

## **SALLY LOANE, CEO, FINANCIAL SERVICES COUNCIL**

### **FSC Life Insurance Conference**

**Wednesday 16 March**

Welcome everyone.

A special welcome to our speakers for their contribution to the debate which is ahead of us today and to our sponsors for this event – particularly Bravura – our platinum sponsor and long term supporter of the FSC.

I would also 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.

I do want to thank you for attending our Life Insurance Awards dinner last night at the Ivy and congratulations to the award winners Fiona Guscott, Alexis George, Rhiannon Wilson and company winners including AIA, Sunsuper, BT Financial Group and ANZ Wealth. So congratulations to all of the winners from last night.

The FSC's annual Life Insurance Conference is when we can come together as a sector and debate and discuss the issues we face.

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

This time last year I spoke about the importance of life insurance becoming a more customer and consumer-centric business. So did many speakers.

At the time we recognized that more needed to be done. We embarked on a package of reforms. Since then, the industry has undergone unprecedented change – and also a lot of scrutiny.

Recent media reports of unacceptable customer experiences have resulted in a Senate inquiry and the Assistant Treasurer Kelly O'Dwyer initiating ASIC reviews into CommInsure and the broader life insurance sector.

Our industry takes these issues and this examination by Parliament and the regulator extremely seriously.

People have been let down and trust has been damaged. I deeply regret this has happened. We are working hard with all of our members to rebuild trust and confidence in life insurance.

Many of our members have moved quickly to instigate their own internal reviews, particularly into denied claims and policy definitions.

CommInsure has embarked on a number of initiatives including establishing an independent review panel for complex declined claims, more regular reviews of medical definitions so that they reflect evolving medical standards, and an independent investigation into ethical concerns.

As well, the FSC has been consulting with a broad range of stakeholders over many months developing a Code of Practice which will cover how insurers deal with consumers. Shortly I want to update you on our Code of Practice and announce a development for strengthening its consumer protections.

I will also explain how life insurance, when it works well plays a critical role in helping Australians protect their most valuable assets - their lives and their livelihoods.

This time last year John Trowbridge announced the findings of his work and his recommendations. As you know, John, a former APRA member, independent expert and actuary, was commissioned by the FSC and the AFA to review the sector in the wake of a damning ASIC investigation into retail life insurance advice.

The Trowbridge Report made wholesale recommendations to reform the industry including amending remuneration arrangements between insurers and advisers to minimize conflicts of interest. His report, along with often intense industry negotiations, including with the AFA and the FPA, resulted in significant reforms, most of which are laid out in legislation before Parliament.

#### **WHERE IS THE REFORM PROCESS UP TO?**

##### **Remuneration and Adviser Standards:**

The Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016 considerably reduces high up-front commissions. It also seeks to improve the quality of advice consumers receive by regulating conflicted remuneration while at the same time recognising the value of advice and the important role of advisers and life insurance advice.

The Bill has bipartisan support and is currently before Parliament. We urge its swift passage. It is a critical step in reforming our sector and if passed, will come into law in July this year.

The Life insurance reforms are also being supported by broader reforms to increase adviser education, training and ethical standards.

In a Bill expected to be introduced this year, financial advisers will be required to hold a degree, undertake a professional year, pass an exam, undertake continuous professional development and comply with a Code of Ethics.

These are positive reforms which will raise the standards required of financial advisers and support quality of advice outcomes.

As well, the industry is currently undertaking work to widen Approved Product Lists through the development of a new industry standard, in response to a Trowbridge recommendation.

ASIC will also be undertaking a review of Statements of Advice with a focus on life insurance in the second half of 2016, to make disclosure simpler and more effective for consumers.

**The Code of Practice:**

A parallel and equally important part of the Life Insurance Reform Package has been the development of a Code of Practice for insurers and consumers.

As part of the industry's response to the Trowbridge review, the FSC committed to having a Life Insurance Code of Practice in place by 1 July 2016.

The Code contains binding obligations that life insurers owe to consumers. The objectives of the Code are to commit insurers to high standards of customer service, and to improve trust and confidence in the industry.

