

SALLY LOANE, CEO, FINANCIAL SERVICES COUNCIL

FSC Life Insurance Conference

Wednesday 21 March 2018

Welcome everyone. Thank you all for making the time to attend when there is so much focus on this industry and the financial services sector as a whole.

A special welcome to our speakers for their contribution to the debate today and to our sponsors for this event – particularly EMLife – our platinum sponsor and newest member of the FSC. I'm also pleased to announce that EMLife is the first third party provider to adopt the FSC Life Insurance Code of Practice.

Thanks to our other conference partners; Bravura, DST Systems, SCOR, MVMT Rehab, GCS Agile and our award partners TurksLegal, RGA & SKL Actuarial.

I would like to acknowledge and pay my respects to the traditional owners of the land on which we meet – the Gadigal people of the Eora Nation.

Thank you for attending our Life Insurance Awards dinner last night at the Ivy and well done to the award winners in the individual categories; Jenny Oliver and Ashton Jones from TAL and Julie-Ann MacCormick from CommInsure; and also in the group categories; AMP Life and MLC Life Insurance.

The FSC's annual Life Insurance Conference is the leading event on the financial services calendar for the industry.

This year marks our eighth conference since our inaugural event in 2010.

Year on year we've showcased the work that all of you do to make this a better industry so we can continue to improve and go above and beyond in serving our customers and their families at their time of need.

It's also a time when we come together as a sector to debate and discuss the issues we face.

Our sector is often misunderstood by people who don't live and breathe the complexity that comes with delivering life insurance.

I want to set out some facts about life insurance and make some strong commitments to you, our members, and to the millions of Australians who are protected by life insurance.

Temperature check

Last year the Parliamentary Joint Committee Inquiry was focusing our minds. The Inquiry has gone for 18 months - our team has continued to provide evidence to it and has been working hard to rebuild trust and confidence in the sector.

Today, we will hear from the Honorable Kelly O'Dwyer, the Minister for Revenue and Financial Services, the Minister for Women and the Minister Assisting the Prime Minister for the Public Service, Senator Deborah O'Neill, the Deputy Chair of the Parliamentary Joint Committee on Corporations and Financial Services, and Jason Falinski MP, a member of the Committee.

They will no doubt address the themes that will emerge in the Committee's imminent report.

One has been the use of genetic tests.

The FSC has a standard governing the use of genetic tests by life insurers. It was developed in 2002, with advice from geneticists, with whom the FSC has continued to consult. The industry self-regulatory regime ensures Australians can feel confident if they wish to participate in medical or university research. As an industry, we understand the value of research. Australia is well placed to be a world leader in genetic research and the life insurance industry does not want to stand in the way. That was true then, and it remains true today.

Given that, I want to propose a new way.

This week I've written to Minister O'Dwyer and Health Minister Greg Hunt to suggest the formation of a Genetics and Insurance Advisory Council, to discuss future policy.

The proposed Council would gather policy makers, geneticists, health professionals, life insurance representatives and other stakeholders to discuss what framework would best give Australians confidence to take part in clinical research and to take a predictive genetic test for their own health reasons, if they choose to do so.

The framework would also need to ensure that the life insurance industry is sustainable with no material adverse impact for consumers.

I'm not proposing a talk-fest. It's about identifying the points of agreement, the points of difference and agreeing a way forward.

The last three years – especially the past 12 months have seen radical transformation in the life insurance sector. Let's not underestimate that. Radical transformation.

Here are just a few of the highlights (Slide 1):

The FSC Life Insurance Code of Practice

Last June, the FSC introduced the industry's first ever Life Insurance Code of Practice for consumers. The Life Code was a recommendation of the 2015 Trowbridge Review into the life insurance sector.

The development was an important foundation in ensuring consumers can trust the Life Insurance products they buy and the standards of service they can expect from the companies (you, our members) that sit behind them.

The Code was subsequently strengthened with new foundation minimum standard medical definitions for cancer, heart attack and stroke for use in trauma/critical illness policies.

They will be under continual review to ensure they remain in line with Australia medical practice.

Life Code Compliance Committee

Every firm which has signed up to the Code is held to account by the independent Life Code Compliance Committee (LCCC).

Non-compliance with the Code can result in strong sanctions:

- requiring rectification steps within specified timeframes;
- a formal warning;
- requiring a Code compliance audit;
- corrective advertising or written acknowledgment of a breach to impacted customers; and
- publication of non-compliance on the insurance provider's website and the FSC website.

The Committee of three is administered by the Financial Ombudsman Service and comprises a representative from industry, a consumer representative and an independent chair, Ms. Anne Brown.

Ms. Brown has extensive experience in risk management having previously been chief risk officer for the Australian Securities Exchange (ASX) and general manager of risk and compliance at the Sydney Futures Exchange for a combined total of nine years. Prior to those positions she has also held senior auditing roles with KPMG both in Sydney and the UK. She is currently a non-executive director of the Clean Energy Regulator and is a member of ASIC's Markets Disciplinary Panel (MDP).

