



TURNING OVER A NEW LEAF

The life insurance industry recognises consumers have been treated with disdain. **Emma Rapaport** details how the industry will regroup from the ground up.

On Monday March 7, 2016, the Australian life insurance sector changed forever.

With his back to camera, former CommInsure chief medical officer turned whistleblower, Dr Benjamin Koh, alleged to a media investigation that the insurer had used unscrupulous tactics to avoid payouts, leaving customers high and dry during one of the most difficult times of their lives.

Personal and heartbreaking stories told by disgruntled CommInsure customers bookended Koh's revelations, with one man alleging that his trauma claim was denied due to the insurer's reliance on outdated medical definitions.

Commonwealth Bank of Australia chief executive Ian Narev strongly denied the existence of systemic wrongdoing in the bank's insurance arm, but consumer rights groups called for a Royal Commission, and the viral nature of the piece cast aspersions on the entire industry, including group insurance.

Just over a year on the life insurance industry is hoping to leave the past behind them; rocketing towards sector wide reform and a renewed social licence.

Hitting the ground running, the Financial Services Council (FSC) has released its attempt at self-regulation of the direct insurance market in the form of the Life Insurance Code, while the Insurance in Superannuation Working Group (ISWG) is due to release proposed reforms to group insurance by the end of the year.

Both groups, irrespective of their focus, will aim to reform the life insurance industry through self-regulation and minimal governmental interference.

On the question of whether consumers are willing to give the industry a fresh start, ISWG chair Jim Minto⁰¹ believes that it is up to, and within the capacity of the industry to win back the public's confidence, in a sector which he believes has an integral societal role to play.

"I don't expect consumers to trust the industry; I expect that the industry has to demonstrate by its deeds that it deserves the respect and trust of consumers," Minto says.

"And we're doing that, united as a group.

"In the last year the insurance industry paid out \$9.1 billion in claims that are providing help in people's greatest time of need; helping to restoring public confidence in the system and guard against the devastating result of underinsurance."

Direct insurance

In an attempt to repair the relationship between life insurers and direct insurance customers, the FSC rolled-out their Life Insurance Code of Practice on 1 July.

The code, developed through extensive public and industry consultation, sets down key restrictions and guidelines on the interactions between consumers and the industry, from product design, buying insurance, regular communications and making claims.

Notably the code requires insurers to improve disclosure to customers, provide greater transparency in communication, decide claims within set timeframes, limit the use of surveillance and provide additional support for vulnerable consumers.

Additionally the industry will be bound by a new set of standardised medical definitions, developed in consultation with medical professionals, for cancer, heart attack and stroke, and for all trauma and critical illness policies issued from 1 July.

Definitions will be subject to regular review and updated to ensure they are in keeping with advancements in medical science.

FSC chief executive Sally Loane says the code will ensure the better alignment of interests across the life insurance value chain, from insurer to licensee to adviser to consumer.

"The Life Insurance Code of Practice demonstrates the life insurance industry's commitment to improving standards and strengthening consumer protections. This document is a clear declaration of the level of service consumers can expect from life insurers in language they can understand," Loane says.

While insurance companies who sell their products via group insurance contracts will be affected, superannuation trustees have been specifically excluded from the code, meaning that the group insurance claims handling process will remain unaffected.

An ASIC industry review completed in October 2016 shows about 70% of all life insurance contracts are sold via group insurance and 30% via direct.

According to AIA, implementation of the FSC code has been seamless across the business, with relevant systems and processes under review to ensure alignment with code obligations.



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01:
Jim Minto
chair, Insurance
in Superannuation
Working Group



02:
Josh Mennen
principal, Maurice
Blackburn Lawyers



03:
Simon Swanson
chief executive,
Clearview Wealth

“To achieve this we reviewed more than 600 processes including alignment of customer communication, and we developed robust automated reporting tools to assist the business to manage services and requirements of the code,” AIA chief executive Damien Mu says.

“For our communication with customers we have changed the AIA Australia website and customer documentation in order to reflect the Code of Practice.

“The code now gives clear standards and guidelines for both the insurance industry and the customer which will improve engagement. Now we want to continually exceed and look to improve these standards, and more importantly the customer experience.”

