemption being removed is that some of that activity could constitute financial
20 advice if it were to be brought into that aspect of the Corporations Act. So at this point, as I said, I have not turned my mind in detail to the implications of that, but it's – it's one that we should be alive to, I think, as an industry, and in relation to the – the – the changes that could cause for the – for the way in which insurers interact with customers at the point of claim, where I'm hoping many of the things that we do
25 and talk to our customers about are helpful but could fall under the scope of advice or dealing.

What are the sorts of things that you think – what are the sorts of communications that you think could constitute financial advice in the course of those
30 dealings?---Well, one area of concern could be where a customer asks should I – should I lodge this claim. You know, should I lodge it, relative to the excess. And perhaps it may be more relevant to motor insurance given the frequency of claims, and the volume of those relative to home insurance but it could equally apply to low value – or low impact home claims. So one could assume that could constitute
35 financial advice in the context of the Corporations Act, and – and it would be, I think, unfortunate if we were not able to have an open conversation with a customer about their particular circumstance in lodging that claim.

Are there any other sorts of communications that you think could constitute financial
40 advice. You've mentioned one, which is a response to the question: "should I lodge my claim?"?---As I said, I haven't turned my mind in detail to it but as I have thought in preparing for today that was one immediate consequence that came to mind. And – and I would – I would hope that we would examine the potential implications of those – those – those possible implications for – for the way in which
45 customers' claims are able to be progressed for them.

Could I show you SUN.1613.5008.3447. This is a Suncorp government industry and public policy report from June this year?---Yes.

5 Why are these sorts of documents created within Suncorp, Mr Dransfield?---They're a summary of the activity that is going on within the government and public policy team.

10 And who writes them?---The government industry and public policy team from within the corporate affairs function.

And could I ask you to turn to 3452?---That will come up?

15 It will, yes. And perhaps if we could have 3453 on the screen as well. We see down the bottom of that first page the heading Corporations Act Claims Handling Exemption?---Yes.

And we see there:

20 *Position: the claims handling exemption is critical to allowing insurers to communicate freely with customers at the point of claim (instead of being constrained by an advice model).*

?---Yes.

25 Now, is that Suncorp's position?---At the moment, it's – without having intently gone through all of the claims interactions we have, given that this is reasonably recent material, we haven't taken that as a formal position but, as I said, it – it occurs to me that it is one area of potential challenge.

30 All right. I will tender that document, Commissioner.

THE COMMISSIONER: Government industry and public policy report of June '18, SUN.1613.5008.3447, exhibit 6.374.

35

EXHIBIT #6.374 GOVERNMENT INDUSTRY AND PUBLIC POLICY REPORT OF JUNE '18 (SUN.1613.5008.3447)

40 MS ORR: Now, Mr Dransfield, another aspect of Ms Henderson's speech that was perhaps more fundamental than the five criticisms you've outlined in your statement related to the nature of the complete replacement cover product, and the promotional material about the product. Do you agree with that?---Yes.

45 And if we go to tab 28 of your statement, SUN.0760.0006.0015. We see - - -?---Sorry, that was 26?

28?---28.

Which is the speech published by Ms Henderson on her website. And if we turn to 0016 and 0017. You see that Ms Henderson said – this is from 0016 to 0017:

5

AAMIs complete replacement cover is meant to take all the worry away. In its promotional material it states, “If your home is damaged or destroyed by an insured event we will repair or rebuild it no matter the cost to us.”

10 Do you see that towards the bottom of the first page?---On 0016?

Yes?---Yes.

And then she said at the top of the next page:

15

The problem is AAMI will not rebuild the home itself. The policy does offer this discretion. And it is refusing to provide sufficient money to cover the cost of the rebuild.

20 ?---Yes, I see that.

Now, I want to take you to some of AAMIs advertising material about the complete replacement cover product prior to the Wye River bushfires. In May 2015, about six months prior to the bushfires, there was a targeted direct mail campaign to existing AAMI personal insurance customers?---Yes.

25

And you tell us that in the letter that was sent, AAI said:

30 *Plus, with our complete replacement cover you can have peace of mind that we cover the repair or rebuilding of your home if it is damaged or destroyed by an insured event, no matter the cost to us.*

That’s – you extract that in paragraph 33 of your statement, and if we could bring up SUN.1615.0001.0291, we see an example of the letter that was sent out. And if we turn to the second page of that letter we see the statement at the bottom of that page. Do you see that there?---Yes.

35

Continuing:

40 *You can have peace of mind that we cover the repair or rebuilding of your home if it is damaged or destroyed by an insured event no matter the cost to us.*

Do you see that right at the bottom above “good luck”?---Yes.

45 I tender that letter, Commissioner.

THE COMMISSIONER: How do I describe it, Ms Orr?

MS ORR: It's a sample letter sent to AAMI personal insurance customers in May 2015.

5 THE COMMISSIONER: That document SUN.1615.0001.0291 becomes exhibit 6.375.

EXHIBIT #6.375 SAMPLE LETTER SENT TO AAMI PERSONAL INSURANCE CUSTOMERS IN MAY 2015 (SUN.1615.0001.0291)

10

MS ORR: So this was marketing material designed to encourage existing policyholders who had not taken out the optional complete replacement cover to do so. Do you agree with that?---Yes.

15

Then in July 2015, about five months prior to the Wye River bushfires, the same sort of representation went up on multiple places on the AAMI website?---Yes.

And the home building insurance product part of the website said:

20

Wait, there's more. Optional extra: complete replacement cover. Our best protection against under-insurance with no set limit. We cover the rebuilding of your home no matter the cost to us.

25 ?---Is that on a particular exhibit that you could direct me to?

Yes, that's tab 58 to your statement?---Thank you. It's the third document behind tab 58, SUN.0760.0302.0656. Now, I'm going to come back to this document as we move through things, but we see that this is an - - -?---Thank you.

30

- - - infringement notice that includes the text of what was on the home and contents insurance product part of the website from July 2015. I'm sorry, the home building. I got that wrong. The home building insurance product part of the website?---Yes.

35 And we know that the home and contents insurance product part of the website said, if we turn to tab 58, fourth document in your witness statement:

40 *Option to upgrade to complete replacement cover. Our best protection against under-insurance. Again, if your home is damaged or destroyed by an insured event we will repair or rebuild it no matter the cost to us.*

?---Yes, I see that.

45 Then almost a year after the Wye River bushfires on the same day that Ms Henderson made her speech to Parliament on 7 November 2016, AAI had begun a new mass market radio campaign in relation to the complete replacement cover products?---Yes.

Now, I would like to play the radio advertisement for you now. It is SUN.0760.0302.0539. And could we display on the screen SUN.0760.0302.0540.

5 **RECORDING PLAYED**

MS ORR: So this was the radio campaign in respect of the complete replacement cover products that commenced on 7 November 2016?---Yes.

10 Now, could I ask you to look at tab 9 – I’m sorry, first I will – I’m sorry, I just wanted to confirm that both the recording and the document on the screen are in evidence. They are both exhibits to Mr Dransfield’s statement. Could I ask you now to look at tab 9 of your statement, which is SUN.0760.0302.0540?---Yes.

15 I’m sorry, it is what we have on the screen at the moment. What I want to put to you is that one of the key selling features in this advertising campaign was that:

We will repair or rebuild your house no matter the cost.

20 Do you accept that?---I agree it was a key feature, yes.

And around the same time AAI also introduced some search engine marketing?---Yes.

25 And if we turn to tab 13 of your statement, SUN.0760.0302.0538?---0538?

Yes?---Yes, thank you.

30 Which is tab 13?---Yes, I’ve got it, thank you.

We see that – we see a screenshot there of the search engine marketing:

AAMI home insurance complete replacement cover, rebuild your house regardless of cost if damaged or destroyed by insured event.

35 ?---Yes.

40 So the clear message of all this advertising material, both before and after the Wye River bushfires, was that AAI would repair or rebuild homes covered by the complete replacement cover product no matter the cost to AAI?---Yes.

And that wasn’t correct, was it?---It’s certainly incomplete.

45 It’s certainly?---Incomplete.

Well, it was not correct, was it, Mr Dransfield?---No.

As we've heard, AAI would not necessarily repair or rebuild homes covered by the policy. It could instead choose not to repair or rebuild those homes and to provide a cash settlement instead?---Yes.

5 Which may or may not be sufficient for the owner to pay someone else to repair or rebuild their home?---Yes.

Now, the message conveyed by the advertising was also incorrect because AAI would not rebuild whatever the cost, would it?---No.

10

There was a cost limit?---Yes, in – in terms of the costs that AAI felt was fair and reasonable in relation to the scope of work.

15 The cost limit was the cost to AAI of repairing or rebuilding the building on a new for old basis, wasn't it?---Yes.

So a misleading impression was given because AAI would not rebuild or repair irrespective of the cost?

20 MR KIRK: I object. If my learned friend wishes to put questions such as a misleading connotation being made, as a matter of fairness that needs to be done by reference to some specific representation in a specific piece of context. To do it generically in the way my friend is doing is not fair, with respect.

25 MS ORR: Well, with respect, Commissioner, I have taken Mr Dransfield to each of the forms of communication. If Mr Dransfield feels he needs to see each of those again to answer that question, then I can do that. But I want to put, based on the communications that I have taken you to in the letter, in the radio advertising, and in the search engine marketing, that a misleading impression was given because AAI would not rebuild or repair irrespective of the cost?---Yes, I agree in the absence of
30 review of the PDS, yes.

At around the same time, AAI continued to represent that the effect of the complete replacement cover product was that customers could not be under-insured. Do you
35 agree with that?

MR KIRK: I object.

40 THE COMMISSIONER: Well what's the basis of the objection, Mr Kirk, really?

MR KIRK: Sorry, Commissioner. I didn't mean to cut across.

THE COMMISSIONER: Yes.

45 MR KIRK: Because it's put as – a representation was made without reference to any particular representation. Again, that's not a fair question, I would respectfully submit.

THE COMMISSIONER: Mr Dransfield is not unskilled in dealing with these matters, Mr Kirk. At least I'm not yet persuaded that there's any unfairness in what's being done.

5 MR KIRK: If it please the Commission.

THE COMMISSIONER: Yes. Put the question.

10 MS ORR: At around the same time, AAI continued to represent that the effect of the complete replacement cover product was that customers could not be under-insured. Do you accept that?---Is there specific material you could direct me to?

There is – there is, Mr Dransfield. You're unable to accept that without the material. Is that - - -?---I would like to refer to the material if that's possible.

15 Let's look at SUN.0760.0301.1973. Now, this is another hot issues brief. Do you see that - - -?---Yes.

- - - Mr Dransfield? Created by the Suncorp external relations team?---Yes.

20 And this one was created on 8 November 2016, the day after Ms Henderson gave her speech?---Yes.

25 And if we turn – if we have 1973, as we do on the screen, we can see that the brief was sent to a number of people, including Mr Cameron, the group's CEO, and to you?---Yes.

30 And what was the purpose of this brief, Mr Dransfield?---To update a range of people internally on the – the nature of the – the criticism, in effect, from the member for Corangamite.

35 Now, if we turn to 1975, at the end of the brief there's a section entitled AAMIs Statement on Wye River Bushfires. Do you see that?---Yes, I will just read it quickly, if that's okay.

Yes?---Yes.

40 Was it intended that this statement be published?---In the sense that it was reactive to media inquiry, yes.

Was it in fact published, Mr Dransfield?---I believe it had – it may have been sent to the Geelong Advertiser but I don't know that – I do not know that it was published by the Geelong Advertiser.

45 It was sent to the Geelong Advertiser?---I believe so.

And we see that the third paragraph of the statement says:

The majority of AAMI customers at Wye River had purchased the optional “complete replacement cover” for their home policy. This provides full insurance cover meaning customers cannot be underinsured.

5 ?---Yes.

I will tender that document, Commissioner.

10 THE COMMISSIONER: Hot issues brief of 8 November '16, SUN.0760.0301.1973, exhibit 6.376.

MS ORR: I apologise, Commissioner, my mistake. That document is an annexure to one of Mr Dransfield's witness statements. I'm sorry.

15 THE COMMISSIONER: Then no need to mark it separately.

MS ORR: Now, from early on in ASICs investigation, ASIC was concerned whether the complete replacement cover advertising was misleading or deceptive, wasn't it?---It was one of their concerns, yes.

20 And ASIC issued a compulsory notice to AAI in November 2016 asking for production of the promotional and marketing materials for the products from 1 December 2014 onwards?---I believe so but could I, before confirming that, refer to the relevant part of my statement.

25 Yes, tab 41 of your statement is the compulsory notice from ASIC, SUN.0760.0302.0500. Do you see this was sent on 22 November?---I do.

30 And if we turn to 0506 we see the request from ASIC under this compulsory notice to produce promotional and marketing materials for the products for the relevant period, which is defined to mean from 1 December 2014 to the date of the notice?---Yes.

35 So from this point it was clear to AAI that ASIC was looking into the way in which it was marketing its complete replacement cover products?---Yes.

40 And you tell us in your statement that in early 2017 – this is paragraph 108 of your statement – AAI commenced a review of its marketing campaign for the complete replacement cover products to consider whether it should continue to market the product in this way despite the Wye River claims?---Yes.

45 What did that review involve?---There was a new potential TV advertisement that was being developed, TV and screens advertisement that was reviewed in the course of that – that activity, most particularly.

So was there a formal review process of the marketing campaign for the complete replacement cover products to consider whether they should – whether you should

continue to market the product in this way?---Not beyond the review of this particular TV advertisement that was proposed to be developed.

5 Well, let's – I'm going to come to the TV advertisement that was proposed. Is there anything outside of the consideration of the TV advertisement that constitutes the review that you're referring to in paragraph 108 of your statement?---I don't believe so.

10 And when did the review commence?---I think this specifically refers – this sequence of events – to activity in days leading up to the – 26 January.

15 Well, what happened, Mr Dransfield, was that towards the end of January 2017, days before AAI was set to launch a new TV advertisement about the complete replacement cover products to be screened during the finals of the Australian Open, it was decided that this might not be a good idea, given that ASIC was formally investigating AAIs advertising for the product?---Yes.

Do you agree with that?---I do.

20 So could I ask that you look at SUN.0760.0903.4940?---Yes.

25 We see an email here on 24 January 2017 your executive manager of external relations notified a number of people within the organisation that the new TV ad campaign would be launched in two days. Do you see that?---I do.

And she then received responses from a number of the email recipients indicating that this was not a good idea?---Sorry, I will just wait for it to come up. Yes.

30 The first said:

I think pushing CRC at a time when we haven't quite resolved matters at Wye River could be putting a red flag to a bull with Sarah Henderson. My recommendation is to wait until –

35 a particular policyholder's matter –

is resolved and there is no further recourse with ASIC on their review of CRC.

?---Yes, I see that.

40

And the second said:

45 *I was caught a little off guard by this and certainly not ideal. We need to balance running the business and managing this claim, but also political and regulatory challenge. My preference would be to hold off until at least the meeting with O'Dwyer, which also provides us with the opportunity to provide a "courtesy" heads up. Reinforces the need for this engagement quickly.*

?---Yes, I see that.

I tender that email chain, Commissioner.

5 THE COMMISSIONER: Emails of 24 January '17 concerning AAMI CRC ad, SUN.0760.0903.4940, exhibit 6.376.

10 **EXHIBIT #6.376 EMAILS OF 24 JANUARY '17 CONCERNING AAMI CRC AD (SUN.0760.0903.4940)**

MS ORR: And if we turn to SUN.0760.0903.4947. And we turn to 4948. We see on this page that Mr Edwards – who was Mr Edwards?---Mr – Mr Edwards at that
15 time was the executive officer for the chief executive of insurance.

The executive officer for the chief executive - - ?---Of insurance.

20 Of insurance. Your predecessor?---Yes.

Yes. So Mr Edwards said:

25 *Given we don't have the political and media angle covered on Wye River, Lisa and I think that we need to get our heads together on this and perform a risk assessment. Kristi, when is this ad going live and can it be postponed?*

Do you see that?---Yes.

30 And if we return to 4947 in this email chain, we see that Kristi responded. Who was Kristi?---The executive general manager for group marketing.

And Kristi responded with information about when the ad was due to go live, and she said:

35 *We also checked in with Julian on this specific Wye River issue who was comfortable for us to proceed.*

Do you see that?---Yes, I do.

40 Who was Julian?---The – the head of consumer portfolio management in the insurance function.

45 But we see above that Lisa Harrison – who was Ms Harrison?---Ms Harrison's substantive role is – at the time was as the executive general manager of operations in insurance, but at this time she was acting as chief executive officer of insurance.

I see, acting as your predecessor?---Yes, the incumbent was unwell.

Ms Harrison recommended that the ad:

5 ... be postponed balancing both business needs for home growth as well as the
current reputational risk given the Wye River claim, ASIC discussion and
government involvement.

Do you see that?---Yes, I do.

10 She said:

 I am particularly worried about the level of government and ASIC in our
overall business at the moment. The Wye River claims are one of many. We
need to make sure that we carefully manage our relationship with Kelly
O'Dwyer's office, as well as hold firm where appropriate.

15

What were the other ways in which government and ASIC were involved in AAIs
overall business at this time?---I think that's referring to just the range of public
policy matters that – that were on foot, and – and many of which continue to be on
foot for the insurance industry.

20

I will tender that email chain, Commissioner.

25 THE COMMISSIONER: Emails of 24 January '17 concerning AAMI CRC ad
SUN.0760.0903.4947, exhibit 6.377.

25

**EXHIBIT #6.377 EMAILS OF 24 JANUARY '17 CONCERNING AAMI CRC
AD (SUN.0760.0903.4947)**

30

MS ORR: Now, around this time Ms Henderson was calling for Suncorp to be
required to suspend sales of its complete replacement cover products until the ASIC
investigation was complete. Do you recall that?---Yes.

35 And that was a matter of great concern to Suncorp?---Yes.

And it sent representatives to Canberra to meet with Minister O'Dwyer's office to
discuss this in the Parliamentary sittings week in February 2017?---Yes.

