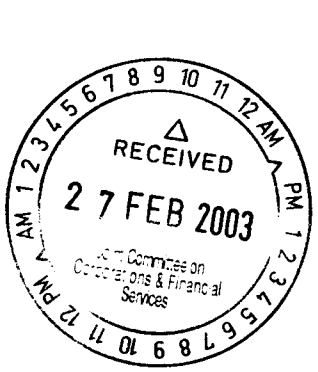

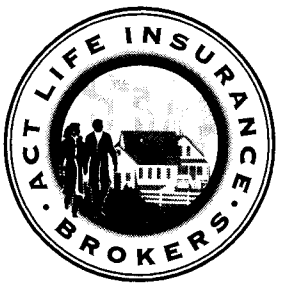

25 February 2003

Ms Bronwyn Meredith
Principal Researcher
Parliamentary Joint Committee on Corporations
& Financial Services
Department of The Senate
Parliament House
CANBERRA ACT 2600

Dear Bronwyn,

Further to our recent discussions, I have decided to provide additional information on the involvement of advisers in claims management. I have sampled 8 claims out of 22 Income Protection claims made by my clients over the last five years.

At the risk of stating the obvious, life risk insurance is sold not bought. A person with a lump sum to invest is more or less compelled to seek advice on the investment of that sum. However, the purchase of life risk insurance is not compulsory.

The psychology of the sale of an Income Protection contract is that life risk advisers must ensure that, while informing clients of the adviser's good work in handling claims and dealing with life offices, that the adviser does not give the potential insured an excuse to form a view that all claims are handled harshly by all insurers and the whole issue of income protection is just too hard. Similarly, the moment an explanation of how commission is calculated becomes complex in the eyes of the consumer, the sale is lost.

The corollary of the proposal to require the disclosure of life risk commission is that advisers will be expected by the client to justify the amount of commission earned. Given that the client may retain the purchased insurance product for over 20 years, the adviser will be called on to explain the un-explainable – what services he will provide free over an unknown time, and to what degree etc. *for an insured event that may never occur.* A competent adviser will disclose the level of claims involvement and intervention he will offer should a claim occur, but will be unable to quantify that involvement other than to state no fees will be payable for such services.

If I, as an adviser, in seeking to explain my claims services, were to inform a potential client that two of my clients' claims involved nearly 100 hours of adviser involvement, that client will follow his emotions and decide not to proceed with the purchase.

If the person without Income Protection insurance subsequently finds himself unable to work because of sickness or injury, he has only one option – to become a drain on the Commonwealth Budget. ***The Commonwealth's expense* in these cases includes not only the Centrelink benefit itself, but the cost of its administration and the**

foregone tax revenue from the Income Protection benefits which would have been paid by a life insurance company to a claimant.

Most life risk advisers hold a strong position that it is not ethically nor morally justifiable to charge fees on clients for claims handling and, where required, intervention. They believe the up-front commission received, when spread across their client base, is sufficient to enable them to provide an interventionist claims handling service on an economic basis.

Please call me if you need any clarification.

Yours sincerely,

BILL BROWN, FALA
Authorised Representative

INCOME PROTECTION CLAIMS

Attached is a broad sample of 8 Income Protection claims of a total of 22 Income Protection claims in the last five years. It shows the adviser involvement now required with income protection claims to ensure claimants receive their policy entitlements in a fair and equitable manner. Here is an (incomplete) list of what a life risk adviser does in claims handling.

- Upon receiving notification, discuss nature of claim with claimant or relative
- Notify life office and request forms be sent to **OUR OFFICE**
- Upon receipt of forms, check that Claim Form questions are relevant (often they are not)
- Visit client (usually) and assist the client to complete client's Claim Form. If client is not ambulant, deliver doctor's claim form to specialist
- Forward claim forms to life office, identify claims officer and discuss claim
- After appropriate time, follow up the claims assessment. *Involvement continues until liability is admitted and claim is paid*
- Assist client and accountant in provision of financial information to substantiate income at proposal and for Partial Disability purposes, if this material is requested by the insurer.
- **If liability is not admitted by the insurer, ascertain reason for decline and begin advocacy and intervention on client's behalf. Involve doctors if necessary**
- Income Protection claims once admitted are constantly under review by the insurers. This requires monitoring by adviser to determine if "**doctor shopping**", as defined by FICS, is not occurring in an attempt by life office to justify ceasing payments. This monitoring involves frequent discussions with claimants and training them to report back to the adviser when the insurer sends them for specialist examination at the insurer's expense.
- **At all times the adviser must be vigilant to check that life office is acting within the terms of the policy document**. If it does not, discuss case with claims officer and take the claim up the decision line. *Advise client to consider FICS or legal action*
- Liaise with FICS and client's legal representative
- In case of FICS appeal, draft client's case documents

This type of adviser intervention outlined above requires intimate knowledge of claims procedures and policy terms. This is only available from an adviser who specializes in life risk advice. Such intervention is time-consuming and can be emotionally draining on client and adviser. *While the adviser is handling a claim, he is not generating new business elsewhere.*

In the last three years there has been a definite growth in the number of claims being declined after the insurer has initially admitted liability. Companies are very willing to engage in "doctor shopping", a term originated by Financial Industry Complaints Service (FICS), where an insurer engages well-known "opinions for hire" to obtain

grounds for declining claims – this is particularly noticeable where claims involve mental illness, chronic fatigue and other potential long-term (but not visible) disabilities.