However not all industry participants are similarly pleased with the FSC code.

Responding to the contents of the draft code released in October 2016, Maurice Blackburn principle lawyer Josh Mennen⁰² described it as “having all the bite of a month-old lettuce,” adding that it is little more than a restatement of the law that fails to deal with deep cultural and systemic industry issues.

“The public want real action; they do not want any more excuses or some greenery to hide behind,” Mennen said.

When questioned whether he stood behind his claims after the final code was released, Mennen replied that the code deserved an opportunity to function before any real judgement is cast but added: “it has obvious shortcomings.”

Making reference to the income-related claim times set by the code – “we will let you know our decision no later than six months after we are notified of your claim or six months after the end of any waiting period, unless unexpected circumstances apply” – Mennen says that he views this as a soft time frame which leaves open the likelihood of significant delays.

“In our experience,” Mennen notes, “insurers will use loose time frames to delay claims.”

Mennen also makes note of clause 8.10 – which allows insurers to request more than one independent medical examination from the same type of specialist within six months – and raises concerns the clause will allow insurer’s to “doctor shop” as long as they draw the claim time out.



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“Fair enough if the insurer wants to send a patient to one doctor, but there’s no need for multiple medical examinations,” Mennen says.

“We’ve seen instances of claimants being sent to three to four different psychiatrists where the insurer dislikes the first three reports.

“We think the industry had the opportunity to develop its own code – but it has in our view fallen short of the mark and community expectations.”

Questions have also been raised regarding the enforcement of the code, which would be dealt with through an internal complaints process, and at most result in a formal warning and the non-compliant FSC member’s details being published on the FSC website.

In a release issued last year, Financial Services Minister Kelly O’Dwyer welcomed the release of the code and urged the FSC to subject the Code of Practice to ASIC for approval.

According to policy managers Nick Kirwan and Jesse Krncevic, the FSC hopes to revisit the issue of ASIC registration in their second iteration of the code, and did not include it in the first because: “We wanted to ensure that the code was stable before we consider registration.”

“We want to make sure that it’s fit for purpose and working appropriately for consumers before ASIC approval.”

No date or scope has been set for the second iteration, but suggestions have been received from third parties.

Group insurance

Realising the urgent need for industry-wide action, the Insurance in Superannuation Working Group (ISWG) formed in November last year to extend the minimum standards for superannuation funds in the Life Insurance Code to group insurers.

Made up of some of the industry’s most influential representatives including ISA’s David Whitley, ASFA’s Martin Fahy, BTFG’s Melinda Howes, AIA’s Damien Mu, and the FSC’s Sally Loane, the group will aim to develop new standards for trustees and insurers that will set the benchmark for industry practice into the future.

While the ISWG is only due to report by the end of 2017, a number of key priorities or “hot button issues” have been identified for review, including: reducing benefit erosion on superannuation account balances for members; including establishing the right level of automatic cover for young people and low income earners; reducing inappropriate, multiple insurance policies; and providing better and more timely assistance to members during claims.

ISWG chairman and industry veteran Minto says the group will push for a member-centric code that will set down standard practices across the industry and reinstate consumer confidence.

“The Life Insurance Code does not address most of life insurance in Australia, it only ad-

resses life insurance outside of super, so we needed to build a code of our own,” Minto says..

“A code which addresses the issue of multiple amounts, asks whether there be a cap on the amount of premiums paid, and streamlines the claims handling process.

“Nobody thought it would work,” Minto adds.

“[The members] yell at each other like the proverbial through the press, but they’ve got together and that’s had its challenges early on, but now we’re working in a united way to try and address these issues.”

One of the biggest decisions the ISWG will face over the next six months will be the future of opt-out, or automatic default life insurance cover sold through superannuation.

The opt-out policy, which automatically activates life insurance cover for new members signing up to a fund rather than allowing them to choose to opt-in, has recently come under intense scrutiny. A series of reports highlighted the high instances of “rapid erosion”, particularly amongst young people, where members paid high fees for multiple insurance policies, taken out under multiple accounts.