40 And shortly after that meeting with Minister O'Dwyer's office, also in February
2017, Suncorp's Group Regulatory Affairs gave ASIC some of the marketing
materials? That's 109 of your statement - - -?---Thank you.

- - - Mr Dransfield?---Yes.

45

Now, if we go to tab 13 of your statement, SUN.0760.0302.0538?---0538?

Yes?---Thank you.

We see that AAI provided ASIC with current and proposed marketing materials for the complete replacement cover products?---Yes.

5

And the current marketing materials were the radio ad that I played earlier?---Yes.

And the search engine marketing copy, which I had on the screen earlier?---Yes.

10 And then AAI also provided ASIC with scripts of two television advertisements called Nan's Cave?---Yes.

And some email website and call centre script updates as well?---Yes.

15 And you've annexed each of those documents to your statement?---Yes.

Can I show you tab 10 to your statement, SUN.0760.0302.0542?---Yes.

20 This was the copy for the advertisement that was to go live in the finals of the Australian Open, the television advertisement?---May I just refer to my statement?

Yes?---It was 108, I think, wasn't it, you said? I can't confirm that this was the copy for the proposed activity on 26 January but I do agree that it is certainly a proposed copy for a campaign in March.

25

Yes. And does it seem likely to you that this was the TV advertisement that was planned for January 2017, or do you think another one had been developed since that time?---I - I don't know if there was a variation between what was the subject of that email exchange and this particular copy here.

30

So this was an advertisement about the experience of a man who was imagining what would happen if he didn't get home insurance for a granny flat and nan had to move into the main house?---Yes.

35 And the closing lines of the advertisement, before what's referred to here as the end frame and sting are:

*AAMI complete replacement cover can repair or rebuild your house as it was.
That's not very insurancey.*

40

?---Yes.

Now, could I ask that you look at tab 12 to your statement, SUN.0760.0302.0543?---Yes.

45

This was a document that was sent to ASIC containing proposed revisions to the email, website and call centre scripts?---Yes.

And if we look at 0548 we see text for the AAMI website for the CRC product page.
Do you see - - -?---Yes.

- - - towards the top of the page:

5

Once your claim is approved, we will repair or rebuild your house as it was before, no matter the cost.

You see that?---Yes.

10

And at 0550, we see text for the website for what is called quote flow:

We will repair or rebuild your house no matter the cost on approved claims.

15

Do you see that? I'm sorry, it's underneath that part of the page under the heading Complete Replacement Cover?---Yes.

20

So like the earlier advertising which AAI knew ASIC was investigating, the clear message of this proposed advertising and website text was that AAI would repair or rebuild homes covered by the complete replacement cover product no matter the cost to AAI?---Yes.

25

And this was sent off to ASIC for their consideration and comment on 20 February 2017?---Yes.

And you originally told us in your statement that when no response was received from ASIC, the revised AAMI marketing content was launched in early March 2017?---Yes.

30

But you've made a correction to your statement in the witness box this morning. You've deleted the reference to no response having been received from ASIC, because that was incorrect, wasn't it, Mr Dransfield?---Yes.

35

There was a response from ASIC?---Yes.

Do you agree? Can I show you ASIC.0027.0001.0559. This is an email from Suncorp to ASIC in response to the email attaching the marketing material. Do you see that?---At the bottom of the page?

40

Yes?---Yes. Yes, I do.

I'm sorry, the email attaching the marketing material we see at 0560 was sent on 20 February?---I think – yes. Thank you.

45

Do you see that?---Yes.

And then the following day, if we look at 0559, Mr Hyde from Suncorp followed ASIC up explaining that he had also left a voice message and:

5 ... was hoping to organise a meeting as swiftly as possible, given we have a fast approaching time imperative for the marketing campaign.

?---Yes.

10 And then the following day, 22 February, we see that ASIC sent an email in response?---Yes.

And ASIC said that:

15 *As Suncorp was already aware, ASIC was currently conducting inquiries into the existing promotional and advertising materials relating to the product, and that those inquiries have been focused on the existing materials. However, having viewed the materials sent through yesterday, we note that there are similarities in the messaging of the previous advertising materials and some of the new materials.*

20

Do you see that? That's at the end of the - - -?---Yes.

- - - first substantive paragraph. And ASIC said that:

25 ...it was unable to provide more specific advice but recommended that AAI consider the best practice guidelines in ASICs Regulatory Guide 234 and/or seek legal advice.

?---Yes, I see that.

30

That's a regulatory guide that relates to the advertising of financial products and services, isn't it?---Yes.

35 So it wasn't correct to say, as you originally did in your statement, that by early March 2017 AAI had not received a response from ASIC?---No, it was not.

40 ASIC had in fact indicated that it had looked at your revised marketing materials and that it considered they were similar to the very materials that it was investigating?---Yes.

40

But you pressed on in the face of this email and launched the new TV ad and the additional promotional materials?---Yes.

45 Why did that happen, Mr Dransfield?---My understanding is that there was a strong belief still that the material satisfactorily conveyed the way in which the product worked, and that there was a strong belief that it was a good product that should be communicated to consumers.

Suncorp knew that the material was being carefully considered by ASIC on the basis that it might be misleading or deceptive to consumers?---Yes.

5 Suncorp went ahead, I want to put to you, and launched this new advertising material because it was more concerned with a current business imperative to grow the home insurance portfolio than to ensure that its marketing materials were not misleading to its customers?---I – I think the business imperative certainly was the driver.

10 The business imperative trumped any desire to ensure that your marketing materials were not misleading to your customers?---At this point I think there was still a strong belief that the material was – was appropriate.

I just want to understand - - -?---But I accept your characterisation.

15 Yes. You accept that characterisation? Could I tender the email chain, Commissioner.

20 THE COMMISSIONER: Emails between 20 and 22 February '17 between AAI and ASIC concerning complete replacement cover marketing materials, ASIC.0027.0001.0559, exhibit 6.378.

25 **EXHIBIT #6.378 EMAILS BETWEEN 20 AND 22 FEBRUARY '17
BETWEEN AAI AND ASIC CONCERNING COMPLETE REPLACEMENT
COVER MARKETING MATERIALS (ASIC.0027.0001.0559)**

30 MS ORR: So Suncorp made a business decision to accept the risk that its new advertising would mislead customers and lead to further ASIC involvement because in its view that risk was outweighed by the potential reward of increasing sales of its home insurance products as a result of the advertising?---I – I don't agree with your words in the sense that – that Suncorp took a view that – that it would run the risk of material that was misleading, because I think the belief was at the time that it was not misleading and there was a strong belief in that respect that then drove the
35 confidence to – to launch the campaign.

40 How could you have certainty about that belief in circumstances where the material was sufficiently concerning that ASIC was conducting an investigation into it?---You could not have had certainty.

45 All right. Could I ask that you look at SUN.0760.0301.1680. This is an email chain between various people within Suncorp about the events at this time concerning the complete replacement cover product. Have you seen this email chain before, Mr Dransfield?---I have, but can I take a moment to – to read it?

Yes. Could we, perhaps, bring up the second page so that you can see the full extent of the first email?---Thank you.

There we have it?---There may be a third page, perhaps, to that.

Yes, there is. Would you like to see that as well, Mr Dransfield?---Yes, thank you.

5 So if we could have 1682 on the screen.?---Yes, I'm happy to go forward.

Thank you. Now, if I could take you back to the first page, 1680 – and perhaps we will bring that up in full with 1681 next to it. We see that the email on the first page is an email from Adam Hyde. We saw from the previous documents that Mr Hyde
10 was the person communicating with ASIC. Do you recall that?---Yes.

And this is an email from Mr Hyde to Tim Hernadi?---Yes.

15 And Mr Hernadi was the head of brand marketing at Suncorp?---Yes.

And in this email, Mr Hyde provides a summary of the issues relating to the complete replacement cover products at this time. And we see that he refers in the third dot point towards the bottom of the page to the radio advertising that was
20 launched on 7 November 2016 as being:

A key driver of business uplift at the time.

?---Yes.

25 So that advertising was successful. More people purchased the complete replacement cover following that advertising?---I've not seen data that confirms that but I take this at face value to be correct.

Yes. And then at 1681 Mr Hyde refers at the top of the page to AAMI:
30

... engaging the insurance business SLT and legal SLT.

Can you firstly explain what SLT stands for there?---Senior leadership team.

35 Thank you. So:

*...engaging the insurance business senior leadership team and the legal senior leadership team to determine business appetite to release the content in March, given the business imperative to grow the home insurance portfolio and to
40 approval being provided by the insurance business legal and risk to launch.*

?---I will just read that quickly, if that's okay.

45 Yes?---Yes.

You see that?---I do.

Further down he says, two dot points from the bottom:

5 *ASIC have reiterated throughout the engagement that they held concerns with the past advertising and the business was made aware of this and the potential for future action. This risk was accepted, balancing commercial risks and rewards.*

?---I see that.

10 So the new similar advertising was launched knowing of the risks of doing so and balancing commercial risks and rewards?---Yes.

I will tender that email chain, Commissioner.

15 THE COMMISSIONER: Internal Suncorp emails of October '17 concerning briefing note CRC ASIC issue, SUN.0760.0301.1680, exhibit 6.379.

20 **EXHIBIT #6.379 INTERNAL SUNCORP EMAILS OF OCTOBER '17 CONCERNING BRIEFING NOTE CRC ASIC ISSUE (SUN.0760.0301.1680)**

25 MS ORR: Now, having launched that new advertising material in early March 2017, AAI was contacted by ASIC. This is paragraph 111 of your statement?---Yes, in relation to the material produce under the notice in November.

30 Yes. And do you accept that between March and October 2017 ASIC and AAI continued to engage about ASICs concerns with the advertising of the products?---Yes.

And on 30 October 2017 you tell us in paragraph 125 of your statement that ASIC and AAI had a meeting to discuss the past marketing of the product?---Yes.

35 And ASIC expressed the view, as it had in the months of earlier engagement that I just referred to, that the advertisements contained false representations about the product?---Yes.

And did AAI maintain that the material was not false or misleading?---Yes.

40 Now, Suncorp's chief risk officer provided an update to the board about all of this in early November 2017?---Yes.

And you tell us in your statement at 126 that in that update the chief risk officer said:

45 *ASIC have assessed our responses to their request for information under statutory notices and a meeting is being scheduled to discuss their views and any actions they will take to finalise the issue. At this stage, we expect to*

receive a fine or an infringement for the previous advertising conducted via television, radio and internet regarding the AAMI CRC product. However, we will be maintaining our previous position that the statements made were not false or misleading to customers.

5

?---I see that.

And then a few days later on 6 November, ASIC issued four infringement notices to AAI?---Yes.

10

Did AAI have advance notice from ASIC that it was going to issue infringement notices?---Yes.

15

When did it receive that notice?---I believe it was in the meeting on 30 October.

And AAI had been engaging with ASIC for some time in an attempt to limit the size and severity of any enforcement action taken by ASIC. Do you agree with that?---I think you might be referring to a particular document.

20

I am?---Would you - - -

Yes?--- - - - take me there, please.

25

SUN.1613.5020.4086?---Is that an exhibit?

No it's not, Mr Dransfield. Perhaps if we – yes, I think it is this page that we see that language of attempting to” limit the size and severity of the enforcement action”. Do you see that in the email in the top half of the page?---Yes.

30

I will tender that email.

THE COMMISSIONER: These are internal Suncorp emails, are they?

35

MS ORR: Yes, they are, Commissioner.

THE COMMISSIONER: Suncorp internal emails 11 September '17 concerning briefing notes, SUN.1613.5020.4086, exhibit 6.380.

40

EXHIBIT #6.380 SUNCORP INTERNAL EMAILS 11 SEPTEMBER '17 CONCERNING BRIEFING NOTES (SUN.1613.5020.4086)

45

MS ORR: Now, can I take you to the first of the infringement notices issued by ASIC, Mr Dransfield, at tab 58 of your statement, SUN.0760.0302.0650?---Yes.

So we see this infringement notice related to the radio advertisement run on 7 November 2016. We see that from the particulars?---Yes.

We see the particulars state:

5

The representation was misleading because it gave the impression that AAMI would itself take the necessary steps to repair or rebuild a home when a claim was made and the advertisement did not disclose that AAMI could choose whether to organise and pay for a repair or rebuild of the insured house or to pay the cost of repairing or rebuilding the house to the insured.

10

?---I see that.

Now, this was said, we see from paragraph 2, to provide ASIC with reasonable grounds to believe that AAMI had contravened section 12DB(1)(e) of the ASIC Act by making false or misleading representations that services have particular benefits?---Yes, I see that.

15

And we see from paragraph 3 that the penalty imposed by this infringement notice was \$10,800?---Yes.

20

Now, could I ask that you look at the second document behind this tab in your exhibit, which is SUN.0760.0302.0653?---Yes.

This was the second infringement notice issued by ASIC. And, again, we see from paragraph 2 that ASIC said it had reasonable grounds to believe that AAI had contravened section 12DB(1)(e) of the ASIC Act?---Yes.

25

By making false or misleading representations that services have particular benefits?---Yes.

30

And the particulars make clear this infringement notice was concerned with the same representation as the first infringement notice?---Yes.

The only difference was that this representation was made in a radio ad that aired on 17 March 2017?---Yes.

35

And this was an advertisement that ran during ASICs investigation of the earlier advertising when you've said AAI was aware that ASIC had concerns about this style of representation?---Yes.

40

And this second infringement notice was also for \$10,800?---Yes.

And if we turn to the third infringement notice, SUN.0760.0302.0656, and if we could bring that page up with the fourth infringement notice which is SUN.0760.0302.0660. We see that ASIC also issued two infringement notices in

45

relation to false and misleading statements made on AAIs home building and home contents web pages from the period from November 2016 to July 2017?---Yes.

5 And the alleged false and misleading statements were said to convey an equivalent representation to those we saw in the first two infringement notices?---Yes.

And, again, the penalty attached to each of these infringement notices was \$10,800?---Yes.

10 And the total value of the four infringement notices was, therefore, \$43,200?---Yes.

And each infringement notice explained the consequences of complying with that notice? I will take you back to the first one, SUN.0760.0302.0650. And perhaps if we could have 0650 and 0651 on the screen?---Yes.

15

Just wait – I will just wait until those come up on the screen, Mr Dransfield. I want to direct your attention to paragraph 4:

20 *If you pay the penalty stated in this notice within the time for payment mentioned below, then no proceedings, whether criminal or civil, will be brought against you by the Commonwealth or ASIC for the alleged contravention of the infringement notice provision or an offence constituted by the same conduct and you will not be regarded as having contravened the infringement notice provision or having been convicted of an offence*
25 *constituted by the same conduct.*

?---Yes.

30 And we see at paragraph 6 that the maximum penalty that the court could order AAI to pay for the contravention in each of the notices was \$1.8 million per notice?---Yes.

35 And AAI paid these four infringement notices totalling \$43,200 about 10 days after they were received on 17 November?---I believe so.

And AAI did this despite having maintained throughout the ASIC investigation that it did not believe the advertising was misleading or deceptive?---Yes.

40 Does that remain AAIs position, Mr Dransfield?---Yes.

So why did AAI pay the infringement notices?---Because we felt that it was appropriate to – to meet the requirements of the – the regulator.

45 Why is it appropriate to meet the requirements of the regulator to pay an infringement notice for something that you do not regard as an infringement?---Because we respect the role of – of regulators and that was an

outcome of a – of a process with – with ASIC that as an organisation we would always deal with in – in that way.

5 You say you respect the role of the regulators, the total value of the infringement notices was \$43,200?---Yes.

You tell us in your statement that the total premiums received by AAI last year from AAMI policies with complete replacement cover was over \$426 million?---Yes.

10 So the cost of paying the four infringement notices was approximately, on our calculations, .001 per cent of the premiums received in that year?---I will accept your calculation.

15 Was AAI happy with this result of the ASIC investigation?---No. Not – not in the sense that irrespective of the size of financial penalty in relation to the infringement notice, that the reputational impact is – is significant of – of having a finding, irrespective of the fine.

20 What was the reputational impact, Mr Dransfield? Can you explain that to us?---Yes. ASIC makes public that this has occurred.

25 And what was the reputational impact of that being made public?---People conceivably will form a view about the conduct of – of that particular brand and the organisation.

I want to - - -

30 THE COMMISSIONER: Well, doesn't that suggest you fight it, if you believe you haven't misled and deceived? Doesn't the concern about reputation mean you get in there and fight for your reputation?---In – in this case, Commissioner, and generally, we take the view that, you know, we – we should pay the penalty and – and move on.

35 Because an alternative construction of these events might be that imposition of an infringement notice of one per cent of the available maximum penalty was, in the scheme of things, a very low cost of doing business?---Again, Commissioner, I accept what you say but I would add that the – the reputation impact is taken seriously by organisations like ours and – and boards and risk committees of boards take those matters seriously.

40 Thus, the payment of the infringement notices, you say, do you, led to – or may have led to a diminution in the gross premium income otherwise that would have been obtained by AAMI selling these products?---I – I can't say that that would certainly be the case, Commissioner.

45 Yes. Yes, Ms Orr.

MS ORR: Mr Dransfield, I want to put to you that as a result of and in the course of ASICs investigation, AAI got to continue making representations of the same kind that ASIC had been investigating for many months after the investigation commenced?---Yes.

5

It got to maintain its denial that it had done anything wrong?---Yes.

It got to avoid any court proceeding?---Yes.

10 And it only had to pay .001 per cent of its premium income from this particular product in a single year?---Yes.

I want to put to you that the balancing of the commercial risks and rewards in this situation, the language we saw from the email from Mr Hyde to Mr Hernadi, paid off for AAI?---I would say, and I will answer you – your proposition directly, but I would say that when you reference the premium income that’s associated with that particular product, the vast bulk of that would have been in force in – in the term which we say that insurance would have been in existence before the – the conduct that – that we’ve been discussing. So could I then get you to, sorry, put your question again.

20

I put to you that the balancing of the commercial risks and rewards, the language that we saw from the email from Mr Hyde to Mr Hernadi paid off for AAI here?---It’s not language I like, and – and in framing it that way, I think it does allow you to draw the conclusion you have.

