

FSC LIFE INSURANCE CONFERENCE 2015

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Good morning and welcome to the 6th annual Financial Services Council Life Insurance conference.

Thank you for attending – and thanks to everyone who came to the annual dinner last night – we had a wonderful time.

It was a night to celebrate the very best in our industry.

Congratulations once again to the winners of our 2015 Financial Services Council Life Insurance Awards:

- Young Achiever – Eleanor Hartmann, NAB
- Consumer Innovation Award – Elyse Horne, Suncorp
- Leadership Award (for an inspiring leader/mentor) – Sean McCormack, NAB
- “Big thinking” Award (for the best piece of research) – Richard Dunkerley, Zurich
- And last, but by no means least, we presented a Lifetime Achievers Award to Jim Minto, who steps down from the helm of TAL Australia after a running the company as CEO since 2002.

Jim – your leadership and stewardship of the Australian Life Insurance industry is legendary – and only matched by your sartorial elegance.

I want to thank our sponsors – MetLife; AIA; RGA; Scor Global Life; Bravura Solutions and Blue Chip Communication – as well as our media partners RiskInfo and Life + Health Insurance News.

We are here today to debate our industry at a very significant time – in fact a time which may be something of a watershed.

Let’s examine the state of health for our industry .

Firstly - the financial outlook .

In recent years the industry has faced considerable challenges, but an examination of the latest analysts’ notes reveals some green shoots.

- They flag that the industry has turned a corner - with efforts to improve performance gaining traction, especially with respect to improved lapse experience.
- Group Life experience also looks set to improve.
- The industry is focused on long-term sustainability

Some good news.

Let’s turn to how we’re travelling in the trust and confidence stakes. How is the industry perceived?

Life insurance and most particularly, advice and advisers, have had the blow-torch of scrutiny applied from media, authorities and consumers.

In a report on life insurance and advice handed down in October 2014 ASIC expressed concerns about high lapse rates in life insurance and the quality of advice being given by some financial advisers. It indicated that high upfront commissions directly correlated to poor advice, and highlighted the misalignment between incentives and distribution channels .

ASIC urged the development of industry-wide solutions.

In December David Murray's Financial System Inquiry had six recommendations for life insurance. These included that the interests of financial firms need to be better aligned with consumers by the raising of industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance do not affect the quality of financial advice.

Last October, in the wake of the ASIC Report, the FSC and the Association of Financial Advisers agreed to find solutions to structural issues that were undermining trust and confidence in the industry and leading to poor consumer outcomes.

The FSC and the AFA formed the Life Insurance and Advice Working Group and appointed an independent chairman, former APRA Member and actuary, John Trowbridge, to conduct an independent review and to make recommendations for industry reform.

This has been an independent initiative to bring the life and advice industries together in search of reform solutions – including changes in the culture of the industry as a whole. It is a ground-breaking approach from industry.

It has not been easy – as I'm sure Brad Fox, CEO of the AFA and my fellow member of the Life and Advice Working Group, would attest.

Our sector is extremely complex and diverse, with many moving parts and different business models, and there have been some very difficult moments during these past 4-5 months of self-examination. This was to be expected given the size of the challenges facing the industry.

However there have also been some breakthrough moments too, where knowledge and understanding has been shared between advisers, licensees and life insurers. I think it's fair to say that a greater understanding of the varying perspectives of these parties has occurred throughout the process.

This is in no small part thanks to the leadership shown by the AFA – and to the FSC members whose businesses range across the broad spectrum of the life insurance and advice industries.

All parties have been diligent in assisting John Trowbridge during his inquiry process.

I'm not going to steal any of John's thunder – he will be presenting his findings shortly – other than to say this has been a meticulous process which has retained the integrity of independence.

John has analysed more than 130 submissions and conducted 100s of hours of interviews with a broad range of stakeholders, from consumers to regulators - and right across the industry at every level.

I think it's fair to say that he's looked under every rock – and then turned some over for another look.

Why does all this matter? Why as a community, are we so bothered to ensure life insurance is in a healthy state?

It matters because life insurance is crucial to a functioning and self-reliant community. Life insurance, trauma insurance, income protection insurance, total and permanent disability insurance – these are all critical pillars to assist us from sinking in times of personal stress.

