

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Securities and Investment Commission

Question No: 95

Topic: Comminsure

Reference: Written

Senator: Ketter, Chris

Question:

1. The executive summary of ASIC's report into Comminsure states:
'In relation to key performance indicators (KPIs) for some claims staff, ASIC identified that for previous financial years KPIs included net loss ratios and income protection terminations rates. Although the weighting allocated to each of these KPIs was typically low, between 10% and 15%, this was subsequently addressed by CommInsure, with the relevant KPIs removed for claims staff.'
 - a. Please explain what a 'net loss ratio' is.
 - b. Could these KPIs have had the effect of encouraging staff to deny claims?
2. ASIC's executive summary raised concerns about statements provided to customers about what certain products would and wouldn't cover in relation to the 'Total Care Plan' sold through financial advisers and the 'Simple Life Insurance' sold directly and said that ASIC's investigations were ongoing. Can ASIC explain those concerns? Can ASIC provide an update?

Answer:

- 1a. The net loss ratio is the ratio between the premiums paid to an insurance company and the claims settled by the company - after taking into account reinsurance arrangements and other recoveries. In particular it refers to net incurred claims (gross incurred claims net of non-reinsurance recoveries revenue and reinsurance recoveries revenue) divided by net earned premium (gross earned premium less outwards reinsurance expense).
- 1b. The weighting allocated to the KPIs for net loss ratios and income protection terminations rates was typically low (10% to 15%) and the ratios were calculated at an overall business level. While ASIC found no evidence to suggest that the weighting allocated to the KPIs (prior to their removal) had the effect of encouraging staff to deny claims, ASIC was concerned that such KPIs could theoretically be a driver of unintended or undesirable behaviours. This concern was subsequently addressed by CMLA, with the relevant KPIs removed for claims managers.
2. The concerns relate to a number of advertisements regarding The Colonial Mutual Life Assurance Society Limited's (CMLA) Simple Life Insurance policy and the Total Care Plan policy. ASIC concerns specifically relate to statements made in the advertisements in relation to the coverage of heart attack within trauma cover of both policies.

ASIC is concerned that certain representations made in the advertising may have mislead consumers to believe that they will be entitled to a lump sum payment if they suffer a heart attack, when in fact, trauma cover will only entitle the insured to a lump sum payment if they suffer a heart attack as defined by the relevant policy.

ASIC investigation in relation to the advertisements is still ongoing.