The Code will be an FSC standard, which means it is mandatory for our members. Almost 100 per cent of life insurance premiums are written by FSC members.

The Code will have extra robust governance via an independent governance framework, with compliance monitored by an independent committee of experts, including a consumer representative.

This independent Committee will sit outside the FSC.

This is the process that other financial services use to great success, as it ensures effective and transparent compliance.

In the eight months we have been developing the Code of Practice we have held broad and deep consultations with a range of consumer and community groups and other stakeholders, including our members.

The process of developing the Code has involved regular meetings of an FSC Working Group made up of senior representatives from life insurance companies covering direct, group and retail segments.

The consultation process included workshops held in January to work through feedback and included engagement with consumer organisations, peak industry bodies, advisers, legal aid and plaintiff lawyers, groups working with Indigenous communities, the Ombudsman, and relevant regulators.

The draft Code today is a robust document, with good consumer protections.

However, in light of the recent issues – including some criticism of our sector's ability to self-regulate - I want to make an announcement about the strengthening of our Code.

In order to ensure consumer protections are even stronger, we will add a Steering Group to our Code development process which will include consumer representatives, the Financial Rights Legal Centre and the Consumer Action Law Centre, as well as senior life insurance executives.

The consumer representatives will work closely with our members to identify where we need to strengthen consumer protections in our Code.

Our Code is a living document, and will be updated as relevant.

We have committed to getting the Code drafted and ready for implementation by 1 July this year.

We won't rush out with something that's underdone – however we recognise the imperative of getting our Code in place sooner rather than later.

The Code has always been an important part of our commitment as an industry to strengthen community trust and confidence in life insurance.

As an FSC Standard, and mandatory for our members, it will be the fastest and most effective way to achieve this.

We have a responsibility to be a more customer-centric industry than we have been in the past. You will hear more today about how members are achieving this.

**This morning I also want to set out some facts on life insurance.**

There is still not enough understanding of what it is, what it covers, and its great value to our community when it works well.

**State of the industry**

APRA currently lists 28 life insurance companies in Australia which include seven reinsurers. The life insurance industry paid 7.7 billion dollars in claims in 2015.

**So what is life insurance and why do we have it?**

Life insurance helps protect Australians against the economic impacts of premature death, as well as long term or short term illness, injury or disability that impacts their ability to earn an income. It is arguably the most important financial protection a person can obtain, yet Australians don't have a good understanding of what life insurance is or its benefits.

The FSC -MetLife 2014 *Apathy to Action* Report found that most Australians – three out of every four people surveyed – think of life insurance as “death cover” rather than the range of protection solutions available. The least recognized product was income protection, with only one in four people associating income protection with “life insurance.”

We want more Australians to become actively engaged with life insurance – particularly risk products which provide for contingent payments on death, disability or other traumas during the term of the policy – so they can make informed decisions about the products that are specific to their needs.

In the interests of clarity, let me define these products.

1. **Life Insurance Death Cover** pays a lump sum to a beneficiary such as a partner or child upon the death of the policy holder.
2. **Total Permanent Disability** – known as TPD – pays a lump sum if the client becomes totally and permanently disabled.
3. **Trauma** provides payment if a person is diagnosed with a specified illness or injury. These policies include the major illnesses or injuries that will make a significant impact on a person's life, such as cancer or a stroke.
4. **Income Protection** replaces the income lost due to a person's inability to work due to injury or sickness.

**It is important consumers understand what they're covered for and how they access life insurance.**

The distribution of life insurance products can be categorized into three key market segments—group, retail and direct insurance.

The distribution channel determines the degree of advice received by the consumer before purchasing a product and can impact the way in which the product is underwritten, the product features that are available, and the level of financial advice the consumer receives.

Life insurance can be bought in three key ways:

1. **Group Insurance** is typically offered as a benefit to employees through superannuation. Group insurance policies generally cover Death and TPD Cover and may have the option to include other types of cover.
2. **Retail Insurance** products are tailored for the consumers' personal insurance needs and circumstances and are based on advice and recommendations given by their financial adviser and require underwriting.
3. **Direct Insurance** customers access life insurance products through a general advice distribution model, typically delivered through call centres or online websites.

