Submission by the
Financial Rights Legal Centre

APRA

Towards a transparent public reporting regime for life insurance claims information,
Discussion Paper

August 2017
About the Financial Rights Legal Centre

The Financial Rights Legal Centre is a community legal centre that specialises in helping consumer’s understand and enforce their financial rights, especially low income and otherwise marginalised or vulnerable consumers. We provide free and independent financial counselling, legal advice and representation to individuals about a broad range of financial issues. Financial Rights operates the National Debt Helpline, which helps NSW consumers experiencing financial difficulties. We also operate the Insurance Law Service which provides advice nationally to consumers about insurance claims and debts to insurance companies. Financial Rights took over 25,000 calls for advice or assistance during the 2015/2016 financial year.

Financial Rights also conducts research and collects data from our extensive contact with consumers and the legal consumer protection framework to lobby for changes to law and industry practice for the benefit of consumers. We also provide extensive web-based resources, other education resources, workshops, presentations and media comment.

This submission is an example of how CLCs utilise the expertise gained from their client work and help give voice to their clients’ experiences to contribute to improving laws and legal processes and prevent some problems from arising altogether.


Or sign up to our E-flyer at www.financialrights.org.au

National Debt Helpline 1800 007 007
Insurance Law Service 1300 663 464
Aboriginal Advice Service 1800 808 488

Monday – Friday 9.30am-4.30pm
Introduction

Thank you for the opportunity to comment on the *Towards a transparent public reporting regime for life insurance claims information discussion paper*.

The Financial Rights Legal Centre ([Financial Rights](#)) has long argued the need for greater transparency of insurance data and we welcome the introduction of a collection and publishing regime.

Greater transparency and more consistent data in life insurance claims relating to claims, claims outcomes, claims handling and disputes across all policy types is an important step that will not only help [Australian Securities and Investments Commission (ASIC)](http://www.asic.gov.au) and [Australian Prudential Regulation Authority (APRA)](http://www.apra.gov.au) to monitor claims trends and identify any potential issues of concern from changes in data, but will also go some way to address problems of information asymmetry that face consumers, if appropriately published.

It is critical that as much data and analysis is made available to the public in an accessible, easy to read manner that has been designed with consumers in mind.

In an era where big data is having a huge impact upon the insurance industry, largely favouring the insurance industry to sell more through increased targeting of products and advertising, as well as improving risk models and increasing risk segmentation and price discrimination – the data collection and publication being considered here provides an important opportunity to rebalance the impact of datasets in favour of the consumer.

**Feedback question 4: The agencies welcome feedback on any matters that should be taken into account when consulting on the scope and design of publication, including feedback from data-users on their expectations regarding the content of the publications.**

**Publication of product-level data**

Financial Rights understands that the plan for Phase 2 is to publish data at an industry-level and an entity level, and that while a formal process of consultation will commence regarding the publication of data, preliminary comment is requested at this stage.

Financial Rights notes that it is unclear whether there will be any product level data published for public consumption – that is, will people be able to see the claims rates and other statistics for each product (or at the very least group of products) for each entity?

While Financial Rights very much supports the publishing of aggregate data on an industry-level and an entity level, and understands that this was the recommendation made in Report 498, serious consideration needs to be given to the publishing of product-level data, if that is not the intention of ASIC and APRA.
The Discussion Paper states that

*Industry level publication is on an aggregate basis, and can enhance understanding of industry performance and structure at an aggregate level. Entity-level data is published on an insurer-by-insurer basis, and helps support transparency and accountability regarding the performance of individual insurers.*

However there are important reasons for product level information to be provided – largely to assist consumers in making more informed decisions about the products that are available.

Information asymmetry is a defining element of the relationship between insurer and the insured. Insurers, through the use of large datasets and actuarial analysis, in most cases hold a greater understanding of risk than the buyers of insurance products. Consumers are left to make decisions based on partial information, guesses and gut feeling that can be influenced by a range of issues including individual life circumstances and experiences as well as the information provided by the life insurer themselves.