The other members of the committee are David Goodsall, a 30-year veteran of the financial services industry, and Alexandra Kelly, the principal solicitor of the NSW-based Financial Rights Legal Centre – Alex is taking part later this morning in our panel debate on the Code.

The members of the LCCC are all here today and I know they are looking forward to meeting as many of you as possible.

Second version of the Code – (Slide 2)

Although the first version of the Code has only been in place for nine months, work is well underway on the second version of the FSC Life Code of Practice. That's why we're holding a key panel debate on the Life Code and how we can move it forward. You can take an active part in that debate and I would encourage you to pose questions to the panel through the App.

We're looking to get Code 2.0 out for public consultation later this year with it coming into force by 1 July 2019.

ASIC registration of the Code

One key question is about getting ASIC approval of the Code. We're meeting with ASIC regularly to discuss this, but we'd like to hear your views - there's a specific question in the APP.

ISWG

At the end of last year the Insurance in Superannuation Working Group published its voluntary Code of Practice for trustees who have until March 31 to say whether they intend to adopt it. We have a panel discussion this afternoon on Group insurance and I'm sure this will be a hot topic.

LIF reform

The Life Insurance Remuneration Arrangement Bill 2016 which emerged from the Trowbridge review limits upfront commissions to advisers and licensees as well as banning conflicted remuneration provisions on life insurance products.

Work is ongoing on solidifying the second part of the LIF reform, the Professional Standards of Financial Advisers Bill 2016, which raises professional and educational standards for financial advisers, overseen by an independent standards setting body, the Financial Adviser Standards and Ethics Authority (FASEA).

Yesterday the Standards Authority released for consultation its proposed guidance on all **education pathways**, including **degree equivalence** for existing financial advisers, as well as a draft **code of ethics**.

APRA/ASIC Claims handling data collection

More than 12 months ago ASIC tasked the industry to address our data issues, stating that there is “a clear need for better quality, more consistent and more transparent data about insurance claims.”¹

ASIC recommended the establishment of a “consistent public reporting regime for claims data and claims outcomes, including claims handling timeframes and dispute levels across all policy types”²

The FSC has been working with APRA and ASIC since early 2017 on establishing a more accurate and comparable industry claims data collection.

Work will continue to ensure that the claims data publication is designed in a way that is easily understood by consumers and does not lead to inaccurate comparisons being made.

Other inquiries and reviews underway - (Slide 3)

Senate Standing Committee on Economics’ inquiry into consumer protections in the financial sector

Although this inquiry is wider in scope than the PJC inquiry into life insurance, our team has provided evidence to the inquiry which it is due to report by June this year.

Productivity commission review of the competitiveness and efficiency of the Australian superannuation system

1 ASIC REP 498 ‘Life claims: An industry overview’ at paragraph 43

2 Ibid.

The Productivity Commission will release its draft report in May, which will include commentary around insurance in super.

ASIC upcoming reports on Direct Insurance and TPD

Later this year, ASIC will release its reviews on Direct Insurance and Total and Permanent Disability.

In working to maintain and strengthen trust in our sector **We need to get better at telling our story, and we do this through:**

Better facts

How much we pay in claims?

- Our industry has paid \$9.5 billion in claims in the last year to help Australians in need³

The people we cover

- It is estimated that 94% of working Australians have some level of life cover with an average cover amount of approximately \$344,500, which is around four and a half times median household income⁴
- 13.5 million individual policies in super⁵
- A total 7 million people have individual insurance⁶
- Group insurance sold through superannuation makes up about 70% of all cover for Australians⁷
- Over 4 million people have individual term life insurance⁸
- Average sum insured for individual term life cover is \$1.4 million⁹

Fronting up

Media and public scrutiny are not to be feared.

We need to continue to front up to interviews, debates, committees and commissions to talk about the value of life insurance and what changes are needed to ensure life insurance continues to improve for consumers.

3 APRA Quarterly Life Insurance Performance Statistics, December 2017, (February 2018).

4 Rice Warner, Insurance through Super, 20 April 2016, www.ricewarner.com/insurance-through-super

5 Ibid.

6 Strategic Insights, Individual risk market - 10 Year review, March 2018.

7 Rice Warner, Insurance through Super, 20 April 2016, www.ricewarner.com/insurance-through-super

8 Strategic Insights, Individual risk market - 10 Year review, March 2018.

9 Ibid.

I can assure you that I and my team don't shirk from any of these public forums and we will continue to do this.

Collaboration

We have a good track record of collaborating within the industry and with stakeholders.

We need to keep having those conversations, and sometimes, they result in having to make hard choices, but we need to make them together.

