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General Manager
Policy Development
Australian Prudential Regulator Authority

Submission by email: lifecclaimsdata@apra.gov.au

Dear General Manager

Towards a transparent public reporting regime for life insurance claims information

The Financial Service Council (**FSC**) welcomes the opportunity to provide feedback on the Australian Prudential Regulator Authority (**APRA**) Discussion paper: *Towards a transparent public reporting regime for life insurance claims information* (the **Discussion Paper**).

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

The life insurance industry has paid out nearly \$9.2 billion in claims from period June 2016 to June 2017.

Should you have any questions in relation to this submission, we would welcome the opportunity to discuss this further.

Kind regards



Jesse Krncevic
Senior Policy Manager

Introduction

While the FSC is supportive of increased public transparency around claims acceptance, decline and withdrawal rates and claims dispute outcomes, we would like to continue to work with APRA and ASIC to ensure this information is reported and published in a way that improves transparency and promotes consumer trust.

The FSC and its members seek an accurate comparison of claims data between the industry members. It is important for distinctions to be made between portfolios including product lines, business mix, policy tenures between open and closed books, shorter or longer waiting periods, as well as personal and demographic characteristics such as age, gender and occupations. Factors such as these, make a like-for-like comparison challenging and will dilute any objective interpretation for the reader, who is ultimately the consumer. We support accurate information being accessible *subject to such information* being easily understood by consumers and not being prone to lead a consumer into error or acting on an erroneous interpretation or assumption. FSC undertook consumer testing on the presentation of insurance data to assess what *type* or *level* of information was engaging and useful – we set out some of the findings of the consumer testing in this submission. We agree with APRA’s statement that:

*Credibility of data is critical. Transparency only drives accountability ...if the comparisons being made are meaningful, based on reliable and consistent data.*¹

We are encouraged that APRA and ASIC have made the commitment that no claims data will be published until Phase 2, once there is confidence that the products and underlying statistics are comparable. We also welcome the commitment to provide sufficient context to effectively inform consumers. As stated in the fourth *Insurance in Superannuation Working Group (ISWG) Discussion Paper Data management* released 27 July 2017:

*The current APRA and ASIC data collection initiative for life insurance claims, aiming to collect consistent, reliable and comparable data, is welcomed by the industry but it is paramount this information is reported in a way that builds confidence in the importance of life insurance across the community.*²

As part of this submission, the FSC has outlined the importance of providing consumers with relevant information about claims in a format that can be easily understood, free of industry jargon and complexity.

The FSC and its members see value for consumers in an industry-led solution for the claims data collection and publication.

¹ APRA Discussion paper: *Towards a transparent public reporting regime for life insurance claims information*, pg. 8.

² ISWG Discussion Paper *Data management* (released 27 July 2017). The Insurance in Superannuation Working Group was formed in November 2016 and is represented by industry bodies, a consumer representative, and representatives from funds and insurers.

Scope and design of publication

The life insurance industry has been working expeditiously to provide APRA with the underlying data necessary to begin the process of reporting. Members are supportive of an initiative that allows industry to show claims performance, given the importance of this data to consumers.

Insurers exist to pay valid claims when the risks insured by customers happen. Given this, FSC members consider it essential that APRA's life claims publication effectively help provide policy holders and other stakeholders with transparency in how different types of life products and channels meet valid claims made by policy holders.

The report should also clearly demonstrate the proportion of declined claims and explain in concise terms the circumstances where this occurs.

Primary data, already published by APRA, such as the Quarterly Life Insurance Performance Statistics, already helps demonstrate the aggregate value of claims paid to policy holders. Summaries of financial performance, financial position, solvency, capital adequacy and management capital, as well as details of the performance of individual product groups also help readers of the report better understand the level of confidence that they can have in the life insurance industry.

Despite the publication of this data, life insurers continue to feel the impact of reduced confidence in their industry. APRA's 4th May 2016 letter to life insurers, noted "recent publicity alleging that inappropriate handling of claims and out of date definitions have disadvantaged claimants." As you will be aware, analysis by ASIC did not find a *systemic* industry problem in relation to industry meeting claims, albeit ASIC made suggestions for improvement of claims management.

Despite this ASIC finding, and the work many insurers have done to strengthen their offer and claims handling practices, industry is continuing to place significant importance on rebuilding the level of confidence that consumers expect given the financial commitment they make to paying for cover.

Indeed, with regard to retaining existing and future customers, insurers have the primary role in retaining consumer confidence in the sector and its offering. Alternatively, reduced consumer confidence impacts on the take up of life insurance cover which in turn reduces the ability to effectively pool risk (greater pooling benefits pricing) and offer customers affordable life insurance cover.