While Financial Rights expect that most insurers are honest and scrupulous, setting premiums and designing products that serve consumers well, information asymmetry can provide the opportunity to some more manipulative elements of the industry to disguise subpar insurance products with slick advertising and highly influential sales people and practices. The work ASIC and Consumer Action have conducted with respect to add-on insurance in the motor vehicle market¹ is an example where information asymmetry has allowed some in the industry to exploit consumers to sell poorly designed, basically useless products.

Product-level data in this case would have gone some way to providing consumers with the information they needed to know at the time of purchasing add-on insurance.

In the UK, the Financial Conduct Authority has decided to collect and publish data at product level. The FCA has established a pilot scorecard project which has published general insurance value measures data for 38 insurers for the year ending 31 August 2016.² The pilot scorecard includes claims frequencies, claims acceptance rates and average claim pay-outs. The general insurance products covered are home (buildings and contents) insurance, home emergency, personal accident and “key cover”. The data provides users with a broader range of information to assess firms and product value.

The scorecard provides a range of data and is worth examining by ASIC and APRA to provide a model from which to base the Australian publishing of data.

---

The scorecard presents for, say Home (combined buildings and contents) insurance a spreadsheet of:

- Firm
- Sales type (ie standalone/direct versus add-on)
- Claims frequency (as a range for example 2.5% to 4.9%)
- Claims acceptance rate (as a range, for example 80% to 84.9%)
- Average claims pay-out (as a range, $2000 to $2999)

This data in a life insurance context will be valuable for consumers to understand the products that they are purchasing.

The data are aggregated on a product and entity level so that:

\[ \text{The value measures data reflect the aggregated data for the individual firms and products.} \]
\[ \text{The data will therefore be impacted by the mix of business undertaken by that firm and may not reflect individual distributor/brand arrangements or individual insurance products purchased by different consumers from the same insurer} \]

The data obviously reflects past performance and the actual claims payout can vary significantly from the average described. Financial Rights recommends APRA and ASIC consider the use of averages, means, ranges, highest, lowest measures, when considering implementation. The FCA also warns readers of the data that

\[ \text{Average claims pay-out and claims frequency will be influenced by a variety of factors such as the level and type of cover. Some insurers may predominately sell specialist or high end products therefore the sum-insured may be considerably higher resulting in higher claims costs.} \]

This is appropriate.

The FCA decided not to include a claims ratio measure as they believe that:

\[ \text{Creating an appropriate calculation framework for producing comparable data for claim ratio is challenging because of the range of existing practices by firms.} \]

Financial Rights does not believe that these issues are insurmountable in the Australian context, particularly given the process APRA and ASIC are about to embark upon in Phase 1 of this project to ensure appropriate data collection processes and consistent reporting standards. Furthermore ASIC have published product level claims ratio previously for add-on insurance. Claims ratio would be a valuable addition, a useful indicator of value for money for customers and Financial Rights recommends APRA and ASIC consider the publication of this data. Existing industry practices can and should adapt.

**Recommendations**

---

3 Para 3.12
1. APRA and ASIC should publically publish product level data in addition to industry and entity level data.

2. In so doing ASIC and APRA should follow the lead of the UK and publish:
   a) Claims frequency;
   b) Claims acceptance rate; and
   c) Average claims pay-outs.

3. APRA and ASIC should consider the use of measures other than averages including means, ranges, highest and lowest measures to provide a full picture.

4. ASIC and APRA should also publish claims ratios of products.

---

**Entity level data**

Financial Rights strongly recommends that like the UK, APRA and ASIC should name the entities explicitly. We note that in ASIC Report 498, companies were de-identified and listed as Insurer A, B, through K. This is all but useless to consumers who are looking for information to help them make purchasing decisions.

Following the release of the report that showed one company had a decline rate of 37%. The media subsequently revealed that the offending company was Westpac subsidiary BT Financial Group.\(^4\) ASIC only confirmed names to parliament in camera.