These developments in claims "management" can be further magnified if the insurer is up for sale, has been recently taken over or a public float is planned, because the insurer seeks to lower claims liabilities on the balance sheet to make the business attractive.

Overriding all of this is the fact that claims sections are now staffed by inexperienced, part-time persons with little knowledge of the types of many income protection policies the insurer may have on the books. The attitude of these claims officers is that the customer should always be considered a rorter of the system, until proven otherwise – empathy with claimants is something that belongs to the past.

Finally, it is very clear that life offices are using the very low FICS upper limit of $5,000 p.m. to attack, delay and deny claims with benefits above $5,000 p.m. (i.e. insureds with earnings of $80,000 p.a. or above). Recent representations to the Treasurer and ACA have resulted in no change to this limit, only a "twiddling" of the rules..

SAMPLE OF INCOME PROTECTION CLAIMS

Prepared by Bill Brown of ACT Life insurance Brokers on 25/02/2003

Occupation	Disability	Policy Date	Commission Paid	Disability Start Date	Still On Claim	Age Now	Potential Payment (Years)	Adviser time(hrs) To date	Possible Fees at $125ph	Claim History	Within FICS Limit
Business Proprietor	Broken Arm	Apr-96	$611	Jan-03	Yes	55	0.6	4 to date	$500	Complex fracture from fall, possible further surgery. Client wants to work on partial basis ASAP. Solicitor involved- could be difficult claim, damage severe & maybe residual.	Yes
Consultant	Hip replacement	Jun-93	$512	Nov-02	No	53	NA	4	$500	Financials requested. No hassles, entitlements received, two months benefit	NA
Geologist	Depression	Feb-97	$877	Nov-99	Yes STR	30	35	50	$6,250	MVA in Nov 99. Claim lodged 10/00, admitted 12/01. Long debate over a year on proof of income.Only portion of Partial benefit ever paid - insurer refuted financial evidence, then engaged in " doctor shopping" -declined claim on 10/02.Subject to LEGAL Action	NO
Quarry Manager	Depression	Jul-96	$923	Jun-01	Yes	41	24	10	$1,250	June 01-sudden dismissal, stress/depression diagnosed. First claim payment mid Aug 01 Jan 02- aggressive case manager exceeds policy rules-seeks spouse bank records. Adviser intervenes, case manager resigns.Jul 02-dispute over who is treating doctor.	NO
IT Professional	Chronic fatigue	Oct-94	$504	Jul-96	Yes STR	40	25	45	$5,625	Diificult claim - CFS is a vague condition-client has been sent by insurer to every CFS specialist in Melbourne. Insurer accused client of hiding income in wife's business - no proof, but no apology. May 98-insurer says rehab is compulsory-adviser has request withdrawn. Dec 00- insurer, after " review ", demands repayment of $40,000 Partial Disability payments. Adviser intervenes, demand lapses by Jul 01, no apology. In Jul 02, insurer, after "doctor shopping", declines claim. Adviser intervenes & advises client to seek legal advice. Late Aug 02, claim is re-instated, again no apology. File depth 35mm	NO
Consultant	Depression	Aug-99	$998	Mar-01	Yes STR	48	17	15	$1,875	Jul 00-Client retrenched-uses policy provision to pay 6 months premium. Mar 01-client still un-employed, but now diagnosed with depression. Policy rule says disability will be paid if within 12 months from retrenchment-however, 12 months has passed. May 01, insurer sends him to forensic psychiatrist.Sept 01-claim denied on "any occupation" test which applies after 12 months un-employment. Adviser & client visit clients psychiatrist, who consider depresion started before un-employment, based on GP's report. Case is now with FICS to review decision- all letters etc drafted by adviser.	Yes
Computer Salesman	Kidney Disease	May-96	$935	Aug-01	Yes	55	10	12	$1,500	Client was working in Shanghai when he became disabled.Clients duties involved flying in Asia, and can't fly to Australia for medical assessment ordered by insurer.He is being treated by a Professor in the top three in his field worldwide. Insurer insists on monthly medical reports, though condition is static. Case requires constant supervision because benefits are paid manually to overseas bank account. Client now has prostate cancer.	NO
Plumber	Back injury	Oct-00	$660	Nov-00	Yes	30	35	14	$1,750	Injured back lifting concrete in a confined space-cannot ever work as plumber again. Insurer sends him to Rehab Co-ordinator in Dec-00, but nothing can be done. In June 01 insurer sends client to two separate specialists, one of whom openly accuses him of deception. In June 01, insurer rejects request for funds for a computer to undertake I.T. training at home from TAFE. In Aug 01- insurer tries to decline claim for non-disclosure, withdrawn after adviser cites recent FICS decision. Feb 03-adviser admonishes case manager in writing for discussing claim with clients spouse-apologies received.	Yes

STR- Subject to resolution of FICS Or Court Case **FICS will not intervene in income protection cases where Monthly Benefit EXCEEDS $5000pm**

"Doctor shopping"-term used in FICS detirmination to describe practice of insurers constantly seeking two contrary opinions to those of treating doctor in order to justify a decision to cease benefits.