While Minto acknowledges the issues surrounding opt-out, and the need to implement real industry-wide reform, he strongly believes in the future of the policy which he says has helped combat the problem of underinsurance, and provided a safety net to millions of Australians who would have otherwise not chosen or been unable to take out life and disability insurance individually.

“Yes, there should be a standard way across all funds that people can opt-out of insurance, and we’re working to ensure one, and we have to deal with the issue of multiple accounts and multiple policies, but the notion that we should move to an opt-in system is a dangerous one,” Minto says.

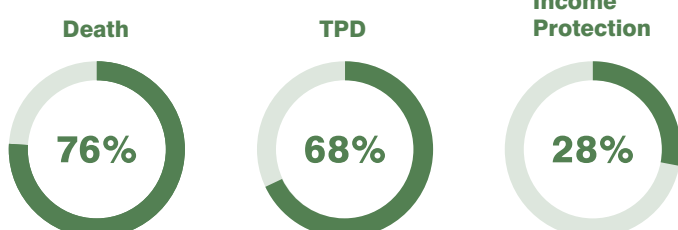
“Given the option to opt-in, research shows that people simply wouldn’t, unless they needed to – leading to a far higher predisposition of members who have health issues, claiming more often, and thus raising the costs of insurance significantly.

“One of the major benefits of automatic cover is the affordability for everyone in society is much improved.”

Minto adds the an opt-in model may also give insurers the power to underwrite certain members out of life insurance, noting; “it’s all very well to theoretically say that people can choose and be underwritten; but actually they won’t get the cover in many occasions. I just think its bad public policy to go down that path.”

According to Rainmaker research, when given the option to take out income protection insurance, only 25% of MySuper members actively signed up through superannuation. Additionally, rate increases have been partially offset for members taking up default cover through

MYSUPER MEMBERS WITH INSURANCE



SOURCE: 2017 RAINMAKER GROUP INSURANCE STUDY



04:
Kristine Brooks
head of distribution,
Zurich Life and
Investments



05:
Don Trapnell
director, Synchron



06:
Simon Dent
head of underwriting
and new business,
MLC Life

the reduction in the default cover offered, particularly for younger age groups where default cover has dropped on average by 20% in the last two years (see Figure 1).

Even before the ISWG can make their final recommendation, outside forces have begun considering their own responses to the opt-out issue. Speaking at the FSC Leaders Summit in July, Financial Services Minister Kelly O'Dwyer announced the government's decision to task APRA with making it easier for consumers to opt-out of automatic life and disability insurance policies through superannuation.

Specifically O'Dwyer says life insurers must prove the value of their products and practices, particularly given that no-frills MySuper products were originally designed to be simple and easy for consumers to compare.

"It's not good enough for the industry to be tricky about this particular issue, and I think they have been tricky," she says.

"They have not moved to allow people to take advantage of their rights – it's their money and they should be able to choose whether or not they pay premiums."

While O'Dwyer did not directly address the question of whether she supports a move to an opt-in system, speaking on radio she spelled out how a new and updated opt-out regime may work, including a proposal to allow people to switch off their insurance via email.

"We're going to allow people to switch it off by telephoning – we're in a modern age now – by getting online and turning it off so that they've got more power and control over their superannuation and their retirement income," O'Dwyer told ABC Mornings' Jon Faine.

Fierce opposition to the current state of opt-out is also being heard from Clearview Wealth chief executive Simon Swanson⁰³, who has gone a step further to call for complete overhaul of the system and a move to opt-in.

"If we move to an opt-in system people will be forced to make a conscious decision about their insurances," Swanson says.

"Right now I suspect people think 'oh I've got some coverage so I don't need to worry about it' – but they don't actually question it, or go to a financial adviser to work out what the appropriate level of cover is.

"People should be making conscious decision about monies coming out of accounts – it's as simple as that."

Responding to fears that an opt-in system would see members underwritten out of the market, Swanson called the claim outrageous, adding: "Most people can get life insurance, particularly if their young, so I disagree with that."

Swanson has also suggested one alternative to abandoning opt-out would be to have default insurance limited to basic cover of up to \$50,000 and exempt people under 25 from in-super coverage.

