



25 November 2016

TAL is Australia's largest specialist life insurer. We provide Life, Total and Permanent Disability (TPD), Critical Illness and Income Protection insurance solutions to approximately 40% of the Australian working community.

Last year we protected over 3.7 million Australians and paid out over \$1.1 billion in claims. Helping provide financial security to our customers in the most difficult of times, when they need us most, is a responsibility we take very seriously.

TAL is owned by the Dai-ichi Life Insurance Company in Japan. Dai-ichi Life's customer purpose is "by your side for life" – for all of TAL and Dai-ichi Life to be by the side of our customers through all their lives. This purpose is more than just words and this has deep cultural meaning for Dai-ichi Life and is a strong operating principle for all its businesses around the world.

### **Providing a balanced view**

TAL's business model is unique and distinct from others in the industry. It reflects a fundamental principle of our business – that Australians should have choice about how they access life insurance, reflecting their own needs and preferences. That may mean purchasing life insurance:

- Directly from us over the telephone or online;
- Through a financial adviser;
- Through their superannuation fund as part of the group insurance cover; or
- Through an existing relationship with one of our alliance partners (including health and general insurers).

As a result we are uniquely positioned amongst Australia's life insurers to offer a balanced view of the industry, not exclusively vested in any one channel. We believe that each channel is complementary, serves its market in a different way and meets customers on their terms.

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## **Framing the discussion on the Life Insurance industry**

Life insurance has an enormously positive social benefit for our community. Not only does it offer financial security for Australians when they need it most, but it also enables Australian families to be self-determined and confident when they otherwise might need to look to Government for support. The life insurance industry, therefore, has a profound responsibility to the Australian community.

Given the important work we do, it is vital we are seen to be upholding - and are held to - the highest of standards. Our goal should be that the Australian life insurance industry is seen as global best practice for all stakeholders.

### **Areas for focus**

We believe there are five key areas where focus is required from the industry. These are reflected in our own priorities at TAL.

#### **1 - Confidence in Group Life Insurance**

Group Insurance is both a highly efficient and customer-centric model returning a very high proportion of premiums to members in claims payouts. In terms of benefits to consumers and the community it is a world-leading model and must continue to be supported.

- Sustainability in the group insurance system must remain a priority to avoid unexpected price fluctuations. Rebate arrangements between superannuation funds and life insurers need to be understood in this context to support price stability for the benefit of members.
- As a leading group insurer we have a major focus on wellness and supporting return to health and work. This provides members with the satisfaction of maintaining their own financial independence whilst also ensuring claims costs are fair and sustainable, in turn, ensuring lower premiums for all members. To this end we support the FSC's position on removing the restrictions on life insurers' ability to pay directly for rehabilitation costs.

Group insurance works very well for most superannuation fund members. It is clear, however, that the design of group insurance arrangements is not optimal for some members.

- We believe "smarter" or more personalised default design is the solution to these issues by more appropriately matching insurance design to member need.
- More generally, insurers and superfund trustees need to better work together to lift member understanding of their insurance cover to avoid difficulties in the claims experience.

## **2 - Trust, transparency and meeting, then exceeding community expectations**

Product complexity and misunderstood language around life insurance can result in frustrating or disappointing claims experiences. Over time this has led to low levels of trust in the industry and weak advocacy.

- The Life Insurance Code of Practice signals how our industry is responding to community expectations and changing its approach to the market and community.
- We strongly encourage the industry to look beyond the Code. We are committed to leading and working with the industry to develop the Code further, aiming for higher standards and then broadening the Code's reach and application.

## **3 - Claims handling and dispute resolution**

Claims is the most important thing we do. Whilst the majority of claims are handled in a timely and sensitive manner, any claim which is incorrectly handled is unacceptable and causes a significant impact to the life insured or their family.

- We support the work currently underway through the ASIC and APRA oversight on claims reporting.

## **4 – Quality of financial advice and best interests**

Access to high quality financial advice is important for the Australian community. TAL supports the Life Insurance Reform legislation as a balanced package that will continue to support a professional and thriving financial advice industry. However, we believe that appropriate product choice needs to be addressed alongside remuneration.

- We support the recommendation originally made in the Trowbridge Report that Approved Product Lists for advisers should be broader and more transparent. This would ensure financial advisers have expanded choices on products that reflect the diversity of their clients to confidently meet the best interest duty that is at the centre of their important work.

## **5 – Addressing customer needs in direct insurance**

Traditionally, the direct channel of life insurance provides access for customers who were not being served by financial advisers. It enables customers to access life insurance more easily with simple products to meet straight forward insurance needs.