25

Do you dispute that conclusion, Mr Dransfield?---Yes, I do, in the sense that, you know, the risk that is being spoken of is – is one that people genuinely believed was low in the context of a belief that they were not making the kind of statements that ASIC subsequently found.

30

What I’m putting to you is that that assessment of risks and rewards paid off here?---It’s certainly a normal commercial assessment, yes.

35 Mr Dransfield, at ASICs request AAI introduced a supplementary PDS to make the complete replacement cover product more transparent after these events?---Yes.

On 5 March this year AAI distributed the supplementary PDS?---Yes.

40 And it took effect from that date in respect of new policies and from 7 April this year for renewals?---Yes.

And there were three key terms in the supplementary PDS?---Yes.

45 We will bring up the supplementary PDS, which is exhibit – sorry, it’s tab 2 to your statement dealing with those matters. I’m sorry, it’s tab 2 of the same statement

we've been dealing with, SUN.0760.0200.0033. We see the three key terms that were introduced by the supplementary PDS in March this year?---Yes.

5 You say in your statement that all three terms reflected existing claims handling processes at AAI?---Yes.

And they were inserted to improve policy disclosures about these three matters at ASICs request?---Yes.

10 Can I just take you through those three terms. The first new term is an additional disclosure that if AAI rebuilds or repairs, it will choose the supplier?---Yes.

And the second new term was effected by inserting a paragraph about cash settlements?---Yes.

15

Continuing:

20 *If we decide to pay you what it would cost us to rebuild or repair, or if we give you a voucher, store credit or stored value card for what it would cost us, we will pay you or give you a voucher, store credit or stored value card for the amount that we determine to be the reasonable cost of repairing or rebuilding. The amount we determine to be the reasonable cost will be the lesser amount of any quotes obtained by us and/or by you for the rebuild or repair. Discounts may be available to us if we were to rebuild or repair.*

25

?---Yes.

And the third term introduced a definition of reasonable cost:

30 *Reasonable cost means the amount we determine. Reasonable cost is the lesser amount of any quotes obtained by us and/or by you. Discounts may be available to us through our suppliers.*

?---Yes.

35

Now, I just want to ask you some questions about the second and third terms. The second term deals with the amount that AAI will pay by way of cash settlement, and AAI believes, you tell us in your statement, that between 5 March and 14 August this year, there were 570 claims in which you may have relied on this new term?---Yes.

40

And AAI has received 18 complaints in respect of claims in which this term has been relied on?---May I just refer to the relevant - - -

Yes?--- - - - witness statement.

45

It's paragraph 19 of that witness statement, Mr Dransfield?---Yes, that was the one we amended earlier, yes.

Some of those complaints related to the scope and quantum of the cash settlement?---Yes.

5 Now, if we turn to the third term, we see that that term, as I've indicated, provided a definition of reasonable cost?---Yes.

10 Do you think it's confusing to use the phrase "reasonable cost" in this context when what AAI means is the lowest cost to meet the scope of works?---As I read the definition, we do get very quickly from the word "reasonable cost" to the lesser amount of any quotes obtained.

15 But you've still described it as reasonable cost. Do you think that's confusing?---I don't believe so. There are other references in PDSs across the industry to – to terms like reasonable cost.

15 Defined in this way?---Defined in – in a range of ways.

20 Of the 18 complaints that I referred to, four of them related to claims in which this definition of "reasonable cost" had been relied on?---Sorry, I'm just referring to the witness statement.

That's paragraph 26, Mr Dransfield?---Yes.

25 And you say that those complaints related to AAIs choice of quote for the purposes of determining reasonable cost for a cash settlement?---Yes.

30 Now, did AAI undertake any independent consideration to satisfy itself that these terms are fair to and appropriate to its policyholders?---Independent of the organisation?

Well - - -?---Sorry, you said independent.

35 I said independent because I'm conscious of your evidence that these changes were introduced as a result of communications with ASIC about the need to be more transparent about this product. So did you undertake any consultation – or consideration yourself at Suncorp to satisfy yourself that the terms were fair to your customers?---Did you mean they were outside the company or internally - - -

40 Either?--- - - - independent of that conversation with ASIC - - -

Independent of the views of ASIC is all I'm contending to convey, Mr Dransfield?---Okay. Certainly we – we had debate within the company. I don't believe there was any process of engagement externally to – to test that – that term.

45 And what were the discussions internally? What was the effect of those? Was it concluded that these are fair terms for your policyholders?---I think there were varying views internally, across a spectrum, but I do think in the context of this

interaction with ASIC on the SPDS there had been quite some debate internally around what the necessity was for – for that – that extra material in the – in the – that the SPDS introduced to the PDS.

5 We know from your statement that you're familiar with the proposals paper published by the Australian Government in June this year relating to the extension of unfair contract terms protections to insurance contracts?---I am.

10 And are you aware that the government has provided, as an example of a potentially unfair contract term, terms that look very similar to the second and third terms introduced in your supplementary PDS?---Yes, I – I'm aware of the – the proposed term.

15 Are you aware that the government has provided, as an example of potentially unfair contract terms, terms that are very similar to the second and third terms in this supplementary product disclosure statement?---Those that I've seen in the – so, yes, I'm aware of the terms. I was just trying to draw out the ones that I've seen in various Treasury documents in somewhat of a different form to these but the broad intent is the same.

20 The broad intent is the same. Does AAI accept that the introduction of the second and third terms in the supplementary PDS and the processes that are formalised by the PDS are potentially unfair to its customers?---No, we don't.

25 You're aware that the government's proposal paper indicates that examples of the kinds of terms that may be unfair include terms that permit the insurer to pay a claim based on the cost of repair or replacement that may be achieved by the insurer but could not reasonably be achieved by the policyholder?---Yes.

30 But you say these terms are not unfair?---I don't believe these terms are unfair, no.

In relation to the unfair contracts terms regime more generally, you express a view in your statement that there is no clear rationale for the extension of unfair contract terms protections to insurance contracts. Is that right?---Yes.

35 You say that extending the unfair contract terms framework would increase the underwriting risk borne by insurers?---Yes.

40 Without a commensurate enhancement in protection for consumers. Can you explain what you mean by that?---Yes. It's – probably quite a broad topic, but the foundation of insurance is the transfer of – of risk, and – and in transferring risk from individuals and businesses to insurers, we have a strong belief that there is a need for clarity that is brought by the Insurance Contracts Act to the contractual arrangements between insurers and insureds, so insurers and policyholders, and that the mechanisms that the Insurance Contracts Act provide along with the existing consumer protections, from – from the likes of FOS soon to be AFCA, we believe provide a sufficient level of protection for – for consumers without introducing

significant uncertainty for insurers in policy terms and for the reinsurance capital that – that we require to be able to run our businesses and provide insurance for consumers.

- 5 When you say that, as you do in your statement, and you have just now, that the current legislative framework provides sufficient protection for consumers, what are you referring to?---So we – I believe the Insurance Contracts Act and the protections available from a Corporations Act point of view requiring us to engage a dispute resolution framework for our – our policyholders provide protection and avenues for
10 – for consumers to challenge outcomes.

When you refer to the Insurance Contracts Act, are you referring to section 13 and the duty of utmost good faith?---Yes.

- 15 Are you referring to anything else in the Insurance Contracts Act?---Not specifically, no.

- Do you think that that duty provides sufficient protection for consumers?---I think it provides a – a level of protection combined with the – the dispute resolution
20 environments.

Combined with a dispute resolution environment?---Yes.

- 25 Are you aware of work done by the Consumer Action Law Centre in a review of 147 FOS determinations in which a breach of the duty of utmost good faith was relied on?---Not in detail but I'm broadly aware of it.

- You're broadly aware of that. Are you aware that of those 147 cases, FOS only found on three occasions that an insurer had breached the duty of good faith?---I – I
30 think I am aware of that, yes.

- And Consumer Action's view was that the duty of good faith was being overused by insurers in an attempt to deny claims and was not providing effective recourse in common consumer complaints. Are you aware of that view?---Yes.
35

What do you say to that view, Mr Dransfield?---Again, I don't agree with it in – in the context of the other work that FOS does dealing with dispute resolution for insurance policyholders.

- 40 What is that other work you're referring to?---So the dispute resolution that FOS broadly does. So irrespective of whether a complaint is made under utmost good faith or more broadly in policy terms, I believe FOS provides and AFCA will provide a very effective dispute resolution framework for consumers.

- 45 So there seems, in your answer, Mr Dransfield, to be very heavy reliance in your assessment of sufficient protection for consumers being placed on the external dispute resolution body. Do you accept that?---Yes.

Perhaps – I'm sorry for running over time, Commissioner. If that's a convenient time for a break.

THE COMMISSIONER: Yes. When do you want to come back?

5

MS ORR: I would like to come back at 2 o'clock, Commissioner, but I am sure you would prefer - - -

THE COMMISSIONER: I feared you might say that. 2 pm.

10

MS ORR: Thank you very much, Commissioner.

ADJOURNED

[1.08 pm]

15

RESUMED

[2.00 pm]

20 THE COMMISSIONER: Mr Costello.

MR COSTELLO: Commissioner, if it's convenient we propose to interpose Ms Bernadette Heald now who gives evidence in respect of a separate Rubric sent to Suncorp and answered by Mr Dransfield, and then Mr Dransfield will return to the witness box. I've spoken with my learned friend, Mr Kirk. He has some questions in re-examination for Mr Dransfield but if you're content for that to all happen at once at the end, Mr Kirk is content for that course.

25

THE COMMISSIONER: I am. Are you content with that course, Mr Kirk?

30

MR KIRK: Yes. I am, Commissioner.

THE COMMISSIONER: Yes.

35

MR COSTELLO: The witness is Ms Bernadette Heald.

<BERNADETTE JODIE HEALD, SWORN

[2.01 pm]

40

<EXAMINATION-IN-CHIEF BY MR COSTELLO

THE COMMISSIONER: Thank you very much. Do sit down. Mr Costello.

45

MR COSTELLO: Your name is Bernadette Jodie Heald?---Yes.

And you reside at an address that is known to the Commission?---Yes.

You are currently a student?---Yes.

5 And you attend today in answer to a summons served on you by the Commission?---Yes.

Do you have that summons with you?---Yes, I do.

10 I tender that summons, Commissioner.

THE COMMISSIONER: Exhibit 6.381, summons to Ms Heald.

15 **EXHIBIT #6.381 SUMMONS TO MS HEALD**

MR COSTELLO: Ms Heald, have you also prepared a statement at the request of the Commission?---Yes.

20

Do you have that statement with you?---Yes, I do.

I understand there are two corrections you wish to make to that statement?---Yes, there is.

25

The first is?---The date needs to be 30 August 2018.

That's the date that you signed the document?---Yes, it is.

30 Thank you. Could you make that correction and initial the change, please. And the second correction you wanted to make was to paragraph 32?---Yes.

And in that paragraph there's a document ID that's got one too many zeros?---Yes, it has.

35

Could you strike through that zero, please, and initial that change?---Yes.

Miss Heald, with those corrections are the contents of that statement true and correct?---Yes, they are.

40

I tender that statement, Commissioner.

THE COMMISSIONER: Exhibit 6.382 will be the statement of Ms Heald.

45

EXHIBIT #6.382 STATEMENT OF MS HEALD DATED 30/08/2018

MR COSTELLO: Ms Heald you're married and you and your husband have two children?---Yes, we do.

5 Both of your children have some health concerns?---Yes, they do. My eldest has received a heart transplant and my youngest suffers from some mental health issues as in anxiety and depression.

10 Did you have a house and contents insurance policy with Suncorp in 2015?---Yes, I did.

And what's the closest major city to where you live?---Newcastle.

And what's the region that you live in?---Hunter Valley.

15 All right. In April 2015 was your house damaged by a storm?---Yes, it was.

When in April?---21 April.

20 Could you describe the storm?---There was a lot of torrential rain, a lot of wind, and we had some minor flooding due to stormwater run-off.

And do you recall how much rain fell roughly in the 24 hour period?---Roughly about 440 mm.

25 All right. Did the storm cause damage to your house immediately?---Yes, it did. Our garage doors were blown in, our laundry was – back door was damaged because of the water, we also had the railings off our balconies blow off. Also a glass window was smashed as well. And we also had some gyprock issues and stuff.

30 Did you – you mentioned then that there was some flooding in the garage?---Yes, there was also some flooding in the garage as well.

35 Did you have much in the garage at that point in time?---We did. We had some building materials in the garage as we were renovating our house. So we had some – a kitchen that was due to go in. We also had some general items that you would store in a garage as well.

And did you make a claim on your insurance policy?---Yes, we did.

40 How soon after the storm did you lodge your claim?---The next day.

And how did you lodge your claim?---Over the phone.

45 And what was said to you in that conversation?---At that point in time, Suncorp advised us they would send out a building inspector to inspect the damage and that they would also send someone out to do a make safe.

Did they give you any idea how long that might take?---Not at that point in time because they had received a lot of calls for help.

5 All right. Someone did eventually come out, a building inspector?---Yes, we did.

Before the building inspector came out did you notice any more damage?---Yes, soon after we made our claim we actually had some brickwork that was above the entry way from our laundry to our garage actually smash in, too.

10 And that caused you some concern?---Yes, we did. Bricks normally don't just break.

And do you recall when the building inspector came out?---He eventually came out in May.

15 All right. And what happened when he came to the house?---He came out, he had an extensive look around, double-checked a lot of what was happening. He basically said to us that there – he had concerns that there were some issues with structural damage, and that it would need to be investigated. It was out of his league. He wasn't prepared to comment on that. So he suggested that he would go back to
20 Suncorp and recommend that a structural engineer possibly come out and investigate our home.

Are you aware whether that building inspector produced a report for Suncorp?---Yes, he did.

25 Did you get a copy of that report?---Yes, we did.

And when did you get a copy of that?---That was about the middle of May.

30 Thank you. Do you recall what the report recommended?---It recommended that a structural engineer come out and inspect our home. It also recommended that there was some neglect and some other prior issues that would also need to be inspected.

35 Do you recall if it made any recommendation about how your claim should be settled?---Not at that stage. He did mention there was a possibility of a cash settlement but he didn't go into any detail for that.

40 And what did you and your husband decide to do after you received that report?---We were pretty disappointed because we felt that there was a lot missing from the report, and that there was a lot of inaccuracies in it as well. So we decided then at that point to talk to some legal representation and that's when we spoke to Brenda Staggs at Legal Aid.

45 All right. And was it Brenda Staggs that explained to you that you might be entitled to temporary accommodation?---Yes, she did. She had concerns that our house wasn't safe either the same as what we did.

And were you aware that you might be entitled to temporary accommodation before you spoke to Ms Staggs?---We weren't exactly sure. We had an idea we might be able to but we weren't confident with that.

5 All right. A little later in May Suncorp sent another builder to your property?---Yes, they did.

10 And what did that person do?---That person originally came out to do part of the make safe. At that stage he only came and attached the balcony's – hand railings to the balcony. I asked him about the garage doors which were still not useable and creating an issue and he said he was only aware of balconies, he wasn't aware of anything else that had to be fixed.

15 And did Suncorp also send another building assessor?---Yes, they did. They also sent out Brad Hughes to come and look at the property too.

20 And what did that building assessor?---He – he walked around the building. He was there for quite a while. He double-checked pretty much what our assessor said. He had an idea that there was going to be needed some major repair works, and that, again, the engineer would need to come out and have a look and confirm but he felt that there would be some major repairs that would have to be take – undertaken to make our house back to normal.

25 When you say he spoke of an engineer, was that a structural engineer?---Yes.

And that was the second occasion that you had been told that a structural engineer would need to come?---Yes.

30 And did that building assessor have any views about whether the house was safe?---I did ask him if the house was safe and he said he couldn't exactly be sure. He said a structural engineer would have to have a look at it.

All right. Did a structural engineer come out to the house?---Yes, he did, yes.

35 And when was that?---That was probably about the end of May, and early June, roughly around that time he came out and he inspected. He was probably there for about half an hour. It was all sight. He didn't actually take any testing or anything. He took a couple of photos of my husband's phone and that was about it.

40 All right. The storm happened on 21 April. Between April and the end of May did you notice more damage to the property?---Yes, we did. There was more cracking in the gyprock, there was more cracking in the walls, and there was also the cracking to the floor slab because tiles had started to pop off in the laundry and we noticed a small hairline crack in the house slab and we would have some muddy water seep
45 through when we did have some more rain.

All right. And was that cracking making noise or - - -?---Yes, it was.

Did you only see it?---You could see it and you could also hear it.

Was that concerning to you?---Yes, it was. Because we had a consideration we were just really wondering if our house was actually safe to live in. It was really tough. It was probably after the first major brick broke that we had issues. Because of my daughter's anxiety she would wake up in the middle of the night terrified that her house was going to fall on her head. And it's very hard as a parent to actually tell her that it's safe and you don't know yourself.

10 All right. That takes us up to about the end of May?---Yes.

And there was some popping and cracking, you've seen some bricks breaking. Did you notice some more damage between June and July that you can recall?---Yes. There was also some damage to the support for the western wall. It was starting to come away slightly from its supports. So some of the mortar was being cracked there and we also had some other bricks that were breaking as well in the western wall. So there was gradually more and more especially with the Gyprock and some other things that were happening as well.

20 And by this point the structural engineer had attended?---Yes.

And did the structural engineer produce a report?---Yes, he did.

25 And did you receive a copy of that report - - -?---Yes.

- - - from Suncorp?---Yes, we received that on 11 June.

30 And what do you remember about that – the recommendations made in that report?---They were very confusing. There was no real details to say why our house was broken. It just didn't make any sense. It didn't give us any sort of answer. It just basically told us that there was some sort of issue, they weren't exactly sure what the issue was, and they also said that we would have to wait for our house to dry out. So six to 12 months and hopefully the house would go back to the state that it was in, and it would settle and then they would be able to do the repairs after that.