APRA's role as a prudential regulator is also well aligned to this objective around stability and confidence. ASIC's focus on consumer outcomes is also served well where the industry is able to show the benefits to consumers who hold life insurance and carefully and transparently explaining and contextualising the circumstances where claims may not meet the policy terms (and therefore are not valid claims).

Responsible insurance portfolio management, a strong and supportive prudential framework, and the ability to retain consumer confidence are essential components of a stable life insurance industry. In seeking to lift consumer confidence, APRA's objective of developing credible, reliable and comparable data, as outlined in the Discussion Paper, is the correct starting point.

In recent years, it might be argued that isolated claims the subject of media reports have had a disproportionate impact on public perception of claims management by life insurers than supported

by claims management statistics – ASIC Report 498³ noted that industry statistics indicate that the considerable majority of claims (approximately 90%) were paid in the first instance. In our view, the industry should do better to educate stakeholders of the number and extent of claims met, for example in the last year, the life insurance industry paid out nearly 9.2 billion in claims.⁴ The industry believes overall it can better explain how many claims are met or denied including the typical circumstances of claims that are rejected.

Improvements in this information, including at the individual company level, would also be valuable for financial advisers working with clients, for superannuation trustees working with their members, and for policy makers and regulators assessing the industry.

In other jurisdictions, industry associations have seen challenges in effectively communicating this information. For example in the UK, the Association of British Insurers (**ABI**) collects and publishes life insurance claims data as part of its service to members.

This information is reported on by the press. Recent updates made by the ABI, such as those made in May 2017 to the calculation and reporting of income protection claims, have been designed to further improve transparency and accuracy.

Despite several years of iteration in collating and reporting claims data, we note that some British insurers still believe that more refinement will be necessary to ensure accurate reporting of claims performance by the industry.

In Australia, the industry is keen to avoid similar circumstances where claims performance of different products, channels, or issuers is ambiguous, misunderstood or mischaracterised in public reporting, or risks leading consumers into error in relation to action they may consider taking in relation to life insurance.

We believe insurers must work closely with the regulators to carefully explain and educate the community as to what the data means when considering their insurance options. This approach should assist in reducing the risk that statistical reports of the data provided by life insurers to APRA are not misused and do not mislead the public or consumers into error. **It is important to ensure consumers are not led to cancel or change insurance cover on a misinformed or uninformed basis (perhaps on impulse, without advice) or seeking to change life insurers, without understanding the impacts of that decision:**

- such as automatic acceptance limits – for default group cover
- at work requirements or other conditions required to be eligible for cover (e.g. recent contributions)
- for individual underwritten cover, whether similar cover could in fact be obtained in light of the consumer’s age or health status or whether cover could be replaced/obtained on similar terms (if at all).

³ ASIC Report 498 *Life insurance claims: An industry review* (October 2016), page 4

⁴ APRA Quarterly Life Insurance Performance Statistics – June 2017 (released in August 2017)

APRA reporting on claims performance offers the opportunity to industry and the regulator to go beyond traditional approaches taken in these types of statistics. That is, we believe this data has a significant purpose beyond traditional supervisory and industry uses. Given this we recommend that APRA work with life insurers to present the data in a format which is simple and engaging for consumers particularly (as well as other stakeholders).

The integrity of data which is publicly reported in relation to claims is very important, given the interest in, and the use which may be made of the publication (including, potentially, decisions in relation to insurance by consumers). We therefore suggest to ensure veracity of the claims data lodged with APRA and publicly released, **that claims data submitted to APRA be required to be approved and signed off by the most senior executive responsible for Claims** at the life insurance company (typically this role would be titled “Head of Claims”, however other titles or descriptions may be used by different insurers). This requirement could be stipulated in a Prudential Practice Guide (or instructions to the relevant APRA form).

Recommendation 1:

APRA work closely with industry to design, develop and consumer test a claims publication that enhances public confidence in understanding credible, reliable and comparable information on life insurance claims performance. This should occur prior to any public release of data.

Recommendation 2:

To ensure the integrity of claims data submitted to APRA (and ultimately released publicly by APRA and used by stakeholders, including consumers), **claims data be required to be approved by the most senior executive responsible for Claims (e.g. head of Claims, Chief Claims Officer or General Manager – Claims, etc.)** prior to lodgement with APRA.

Recommendation 3:

Insurers be provided with company and industry statistics, ***in advance (at least four weeks prior)*** of APRA’s public release of claims publications, to ensure that insurers may have time to understand the data for their own communication purposes (e.g. for clients, financial advisers and media) and to help inform public policy.