Financial Rights believes that consumers have the right to know the identity of the companies and their claims and disputes rates. While it is important to place this data within a context that allows consumers to fairly understand their meaning, it is both in the interests of consumers to know this information to make better informed decisions as well as the industry in order to drive and encourage industry self improvement where improvement is needed.

---

**Recommendations**

5. APRA and ASIC should publish the name of individual entities in any publication of data.

---

**Analysis and publication of data**

The discussion paper notes that the data collection “may also be used to facilitate analysis by ASIC and APRA.”\(^5\) It is unclear whether this is meant to be analysis of the data that will be

---


\(^5\) p. 20
published or for internal use only. It is Financial Rights’ view that an annual analysis of the data by ASIC and APRA is warranted, and this analysis should be made publicly available.

Financial Rights points to the General Insurance Industry Data Reports 2014-2015 and 2015-16 under the 2013 General Insurance Code of Practice as a good model for producing a report on insurance data that presents the statistics as a snapshot of the state of the industry as well as providing an analysis to highlight and point to significant trends. This report presents the material in a readable, digestible form and provides important context for the data. A similar approach should be taken by ASIC and APRA.

Financial Rights notes again that the UK FCA are currently piloting the publication of general insurance "Claims Scorecards" for a small number of products. The data is presented in such a way that there is minimal analysis or context, simply providing lists that can be filtered or ordered in a particular way. While useful on some level, it is not ideal. Analysis has been left to journalists, which in no way would provide a comprehensive, objective or even fair overview for both the industry and consumers. While obviously Financial Rights is keen for media services to cover key points and trends, leaving this solely up to news services, with no context or basic analysis is far from ideal. Nor is leaving it to industry to interpret and promote without independent analysis.

The FCA has also decided to publish the data as a market transparency remedy” rather than as a “point of sale disclosure to consumers” although they “may consider this again in the future.” They state that:

Instead of direct to consumer disclosures we believe that consumer organisations and other stakeholders are in a good position to assess and process the value measures information into a clear format for consumers. Consumers will benefit from the information in this way.

This may be the case for the UK however we do not think that this is particularly the case for the Australian market, due to economies of scale. We do not believe that this should be left to the fintech sector or any other market solution either. Consumer advocates do not have adequate capacity to do this at current funding levels. We believe that APRA and ASIC are best placed to provide the regulatory structure required to introduce standard disclosure of this information.

We strongly believe that disclosing the data gathered under this project to consumers in a distinct and separate document or webpage and at point of sale would very much assist with the decision-making process, and could easily be done through images, graphs, pie charts, or standard boxes to make it easily understandable for consumers. This can and should be

6 FCA, FCA to publish claims scorecards, 1 March 2016

7 For example: Caroline Birnham and Oliver Ralph, FCA names insurers most likely to reject customers, Financial Times https://www.ft.com/content/7d1ae662-e2f5-11e6-9645-c9357a75844a
8 para 4.15.
developed using human-centred design and behavioural insights, and user-tested for the best results.

## Recommendations

6. APRA and ASIC should publicly publish a consumer-friendly annual analysis of the data collected.

7. The data collected should be published both as a market transparency measure, made available online, in spreadsheet form as well as at the point of sale as a disclosure measure for consumers.

8. Analysis of the data or publication of point of sale disclosure information should not be solely left to the market (via fintech, media or other sectors). APRA and ASIC need to provide an overview analysis and regulate to ensure consistent and full disclosure to consumers of the data collected.

9. Any and all publication of data, in whatever form, should be user tested and based upon user-centred design principles.

### Feedback question 5 - The agencies welcome feedback on whether the proposed data items adequately address the objectives of the data collection and whether there are any additional data items which would assist in meeting those objectives.

### Cover types

Financial Rights notes that under cover types to be included in Phase 1 data requests that:

> Other business, such as traditional business, consumer credit insurance and funeral business are excluded from the first collection

This is disappointing. While it is understandable that APRA and ASIC may want to establish data collection systems for the most significant forms of life insurance, it is clear from ASIC reviews that there are significant problems with consumer credit insurance and funeral business.