35 Do you remember roughly when you received that report?---That report, we did actually receive that on 11 June.

40 All right. I think it was also in June that your husband made a complaint to Suncorp?---Yes, we did, yes. That was around the 18th.

45 And what caused your husband to make that complaint?---Just sheer frustration in the fact that we had no real answers as to what was wrong with our house. We would get nowhere. We would ring up and we would have a different person every time we would ring up. And you would have to tell your story 15 times to try and get to someone that actually knew what was happening. Or you would ring up and you would be on hold for hours and then you would have to hang up anyway because

your call never went through. So there was no communication hardly. We were always chasing them. And we just got no answers. We felt like we were getting roadblocks the whole way.

5 All right. Did you give Suncorp some comments on the engineer's report that they sent to you?---Yes, we did.

10 And did Suncorp agree with what you said about the engineer's report?---Some points they did but generally no. They felt that there was a pre-existing issue. And they also felt there was other issues wrong – they weren't exactly sure what was wrong with the house. They just said basically it will go back to the way it was after the land dries out.

15 Would it be fair to say that you were fairly critical of the engineer's report?---Yes, we were.

Did you request another engineer?---Yes, we did. Just because we wanted answers.

20 And what did Suncorp say about that request?---They refused in the beginning. They actually did refuse. We said to them, you know, we have a broken house. We just want to know why it has happened and how we can move forward.

Suncorp eventually agreed?---Yes, they did.

25 That a second engineer could come out?---They did.

30 Do you remember when the second engineer came out?---He came out in early August and he was there for about two and a half hours. He went right over the property, and, again, he said yes, there is some issues. He was concerned that there was structural damage and that he was – he also said that it was definitely from the storm. So all of the roadblocks that we had had before saying that there was other issues, he said no, it's definitely storm-related and he said he would do up a revised repair list considering that the house was slowing disintegrating.

35 By this time you were obviously quite concerned about the safety of the house. Did you consider moving out?---Yes, we did. We couldn't actually move out. Because we're in a semi-rural area, there's not a lot of rentals. People come into your street and they buy and they stay. So it's very hard to get a rental anywhere. So we don't have any family either. Our family all live in Queensland. So we sort of didn't
40 really have anywhere to go. We're still paying a mortgage and we just couldn't afford to move out and pay a mortgage and also pay rent.

45 All right. Did you receive a copy of the report prepared by the second engineer?---Yes, we did.

And do you remember the recommendations or conclusions that were expressed in that report?---He basically said that we would still have to wait for the land to dry

5 out. And that the – that there was definitely more cracking. So they would have to possibly replace part of the house slab because that was the main issue that they felt in the laundry. So they wanted to replace part of the house slab, do the gyprock works and also fix some of the cracking in the brickwork, and – but do this after the land had still dried out.

10 And what did you and your husband think about those conclusions?---I was a bit concerned. I didn't think you could actually break a house slab and replace it. I thought personally, if a house slab is broken you replace the whole house slab because that's the foundation of the house.

Do you recall if Suncorp obtained quotes for the work that was recommended by the second engineer?---Yes, they did. They obtained two.

15 All right. That was all in August. Is that right?---Yes.

20 Then in September you contacted your solicitor again?---Yes, we did. We had actually had a couple more bricks break on the western wall and we were concerned because that's on the side of our neighbour's. We were actually concerned that some of the bricks could fall off and injure one of those kids that live next door. So we emailed them – I emailed Brenda and said, you know, this could be a health hazard. It could be a risk to people.

25 Do you recall receiving a quote from Suncorp in October for the work that had been recommended by the engineer?---Yes.

And do you remember roughly how much the quote was for?---Over 30,000 – just over 30,000.

30 All right. So this is October?---Yes.

About six months after the storm?---Yes.

35 And at this point in time were you satisfied that the cause of the damage had been identified?---It had partially been identified. But we didn't know the extent of the damage. And that was more of what we wanted to know, was how far the damage was. At least we had a partial answer that it was caused by the storm, but 30,000 to replace a part of a house slab and a bathroom when you don't know exactly what's happening underneath the house is – sounds crazy to me. You would need to know what exactly has happened so it doesn't happen again.

40
45 Do you remember what Suncorp's position was once it had received the quote?---As far as they were concerned they wanted to cash settle because they believed that that was the best way to do it because they couldn't guarantee that the repairs that the engineer had recommended and that the builder had quoted on was actually going to fix the problem. So that's why they wanted to cash settle for that amount.

So what did you say to Suncorp about the cash settlement proposal?---We said we didn't accept it.

5 Right. It was about that time that you lodged an internal complaint with Suncorp?---Yes.

And that complaint was lodged in October?---Yes.

10 And what was the outcome of that complaint?---The outcome of that was they agreed with us that Suncorp had handled our claim badly, and that they could have done better with their customer service but, again, they didn't actually go into any detail as to what was wrong with our house, and basically stuck with the view that that was enough. Your house is what it is and it's still cash settle. So we still got no real answers from them.

15 So what did you do after you received Suncorp's response to the internal complaint?---That's when I contacted our Legal Aid representative, Brenda, and I spoke to her and she said we can actually go to FOS and make a complaint, which Suncorp had already advised in their last email that we had from them as well.

20 Suncorp had advised about FOS?---Yes they had, yes.

25 Before Suncorp had advised you about FOS in that email, were you aware of FOS?---Not actually as such. We didn't actually know about their complaints really process either, but, yes, until they had actually said we didn't realise that was the next step that you could go to.

So with Brenda's assistance you lodged a complaint with FOS?---Yes, we did, yes.

30 Do you remember when that was?---That was the beginning of December.

35 And were you still speaking with Suncorp during that period?---Yes. We were still trying to negotiate something with them. We were still trying to at least get some sort of closure or some sort of an idea of what was still wrong. Suncorp actually offered us \$1000 compensation at that point in time, and we refused it because we felt that wasn't enough. We were already at almost Christmas time and we still had no answers. We still were living in a house that was broken and no one basically really cared. That's what we felt like.

40 So you rejected the \$1000 offer?---Yes, we did.

And what did Suncorp then do in response?---The next day they came back to us with an offer of 3000, provided we agreed to end the dispute with FOS.

45 And had you also requested that you be entitled to appoint your own engineer?---Yes, we did, yes.

With Suncorp meeting the cost?---Yes, we did.

And did Suncorp respond to that request?---Yes, they refused. But they did eventually, after the 3000 – after the offer of the 3000 they did eventually say yes,
5 well, we will fund you for an engineer.”

And what did you say in response to the \$3000 offer?---We accepted the \$3000 but we didn't accept the cash settlement and we continued with the FOS claim.

10 And you said that Suncorp agreed that you could appoint your own engineer?---Yes, they did.

And did you do that?---Yes, we did that in the middle of January.

15 Who did you appoint?---We appointed Burke Engineering, a local engineering firm.

And when did somebody from Burke Engineering come to your property?---They came out around the same time. So it was about the middle of January.

20 Thank you. And do you recall who it was that came out?---Yes, that was Peter McDonald.

And how long was Mr McDonald at your property?---He was there for two and a half hours. He had a really, really good look around. He wanted to do more testing. So –
25 because he wasn't satisfied that just looking at what he saw he could actually ascertain what had happened.

Did he give you any initial comments about his views?---Yes, he did. He basically said, from my understanding, is that the house was under load. So that meant our
30 house would rise up in the middle and sink down in the middle depending on what the water level was underneath the house was so that meant that the weight of the house on – wasn't distributed across the whole house frame. It was tended to be distributed on the two ends which was causing the damage. So that was causing the house basically on a seesaw effect and that's why bricks were breaking because it
35 wasn't an even distribution across the whole house.

Did he say anything about the foundations of the house?---He suggested that there was some issues with the foundations but again he couldn't exactly be sure what was wrong until after he did some testing.
40

And was there any particular testing that he thought was necessary?---Yes. He suggested that some geotechnical surveys and testing be done just to see exactly what was happening underneath the house.

45 All right. Once you had spoken with Mr McDonald did you contact Suncorp?---Yes, we did. We contacted them several times about the safety of the house because by this stage the house was really starting to fall apart. There was a lot more cracks

showing, and we really had concerns that you could sit there of an afternoon or a night-time and you could hear the whole place just moving. So we asked several times – I think at one point I even begged them to move us out because we were so concerned about our safety.

5

And what did Suncorp say in response?---Basically they said they wanted to wait for the reports to come back before they would do anything. So no, they wouldn't move us out. As for as they were concerned the house was still safe to live in.

10 And Mr McDonald wasn't in a position to write a report until the geotechnical investigations were complete?---That's right.

And was somebody appointed to do that work?---Yes, they were.

15 All right. In the meantime, while this was going on you were progressing your complaint in FOS?---Yes.

Okay. And when did the geotechnical expert come to your property?---He would have come probably towards the end of January, beginning of February. And he came and made his report and that's when we got our final full report through from them, probably a little while after that.

20

Do you remember – when you say from them, do you mean Burke?---Yes, from Burke.

25

Do you remember roughly when you got Mr McDonald's report?---We probably got that I think it was about – I think that was about the May, I think we got that. March or May that we got that through.

30 All right. And do you have a recollection of what Mr McDonald had recommended in his report?---He recommended that the house be knocked down and rebuilt. And he also recommended that temporary fencing be put up around the house so as to protect anyone from any other further bricks coming off the walls.

35 Did you agree with what he had said in his report?---Yes, we did.

And did Suncorp?---They did to a certain extent and they agreed to put the temporary fencing up. But it never happened because we basically said to them if you put the fencing up you have to move us out. If you put temporary fencing up as far as I'm concerned I don't think the house is safe. So why would you leave someone live in a house where there's temporary fencing all the way around it. How do we get access to it. And they weren't clear on it so Suncorp in the end wouldn't – they didn't put the fencing up at all.

40

45 Do you recall that in about June of that year an issue was raised by FOS about the maximum amount that could be awarded?---Yes.

And do you recall if you discussed that with your solicitor?---Yes, we did. The limit was \$309,000. And they wanted it raised just simply because there was more damage there, so to be able to knock down and rebuild the house 309,000 wasn't going to be enough. And Suncorp agreed to raise that limit because as far as they were concerned there was no issue to answer. We were basically at two ends of the scale.

All right. Do you recall when you found out that Suncorp had agreed to waive the cap?---That wasn't until October.

Thank you. And throughout that period had Suncorp at any point agreed with the findings of Mr McDonald in his report?---They didn't really agree with it, probably until towards the end. It – there was a – from what I understand there was a lot of toing-and-froing about the engineer's reports and subsequent reports were made because Suncorp's engineer, once we provided a report, they would do a report on that replying back and then they would ask for – Suncorp's engineer would ask for more information from our engineer and so then another report would have to be done and, again, Suncorp's engineer would report on that. So there was a lot of toing-and-froing but eventually in the end they did agree with it.

Eventually Suncorp agreed to move your family into temporary accommodation?---Yes, they did.

Do you remember when Suncorp agreed to that?---That wasn't until, I believe, early in January, February the following year.

That's 2017?---Yes.

Thank you. And did you manage to find somewhere to move the family?---We did eventually. It took a little while just simply because there is no rentals around our – our area. And we had actually negotiated with our neighbours to move into their property as they were going on holidays for an extended period. So we had to stay put for just a little while longer until we could move in.

All right. And do you recall when you moved into your neighbour's property?---We moved in there in April. We actually moved in.

And Suncorp agreed to pay the rent on that property?---Yes, they did. They agreed that in March. They agreed to \$400 a week but we had to privately negotiate that because Suncorp couldn't find any temporary accommodation for us in that area so they left it to us and we negotiated with our neighbours at \$450 a week because that was basically what they had been informed was a reasonable rate for their – for their house.

All right. At this time the dispute was still in at FOS?---Yes.

And what did you understand FOS's role to be? What was the question they were going to decide?---At that point in time the question was deciding exactly how much money we were entitled to. So Suncorp had agreed to at some point to pay our rebuild of our house but it was the ancillary, as in the temporary accommodation,
5 how much of that that we were able to – entitled to, mortgage discharge costs, and things like that. So just the little ancillary amounts after that.

So in an early – when the dispute first went into FOS, there was a dispute about the extent of the damage?---Yes.

10 And your view was the house needed to be rebuilt?---Yes.

And Suncorp's view was that the quotes it had obtained were sufficient?---Yes.

15 To meet the damage that was there?---Yes.

And after the various engineering reports had been prepared, and FOS had made some determination, the dispute in FOS then shifted to be one about the – some other costs?---Yes. Yes.

20 Thank you. Did you think the house needed to be rebuilt?---Yes, we did. It wasn't evident at the start in the first few months but then once the bricks really started to break and the cracks started to show and especially the floor disintegrating and the muddy water – groundwater actually flowing through the house slab we knew that
25 the house would have to be replaced.

And was it early 2017 that FOS agreed that the house needed to be rebuilt?---Yes.

30 And you were satisfied with that decision in FOS?---Yes.

And then it was a matter for you and Suncorp to agree on the amount that you would be cash settled for?---Yes.

35 And did you negotiate with Suncorp about that issue?---Yes, we did. There was a lot of toing-and-froing with that throughout 2018 – 2017, sorry. We eventually went through the process. We had put in an offer and they would supply a counter-offer.

And did you do that with the assistance of your solicitor?---Yes, we did.

40 Okay. Did you manage to come to an agreement with Suncorp about the costs?---We almost did, but in the end we had to go back to FOS to say – to get a final figure because Suncorp were still refusing to pay for some of the important costs, as in temporary accommodation was our big sticking point.

45 So this is the point that you were making a little earlier, the dispute went back to FOS, this time about the dollar figures?---Yes.

Thank you. Do you recall what offers you made to Suncorp?---Yes.

And do you recall the offers Suncorp made to you before it went to FOS?---Yes, we do, yes.

5

What was your best offer to Suncorp?---Our best offer to Suncorp was 721,000.

And what was Suncorp's best offer?---Their best offer at that point in time ended up being 635,000.

10

Okay. And before Suncorp had offered 635,000 in the earlier dispute before FOS made its first determination, the offer was about 30,000?---About 30,000, yes.

Thank you. And in the end what did FOS determine?---In the end, FOS determined we ended up with just over 744,000.

15

You were happy with that result?---Definitely, yes.

And do you recall when it was that FOS made that determination?---That was in – 19 January this year.

20

So that was 19 January this year. This storm happened on 21 April 2015?---Yes.

Where are you living now?---I'm still in temporary accommodation at this point in time. Because it took so long for the whole process to go through, we lost our builder that we had lined up to do the work. So we basically had to start from scratch again with a new builder and providing all the documents and picking a new house and – and whatnot. So it took a lot longer than what we expected. And it also took longer because we needed the money to be able to start the rebuild and because we were being paid in dribs and drabs and bits and pieces we took a little bit longer to actually start the rebuild.

25

30

Have you started the rebuild?---Yes, we have.

When do you think it will be finished?---Hopefully by early next year.

35

All right. Now, just reflecting on the process, how would you describe this experience – how would you describe how this experience has been for you and your family?---Stressful and frustrating. I have never hit so many roadblocks in all my life. And if we hadn't had Brenda on board, our legal lady, we wouldn't have been able to get where we are today. We would still be left with no house. The fact that they left us to live in a house for over two and a half years that was broken which they knew about and we had two special needs in the house, two special needs kids which they knew about right from the word go, was atrocious. It was such a strain on everyday life and everyday life still goes on. You can't stop that. And the added stress from that of having to live in a house that was just constantly breaking, it was really tough.

40

45

Was there any particular aspect of dealing with Suncorp that you found particularly difficult?---Trying to have to talk to a – five different people at once. Every time you would ring up – there was never actually one point of call until right towards the very end. It was always you would ring up because you wouldn't have a direct number
5 generally, you would have to ring up through the call centre. So then you would have to explain to the first person what happened and you would go through it. Then they would put you on to someone else, then you would have to explain to that person, and that person would go “That's out of my league, okay, I need to put you on to someone else again.” And you got that every single time you rang up. And it
10 was just really hard. At a time when you're already trying to keep on track of what's happening in your family and you've had a natural disaster, you know, life is not at a normal pace and you're having to do this. The other thing was the fact that we had to chase them every step of the way, and that there was just no help. That's what Suncorp was supposed to be for. They were supposed to help us and we got nothing.

15 Do you think that you could have navigated the process with Suncorp without the help of a solicitor?---No way. No. Every time we had an issue we had to ring Brenda. And that's the only time we really rang Brenda was when there was an issue. When we were struggling to get the claim moving again or if they had put
20 another roadblock in our way that's when we would call Brenda and say please can you help us.

Do you think you could have navigated the FOS process without the assistance of a solicitor?---Definitely not. There was a lot of times there – we probably maybe
25 lodged our claim a bit late in the year for the first time with FOS, so it was sort of early December when we lodged the claim the first time, and then FOS sort of went on holidays for Christmas, which I get that. But without Brenda there doing the toing-and-froing, it was really hard to keep track of Suncorp and all the documents that they were flooding us with, and it was counter-offer and report offer and you
30 sort of didn't know which way was up sometimes. So without Brenda we wouldn't have been able to keep track of anything that's going on.

And why have you decided to give your evidence in the Royal Commission today?---I have elderly neighbours that live near us. If this had happened to them
35 they wouldn't have made it through this. They would have taken the 30,000 and they would be left with no house, literally nothing. That's basically what could have happened to us. We can't afford to be left with nothing. Same as these people. You know, we've paid our taxes, we've done everything right through the year. We had home and contents insurance as you're supposed to so when a disaster happens
40 they're there to help you. That's what you have insurance for. And if that had happened to them, these poor people would be out on the street. They would have literally nothing. We had no option. We had to see this through because we would have had nothing as well. And then I wouldn't have been able to provide a house – a roof over my kids heads. A basic right. It's what you're entitled to. You're entitled
45 to have a safe home and that's what you have insurance for.

Commissioner, I have no further questions.

THE COMMISSIONER: Thank you. Yes, Mr Kirk. Thank you very much, Ms Heald. You may step down.

5 <THE WITNESS WITHDREW [2.36 pm]

THE COMMISSIONER: Yes, Mr Costello.