**I want to briefly explain underwriting, which is an important part of a consumer's understanding of life insurance.**

While consumers find filling out insurance forms sometimes tedious, the process is critical in determining the level of insurance coverage and the cost of premiums.

Underwriting requires an interaction between the policyholder and the insurer to examine many complex areas such as medical history or any existing medical conditions, personal circumstances and stage of life, as well what the policy can and cannot cover.

It is the process of assessing risk and ensuring that the cost of the insurance for an individual is proportional to the risk involved so people with the same or similar risks pay similar rates reflective of their risks. The main purpose of underwriting is to limit anti-selection rather than risk pricing.

An insurance company will assess the risk associated with an individual and decide whether or not to accept the application, and if they can accept it, whether the premium needs to be increased or some medical conditions excluded.

The life insurer only gets to do this once – so when the policy is set, provided consumers continue to pay the premium, they will be covered on the same terms as they were when the cover began. Consumers also have a duty of disclosure to disclose relevant information to the insurer before the contract is signed.

**Finally, I want to return to the Code of Practice.**

We are developing this Code to show how serious we are about improving our industry for the benefit of customers and consumers. We want to re-build trust. We want Australians to understand that life insurance can, and does, measurably improve lives.

The Code of Practice for Life Insurance is being built on some fundamental principles: honesty, transparency, fairness and timeliness.

Improved disclosure and communication with consumers will be a central tenet of the Code. When a customer takes out a new policy, or when there are changes to a policy, key information needs to be provided in plain language, so they can properly understand what has been bought.

The claims process is fundamental to the customer experience, when people are at their most vulnerable, so this has been a strong focus of our work in developing standards and will continue to be so.

We are looking at the sort of additional support that vulnerable consumers may need if they are having difficulty with the process of buying insurance or making a claim. This could include identifying and supporting people suffering from mental illness, elderly customers, those who require the use of an interpreter, people living in remote communities, or customers with low levels of literacy.

Financial hardship has also been an area that has been raised in our consultations, so we are looking at options available to consumers if they are having trouble meeting premium payments, or if they are suffering urgent financial need while a claim is being assessed.

The FSC will work with the industry throughout the transition period to assist members, in line with the Code, to ensure a high level of compliance.

We support self-regulation. Waiting for regulatory intervention can cause delays. The Code gives the industry the ability to update standards quickly to deal with changing conditions.

**In Finishing:**

The bedrock of financial services is community trust and confidence. Our sector has been shaken, but we will rebuild trust.

The Code of Practice is our signature response to improving industry practices. It will deliver better outcomes to consumers and customers of life insurance.

I want to be clear that we stand behind the value of life insurance.

Our members' websites carry testimonials from their customers as to how life insurance protected them and their families after a personal or health crisis.

Today is a good opportunity to face into our issues, to learn from the past, examine what we've done well, and ensure we don't repeat what we haven't.

The industry is facing many challenges, including the growth in claims for mental illness. We recognise this, we are trying to find out why this is occurring and to look at the preventative side.

We are talking to mental health community organisations to understand the best ways of enabling people to return to work in good health as soon as possible.

The FSC has developed a Mental Health Standard for our members to ensure life insurers who provide information to consumers receive an appropriate level of education and training in awareness of mental health.

We are advocating for the removal of current legislative arrangements that prevent life insurers from offering targeted rehabilitation benefits, such as additional support from specialists, like psychologists and psychiatrists.

We support the work of SuperFriend and the introduction of a new framework for management of mental health claims.

Getting to grips with the growing issue of mental health takes a community-wide commitment. As part of the community, life insurers – like employers - can play an integral role in helping people with mental illness back to good health and work as quickly as possible.

We will address this issue today – along with many other issues of critical importance to our sector, including the very positive impact of technology, a discussion on our Code of Practice and we'll talk about longevity and sum up with the future and where we are heading as an industry.

**You can spread the word – and follow the conversation on Twitter – #FSCconf.  
Questions for the sessions must be sent via SMS on 0434 566 764.**

Have an enjoyable conference.

Thank you.