Life insurance provides the financial means to preserve our way of life, or that of our families, in the event of accidents, serious illness or death.

It's probably not fashionable to say this right now, but there is good news right through the life industry. Many Australians have avoided hardship because they had the right insurance, they had adequate coverage, they had quality advice.

To quote APRA Deputy Chairman Ian Laughlin: *“Life insurance has been a major investor in Australia, providing capital and developing property and infrastructure. And it has provided countless people with financial protection, savings, investments and peace of mind.”*

But while the majority of us insure our houses, our cars and our health - arguably not enough of us insure the things that are even more valuable - our lives, our quality of life and our incomes.

Consumer research by GFK for the FSC found that 83% of us insure our cars – but only 31% of us insure our ability to maintain our financial wellbeing with income protection insurance.

The research also found that

- Most Australians don't understand what life insurance coverage is, or should be
- Two thirds of those who own a life insurance product don't know how much they are covered for, and
- 3 in 4 Australians think life insurance is “death cover”

Arguably we don't have enough of the right insurance

- the underinsurance gap for the 11.5 million working Australians is \$1.1 trillion
- Research by KPMG for the FSC shows that 35% of employed people in Australia have no disability insurance and 19 % do not have any life insurance
- Australians are underinsured by \$11 billion for premature death and disability .
- This provides an insight into the challenge our community faces – we simply cannot afford to continue with such a staggering risk protection gap.

So how do we solve this?

Change is necessary to help our industry re-gain the trust of the community.

We need to put some key changes in place to remove the misaligned incentives that drive poor behaviours.

We need to move quickly to the goal of financial advice becoming a profession, with higher education standards and a robust ethical culture.

The theme of our conference today is EVOLVE, which is pertinent.

While we do make and distribute some really good and innovative products – like technology that will drive the next iteration of products and service delivery, particularly in direct life insurance - the life insurance industry needs to move towards a culture of innovation.

At the same time, it needs to be more consumer focused. More consumer friendly.

We need to talk to Australians in a clear and transparent way about the importance and the value of life insurance beyond death cover.

Do we accept that life insurance forever remains a “sold not bought” product?

Our aim should be that more Australians seek out life insurance because they keenly understand its value and importance in protecting their most valuable assets – their lives and their livelihoods.

And as we in the industry have taken the initiative for change for a better-functioning life insurance sector – it’s also timely, with the Tax White Paper out on Monday, to call for the removal of external barriers.

Last week, the Federal Government did the right thing by consumers in overturning the three-year cap on unclaimed monies in “lost” bank accounts and life insurance policies, and reverting to seven years. This was particularly significant for older Australians – and we support the Government’s actions.

However more reform – most particularly to state stamp duty on life insurance - is critical.

State stamp duties are some of the most inefficient taxes in the country and must be removed.

They can be regressive, they create unnecessary complications and are an administrative nightmare for insurers.

Each jurisdiction in Australia has a different regime for the collection of stamp duty on life insurance policies. Members of different group insurance products residing in different states must be accounted for by insurers who must calculate each and every member’s stamp duty liability. For a country of 23 million people – 11.5 of whom are working – this is untenable.

It adds millions of dollars to the costs of doing business for insurers – which ultimately impacts on consumers.

Stamp duty on life insurance serves no purpose other than to create barriers to a more efficient and more sustainable life insurance industry – and we urge state governments to drop them.

However we do not have unrealistic expectations. We know this reform cannot be achieved in isolation.

Accordingly we are working on a policy for holistic structural tax reform which will be a core component of the FSC’s response to the Federal Government’s Tax White Paper and Federation White Paper.

Conclusion

Before we start the official program, there are a number of features of the conference I need to tell you about.

The Four Seasons provides free wi-fi with unrestricted access to all delegates, event attendees and visitors throughout the Conference.

There is also an “app” available containing all the information on the Conference. If you haven’t already done so, simply search FSC Evolve in iTunes to download. Finally, please use the Life Insurance twitter account - @FinServCouncil and #fsclife to post your questions for the Plenary Sessions.

Now Ladies and Gentlemen, please welcome our first panel discussion with John Trowbridge – independent Chair of the Life and Advice Working Group, Peter Kell –Deputy Chairman of ASIC; Geoff Summerhayes – CEO, Suncorp Life and Brad Fox – CEO of the AFA.

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