10 MR COSTELLO: Commissioner, Mr Dransfield can come back into the witness box.

15 <GARY CHARLES DRANSFIELD, ON FORMER AFFIRMATION [2.36 pm]

<CROSS-EXAMINATION BY MR COSTELLO

20 THE COMMISSIONER: Now, have you got the necessary papers in front of you, Mr Dransfield, or access to them?---I think I have, Commissioner, thank you.

Yes. Yes, Mr Costello.

25 MR COSTELLO: Thank you, Commissioner.

Mr Dransfield, I'm going to ask you some questions to begin with, at least, connected with the Heald's claim, and you've sworn a statement in respect of a Rubric sent to you dealing with that matter?---I have.

30 In the course of preparing your statement, you've no doubt had regard to a very large number of documents concerning the Heald's claim?---Yes.

35 You're a past president of the Insurance Council of New Zealand?---Yes.

You're the deputy president of the Insurance Council of Australia?---Yes.

You now run one of the country's largest general insurers?---Yes.

40 And you've heard the evidence of Ms Heald?---Yes.

45 Answering as succinctly as you're able, how did Suncorp get this so wrong?---Before I do that, may I just say one thing in response to Mrs Heald's evidence. As you say I've looked at a lot of material for the preparation of the witness statement and the associated exhibits, but seeing the witness – the person that's affected by it – and I won't even say claimant because I think that depersonalises it – give evidence puts a human face on what happened, how we failed the Heald family, and for that, you

know, I'm sincerely sorry to the Healds for the impact on them. How we failed them in summary, I think too many people were involved in the claim and in Mrs Heald's matter, as she said. We had a team managed model at the time and it did not work and it failed the Healds. We were insufficiently compassionate to their situation. I think we failed to recognise in the context of the event that had happened, where there were very, very few total loss homes, we had about nine out of 28,000, that that could happen to a home. And as a consequence, I think we got into an entrenched position that it was difficult for individuals to dig themselves out of and to dig the organisation out of.

You're aware the story is long and it's drawn out. It commences in April 2015 and it continues through until about January 2018?---Yes.

And I don't intend to take you through every aspect of the claim today or Suncorp's response, but I just want to identify some key moments in the course of the claim handling - - -?---Yes.

- - - if I may. You're aware that the claim was made very soon after the storm event?---Yes. Indeed, within a day.

And Suncorp had a lot of claims made as a consequence of this storm?---Yes. So if I - if I answer in respect of AAI which is the broader insurance entity we had 28,000 home claims and around about 3000 motor claims from the east coast low, and then subsequently on Anzac Day, about four days later, a hail storm and some more bad weather across parts of New South Wales.

The claim was made about 22 April. By 19 - - -?---Yes.

- - - May the Healds had obtained the services of a solicitor at Legal Aid?---Yes.

And you have exhibited to your witness statement - it's tab 88 of your witness statement - an email that that solicitor sent to Suncorp on 19 May. And I just want to briefly take you to it. It's SUN.0702.0002.4578. And perhaps that - - -?---I've got page 4578.

The first page and the second page could be put on the screen, please. You can see at the foot of the first page there's the email from Brenda Staggs to Juliette Mansted at Suncorp?---Yes.

And it notes that it's regarding the Healds. And reads:

Following the recent severe weather, the insured garage was inundated with water. The impact of the water was enough to blow both garage doors in and damage various contents in the garage. After the storm, there was a loud crack and a moan in the building and a window in the house popped out. The insured lodged a claim the day after and informed this insurer about all of these details. The insured was advised that someone would come out and advise

them if the house was safe but this never occurred. A building assessor did attend, however, informed the insured that the matter was out of his league. And I understand that a structural engineer is to attend on Friday.

5 *The building assessor apparently made some comments in his report about the condition of the house. However, the insured informs me that while there are some internal updates being done as well as updates to balconies being contemplated, the house was structurally sound. To date, no one has informed the insured whether the home is safe to live in. The insured is also the mother*
10 *of two school-aged children with significant special needs, in particular her 14 year old is a heart transplant recipient and her eight year old suffers from anxiety. Bricks continue to pop out of the house and I am concerned about the insured's safety in this regard.*

15 You see that?---Yes.

So from this point in time, which is close to a month after the claim, Suncorp was aware that the make safe hadn't occurred, that the family faced some particular difficulties, that the family were concerned about their safety, and at least from the
20 solicitor's perspective, temporary accommodation might be appropriate and you can see that from the very first line on the first page where the solicitor says:

This might be one for urgent temporary accommodation from what I can gather.

25 ?---Yes.

Suncorp was aware of all of those things on 19 May 2015. What should Suncorp have done when it received that email?---At that point we should have ensured that,
30 firstly, that make safe was completed, and completed to the satisfaction of the – the Healds. We should have had an engineer there as soon as possible to assess the safety of the home and the liveability of it and we should have been discussing temporary accommodation options for the Healds.

35 Do you accept that insurers often become involved in the life of a policyholder at a particularly sensitive or difficult time?---Yes, I do.

And that policyholders are entitled to think that if they've done the right thing and if they've paid their premiums, they've got – if they've got a legitimate claim, the
40 insurance company will be there to assist them?---Yes, even if they haven't got a legitimate claim we should be compassionate and engage appropriately.

Thank you. Between May and October there were various steps taken, and various delays. I want to skip forward to October. On 19 October Ms Staggs again emailed
45 Suncorp – and I will take you to a document – it's not one that's found in your statement. It's SUN.0703.0001.0885. You see this is an email from the same solicitor to some different people within Suncorp?---Yes.

5 *Dear Michael and Don, I refer to my previous emails. The insured has once again expressed concern about the delays. The house is moving. Cracks are appearing all over the house and in particular there is a wall in the lounge room in the kitchen that needs to be replaced. And the insured is concerned that his wall may fall on them or on the neighbour's property causing damage and injury. The insured and their neighbours often have children playing outside who may be at risk. If you could look into it and give me a call, that would be much appreciated.*

10 The reference here by a solicitor to the policy owner being concerned that a wall might collapse is a very serious matter, isn't it?---Yes.

15 And what should Suncorp have done at this point in time having received this email?---Given that this was, I think, after the round of engineering reports had been concluded that began – and I think concluded around about 5 August – again, I think we should have taken Mrs Heald's concerns very seriously around temporary accommodation. We should have had an engineer go and review the property again for safety. And we should have advanced the claim and – and her matter with considerable haste.

20 Is emergency accommodation a matter that somebody handling a claim within Suncorp would be concerned about approving because of the cost?---Generally not. I mean there is clearly a cost to it. But in our event response model, you know, there is a – a very clear provision for emergency accommodation and – and oftentimes
25 people need it with great haste. So that should not be a barrier, cost to – to resolving that for a customer.

30 And what about the cost of engineering reports?---Look, if it's – if it's a relevant cost to assess a claim and to resolve how to solve a claim and come up with a – a building solution, then it's an appropriate cost.

35 And in terms of how the claim was being managed at this stage – I think you said early in your evidence that you had a team model?---Yes. And I think that's consistent with Mrs Heald's evidence of her experience.

40 So when a communication like this is received by Suncorp there wasn't a particular person within Suncorp that was responsible for this particular claim. Is that right?---Yes, that's correct. I think this communication and the recipients of it are not in the claims operations. They're in a group customer relations area. So, clearly,
45 they're a pool of – of people not associated with the specific claims unless they become disputes that they are managing either with a customer or with FOS. So, yes, when they – that team, those individuals who received that email, needed to reach into the claims operation, they would have been doing that into a team at the time.

And who would have had authority to approve the temporary accommodation?---A team leader, a technical support officer, which you've probably seen in the material referred to as a TSO, would have that authority.

5 All right. And do you have any understanding, having reviewed the file, about why it wasn't – why that option wasn't taken by Suncorp at this point?---So probably not specifically right at that point. As I said earlier on, I do think we got ourselves as an organisation in – in this particular matter just into an entrenched position that, you know, again is consistent with Mrs Heald's evidence of her experience in trying to
10 break out of that. And I think there was a mindset – not of individuals, but just around this particular matter that – that perpetuated that difficulty.

Commissioner, I tender that document.

15 THE COMMISSIONER: Email from Staggs, Legal Aid New South Wales to AAI concerning Bruce and Bernadette Heald, 19 October '17, SUN.0703.0001.0885, exhibit 6.383.

20 **EXHIBIT #6.383 EMAIL FROM STAGGS, LEGAL AID NEW SOUTH WALES TO AAI CONCERNING BRUCE AND BERNADETTE HEALD DATED 19/10/2017 (SUN.0703.0001.0885)**

25 MR COSTELLO: From what I've been able to ascertain, it was on about 23 December 2015 that a senior dispute resolution officer at Suncorp first became involved in the case. I won't say that person's name. Do you know the person that I'm referring to?---Not personally but I know the name that you're referring to, yes.

30 Yes. Thank you. I want to take you to a document. It's not in your statement. It's SUN.0702.0004.1679. This is an email from the senior dispute resolution officer to Veronica Fay Rowe?---Yes.

35 Do you know what Ms Rowe's role was?---May I just refer to the table in my statement?

Yes, yes?---Thank you. Veronica Fay Rowe was a technical support officer.

40 All right. This is the sort of person who had authority to make decisions in relation to the claim?---Yes.

Thank you. It's quite a long email but it's quite an important one. You can see the date there. The afternoon of 23 December. And you can see in the first paragraph the dispute resolution officer says:

45 *After reviewing the file there are a number of concern we will need to address before sending the submission to FOS.*

And presumably the reason the dispute resolution officer has become involved at this point in time is because the dispute has now moved on from being an internal Suncorp dispute and FOS is now involved?---Yes.

5 And that causes the dispute resolution officer to become involved. It goes on to say:

10 *Firstly, there is mention throughout the claim that we cannot undertake repairs as further differential ground movement will most likely occur causing further cracking. Because of this, we have advised repairs cannot be warranted. When undertaking repairs, we only guarantee the materials and the workmanship. Should movement cause further cracking, this would not fall under the LTG – and would be excluded*

15 Do you know what LTG is?---The lifetime guarantee.

Thank you:

20 *On that basis ground movement that may occur in the future is not a valid reason for cash settling a claim.*

?---Yes.

And then it says “I note” and there’s a reference there to a particular builder:

25 *I note the builder’s initial report made mention of the property being in poor condition. This was not expanded on. And if this was the reason for cash settling then it could possibly be supported. Also, if there are drainage issues that are contributing to the movement, this could also be a valid reason to cash settle. However, I would expect that we would provide the insured with an opportunity to undertake any maintenance-related work (drainage) and if he was willing to do so, we could then repair.*

It then goes on:

35 *By not offering to repair we are removing an essential benefit from the insured so we would need to be fair regarding our decision to cash settle. I am also concerned that while the FDL advised –*

40 Do you know what the FDL is?---No, I’m sorry, I don’t.

That’s all right?---It will refer to a particular role.

Thank you:

45 *While the FDL advised we would comment on the current moisture content of the soil/drying out period still required, the revised scope of works from [REDACTED] submitted*

Sorry. That will need – that name is subject to an order:

5 *While the revised scope of works from an engineering firm submitted this month provided a drying out period of six to nine months. If the property is still settling and we are intending to cash settle, I am concerned that further damage may occur until the soil is back to its pre-loss condition. Therefore, the revised scope may not fully cover our liability.*

10 And the – the email then goes on to consider further reports that have been received by Suncorp and to raise some other questions. And the dispute resolution officer asks for some matters to be followed up?---Yes.

15 Can you see that? This is a much more considered analysis of the claim and of Suncorp's claims handling than anything that had happened up to this point, isn't it?---Yes.

It's the first time that someone from Suncorp has engaged in a meaningful way with the terms of the policy?---Yes, I think in a complete way.

20 And it carefully considered the engineer's reports?---Yes.

And it's fair to say the dispute resolution officer has not shied away from delivering some news that might not be entirely welcome?---Yes.

25 Commissioner, I tender that document.

THE COMMISSIONER: Email from senior dispute resolution officer, 23 December '15, SUN.0702.0004.1679, exhibit 6.384.

30

EXHIBIT #6.384 EMAIL FROM SENIOR DISPUTE RESOLUTION OFFICER DATED 23/12/2015 (SUN.0702.0004.1679)

35 MR COSTELLO: Mr Dransfield, on the same day, the senior dispute resolution officer also emailed Matthew Pugliese?---Yes.

40 And Mr Pugliese was at least at that time the national manager, customer solutions personal insurance home claims?---Yes.

Is that a role within Suncorp or is that a role within the broader group?---So Suncorp is – is just a brand - - -

45 Yes?--- - - - of the licensed insurer, AAI, so it is a role – inside the insurance function, in effect.

It's across all brands?---Yes.

Thank you. I will take you to that email. It's SUN.0702.0005.3238. Now, just so I can understand it and the Commissioner can understand it, these are two emails from the same senior dispute resolution officer on the same day within about an hour of each other, to two different people within Suncorp. In terms of the Healds claim and the FOS complaint, what are the relative roles of these people. The first one was Ms Rowe and this is Mr Pugliese?---Yes.

Who is doing what?---So Ms Rowe will be part of – at the time was part of a – a team – a home claims handling team in the home claims function within the broader insurance organisation. Mr Pugliese, his title as national manager means that he – he was in a role at that stage that, in effect, was – was a referral type of role across all of home claims. With some line management responsibilities. So significantly more senior than – than - - -

Ms Rowe?--- - - - Ms Rowe.

Thank you. And who has ultimate responsibility for the handling of this particular claim within the organisation at this time? Is there a person?---And I think that's – that's part of the challenge we've – we've adduced with this particular claim. It was managed within a team. There was a – a team-based client management function. So an inbound home insurance client management team. And I think therein lies the challenge. This is a complex claim that has not been assigned to a single individual to case manage.

Thank you. I just want to take you to this email. You can see it's on the same date and it's at about quarter past two in the afternoon. The second sentence says:

The claim has previously had a media alert and it's my understanding the dispute came to us through Legal Aid.

?---Yes.

And then if we skip over the second paragraph, you can see the third paragraph commences:

Following the initial attendance by our builder and assessor an engineer was appointed to quote on the cause of the cracking. The engineer provided a scope of works which has since been found to have been significantly insufficient although it has taken a considerable amount of effort on the insured's behalf for this to be recognised. The insured has had to constantly push to try and have his concerns heard, including having an IDR review of the matter.

And then if we move to the next paragraph:

It was not until the IDR review was undertaken in October/November that we accepted the scope of works was incomplete although this was fairly obvious

5 *when reading the file. Following the IDR review, there are still concerns that have not been addressed, in particular, the reason why we wish to cash settle the claim (appears it may be unfounded) and the required drying out period. Of further concern is the fact that we attempted to cash settle our liability when the insured had advised further cracking had occurred that had not been assessed. We are currently awaiting a further quote so we can cash settle the insured, however a report from –*

10 another Suncorp contractor –

provided this month is still advising a drying out period of six to nine months. Therefore, it is possible further damage may yet occur.

15 And then we can skip the next paragraph that's italicised and move to the one below that:

20 *The insured has approached FOS specifically requesting compensation. The insured has also asked that a different engineer be appointed as he has lost faith in the capabilities of Suncorp's engineer. This request was made a number of times during the claim but rejected. The insured has indicated he will obtain his own engineer's report also. However, he has not done so to date. I believe it might be in our interest to appoint an alternate engineer if this would resolve the dispute at least in the interim. I also think this would be viewed favourably by FOS. In light of our handling of the claim, the constant fight the insured has had to have a complete scope of works provided and the*
25 *fact that eight months later I don't believe we're in a position to determine our liability, I believe that compensation is warranted in this instance.*

30 Do you see that?---Yes.

 Again, this is a considered and thoughtful analysis by the senior dispute resolution officer?---It is.

35 And what should have been done when this email was received?---Consideration immediately given to the appointment of the engineer that the customer was keen to do to get a – an appropriate resolution on the nature of the damage and how to resolve it, as well as an agreement to – an amount of compensation. And I – and I take it – that's why I take it this – this second email was sent, to escalate that.

40 You think that was the motivation behind the senior dispute resolution officer sending the email?---I – I believe so. We did struggle and I did struggle in reviewing these emails because between Brisbane and Melbourne at this time of year with daylight saving I think there might be some timestamping inconsistencies.

45 Yes. Thank you. I tender that email.

THE COMMISSIONER: Email from senior dispute resolution officer to Pugliese, 23 December '15, SUN.0702.0005.3238, exhibit 6.385.

5 **EXHIBIT #6.385 EMAIL FROM SENIOR DISPUTE RESOLUTION OFFICER TO PUGLIESE, 23 DECEMBER '15 (SUN.0702.0005.3238)**

10 MR COSTELLO: Thank you, Commissioner. Mr Pugliese then sought some comment on that email from other Suncorp staff, including the then acting operations manager, Queensland, Northern Territory?---Yes.

15 I will take you to the email so you can see it. It's SUN.0702.0024.0064. And perhaps if we go to the second page to begin with, 0065. Can you see there Mr Pugliese sends an email to two other people within Suncorp and says "Thoughts, team?"?---Yes.

And below that is the email from the senior dispute resolution officer?---Yes.

20 And then if we go back to the first page of the document. You can see that one of the two people that Mr Pugliese emailed has responded?---Yes.

With thoughts on the claim?---Yes.

25 And can you see the fourth bullet point down under the heading Claim Overview says:

30 *The customer did advise us that the home had cracking at lodgement and a make safe was arranged. It has been identified that this cracking would have been present prior to the event and the event exacerbated the cracking around the home.*

?---Yes.

35 And then if we go down another – another five bullet points there's a bullet point that commences:

Water has continued –

40 ?---Yes.

Can you see that:

45 *Water has continued to come up through the slab. This is normal with a clay soil as it retains water which will then seep through the slab. Given the weather that has been had in the Hunter valley, it is hard to give a definitive*

outcome on when the slab will be dry enough for works to commence. Unfortunately, they continue to have rain events in that area.

?---Yes.