---

insurance\textsuperscript{10} that require addressing sooner rather than later. It is unclear why these categories have been excluded in the first round of data collection. It is also not clear and unstated when data collection will begin in these areas.

Financial Rights recommends reconsideration of this decision and inclusion of these categories in Phase 1 Data Collection. At the absolute minimum, APRA and ASIC should establish a timetable for when these categories will be included.

\section*{Recommendations}

10. APRA and ASIC should reconsider the decision not to include funeral insurance or CCI as part of the Phase 1 Data Collection. At the absolute minimum, APRA and ASIC should establish a timetable for when these categories will be included.

\section*{Claims data: Reasons for claims decline}

The Discussion Paper outlines the detailed information on claims and claims handling sought. These include:

- \textit{Total number of claims reported, finalised and withdrawn, as well as the number of claims that are undetermined at the end of the reporting period.}

- \textit{Finalised claim counts are further categorised between:}
  - Claims admitted with full benefit payable;
  - Claims declined, but an ex-gratia payment made;
  - Claims declined but admitted under a different cover type;
  - Claims declined, with policy benefit or policy contract cancelled and premiums refunded; and
  - Other claim outcomes.

An important element missing from this is the common reasons for the decline of a claim. Knowing the number of claims declined, with policy benefit or policy contract cancelled and premiums refunded provides one useful yet very broad metric upon which the regulator and other stakeholders interpret, analyse and understand the claims handling practices of the industry and insurers. However that does not tell us why the claims have been declined – or at the very least the most common reasons a claim has been declined.

Claims can be declined on a number of bases including:

- the claim is outside of the policy terms and the claim entitlement is not met;

• the claim is declined due to an exclusion clause for example there is a pre-existing condition;
• the policyholder is found to have made a fraudulent non-disclosure;
• the policyholder made an innocent non-disclosure in the first three years; or
• an allegation of a fraudulent claims.

Gaining an insight into the reasons claims are being declined will help paint a more detailed picture of the reasons there are high or low decline rates in a particular product category or entity and will assist regulators to improve outcomes for the industry and for consumers. Further it will be useful it would be very useful for APRA and ASIC to collect the reasons for cancellations and refunds, including mis-sold product, non-disclosure or innocent misrepresentation.

Financial Rights therefore recommends that the category “Claims declined, with policy benefit or policy contract cancelled and premiums refunded” be further broken down into subcategories relating to the common reasons for declines.

We note too that ASIC Report 498 found that some insurers had relatively high numbers of ‘withdrawn’ claims, with three insurers having 34%, 29% and 23% of retail policy claims withdrawn. On particular forms of cover one insurer’s withdrawn claim rate was 33% and for income protection another insurer’s was 30%. For one insurer, the trauma cover withdrawn claim rate was 26%. It would be very useful for APRA and ASIC to drill down into this data to detail the reasons for withdrawal. It is also important to ensure that data collected uses consistent language and terminology throughout.

**Recommendations**

11. The category “Claims declined, with policy benefit or policy contract cancelled and premiums refunded” be further broken down into subcategories relating to the common reasons for declines.

12. APRA and ASIC should collect and publish data relating to the reasons for withdrawn claims.

---


Claims data: Duration

The Discussion paper states that:

*Claims processing durations, will be collected in respect of finalised claims. Duration detail will be collected separately for claim counts and claim sums insured.*

As mentioned above, in terms of publishing the results of the data there needs to be a consideration of how this information is presented – is an average, mean or range the most appropriate? Should highest and lowest be reported too? This information would demonstrate some of the worst failings of the industry.

Further, Financial Rights notes that the total number of undetermined claims will be collected but it will be important to know the duration of these claims. It may be appropriate to note how many undetermined claims are continuing to be undetermined the next year. Say for example there are 100 undetermined claims at the end of 30 June 2018, 50 of these continue to be undetermined in 30 June 2019. This data would indicate any problems in resolving claims.