Claims data – initial consumer testing

Purpose of the consumer testing exercise

The FSC has undertaken consumer testing in relation to the presentation of claims data. The objective of the consumer testing included:

- to test consumer reactions and understanding of claims performance & comparison data;
- ascertaining which data has most relevance to consumers and the format of data most useful to consumers; and
- assess the proposed data against consumer expectations and perceptions.

We note that any draft standards on public reporting of claims should be subject to further consumer testing, and consultation with industry, before being finalised. This is because the reaction and understanding of consumers of claims data is likely to be heavily dependent on the form and context of the data.

Some of the findings and observations from consumer testing

The consumer testing provided some useful insights into the presentation of claims data to consumers.

The consumer testing conducted by the FSC indicates consumers are more likely to engage with simple charts, as opposed to data tables. Information presented as percentages were preferred to absolute numbers.

Where consumers were showed claims acceptance rates alongside claims denied (with brief categories of reasons for denial), perceptions of the life insurance industry improved as the level of acceptance rates was higher than consumers had expected.

Explanations of the reasons for claims denied offered clarity and insight into the way claims are assessed.

Where data was voluminous or presented in tables, this was less engaging and less well understood than charts.

Consumers were shown charts on *Number of Claims*, *Number of Claims Disputed* and *Number of Claims Denied*. The *Number of Claims Disputed* (as opposed to Accepted out or Denied) was considered to be less useful/valuable than information about the *Number of Claims* and *Number of Claims Denied* and *Claims in Dispute* was considered to be least relevant to a consumer's personal situation.

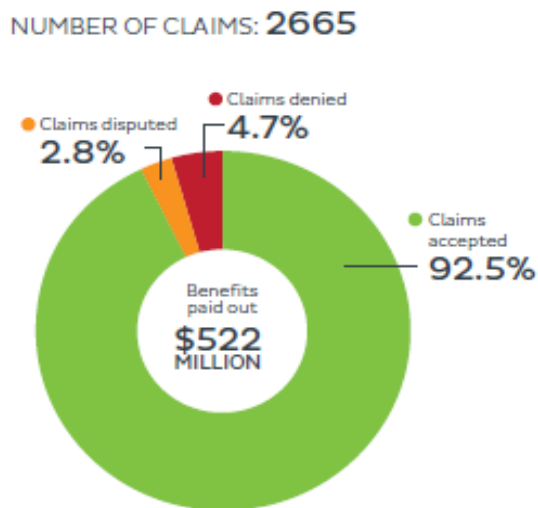
We believe many consumers are likely to assume that all life insurance products are comparable, e.g. Total and Permanent Disablement products from two different providers may be assumed by consumers to have substantially identical benefits and exclusions, which may not be the case. It is essential that any claims data is only presented where comparisons are reasonable or clear and

concise explanations are provided as to limitations of comparisons (such as where policies have different benefits and terms).

Tables splitting out channels between advised and non-advised were less easily understood by consumers (although we accept that claims data is also presented for other stakeholders).

Below is a sample of some of the material tested in the consumer testing and findings. The consumer testing included testing of the form and format of presentation of the data. The figures presented in the consumer testing represented data from one of FSC's members to ensure the presentation and figures consumer tested were realistic and relevant.

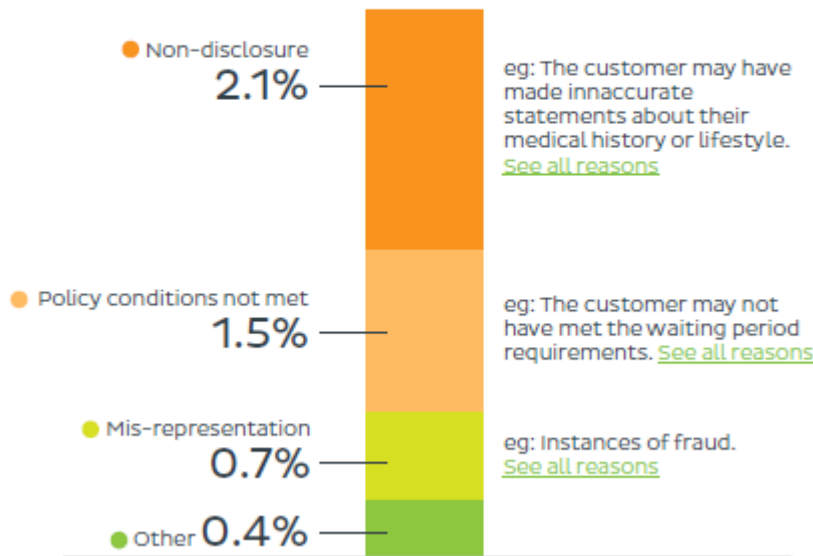
Presentation of Number of claims (advised)



The presentation in the above format reset expectations, in that it became apparent to consumers that the vast majority of claims are accepted. Percentage data had more value than “total” numbers.