5

And then if we could scroll down to the next heading My Thoughts. The first thought is:

10 *This claim has been mishandled. Too many people got involved when it should have been with one TSO to manage. This was a complicated claim where we needed to establish our liability as opposed to just covering all the damage.*

And then:

15 *We should be cash settling the repairs. There is too much maintenance and continued movement with this property that if we complete the repairs we will have continual rectification work.*

?---Yes.

20

And then over the page, the second last bullet point:

25 *I believe we have established our liability and there is no need for further reporting on this claim. We were told by the engineer to view their report with the builder's SOW –*

That's scope of works?---Yes.

Continuing –

30

to get a full overview. With regards to compensation, I would offer to waive excess or up to \$1000 but nothing further. The delays on this claim have come from us as well as from the customer not agreeing with our decision.

35 ?---Yes.

The customer was perfectly entitled to not agree with Suncorp's decision, wasn't it?---Absolutely.

40 In fact, the customer was right not to agree with Suncorp's decision?---Yes.

Commissioner, I tender that document.

45 THE COMMISSIONER: Email between Pugliese and others, 23 December '15 SUN.0702.0024.0064, exhibit 6.386.

**EXHIBIT #6.386 EMAIL BETWEEN PUGLIESE AND OTHERS, 23
DECEMBER '15 (SUN.0702.0024.0064)**

5 MR COSTELLO: That was the decision, the suggestion there was the decision that was conveyed to the senior dispute resolution officer on 30 December. Would you like me to show you that?---Yes, thank you.

10 It's SUN.0702.0005.6640. If we could just go to the second page, 6641 to begin with. Can you see at the bottom of the page there, Mr Pugliese sends an email – and this is an email to the senior dispute resolution officer?---Yes.

And he says:

15 *Please see Amanda's response below.*

?---Yes.

20 And that's the response I've just taken you to?---Yes.

And then if we could go to the first page of that document. You will see there:

25 *Sorry for the delay in response. I would offer \$1000 compensation for the delays.*

?---Yes.

And then the senior dispute resolution officer replies to that and says:

30 *Can you please call me about this one as a matter of urgency. I've just viewed the updated quote and comments from –*

one of Suncorp's contractors.

35 *I'm really concerned with running this in its current form. I tried to call but your phone was just ringing out.*

?---Yes.

40 Now, I just want to understand the relative roles of people here. The senior dispute resolution officer, does that person act as an internal adviser or does that person have decision-making power?---A combination of the two, but, clearly, as is shown here, more – more as an adviser with the overall decision rights sitting in the claims operation.

45 And I should have taken you to an earlier part of the email at page 6641. This is the – at the top of the page is the senior dispute resolution officer's initial response

having been told of the position by the business, if I can call it that. And you can see it says:

5 *I will be responding to FOS today. I believe the property is still drying out. It is likely FOS will determine we have not established our liability as additional damage may occur.*

You will recall that the email from Mr Pugliese's team, there was the assertion that:

10 *I think we have established liability.*

?---Yes.

15 And this is the dispute resolution officer disagreeing with that, or at least suggesting that FOS might think differently?---Yes.

And it goes on to say:

20 *As the LTG only covers materials and workmanship, we would not be liable for damage as a result of ground movement in the future if we were to undertake repairs.*

And this is a point that the senior dispute resolution officer had made earlier?---Yes.

25 And this seems to be a point that is of some concern to various people within Suncorp, that if repairs were done to this property and it continued to move, Suncorp would be liable to be continually repairing it?---Yes.

30 And the senior dispute resolution officer at least has pushed back against that notion?---Yes.

35 And nobody, at least to this point in time, has pushed back in a considered way to the senior dispute resolution officer's views by pointing, for example, to another provision in the policy?---I agree.

Thank you. The officer then said:

40 *I can focus on the report from –
one of Suncorp's contractors –*

regarding the condition of the property and also that we can choose how to settle the claim but just want to make you aware we may fall down on that aspect.

45 So, again, this is pretty frank advice from somebody who probably deals with FOS a reasonable amount, I imagine?---Yes.

Is that fair?---Yes.

Thank you. I tender that document, Commissioner.

5 THE COMMISSIONER: Emails to and from senior dispute resolution officer, 30 December – '16, '15?

MR COSTELLO: 15.

10 THE COMMISSIONER: '15. SUN.0702.0005.6640, exhibit 6.387.

**EXHIBIT #6.387 EMAILS TO AND FROM SENIOR DISPUTE
RESOLUTION OFFICER, 30 DECEMBER 2015 (SUN.0702.0005.6640)**

15

MR COSTELLO: Could we now please have on the screen SUN.0702.0005.5857. This is another email from the senior dispute resolution officer to a different person within Suncorp. Are you checking to see who that person is?---I assume you're going to ask me.

20

Thank you?---Sorry. It's not where I was looking. It's another officer in the dispute resolution team.

25 Thank you. Well, that might explain the initial sentence or two in this email which is talking about somebody proof-reading somebody else's work, presumably some sort of process they have within that team?---Yes, the quality control process.

Thank you. The dispute resolution officer has attached a file due today and you can see from the name of the file and the attachments there that it concerns the Healds' claim?---Yes.

30

And then it says "The FSP" – that's the financial service provider. That's Suncorp?---Yes.

35

This has just been written in the third person:

The Suncorp position is short. This is a dispute re cash settling the claim and the scope of works. I didn't want to go into too much detail as we really didn't handle this well and I am also concerned that the property is still drying out. I have raised concerns with the LOB –

40

Is that line of business?---Yes.

45 Thank you –

but they are happy liability has been established. The only concession I got from them was an agreement to award compensation.

5 It's plain from that email, isn't it, that the dispute resolution officer didn't have any decision-making power in respect of this claim?---Yes.

10 The decisions were made by the line of business and the line of business had received but chosen not to accept, at least in large part, the dispute resolution officer's advice?---Yes.

And that's something they're entitled to do, presumably?---Yes.

15 Do they need to justify in any way why they've not accepted the advice?---I think that would be helpful, yes.

But they don't need to?---Well, I think they should.

20 Who would they justify it to?---I think to the dispute resolution team and as you point out, that was the process at the time. That team now sits with inside – within a function that is known as a group customer advocate function that has additional decision rights.

That's where the dispute resolution officers now sit?---Yes.

25 Is that a change that has happened since the date of these emails?---Yes. It's a change that occurred in early 2017.

Thank you?---The formation of a customer advocate office.

30 Commissioner, I tender that email.

THE COMMISSIONER: Email senior dispute resolution officer to Eadie, 30 December 2015, SUN.0702.0005.5857, exhibit 6.388.

35 **EXHIBIT #6.388 EMAIL SENIOR DISPUTE RESOLUTION OFFICER TO EADIE, 30 DECEMBER 2015 (SUN.0702.0005.5857)**

40 MR COSTELLO: Can we please have FOS.0031.0001.0020 on the screen. You will see this when it comes up, Mr Dransfield, that on 31 December – this is the senior dispute resolution officer writing to the Healds. And making an offer of compensation to them. And you can see in – at the last paragraph on that page, it says:

45 *Suncorp acknowledges the service issues that you have raised and unreservedly apologises for the frustration and inconvenience caused as a result of the*

claims process. In consideration of this aspect of your dispute, Suncorp has offered to award you \$3000 compensation.

?---Yes.

5

Once Suncorp had acknowledged the service issues, it should have redoubled its efforts to finalise this claim, shouldn't it?---Yes.

10 And you accept that it took a long time after this letter was written before that happened?---Yes.

Thank you. I tender that document, Commissioner.

15 THE COMMISSIONER: Letter Suncorp to Healds, 31 December '15, FOS.0031.0001.0020, exhibit 6.389.

**EXHIBIT #6.389 LETTER SUNCORP TO HEALDS, 31 DECEMBER '15
(FOS.0031.0001.0020)**

20

25 MR COSTELLO: About a month later, on 27 January 2016, the Healds wrote to their case manager at FOS. I will take you to the document. It's SUN.0702.0004.0657. This is an email from the Healds to somebody at FOS copying in their solicitor. It's not addressed to anybody at Suncorp but Suncorp clearly obtained a copy of it. It might be that it was FOSs practice to provide parties with correspondence like this, but in any event this document has come from Suncorp, so Suncorp - - -?---Yes.

30 - - - had it, and you may have seen it before. And you will see here that the Healds set out in some detail the various difficulties that they have encountered in having their claim determined by Suncorp?---Yes.

35 Have you seen this email before?---Yes.

All right. I will just take you to a couple of aspects of it. It commences:

Bruce and I have been discussing the email that I sent to you on 25 January regarding the engineering report from Burke Engineering

40

That, as you heard and as you would know is the engineering firm that the Healds engaged. Suncorp paid for the report but the Healds chose the engineer?---Yes.

45 Continuing:

And also about the deliberate misinformation given to us from Suncorp. So we decided that a timeline of events might be more helpful.

?---Yes.

And in the second paragraph they note that an engineer from – engaged by Suncorp attended their house?---Yes.

5

To complete a scope of works. Was there for roughly an hour. They left the next day to go to Melbourne for a week as their son is a heart transplant recipient and was due for a clinic visit at the Royal Children’s Hospital?---Yes.

10 “Which we advised Suncorp about.” And there was no doubt, was there, that Suncorp had been long aware of the particular health difficulties faced by this family from very early on in this claims process?---Yes, that’s correct.

15 And are those types of factors, the particular individual circumstances of a policyholder, or the policyholder’s immediate family, matters that are relevant to the way a claim is handled within Suncorp?---They certainly are far more in the forefront of our thinking in our current approach. We did have a level of policy and understanding around customers experiencing vulnerability at this time but we have certainly, in the period since then, evolved our approach and our understanding of the
20 importance of recognising particular vulnerabilities that customers have, particularly as a consequence of natural disasters, but also in – in normal claims, and – and seeking to respond appropriately.

25 Thank you. The rest of the email just describes some particular difficulties that the Healds had faced in relatively recent times that traverses a period from about November until January?---Yes.

30 And various frustrations that the Healds had faced. One of those frustrations was delays in obtaining information from Suncorp. For example, delays in obtaining copies of reports prepared by Suncorp’s consultants once they were provided to Suncorp?---Yes.

You’re familiar with that complaint?---Yes.

35 Do you accept that there were unacceptable delays in Suncorp providing information to the Healds?---Yes, at times.

40 Thank you. And do you accept that those delays were caused in some cases by Suncorp’s internal processes?---Yes.

And in other cases by Suncorp’s contractors?---Yes.

Thank you. Commissioner, I tender that document.

45 THE COMMISSIONER: Email of 27 January ’16 from the Healds to FOS, SUN.0702.0004.0657, exhibit 6.390.

**EXHIBIT #6.390 EMAIL DATED 27/01/2016 FROM THE HEALDS TO FOS
(SUN.0702.0004.0657)**

- 5 MR COSTELLO: Mr Dransfield, on 31 March in 2016, Burke Engineering provided their full report. I'm not sure if you will recall, they did a short – a short incomplete report that couldn't be completed because geotechnical investigations were necessary. And then on 31 March that firm completed its full report.
- 10 Suncorp's assessor then reviewed the Burke Engineering report. What's the role of an assessor?---An assessor fulfils two primary roles, one to seek to understand the extent to which an insured event, a policy needs to respond to an insured event or whether a policy responds to an insured event, and then, secondly, to effectively undertake a review of the – the building aspects of a repair or reinstatement.
- 15 So what's the ordinary training of an assessor? Are they builders by training?---Some will have a building trade background and will have been licensed builders. Some will have other trade backgrounds in the broader carpentry, perhaps, and then there will be some that we have trained from other roles.
- 20 And so in addition to that technical expertise, an assessor also needs to have a strong and accurate understanding of the terms of the policy. Is that right?---Yes.
- Because the – part of the assessor's role is to determine whether or not the policy is engaged in respect of the particular damage?---Yes.
- 25 Thank you. I said to you that it was 31 March that Burke Engineering provided their final report. It wasn't until 9 June that Suncorp's assessor reviewed that report?---I believe we had – and – and it may be possible to refer to – to a document particularly on it, but I believe we had some difficulty obtaining the report from Burke because it had gone to the – the Healds and perhaps into the Legal Aid process in the interim.
- 30 So I don't know that the lag in that period from the end of March to the assessor review is entirely related to – to a delay in Suncorp.
- Thank you. I just want to briefly take you to the assessor's report. It's
- 35 FOS.0031.0001.2520. And if we could start on that page. This is the assessor's report?---Yes.
- Thank you. It's headed Repair Link?---Yes.
- 40 What's Repair Link?---It was – not terribly much used as an internal brand but it was an internal brand for that – for the home claims function. So that they could perform functions across all brands with a generic internal brand.
- Thank you. It's not an independent entity?---No.
- 45 Thank you. If we could move to the second page of that document, 2521, you will see here the assessor recommendations?---Yes.

Continuing:

Clarification on the standard of the time should be sought.

5 Now, this is a reference to the building standard at the time that the Healds' house was constructed?---Yes.

Continuing:

10 *If the footings were not constructed to code and did not comply at the time of construction, this would be grounds to reject sections of or the entire claim. As the claim has been previously accepted, assessor recommends at a minimum the damages noted previously by –*

15 another person –

are accepted.

?---Yes.

20

And then the second paragraph – third paragraph, rather:

Assessor recommends clarification is sought from –

25 one of Suncorp's engineers –

regarding the Burke Engineering report, ie, is the extent of the recommendations in the report warranted, and what were the Australian Standards at the time of the construction as the replacement of the slab and footings may not even be coverable if they did not comply at the time of construction.

30

You see that?---Yes.

35 And then there's some Actions Required. So this is the assessor doing what the assessor's role is, to determine whether or not the damage falls within the terms of the policy. Is that right?---Yes.

40 And the assessor would ordinarily have an eye to exclusions. Is that right?---That would be part of their consideration.

Right. And the assessors, presumably, have available to them all of the various policies that are issued by Suncorp?---Yes.

45 Thank you. I tender that document, Commissioner.

THE COMMISSIONER: Expert review report, 9 June '16, FOS.0031.0001.2520, exhibit 6.391.

5 **EXHIBIT #6.391 EXPERT REVIEW REPORT DATED 09/06/2016
(FOS.0031.0001.2520)**

10 MR COSTELLO: The assessor's report was sent to the senior dispute resolution officer on the same day. And I might just show you the immediate response to that report. It's SUN.0702.0004.1909. So can you see there that Ms Rowe has forwarded the document – the assessor's recommendations, rather, to the senior dispute resolution officer below there. And the assessor's recommendations have been cut and pasted into the email there?---Yes.

15

And that's the paragraph – the paragraphs I just read to you?---Yes.

And you can see the dispute resolution officer's response:

20 *Hi. Thanks for the update. That's certainly a detailed report.*

I think that's a reference to the Burke report, not a reference to the assessor's comments on it?---I expect so.

25 Continuing:

Hopefully I will get time to read it over the next few days. I am mindful of page 74 of the PDS in relation to defects and what our liability may be even if the footings were not to code.

30

Now, do you have a general understanding of what the dispute resolution officer might be referring to there in terms of the PDS?---I believe so, but would it be possible to refer to the tab with the relevant PDS.

35 Yes. It's in – it's annexed to your statement?---It is.

40 It's the second tab of the first volume. In any event, it's the second tab of your first exhibit. And I will call it on to the screen as well. It's SUN.0703.0002.0165. And if we could move, please, to perhaps have 0238 and 0239 on the screen. 0238 should be the page that's numbered 74 at the foot?---Yes.

You've got that in front of you?---I do.

45 I will just wait for it to come on to the screen so that everybody else can see what we're talking about. The senior claims assessor had referred I think to page 74 of the PDS?---Yes.

And that is the first page on the screen there. And you can see the heading Dealing With Defects?---Yes.

5 And can you see – it can't be the first heading underneath that – sorry, it can't be the first subheading underneath that heading because it says:

If a known defect is the cause of the damage –

10 And on any view this wasn't a known defect on the part of anybody. Suncorp is trying to investigate it and there's no suggestion that the Healds knew?---Yes, that's correct.

The second subheading is:

15 *If an unknown defect is the cause of the damage.*

And that could be, perhaps, what the senior dispute resolution officer was referring to:

20 *If an incident covered by your policy damages your home and an unknown defect was the cause or part of the cause, we will pay for the resulting damage.*

?---Yes.

25 That's one option. Then underneath that it says:

We do not rectify structural or design faults. When we accept a claim, we will not pay extra to rectify a structural or design fault at your home that you knew about.

30

?---Yes.

Continuing:

35 *Or should reasonably have known about.*

?---Yes.

40 Do you think that it might be one of those two paragraphs that the senior dispute resolution officer had in mind when referring to paragraph – sorry, to page 74?---Yes, I – I think so.

45 Thank you. So, in effect, the senior dispute resolution officer, who hasn't had the benefit of reading the Burke report but has seen the assessor's comments, has immediately called to mind a page in the PDS that might mean the assessor's view of the further investigation that should be undertaken is not warranted because it is a

view that is founded upon a misunderstanding of the policy. Do you accept that?---Yes.

5 Commissioner, I don't think I tendered the email from the senior dispute resolution officer.

THE COMMISSIONER: Email 10 January '16 to and from senior dispute resolution officer, SUN.0702.0004.1909, exhibit 6.392.

10

EXHIBIT #6.392 EMAIL DATED 10/01/2016 TO AND FROM SENIOR DISPUTE RESOLUTION OFFICER (SUN.0702.0004.1909)

15 MR COSTELLO: Thank you, Commissioner. Mr Dransfield, are you aware that on 24 June 2016 the issue of the maximum award that could be ordered by FOS was raised with Suncorp?---Yes.

20 And that the Healds requested that Suncorp agree to waive the maximum limit?---Yes.

And are you aware that it took until 18 October 2016 until Suncorp conveyed an answer to FOS on that issue?---Yes.

25 I want to jump forward again in the story to about 11 January. That's when FOS advised Suncorp that it had formed a view about what Suncorp was liable for?---2017?

30 That's right?---Yes.

11 January 2017. Thank you. And FOS gave an indication, I think by way of an email, of the view that had been formed about the way the policy worked. Do you recall that?---Yes.

