

PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES INQUIRY INTO  
THE LIFE INSURANCE INDUSTRY

Sally Loane, CEO of the Financial Services Council

Opening Statement

Thank you for the opportunity to appear before the Committee.

Life insurance provides vital financial support to preserve the way of life of millions of Australians in the event of an accident, serious illness or death.

One thing that has been lost in the current debate about the life insurance industry is a discussion about the purpose of life insurance.

Life insurance is not like banking - it is not transactional.

What a customer is purchasing with their premium, is the transfer of risk to the private sector.

The risk absorbed by the insurer is that if the customer becomes sick, disabled or dies – consistent with the terms and conditions of the contract – the insurer responds by compensating for that loss.

This is an important point. If we start to regularly pay claims that are inconsistent with the contractual agreement between the customer and the insurer, then we will compromise the ability to pay out claims to consumers in the future – in other words, we'll compromise the long-term sustainability of the entire system.

We do not want to dilute the ability of insurers to accept not only the individual risks of members of the community, but also the broader risk that would be transferred to government, if not for the existence of private sector-supplied life insurance.

In other words, life insurance transfers risk to the private sector, at no cost to government.

**Benefits**

Life insurers in Australia paid out more than \$8 billion in claims last year.

ASIC's review of claims handling found that there is no cross-industry misconduct in life insurance and that where a decision is made, 90% of claims are paid in the first instance. For death cover where a decision has been made, 96% of claims are paid in the first instance.

By this assessment, the private provision of life insurance is largely efficient and not broken as some would suggest.

The evidence is that the industry pays the overwhelming number of claims – in other words, insurers are fulfilling their responsibilities to their customers and insurance policies are responding in the way they are intended, providing an important safety net to the community.

With this in mind, we acknowledge the industry is not perfect and that there is always room for ongoing improvement.

**Reforms**

Changes underway, that we strongly support include:

- life insurance remuneration reform, which has passed Parliament. This was due to the work of the FSC and our life insurance members via the Trowbridge Review of 2014/15.
- legislation to introduce higher professional and education standards for financial advisers has also passed Parliament and will further enhance the quality of advice;

The industry has developed its first ever Code of Practice, which will be compulsory for all FSC life insurance members from 1 July. This again stemmed from the Trowbridge review.

The Code requires insurers to decide claims within set timeframes, limit the use of surveillance; improve disclosure, and provide additional support for vulnerable consumers and introduces new safeguards in relation to sales practices and advertising among other things.

The Code is enforceable by an independent committee (the Life Code Compliance Committee) – administered by the Financial Ombudsman Service (FOS) – which has powers of sanction.

The Code will be continuously improved and developed. Further iterations of the Code will address mental health, funeral insurance and minimum medical definitions.

We are also working with other industry associations, Choice and insurers in the Insurance in Superannuation Working Group. Our key focus is to extend the code to superannuation trustees in group insurance.

### **Mental Health**

The FSC is progressing work on mental illness. Our members are bound by the mandatory FSC Standard on Mental Health Education Program and Training, to ensure that all customer-facing staff have undergone an appropriate level of education and training on mental health awareness, and understand the causes, signs and symptoms of common mental health conditions in the community.

We have an active mental health working group.

We will continue to engage with mental health advocacy organisations to develop measures for improved consumer outcomes.

And we are progressing plans for a roundtable with mental health groups.

### **Recommendations the Committee can make:**

We urge the Committee to consider the following critical recommendations;

- enable life insurers to offer targeted rehabilitation payments to facilitate recovery for sick or injured persons and a more speedy return to work.
- legislative reform to help insurers bring older insurance portfolios in line with contemporary products for the benefit of the customer.
- Removal of stamp duty on insurance would improve affordability for customers.

Life insurance is a highly regulated industry and under law, customers benefit from a range of protections including the duty of utmost good faith, strict disclosure and capital adequacy rules, and the financial adviser best interest duty.

The FSC strongly believes further regulation would be unnecessary. Self-regulation is an efficient way to bring about pro-consumer changes in the sector.

Policymakers must be careful to balance the sustainability, accessibility and affordability of the life insurance so that consumers can continue to access the cover they need both now and into the future.