- Generally customer satisfaction with direct insurance models is the highest in the industry. Our own customer satisfaction is very strong in this part of our business.
- Direct marketing is a feature of this part of the market and should not be assumed to be against the consumer's interest.
- Simpler products are important, including funeral insurance. The key focus for insurers is on ensuring that customers understand the cover they have purchased and that staff remuneration aligns to this.

It is important to note that the direct insurance landscape is shifting and there is an emergence of distinct "new direct" models, driven by changing consumer behaviour and increasing levels of consumer self-direction. In the long-term the industry must be able to provide solutions for this type of customer.

### Focus areas in more detail

#### **1 - Confidence in group life insurance**

Group life insurance through superannuation is a unique inclusive model that offers Australians excellent value and provides access to insurance to many members of the community who otherwise may not be able to access life insurance at all.

The group life insurance system delivers clear benefits to the Australian community:

- Over 90% of the working population have some type of life insurance coverage through superannuation.
- \$3.85 billion in claims was paid through group life insurance last year, providing thousands of Australian families with support and dignity when they would otherwise be reliant on the Government.
- For every \$1 received in premiums, 81 cents is paid out in claims and five cents in State Government stamp duty making this a very customer-centric business model.
- It is a model that offers consumers global best practice in terms of value.

For group life insurance to remain effective it relies on broad community participation and the current 'opt out' model is central to its efficiency and effectiveness. By ensuring a wide range and diverse pool of lives, members who have pre-existing health conditions, are not in full time work, or who are in high risk occupations, can also access life insurance. Without 'opt-out', the group life insurance model will fail to function, premiums will increase substantially and many people will not be provided life insurance at all through this or any other channel.

Rebate arrangements need to be understood within the context of sustainability. They allow life insurers and superannuation trustees to design insurance arrangements that are sustainable in the long term and provide premiums which remain affordable to members. These rebate arrangements and any rebate payments must be only used for the benefit of superannuation members so it has a positive impact for consumers. This is a

practice that is used in both industry and retail funds and is overseen by APRA (for both life insurers and superannuation trustees).

As a leading group life insurer, TAL has a major focus on rehabilitation and vocational services to help members return to employment. Helping return members to wellness and more importantly back to work, provides a number of benefits including the reduction in claims costs and therefore insurance prices for all members, reducing the burden on Government to provide social security support and providing members with the dignity of maintaining their own financial independence. To this end we support the FSC's position on removing the restrictions on life insurers' ability to pay directly for rehabilitation costs.

Whilst group life insurance serves most of the community very well, we recognise that more can be done to ensure it meets the needs of all superannuation members at a personal or individual level.

There are a number of issues that require further work by superannuation trustees and life insurers. These issues include:

- More tailored insurance cover for younger members and older members;
- Insurance design for members with multiple accounts;
- Improving insurance awareness and ease for members to tailor cover to meet their own individual circumstances; and
- Insurance arrangements for active and inactive members.

We welcome the Productivity Commission public inquiry into alternative default superannuation models and also acknowledge and support the Insurance in Superannuation Taskforce. We see these forums as an ideal place to discuss these complex matters with a wide range of stakeholders and agree solutions that will ensure a good system works even more effectively for all Australians.

We are already working with superannuation trustees to develop more tailored insurance benefit designs to better meet each member's needs and reflect their own individual life stages and circumstances. With new technologies in particular it is possible to retain the lower pricing and access benefits of group life insurance, and tailor insurance design more closely to meet individual member needs. This also includes working with trustees to educate and empower consumers to exercise choice in how they manage their life insurance arrangements inside superannuation. This will take time, but will ensure even greater value for money in group life insurance and members who are better educated and understand their life insurance requirements and the different options available.

## **2 - Trust, transparency and meeting, then exceeding community expectations**

We welcome the new Life Insurance Code of Practice (Code), developed with the FSC this year, as an important milestone for the industry in raising standards. The Code has been designed as a document that sets out obligations for the life insurance industry for consumers that goes beyond the legal obligations of life

insurers. It represents real action by the industry to lift its game for consumers across the board, not just words. Our CEO Brett Clark played a central role in the development of the Code as Chair of the FSC Life Insurance Code Working Group.

TAL will be fully compliant before the Code becomes mandatory on 1 July 2017. However, we also encourage the industry to look beyond the Code. We are committed to leading and working with the industry to develop the Code further, aiming for higher standards and broadening its reach and application.

Specifically, claims processes and dispute resolution must be transparent and well understood by customers and best practice in every sense. We welcome the work that is being done by the regulators in this area. We also believe it is important that customers understand the potential reasons for claims decline as part of helping them understand how their insurance works. This is more helpful to customers than a sole focus on reporting of claims decline rates which is always open to misunderstanding.