35 The effect of the view that FOS had formed was that Suncorp was liable for a full rebuild, but FOS also thought that in the circumstances, a cash settlement for the sum that a rebuild would cost would be appropriate?---Yes.

40 And Suncorp accepted FOSs decision?---I might just refer to the relevant part of my statement, if that's okay. Yes.

Thank you. What remained to be determined was the cost of the rebuild and the extent to which the Healds were entitled to be paid out under the policy?---Yes.

45 And the policy had various heads of damage, if you like, that entitled the Healds to payment?---Additional sums, yes.

Additional sums over and above the cost of the building itself?---Yes.

And all of that needed to be agreed. FOS hadn't determined any of that?---Yes.

5 And FOS left it to the parties to negotiate it. And is Suncorp's preference to try and negotiate the quantum of payouts in this sort of circumstance, or would Suncorp prefer that FOS did it for it?---Our preference is to get to a solution as quickly as possible for the customer and whatever – whatever is going to do that in the circumstance. I – I think in this – in this case it seemed that our preference was to –
10 to negotiate.

In order for Suncorp to understand what the cost of the rebuild was, a fresh scope of works was required?---Yes.

15 And do you accept that there were considerable delays in obtaining that scope of works?---Yes.

We started just this little part at about 11 January when FOS made the determination. By 18 April that year there was still no scope of works and still no quote. I will take you to a document. It's SUN.0702.0017.0690. Can you see there in the middle of
20 the page there's an email – it's an internal email within Suncorp?---Yes.

And the first line says:

25 *We will have the scope of works by 19 April 2017. As soon as this is received I will send it to our builder. I anticipate it will take the builder less than five working days to complete the quote as it will be prioritised. The builder will be able to get us a better ECD once they have seen the SOW from the engineers.*

30 Do you know what the ECD is?---That would be an estimated completion date.

Thank you:

35 *Once they've seen the scope of works from the engineers.*

And then if we could scroll up that page to the top. That communication is forwarded to somebody else within Suncorp:

40 *FYI. This is the matter since January I was talking to. We just want to get this info quickly enough. Each week I dodge Legal Aid and FOS.*

?---Yes.

45 And it's unsurprising that whoever that person was is dodging Legal Aid and FOS because FOS had made a determination in the middle of January and it's now towards the end of April and there's still not even a scope of works?---Yes.

And was that acceptable?---No.

Should an entity the size of Suncorp be able to obtain a scope of works for the rebuild of a house in a shorter time than four months?---Yes.

5

I tender that document, Commissioner.

THE COMMISSIONER: Emails concerning Bruce Heald update, 18 April '17, SUN.0702.0017.0690, exhibit 6.393.

10

**EXHIBIT #6.393 EMAILS CONCERNING BRUCE HEALD UPDATE
DATED 18/04/2017 (SUN.0702.0017.0690)**

15

MR COSTELLO: I think I said four months but in fairness to you, it's three?---Three and a bit.

Thank you?---It's a long time.

20

A scope of works was prepared the day after this, I think, on 19 April. But the scope of works wasn't the end of the dispute because another issue then arose about the total amount Suncorp was liable to pay the Healds under other aspects of the policy?---Yes.

25

You're familiar with this aspect of the dispute that I'm talking about now?---Yes.

In general terms, there was a dispute about the extent to which Suncorp was obliged to pay for temporary accommodation on a continued basis, or the extent of the required payments?---Yes.

30

The extent to which Suncorp was required to pay for the removal of debris?---Yes.

I think that there was also a dispute about some relocation costs?---Yes.

35

And there was dispute about some other items as well. Do you recall that?---Yes.

On 29 May 2017 Suncorp eventually made an offer to settle the claim. I will take you to that. It's SUN.0702.0020.0836. This is the without prejudice communication from Suncorp to the Healds offering to settle the dispute that FOS had ruled on in January?---Yes.

40

And it's a long letter and I don't want to step through it, but Suncorp makes an offer based on various amounts. You can see in the bullet points on that first page there's the full sum insured for the repairs, 535,200?---Yes.

45

So that was the amount, was it, that – that was the maximum amount claimable in respect of the repair or rebuild of the property. Is that right?---Yes, subject to the – the extra allowances, yes.

5 Thank you. And then there is reference to the extra allowances, so there is a demolition removal of debris, temporary accommodation and removalist fees. They're the items that I just mentioned - - -?---Yes.

10 - - - speaking to you. If we go over the page to 0837, you can see, about a third of the way down the page there's the total settlement sum offered of \$605,259.63?---Yes.

15 And there's some explanation beneath that of each head. The rebuild of the home, removal of debris and temporary accommodation. And relevantly, the temporary accommodation being offered there is for five months?---Yes.

20 And then if we go over the page to 0838, you will see some more reference to contents removal and non-financial compensation. And under non-financial compensation it says:

On 14 January 2016 Suncorp paid \$3000 to you for non-financial loss compensation. Accordingly, Suncorp does not consider that you are entitled to a further \$3000 for non-financial loss compensation.

25 It then says:

Suncorp have regularly kept you up to date, actioned your requests in an appropriate timeframe, and promptly arranged reports and quotations through its own panel builders.

30 Now, that second sentence, at least insofar as it refers to keeping the Healds up to date, actioning their requests in appropriate timeframe and promptly arranging reports, was not true, was it?---It's not correct, no.

35 And do you accept that to be – to have a statement like that made in a letter seeking to resolve the dispute would be particularly galling to the insureds?---Yes, very much so.

40 And completely counterproductive to the notion of settlement?---Yes.

I tender that document.

THE COMMISSIONER: Letter Suncorp to the Healds, 29 May '17, SUN.0702.0020.0836, exhibit 6.394.

45 MR COSTELLO: Commissioner, my learned friend tells me that that is also tab 17 to the first exhibit of Mr Dransfield's statement. So - - -

THE COMMISSIONER: Then I need not mark it as an exhibit and I won't.

MR COSTELLO: I apologise for that. Ms Heald's statement. It's of my own witness' statement.

5

THE COMMISSIONER: It's in.

MR COSTELLO: It's well in now. The Healds rejected that offer, Mr Dransfield, and they put a counter-offer?---Yes.

10

And the counter-offer was – you might accept from me – in the sum of \$748,700?---I'm happy to accept that.

Suncorp rejected that offer on 21 June 2017. And it put a counteroffer for \$612,609.63 which was a little more than had been made in this offer but not much more?---Yes.

15

And the parties couldn't agree, so the matter returned to FOS for the second time to have FOS determine the quantum matters now?---Yes.

20

On 19 July 2017 the Healds put a further offer to Suncorp to settle the matter for \$721,000?---May I just refer to the exhibit? I think it's one that I have.

Yes?---96.

25

Thank you?---Sorry, what date did you have then roughly?

I said to you that the Healds made an offer of settlement on 19 July 2017 for \$721,000?---Yes, that's correct.

30

Thank you. So that was July of last year. If we step forward again, in September of 2017 the senior dispute resolution officer, whose work we've seen a number of times, seemed to become involved in the matter again?---Yes.

35

If I could take you to a document. It's SUN.0702.0002.4549. So this is a communication sent by the senior dispute resolution officer back to Juliette Mansted who I think we've seen some communications go to before?---Yes.

This is an email sent in the context of the matter having returned to FOS and the issue before FOS now is no more or no less than how large should the cheque be that Suncorp have to write the Healds?---Essentially.

40

And the senior dispute resolution officer comes back into it in some way. And says:

45

Can we discuss before I respond to FOS on Monday. Breakdown of the settlement.

And you will see there's figures there?---Yes.

It then says:

5 *We've not allowed for –*

And identifies various other items:

10 *Storage fees for undamaged contents, insured requesting 10,000, policy limit up to 10 per cent of content.*

Another one is:

15 *Environmental improvements – insured requesting 1500, policy limit two and a half. Re-establish documents. Insured requesting \$1000. Policy covers up to 500. Mortgage discharge costs. Insured requesting 1500, policy limit up to 1000.*

Then there is the heading Concerns:

20 *Other repair/rebuilding costs. We have only paid \$11,000 for the other repair/rebuilding costs against a policy limit of \$53,520. The customer has requested we pay the policy limit and we rejected this on the basis that they have not substantiated these costs. However, the last page of the quote submitted by –*

25

one of Suncorp's builders –

30 *that we settled the claim against estimates these costs at \$44,443.97 including GST. However, this benefit is subject to us rebuilding or repairing the home so I can argue that as we are not actually rebuilding there is no entitlement. However, we have already paid against this benefit and the policy states we pay this benefit in addition to the sum insured. I don't believe it's the way to go. Also, a letter we provided to the insured in June 2017 stated the policy would respond to these costs but it was refused as the costs had not been substantiated.*

35

See that?---Yes.

40 And then Interest and Compensation:

We haven't paid interest. The email from John Price in February 2017 provides a panel view.

45 John Price, you may recall, was the lead member of the panel that determined the dispute?---Yes.

Continuing:

5 *Provides a panel view on the matter and states if the sum insured is paid, then interest should be paid. He also advised that \$3000 non-financial compensation should be paid, although this has already been paid early on in the claim. Not sure if he's suggesting a second payment.*

?---Yes.

10 And then there's a reference to some other items and the senior dispute resolution officer says:

I believe we would also have to pay up to the limit.

15 And I don't need to take you over the page. It concludes:

...for these benefits.

?---Yes.

20 Once again, this is somebody engaging in a meaningful way with the terms of the policy in a way that others within the organisation have not done, and has pointed to particular entitlements that the Healds had under the policy and is suggesting that those entitlements be drawn into account in providing a response to FOS?---Yes.

25 And that was all entirely appropriate?---Yes.

It's precisely the sort of role that a senior dispute resolution officer would be expected to have. Do you agree?---Yes.

30 I tender that document, Commissioner.

THE COMMISSIONER: Email from senior dispute resolution officer concerning FOS reference Heald, 28 September '17, SUN.0702.0002.4549, exhibit 6.394.

35

EXHIBIT #6.394 EMAIL FROM SENIOR DISPUTE RESOLUTION OFFICER CONCERNING FOS REFERENCE HEALD DATED 28/09/2017 (SUN.0702.0002.4549)

40

MR COSTELLO: Now, Mr Dransfield, in the end, FOS made a determination in January of this year, 2018?---Yes.

45 And the determination awarded the Healds – the Healds an amount that was about \$4000 less than their initial offer but was more than their offer of \$721,000 that they had made in July?---Yes.

- And that award included \$43,000 in interest?---Yes, I recall that.
- And that interest would not otherwise have been payable by Suncorp if the matter hadn't proceeded to FOS because there was no entitlement to interest under the policy alone?---I accept that, yes.
- 5
- Do you accept that the failure of Suncorp to settle the matter promptly after FOS had determined Suncorp's liability was a business mistake on the part of Suncorp?---Yes.
- 10
- Viewed from Suncorp's own interest?---Yes, indeed.
- And do you accept that the failure to settle the matter promptly after FOS had determined Suncorp's liability added to the strain placed on the Heald family?---Yes.
- 15
- It dragged the matter out, in effect, for another 12 months?---Yes.
- And because of that, it ultimately operated to the detriment of the Healds?---Yes.
- And to the detriment of Suncorp?---Yes.
- 20
- Mr Dransfield, in your statement you have accepted that Suncorp did not manage significant aspects of the claim in a satisfactory manner?---Yes.
- And you have accepted that Suncorp could and should have more quickly resolved the complete repair or rebuild issue?---Yes.
- 25
- You've accepted that Suncorp should have offered to fund the Healds to engage their own engineer earlier?---Yes.
- 30
- You've accepted that Suncorp should have resolved the repair or rebuild issue by the time it received the Burke report on 7 June 2016?---Yes.
- Suncorp – you've accepted that Suncorp did not communicate the extent to which it believed repairs were not possible as compassionately as it should have?---Yes.
- 35
- That Suncorp have – should have displayed greater sensitivity to the Healds' concerns?---Yes.
- 40
- That Suncorp did not communicate the extent of the dispute between the engineers in a direct and effective way?---Yes.
- That it did not take adequate steps to ensure that the Healds understood Suncorp's position?---Yes.
- 45
- That it should have appointed a TSO?---Yes.

To have one person managing the claim. That it should have taken the position of the Healds' children into account?---Yes.

That it should have advised of internal dispute resolution earlier than it did?---Yes.

5

Do you accept that Suncorp breached its obligation under the General Insurance Code of Practice to handle the Healds' claim in an honest, fair, transparent and timely manner?---Yes.

10 Do you accept that at various times Suncorp failed in its obligation under clause 7.13 of the General Insurance Code of Practice to keep the Healds informed about the progress of their claim at least every 20 business days?---Yes.

15 And do you accept that Suncorp failed in its obligation under that code to respond to a catastrophe in an efficient, professional and practical way?---Yes. In this case, for this customer, yes.

20 Thank you. Mr Dransfield, a large part of the difficulty caused by this claim was due to the Healds' unwillingness to accept that what Suncorp's engineers were saying was correct?---Yes.

Do you accept that? Do you accept that the engineers engaged by Suncorp failed to produce thorough reports?---Yes.

25 Do you accept the conclusions reached by Suncorp's engineers were ultimately incorrect?---Yes.

30 Do you accept that the reports prepared by the engineer engaged by the Healds were qualitatively better than those prepared by Suncorp's panel engineers?---Yes, in terms of the comprehensive nature of the testing undertaken.

35 Thank you. Do you think that there is a risk, even for a professional who brings their training, skill and expertise to bear on a matter, that the professional can become subconsciously biased towards a particular outcome because of something like panel arrangements?---I accept there could be a risk.

40 That risk might emerge from the fact that there's an ongoing commercial relationship between the panellist and Suncorp, whereas the insured is somebody that the panellist will deal with for a fleeting moment?---So I agree with what you say. I think the counterpoint is there is a professional obligation on the – the – the expert, particularly where they are a – an expert to – to, you know, fulfil their duties in a professionally competent way.

45 Yes. And in my question to you I expressly said it might even be a subconscious bias?---Yes, I heard you, yes.

5 Do you think that that might be one of the causes for the significant divergence of views between the engineers that Suncorp engaged in this matter and the engineers that were independently appointed?---I can't put myself in the mind of the – the various engineers or staff members that were involved, but I accept that – that there is a potential for that to have occurred.

10 Has Suncorp taken any steps to understand why there was such a divergence?---Yes, we have, in terms of the – the views of the particular engineers – engineering firm. You know, they were firmly of the view that – that their technical commentary was valid and correct.

So you've raised – these matters have been raised by Suncorp with that – with those firms?---In – in the course of normal supply of performance management, yes.

15 And has Suncorp sought to learn more generally from what went wrong with this claim?---Yes. If I could add – it won't be of any help to Mrs Heald – yes, she's here – again, in reviewing the material for this matter, you know, there are many, many aspects of what occurred that I believe we are – we have already built into not only our event response but our business as usual claims response to improve and – and
20 mitigate the risk of those types of things occurring to other customers. So it's very much a learning experience, and I'm sorry that, you know, a customer had to go through it for us to learn that. But it has certainly been very much a learning experience.

25 Would it be fair to say that somebody at executive level like you are doesn't spend a lot of time in the detail of particular claims on a day-to-day basis?---I don't personally, but I do seek to get quite involved in particularly catastrophe response, given it is a very large and significant activity that we have to undertake for our customers. And it is an important part of the way in which we think about designing
30 customer experience in our organisation that – that our executives immerse themselves in understanding more of the – the detail of customers' experiences of – of us.

35 How long have you been at AAI?---So I've been with the group overall since August 2009. So about nine years.

And how long have you been in your current role?---11 months.

40 And did you find it in any way useful to you in your work to have to immerse yourself in a file in the way that you had to to prepare this witness statement?---Yes, extremely useful.

45 Thank you. In the short time we have left, Mr Dransfield, I just want to move beyond the specifics of the Heald matter - - -?---Yes.

- - - for a moment. A little earlier, you and Ms Orr had a dialogue about FOS?---Yes.

And just for the transcript, that dialogue commenced at page 6327 of the transcript at about line 2. But you might recall in the course of the dialogue you said that FOS and AFCA, when it comes into effect, will provide a very effective resolution framework for consumers?---Yes, I – I believe that.

5

You recall saying that?---Yes.

Do you accept that for FOS to operate well, it needs the support and constructive engagement of financial services providers?---Yes.

10

Do you accept that at least throughout 2016, Suncorp regularly engaged with FOS and with parties to FOS disputes in inappropriate ways?---I – I can accept that there are examples of interactions we had with customers and with FOS that were not as they should have been. So I hope that answers your question.

15

I will take you to a document. It's FOS.0043.0001.0721. This is a letter of 27 September 2016?---Yes.

20 It's from Paul Bunker, B-u-n-k-e-r, who is case manager systemic issues at FOS?---Yes.

And it's addressed to – is it Jane Pires?---Yes.

25 Thank you. Executive Manager Group Customer Relations. Could you just explain to me within AAI or Suncorp whichever it is what level is executive manager level?---Yes. So I – my level in the organisation would be called a group executive. My direct reports and my peers direct reports are typically executive general managers. And then they will have direct reports which are either entitled executive manager or head of, depending on the size of role.

30

Thank you. You can see that the letter is entitled:

Possible Systemic Issue: Internal Dispute Resolution Processes.

35 ?---Yes.

And it reads:

40 *Four disputes have been referred to me as raising a possible systemic issue in relation to failing to provide information about internal dispute resolution and/or refer the customer to IDR. I will be responsible for investigating the matter.*

45 ?---Yes.

Are you aware of the language of “possible systemic issue” or “systemic issue” in the context of FOS?---Yes.

Thank you. It then describes the issue:

5 *The possible systemic issue is that AAI Limited may not be complying with its obligation to provide information to policyholders about IDR and to refer complaints via its IDR process. The Financial Ombudsman Service Australia is concerned that AAI may not be responding to complaints in an appropriate manner, thereby affecting other AAI policyholders.*

10 ?---Yes.