Presentation of Number of claims denied (advised)

NUMBER OF CLAIMS DENIED: 125

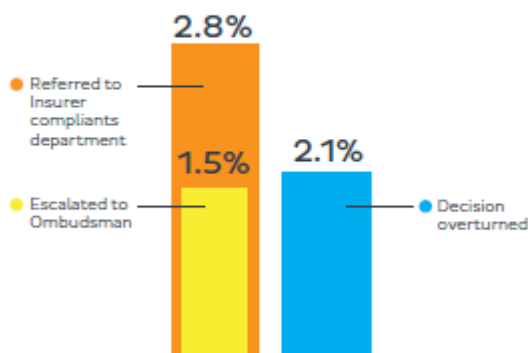


The examples of the reasons for denial assisted in explaining reasons why a claim may not be valid/denied. This prompted consumers to think of questions for their provider to ensure full disclosure to mitigate the risk of claim denial.

Presentation of Number of claims in Dispute (advised)

Information in relation to claims disputed was least valuable to consumers. The information was not relevant to the individual's personal situation. The information was prone to misinterpretation or confusion.

NUMBER OF CLAIMS DISPUTED: 75



Other information – tables of data

Information presented in tables by product type and channel (advised, non-advised) were considered more difficult to comprehend.

FSC would be pleased to meet with APRA to provide more information in relation to the initial consumer testing.

Alternative approaches to Phase 2 data collection

The FSC is of the view that an industry-led approach for the collection and publication of claims data would be beneficial for consumers. The FSC is currently in the process of evaluating proposals from consultants to provide such a solution. The FSC will continue to consult with APRA and ASIC on any developments.

In regards to publication, the FSC believes that there is merit in the industry hosting the industry aggregate claims publication on its own website. This would allow consumers to access information about life insurance in one place, including the FSC Life Insurance Code of Practice, education materials about life insurance and claims data information.

Information about individual insurer's claims experience, should be hosted by the individual insurer on the individual insurer's website with a cross-reference/link to the aggregate industry claims publication on the FSC's website. We think that having individual insurer's publish their own claims experience data on their website, will allow the insurer to provide additional information, context and explanations in relation to the data. We do not support information about individual insurer's claims experience being uploaded with industry aggregate information as this risks comparisons which are not on a like for like basis (for example, different product terms may result in different experiences on claims accepted and denied).

In the UK, the ABI only publishes life insurance claims data on an industry aggregate basis. The reason for the ABI adopting this approach was that it came to a view that it would not be making appropriate comparisons between insurers.

In summary, we submit that:

1. Industry *aggregate* data should be housed on the FSC website alongside the Life Insurance Code of Practice and educational material on the life insurance industry – this assists consumer engagement and understanding in collating this package of information in a single location.
2. Each insurer should house that insurer's claims data on their own website, this would allow the insurer to provide more information to the consumer on their individual claims experience. A cross-refer/link to the FSC website for industry wide *aggregate* data would also be available to the consumer.

Recommendation 4:

- The collection and publication of claims data should be industry led, but reported to APRA. This approach would be beneficial in assisting education of consumers in providing claims data information alongside educational material in relation to life insurance (alongside the FSC Life Insurance Code of Practice) as well as, importantly, the need to consider carefully any decision in relation to life insurance (particularly any changes to life insurance).
- With an **industry led** process for the collection and publication of claims data, the information should of course be reported to APRA by insurers and subject to the usual requirements of lodgement of APRA returns (ensuring accuracy and veracity of information lodged).
- The industry led process should include a governance and liaison process with the regulators to ensure efficient, relevant and accurate information is provided, and that where care must be taken in the use of information, that is clearly explained (for example, different product terms, conditions or exclusions).
- Aggregated industry data should be housed on FSC's website.
- Individual insurer claims data should be published on the insurer's own website using an industry standardised format, with a cross-reference to FSC's website with industry aggregated claims data.

General – presentation and context on APRA publications on claims

Given the complexity of the life insurance industry, we strongly suggest that APRA/ASIC work with industry to provide useful information/context and disclaimers in relation to the use of claims data. We also suggest that consumer stories/experience may also be incorporated to assist consumer engagement.

We look forward to working closely with APRA as the claims data project develops, in particular to ensure the appropriate relevance, comparability and use of information, as well as clear explanations of care required in the use of claims data (where there may be limitations in use due to differences in product terms).