The FSC has set up a biannual mental health roundtable to bring together life insurance, mental health organisations, and medical association CEOs to work together on solutions to mental health. Life insurance is just one part of the chain in this complex and growing health issue for our community.

And as I mentioned earlier, we have signaled our intention to do the same with geneticists.

Education

According to MetLife's recent Insurance Inside Super research, 74% of consumers are aware that they have term life insurance in super.¹⁰

We need to build on that awareness across distribution channels, be better at explaining life insurance to consumers and think of new, simpler ways that we can empower consumers to make informed decisions.

Engaging with consumers and giving them love

According to MetLife, 6 out of 10 consumers are concerned about insurers paying out in the event of a claim, when in reality over 90% of claims are paid in the first instance.¹¹

Insurers are helping their consumers lead healthier lives through better engagement.

I call these moments of love.

¹⁰ MetLife, Insurance Inside Super, 2018.

¹¹ ASIC REP 498 'Life claims: An industry overview', November 2016.

One of our members, AIA, has seen through uptake of their fitness and wellness program for consumers, 107,000 registered online health checks, 195,000 gym visits and 14 billion steps in the last 12 months - due to trackable data on wearable and mobile devices.

Another of our members, MLC, through their On Track program has seen their customers:

- Averaging 5,980 steps per day
- Top 10 percentile of synced users exceed 10,000 steps in a day
- Nearly 1,500 people have enrolled in the program – 62% of engaged customers are on track to achieved their targets
- In total, since 9 October 2018, program participants have stepped 70.3 million steps
 - This equates to walking from Melbourne to Sydney 40 times

(Slide 4 - Parliamentary Friends of Insurance)

Last year we set up the Parliamentary Friends of Insurance and asked three federal politicians to undertake a fitness tracking challenge. They were surprised at how a simple wearable device can inspire people to take their fitness regime more seriously, and how an increased step count can translate to lower premiums paid.

Ongoing reform

Biopsychosocial research

The FSC has partnered with Mental Health stakeholders, Workers Compensation stakeholders, KPMG and academics to undertake research to improve the identification and understanding the psychosocial factors in mental health conditions which contribute to impairment and absence from work.

This may inform opportunities to improve risk identification at underwriting assessment that can enhance health services to consumers.

The output will contribute towards evidence-based considerations for Underwriting assessment and, impact to Claims Management approaches related to psychosocial factors and their influence on mental health conditions.

The research's interim findings will be a point of discussion of one of our panels today.

What can improve our sector even more?

We continue to advocate for changes that are going to help our industry better help consumers.

Early intervention

If a person is off work for 70 days their probability of returning to work reduces to 35 per cent. This is highly unsatisfactory and needs to change. The FSC continues to advocate for legislative and regulatory restrictions to be removed to allow life insurers to provide greater support to those on claim.

We surveyed members and found up to 12,000 consumers, including more than 5,280 women, could be helped every year if these restrictions were removed. When this happens, everyone benefits – the insured person gets back to wellness sooner, other insured people in the risk pool pay lower premiums, and the taxpayer isn't paying for someone to fall back on welfare benefits.

On red-tape issues

It was 22 years ago when the Life Insurance Act was overhauled – before smartphones, before even broadband internet was widespread. The Life Act has not kept pace with technology and contains out-of-date rules that cause consumers harm.

An example of this is the requirement to advertise in a local paper when a consumer has lost a policy document before a replacement can be reissued. In this day and age a replacement policy could otherwise be reissued in a matter of minutes.

And talking of red-tape issues, one of the biggest is around product rationalisation

Unfortunately, the problem still exists and has resulted in the creation of over 600 legacy structures amongst our members, each of which may contain multiple products, affecting an estimated 2.44 million consumers.

We asked our members to assess benefits that an effective product rationalisation regime would deliver. You told us 38 individual IT systems and 286 life products could be closed. Through these changes they could save \$94 million, money that could be reinvested into building world class insurance products for consumers.

Life insurers are rationalising their legacy products but the process needs support from the Government. Rationalisation of legacy systems was a recommendation of the Financial System Inquiry.

Closing remarks

Today's theme is transformation. Some key questions I encourage you to think about today are:

- What have I learnt that I can use to positively transform my organisation?
- What idea from today can I champion in my organisation that is going to have a positive flow on effect to consumers?

I am proud to stand in front of an industry today that is in better shape than the one I stood in front of this time last year and certainly better than my first in 2015. I want to thank you all for meeting the FSC's reform agenda with enthusiasm and collaboration in the face of complex challenges for your businesses. You will all have had to transform your processes quite significantly in order to meet the new needs placed upon you.

But the pay-off is that we are making major steps forward in strengthening the trust consumers place in our industry which will give us the platform to provide the critical safety net we give to Australians for many years into the future.

Thank you and enjoy the day.

[ENDS]