Clearview Wealth currently only services direct life insurance contracts through 293 distribution agreements with ASFLS and deals with more than 1000 advisers.

The ISWG hopes to come out with a code by the end of November 2017. All eyes will be watching closely.

Advisers

While the industry works to ensure the future of life insurance, financial advisers are benefiting from an increased sense of clarity following the recently passed Life Insurance Framework.

According to research from Zurich, negativity around life insurance adviser sentiment is starting to turn a corner, with adviser sentiment improving marginally from 4.1 points in December 2015 to 4.2 points in February 2017 (according to the Risk Adviser Sentiment Index).

Four out of the five metrics tracked by the study recorded modest improvements compared to two years ago.

Advisers were generally positive about the long-term viability of their practice (up from 4.9 to five points); their current life insurance sales volume (up from 4.2 to 4.3 points) and forecast volumes in the next three months (up from 4.4 to 4.6 points); and the current regulatory environment (up from 2.5 to 2.8 points).

Respondents however, said they weren't confident in consumers' demand for life insurance products provided by advisers (down from 4.5 to 4.4 points).

Zurich's head of distribution life and investments Kristine Brooks⁰⁴ said while the improved sentiment was encouraging, the index is still far from its historical high recorded in December 2013.

"It is encouraging to see that the downward trend of the last few years appears to have been arrested; in saying this, there is no doubt that many advisers perceive the recent, ongoing media coverage of the sector has weakened consumer confidence in, and demand for life insurance," she says.

"In such an environment, it's important that we harness the stories of the many happy advice customers. Study after study has shown that customer satisfaction amongst advice clients is high. Showcasing these positive examples is one way we can improve consumer confidence in the value of expert financial advice, and its importance in helping people to protect and grow their wealth."

To navigate the complex, form-heavy and at times arduous process of renewing and securing life insurance, advisers are turning to a range of new services provided by licensees and industry that both speed up the process and offer a better service to clients.

According to Synchron director Don Trapnell⁰⁵, referrals to Synchron Medical, a service established to assist advisers to manage and

monitor medical requirements for insurance clients, have quadrupled over a 12-month period.

"In 2015, there were 550 referrals to Synchron Medical from Synchron advisers. In 2016 there were 2270," Trapnell says.

"That is a phenomenal increase which demonstrates that Synchron advisers are finding the service highly valuable."

Launched in 2012, Synchron Medical is an Australia-wide service which offers high quality management of pathology, paramedical and medical assessments for the life insurance industry. Powered by medical and pathology service, Health Predictions, it allows advisers to monitor the collection of medical information for life insurance clients and to request, track and monitor the status of client medical tests and information online.

"We have had all the insurance companies on board since inception and believe increasing use of the service means advisers enjoy having more visibility over their clients' insurance applications," Trapnell says.

MLC Life Insurance is also assisting advisers, with the insurer releasing a new service that will drastically diminish the time it takes for advisers to access cover for clients.

Using a database of industry standard questions to assess lifestyle and health factors, together with more than 6500 medical conditions, UnderwriteMe will automate the underwriting process, accelerating the underwriting process from weeks or months to seconds.

"What we're trying to do is increase the capacity for our underwriters by taking some of the more menial underwriting cases away from them," MLC Life head of underwriting and new business Simon Dent⁰⁶ says.

The engine also includes a pre-assessment tool that financial advisers can use with clients to provide an instant, indicative price for life insurance cover.

"The amount of change we're going to see in the industry in the next five years, will far and away exceed what we've seen in the last 20," Dent says. **fs**



Showcasing these positive examples is one way we can improve consumer confidence in the value of expert financial advice.

FIGURE 1. DEATH & TPD COVER - WORKPLACE GROUP SUPER

	20 yrs	40 yrs	60 yrs
How Much It Costs			
AVG DEFAULT COVER	\$138, 451	\$151, 661	\$29, 865
X			
AVG PRICE PER \$1000 OF COVER	1.75	2.48	16.12
=			
AVG WEEKLY PREMIUM	\$2.42	\$3.76	\$4.81

SOURCE: 2017 RAINMAKER GROUP INSURANCE STUDY