### **3 - Claims handling and dispute resolution**

Handling claims in a timely and sensitive manner is a responsibility we take very seriously. The claims experience for our customers is the most important part of what we do and TAL is investing more in our claims capability than any other aspect of our business.

Last year we received and processed a record number of almost 21,500 claims, of which fewer than 10% were declined. The vast majority of claims are processed and paid efficiently.

Fair treatment of claimants is our primary focus and this is reflected in our Claims Commitments. These act as the guiding principles for our claims teams and were built based on claimant experiences, frustrations and feedback. These are simple but reflect what matters:

- Put ourselves in your shoes;
- Tell you what we're doing – and do it;
- Take the initiative to make your life easier;
- Be informed and find the answers; and
- Ask the right questions to make sure we understand your situation.

The nature of life insurance is such that poorly handled claims can easily attract media attention. Such justified attention led to the ASIC investigation of claims handling practices this year in which 15 life insurers participated, looking at five years of data. While ASIC identified some areas for improvement for the industry, it did not find any systemic issues.

We support the work underway through ASIC and APRA and their oversight in respect of claims reporting as key actions to improve claims handling and dispute resolution.

#### **4 – Quality of financial advice and best interests**

Retail insurance refers to an individual policy between insurer and consumer in which the life insured is provided comprehensive personal financial advice as part of purchasing a life insurance policy. Unlike group life insurance, usually retail insurance premiums are dependent on a range of individual factors such as gender, age, smoking status and specific health conditions. Cover is normally tailored specifically to suit the customer's needs as part of the financial advice process.

The Life Insurance Reform legislation, which is now before Parliament, is a balanced response to the issues identified by ASIC and through the Trowbridge Report. Over the last two years, TAL has been an active participant in the discussion on adviser commission structures and consumer best interests. We recognise the importance of finding balance in commissions for advisers so that advisers receive appropriate remuneration for the work performed, but that the commissions are not a distorting incentive that does not support the best interests of consumers.

We believe that an appropriate level of commission allows many Australians access to receiving financial advice and making long-term financial plans which they would not otherwise be able to afford if a pure up-front fee payment model was all that was available. We are committed to seeing the financial advice industry thrive through the changes introduced through the Life Insurance Reform package and in July 2015 we announced our TAL Adviser Commitments to reflect this.

In addition, we support the legislation released outlining minimum education standards and professional development requirements for advisers. These measures combined with the Life Insurance Reform package will ensure the industry evolves to become a highly trusted and effective part of the financial services landscape and community. These reforms should be given time to take effect and we note that ASIC will undertake a review in 2021 to determine whether the reforms have been successful in improving the quality of life insurance financial advice.

We do suggest there is a need for further reform in the area of Approved Product Lists (APLs). These are the lists of life insurance products that financial advisers are allowed to choose from when making personalised recommendations to their clients.

In the past many adviser lists have been narrow, opaque and have restricted financial adviser and consumer options. The Trowbridge Report recommended that all adviser licensees include at least half of the authorised retail life insurers on their APL to ensure that advisers are able to comply with their best interests duty when providing life insurance advice or recommending a life insurance product to a client.

We believe a requirement to have a range of products and suppliers in any APL would return the focus of such lists to being about quality and choice and we support the introduction of a new APL Standard to widen APLs.

## **5 – Addressing customer needs in direct insurance**

In every market and in particular financial services, consumer behaviour is becoming more self-directed. Life insurance is no different.

Traditionally, the direct channel of life insurance has catered for customers who were not being served by financial advisers. Typically, these customers have more simple insurance needs which are met by simple products such as funeral insurance and direct marketing is a feature of this market.

Our customer feedback consistently shows us that funeral insurance continues to be a highly valued product by our customers and meets a specific need in the marketplace. Our direct brand Insuranceline's customer satisfaction and advocacy is consistently rated at the top end of the market. We were the first company to introduce exclusively 'level' premiums and age appropriate marketing for funeral insurance products and were a very strong voice on including these conditions for all funeral insurance sales as part of the Life Insurance Code of Practice.

The most important focus in the traditional direct market is on ensuring that customers understand the cover they have purchased to avoid difficulties at claims time. We are focusing a lot of attention on ensuring that important terms, conditions and exclusions are clearly explained and communicated before a purchase is made and our staff incentive arrangements reflect this.

Distinct from what we have described as 'traditional direct', it is important to note that there is also a 'new direct' model emerging, driven by changing consumer behaviour. We are seeing a new breed of self-directed insurance buyer who wants to research their options and make a purchase on their own terms and in a way that meets their need for control. In the long-term, the life insurance industry must be able to provide solutions for this type of more sophisticated, mass affluent consumer and this has been a key focus for TAL.