There's then some detail given of the disputes below that, which I don't need to go to. And, in effect, this letter then asks AAI for a response to the possible systemic issue by reference to the particular cases that are raised there?---Yes.

15 Now, when a letter like this is received by Ms Pires, is it ultimately for her to manage the response, or would you expect a communication like this to go up the line?---It certainly is taken very seriously, and – and will be visible to all executives – appropriate roles in the organisation - - -

20 Who – sorry go on?---All the way through the organisation.

Who at executive level has responsibility for group customer relations?---So it has moved in – in our structure of recent times but today I mentioned that role of executive general manager group customer advocate that had been created last year.
25 So today that – that function customer relations sits inside that team.

Thank you. That wouldn't have been the case - - -?---No.

30 - - - at September 2016 when this letter came?---No.

So if this was received today it would be dealt with by – ultimately, at least, by a different executive?---Yes.

35 At the executive level. Thank you. Commissioner, I tender that document.

THE COMMISSIONER: Letter of FOS to AAI Limited, 27 September '16, FOS.0043.0001.0721, exhibit 6.395.

40 **EXHIBIT #6.395 LETTER OF FOS TO AAI LIMITED DATED 27/09/2016 (FOS.0043.0001.0721)**

45 MR COSTELLO: Could we now please go to FOS.0043.0001.0807. You can see here this is about three months later?---Yes.

It's addressed to the acting executive manager, group customer relations?---Yes.

So, in effect, to the same office within AAI. But it's now headed:

Definite systemic issue: internal dispute resolution process.

5 ?---Yes.

And it refers to some previous correspondence. And then in the second paragraph says:

10 *In my letter of 27 September 2016 –*

That's the letter I just took you to:

15 *...I advised that a number of disputes had been referred to me as raising a possible systemic issue. The possible systemic issue was that AAI may not be complying with its obligation to provide information to policyholders about internal dispute resolution and to refer complaints via its IDR process.*

20 ?---Yes.

And then if we could go over the page, please, to 0721. Sorry, could we – 0809, page 3 of that document. See the heading there "Our View"?---Yes.

25 I am skipping through a bit of this, Mr Dransfield but it's the conclusion that I think is relevant. But if you need time to look at the document, you will just let me know:

30 *I have reviewed the information provided in consultation with the lead ombudsman. The lead ombudsman acknowledges that AAI has a complaints handling and dispute resolution standard and that it is mandatory for all customer-facing staff who deal with general insurance products to complete the relevant training on an annual basis.*

?---Yes.

35 Continuing:

40 *The lead ombudsman is of the view that customer liaison in circumstances where a customer expresses dissatisfaction is an important role which can potentially become a serious issue when there is a failure to respond to the customer or a failure to respond in a timely and efficient manner.*

Do you agree with that?---Yes.

45 Continuing:

In light of the disputes raised by FOS and AAIs acknowledgement that there may have been instances where complaints have not been appropriately

handled in accordance with its documented procedures, the lead ombudsman is of the view that the matter represents a definite systemic issue.

?---Yes.

5

At least in some respects, the concern raised by FOS here is a concern that you have acknowledged now in respect of the Healds?---Yes.

10

They weren't told about internal dispute resolution soon enough?---No.

And that was identified by FOS by reference to a number of other matters as a definite systemic issue in September 2016?---Yes.

15

And you can see under Resolution of Systemic Issue that FOS issues a levy?---Yes.

To AAI to be included in next month's funding for three and a half thousand dollars?---Yes.

20

It's not much skin off the nose of AAI, is it?---I – I see it as a cost for the FOS levies for their work but, yes, it's not a large number.

But FOS also, in accordance with its terms of reference, reports that matter to ASIC?---Yes.

25

In its quarterly reporting to ASIC. Do you know if any steps were taken within AAI to improve its processes in terms of referring policyholders to IDR after this?---Yes, I do. In relation to this – this systemic issue from the point at which it was raised as a possible systemic issue, through to the – the determination of the – as a definite systemic issue, a project team of quite senior people was brought together to assess the cause of the issue or the possible systemic issue that was then resolved as

30

definite, and to – to drive a series of remedial actions, including training programs for all of our relevant frontline staff.

35

Is it useful to AAI to have an entity like FOS draw these issues to its attention?---Yes, I – I believe so.

That wasn't the first possible systemic issue that FOS had notified AAI of in 2016?---No.

40

I will tender that document, Commissioner.

THE COMMISSIONER: Letter FOS to AAI Limited, 20 December '16, FOS.0043.0001.0807, exhibit 6.396.

45

EXHIBIT #6.396 LETTER FOS TO AAI LIMITED DATED 20/12/2016 (FOS.0043.0001.0807)

MR COSTELLO: Could we now please go to FOS.0038.0001.1330. This is a letter from FOS on 3 June 2016. So earlier in the same year, Mr Dransfield. You can see it's headed possible Systemic Issue: Inadequate Claims Handling Process?---Yes.

5 Under the heading possible systemic issue it says:

10 *The disputes relate to claims handling issues across several AAI Limited brands. The issues relate to delays with assessing damage and conducting repair/rectification work. There is a concern this is indicative of a broader issue which may be affecting a wider group of customers.*

?---Yes.

15 If we could then, please, go to 1333 of that document, the fourth page. You can see the heading FOSs View:

Based on the information provided –

20 This is after they've referred to a number of particular instances:

Based on the information provided, the leads ombudsman, general insurance, is concerned that the disputes they've identified involve one AAI brand and the issues raised may be indicative of a wider problem regarding claims-handling culture and processes within AAI.

25

?---Yes.

Are you aware which brand FOS is referring to there?---I believe it was AAMI.

30 Thank you. FOS then asked for a response from Suncorp, in effect?---Yes.

I tender that document, Commissioner.

35 THE COMMISSIONER: Letter FOS to AAI Limited, 3 June '16, FOS.0038.0001.0133 – 0133, is it?

MR COSTELLO: 01 – sorry, 1330.

40 THE COMMISSIONER: 1330 becomes exhibit 6.397.

**EXHIBIT #6.397 LETTER FOS TO AAI LIMITED DATED 03/06/2016
(FOS.0038.0001.1330)**

45

MR COSTELLO: Mr Dransfield, this was a claims-handling issue?---Yes.

If this type of possible systemic issue report was to come to AAI today, is this a matter that you would become involved with, do you think?---Yes, myself, my peers, the group chief executive and the board risk committee would become aware.

5 Including the board risk committee, did you say?---Yes.

Thank you. There was then a fair amount of correspondence between Suncorp and FOS but I will take you to FOSs conclusion if I may?---Yes.

10 It's FOS.0038.0001.1469. You can see it's about the same issue, inadequate claims-handling processes. And it identifies the same possible systemic issue on the first page there. If we could move to the second page, 1470 of that document. You can see under Our View:

15 *I have reviewed the information provided in consultation with the lead
ombudsman. The lead ombudsman acknowledges that AAI's practices are
continually evolving in line with its customer-centric model and that it believes
its current systems and procedures enable it to manage its claims-handling
obligations. The lead ombudsman is of the view that the handling of claims
20 should be conducted in a fair, efficient and timely manner and that insurers'
processes and procedures should reflect this approach. In light of the disputes
raised by FOS and AAI's acknowledgement that there have been some cases
that have caused concerns for AAI and FOS –*

25 If we go over the page, please:

*the leads ombudsman is of the view that the matter represents a definite
systemic issue.*

30 There's then reference to AAI's advice that it is committed to increase human resources and training/retraining of staff and based on those assurances, the lead ombudsman is of the view – sorry, in the second last paragraph:

35 *In light of the matters raised with AAI which has recently been identified as
definite systemic issues should FOSs ongoing monitoring identify a continued
failure by AAI to meet its compliance obligations the lead ombudsman is of the
view that this may constitute serious misconduct under FOSs terms of
reference.*

40 So here FOS has determined that the possible systemic issue identified was a definite systemic issue?---Yes.

45 And then it has raised the matter further by saying that if the definite systemic issue was to continue it might constitute serious misconduct within FOSs terms of reference?---Yes.

And would that sort of communication from FOS receive high level attention within AAI?---Yes, it does.

5 And do you think that AAI has now taken sufficient steps to rectify FOSs concerns as expressed in this letter?---Yes, I do.

10 And are those – are those steps business-wide steps directed to changing the way claims handling happens?---They were quite broad in terms of the range of activities. So, yes, business-wide, a significant increase in resources, so people resources, improve business intelligence systems to understand and report on status of claims and activities. In the case of the FOS understanding of how we're performing, they – they will form a view and have done, I think, around the performance metrics they observed from us subsequent to this.

15 Commissioner, I tender that letter.

THE COMMISSIONER: Letter FOS to AAI Limited, 6 February '17, FOS.0038.0001.1469, exhibit 6.398.

20

EXHIBIT #6.398 LETTER FOS TO AAI LIMITED DATED 06/02/2017 (FOS.0038.0001.1469)

25 MR COSTELLO: Could we now please go to FOS.0038.0001.1571. This is a letter on 27 September 2016 which happens to be the same date that the other letter was sent – the first letter I took you to - - -?---Yes.

30 - - - was sent regarding a possible systemic issue but this relates to a different systemic issue. It's described as being:

35 *AAI Limited failed to implement a FOS determination and honour settlement agreements in a timely and efficient manner in accordance with its obligations under the terms of reference. It therefore appears that AAI may not have adequate processes and procedures in place to ensure timely implementation of FOS determinations and negotiated settlement agreements.*

And FOS identifies that it is concerned that is a systemic issue?---Yes.

40 As with the other letters it then identifies some particular matters that have been within FOS that caused its concern. And then if we move to 1574 of that document you can see the heading FOSs view:

45 *The circumstances of the disputes cited above suggest that AAI may not have adequate processes and procedures in place to ensure timely implementation of FOS determinations and negotiated settlement agreements and/or that it does*

not have sufficiently robust systems in place to ensure compliance with its processes and procedures for timely implementation.

?---Yes.

5

And it then asks for some further information. I tender that document, Commissioner.

10 THE COMMISSIONER: Letter FOS to AAI Limited, 27 September '16, FOS.0038.0001.1571, exhibit 6.399.

EXHIBIT #6.399 LETTER FOS TO AAI LIMITED DATED 27/09/2016 (FOS.0038.0001.1571)

15

MR COSTELLO: Could we then please have FOS.0038.0001.1608. Again, this is on 20 December 2016 which I think was the same date that the first systemic issue was found to be a definite systemic issue. And you can see here this is in respect of 20 the same issue that was identified at the letter I just took you to?---Yes.

If we could go to the – perhaps the second and third pages of that document, 1609 and 1610 could be brought up on to the screen together. Can you see under the heading Our View:

25

I have reviewed the information provided in consultation with the lead ombudsman. The lead ombudsman acknowledges that AAI has implemented a new process to track matters sent to the business areas for action and that the claims areas are currently reviewing their existing processes to ensure that 30 FOS matters are handled as a priority.

30

?---Yes.

Continuing:

35

It is also acknowledged that as a result of AAIs review of data from 1 January to 30 September 2016 a further five instances were identified where settlements had not been implemented within an appropriate timeframe. In light of the fact that AAI identified further failures, has implemented a new process and is 40 currently reviewing its existing claims processes, the lead ombudsman is of the view that the matter represents a definite systemic issue.

40

?---Yes.

45 That's three definite systemic issues in 2016?---Yes.

Is that a matter of concern within the senior executive level of AAI?---It was at the time, in the context of the very significant increase in claim volumes we experienced through 2014, 2015 from the multiplication of two to three times the previous years natural hazard experience. So it was very much something that the whole
5 organisation has focused on to ensure that the processes, resourcing and systems of the organisation enable us to ensure that not only do those systemic issues not continue, that we are proactive in terms of any other control risks.

10 And do you accept that the first two of the definite systemic issues identified by FOS, that is failure to inform customers of IDR processes in an appropriate way, and failure to implement – sorry, and inadequate claims-handling processes, are two of the many issues that the Healds encountered with their claim that was being managed in 2016?---Yes, I do.

15 Thank you. Commissioner, I have no further questions save as to tender that document.

THE COMMISSIONER: Are you tendering that last letter?

20 MR COSTELLO: Yes, thank you, Commissioner.

THE COMMISSIONER: Letter FOS to AAI limited, 20 September 2016, FOS.0038.0001.1608, exhibit 6.400.

25

EXHIBIT #6.400 LETTER FOS TO AAI LIMITED DATED 20/09/2016 (FOS.0038.0001.1608)

30 MR COSTELLO: Thank you, Commissioner.

THE COMMISSIONER: Yes. Mr Kirk.

35 MR KIRK: I will only be five minutes, if that's all right.

THE COMMISSIONER: It would be far better than - - -

MR KIRK: It would, thank you.

40 THE COMMISSIONER: - - - having him remain. I am sure he may agree, would you, Mr Dransfield?---I am happy to be of help to the Commission, Commissioner.

I make no comment on that, Mr Dransfield. Go on, Mr Kirk.

45

<RE-EXAMINATION BY MR KIRK

[4.21 pm]

MR KIRK: I was trying to move very quickly. Mr Dransfield, just if I can ask you – raise one matter in relation, first, to Mr and Mrs Heald’s claim?---Yes.

5 You referred right at the beginning of your evidence to AAI having failed the Healds in a range of ways including getting into an entrenched position. A bit later in your evidence you described the claim as a complex claim. Would you be able to explain to the Commission why the claim by Mr and Mrs Heald was a complex claim?---I was not trying to characterise the – the situation with – with the Healds as – as complex but more in the way in which we would see claims of particular
10 characteristics, particular size value and particular complexity of damage, as being a type that we would seek to case manage and – and approach differently to – to what we had been doing at that time.

15 And what were the characteristics of the claim in relation to the Healds’ house which involved those complexities you just referred to?---I think, you know, what became apparent around the dollar value, the nature of the damage, and the nature of the solution required to resolve the damage.

20 Thank you?---And then, you know, I would add, you know, the awareness of how we should have dealt better with the vulnerability of the Heald family and – in the situation. That would also be a characteristic of – of how we would respond with a – a case management model.

25 Thank you, Mr Dransfield. Now, if I can just ask you a few quick questions about the evidence you gave this morning in answer to questions from Ms Orr?---Yes.

30 I wonder if we could bring up exhibit 6.372 which my learned friend tendered this morning. It’s an email from Mr Anthony Day to Michael Cameron dated 14 November 2016.

THE COMMISSIONER: SUN.0760.0901.5464. So SUN.0760.0901.5464. Is that it?

35 MR KIRK: Yes, thank you, Commissioner.

THE COMMISSIONER: Yes.

40 MR KIRK: Now, my learned friend took you to – you to this document this morning, Mr Dransfield. And you will see about a bit over halfway down the email there’s a sentence my friend put to you which says:

Our preference and contractual right is cash rather than a full rebuild. Since customers invariably want to rebuild something different than there was in the past which pushes timeframes and additional risk on to us.

45 Now, this is a view being expressed by your predecessor. Does that opinion that Mr Day has expressed about customers invariably want to rebuild match your own

experience in some ways?---Certainly, it is frequently the case that – that faced with the loss of a home a customer may want to build something different in character, size, design. So, yes, it is – accords with my – my understanding as well.

5 Okay. Now, my learned friend Ms Orr asked you some questions about obtaining quotes from builders and then customers obtaining quotes. For a – an example in the Wye River instance, for example, if a panel builder of AAMI had – had provided a quote for a complete rebuild and if the customer and AAMI had together decided to proceed with that quote, is the builder held to that quote that they've
10 provided?---Yes.

Are there any reasons you're aware of why quotes obtained by customers may be higher than quotes obtained by AAI from its panel builders?---They are – they are at times of – of a different scope of work, potentially, and that's why in the Wye River
15 situation we would then use a quantity surveyor to attempt to align the – the scope that both quotes had been based on. Occasionally, one quote may have a provisional sum in it which is an estimate, and that may well be lower than – than the number that is in a customer's quote that is not a provisional sum for the same item.

20 No further questions, Commissioner.

THE COMMISSIONER: And the availability of discounts, Mr Dransfield?---I – I wish we had as much supply chain power in home construction, Commissioner, as

25 I'm sure you wish you had more but you have some, don't you?---To a degree but I

30 How much? What sort of percentage discount would you ordinarily expect - - -?---
It's - - -

- - - a panel builder to give you?---We don't see particular discounts in – in the rates we get from them, Commissioner. They may do the work for a slightly lower
35 builder's margin, so perhaps we might see a – a 14, 15 per cent builder's margin in a quote compared to a consumer being confronted with a 20 per cent builder's margin.

And that's a fairly considerable margin once you add up every subbie in the rebuild, isn't it?---Potentially.

40 Plumber, sparky, concreter, sometimes the framer, the drainer, Wye River you're probably putting in a septic?---We would - - -

Or a treatment?--- - - - seek to carve-out some of those items from the builder's margin, Commissioner.

45 So a 15 per cent mark-up as distinct from a 20 per cent mark-up becomes serious dollars, sometimes, doesn't it?---It can do.

Yes. I've read about these things, is all I am prepared to admit?---You sound like a skilled renovator, Commissioner.

But discounts can matter, can't they?---Yes.

5

Yes. Sorry, Mr Kirk. Is there anything arising out of that? Mr Costello.

MR COSTELLO: No, Commissioner. I've certainly not read about these things and I wouldn't want to chance my arm.

10

THE COMMISSIONER: Mr Dransfield, thank you. Thank you for sitting on.

<THE WITNESS WITHDREW

[4.28 pm]

15

THE COMMISSIONER: Mr Costello, dare I ask what time you suggest I start tomorrow morning?

20 MR COSTELLO: Commissioner, I only do the bidding of those more senior than myself. Counsel Assisting would certainly be greatly assisted if you would be willing to commence at 9 o'clock tomorrow morning. If that's too early - - -

THE COMMISSIONER: 9 it is.

25

MR COSTELLO: Thank you, Commissioner.

THE COMMISSIONER: Yes. 9 o'clock tomorrow morning.

30

MATTER ADJOURNED at 4.28 pm UNTIL FRIDAY, 21 SEPTEMBER 2018

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