Recommendations

13. APRA and ASIC should report on the number of undetermined claims that remain undetermined from the previous year or years, in order to note the duration of the outstanding undetermined claims.

Disputes data

An important element to disputes data that is missing from the proposal is the common dispute issues. Currently the Financial Ombudsman Service reports on the common issues in income stream and non-income stream life insurance disputes. FOS reports that:

*Disputes about denial of claim, delays in claim handling and claim amounts were key themes associated with income protection insurance. Common issues in income protection disputes were that FSPs gave insufficient warning before ceasing benefits, did not provide enough explanation about why benefits would cease or requested too much information of beneficiaries.*

FOS produces a summary of this in the following chart

---

FOS then proceeds to express concerns with the disputes that they are seeing in order to promote improvements in the industry. This can only occur because the data was collected and analysed. FOS state:

*FOS continues to be concerned that FSPs are relying on incorrect policy provisions and are not providing relevant documentation to FOS at the time of disputes*

This is important information and can lead to significant changes in industry behaviour supporting improved outcomes for consumers.

The same information needs to be at a minimum collected by ASIC relating to internal disputes and litigated disputes. Financial Rights notes that disputes by issue were analysed and published by ASIC in Report 498.\(^{15}\)

We believe that this needs to carry over in the data collection regime.

Furthermore Financial Rights notes that Report 498 also provides significant data and analysis on mental health claims, policy definition disputes, claims handling disputes. These were valuable observations and need to continue to be collected, benchmarked, analysed and published. These too need to be captured in the data collection regime being instituted but does not seem to be included in Financial Rights reading.

Given FOS already collects this for external disputes, it may be a doubling up of data, however there may be a need to liaise with FOS to understand their approach to data collection in this regard, in order to replicate it for internal disputes and make sure there is consistency.

Financial Rights further notes that the Ramsay Review Of the financial system external dispute resolution and complaints framework recommended\(^{16}\) that there be greater transparency of internal dispute resolution (IDR):

\[\text{Recommendation 8:} \text{ Transparency of internal dispute resolution} \]

\[\text{To improve the transparency of IDR, financial firms should be required to report to ASIC in a standardised form on their IDR activity, including the outcomes for consumers in relation to complaints raised at IDR.} \]

\[\text{ASIC should have the power to:} \]

• determine the content and format of IDR reporting (following consultation with industry and other stakeholders and having regard to the principles set out in Chapter 10 of the Final Report); and

• publish data on IDR both at aggregate level and, at its discretion, at firm level.

We encourage ASIC to release this data in a form that is useful for consumers and that supplements or complements (rather than duplicates) FOS disputes data.

Recommendations

14. APRA and ASIC should collect and publish data on common dispute issues.

15. ASIC should collect and publish IDR as per Recommendation 8 of the Ramsay Review.

Investigations and surveillance data

Financial Rights believes that in respect to claims it is important to also collect data relating to claims handling practices, in particular, investigations and surveillance. Financial Rights identified a number of issues relating to the conduct of investigations in the general insurance industry in its Guilty Until Proven Innocent: Insurance Investigations in Australia report17 and believes that similar issues arise in the life insurance sector.

The decision to conduct an investigation and/or surveillance as a part of a claim is a significant one that can have serious impact upon consumers including significant delays to claims. Financial Rights chose to examine insurance industry investigation practices after solicitors on our Insurance Law Service noticed that a significant proportion of their work – almost one in four calls – was devoted to providing advice to policyholders who found themselves subject to an insurance investigation.

Financial Rights found a multitude of issues being faced by consumers including incredibly long interviews (sometimes over five hours in length), racial profiling and intimidating and unethical behaviour. Financial Rights also found that that there were few if any real consumer protections in place against abuses of the investigation and surveillance area. This has been remedied somewhat in the recent Life Insurance Code of Practice through inclusion of code commitments relating to investigation and surveillance practices.

In the process of researching Guilty Until Proven Innocent, Financial Rights learned that some insurers were instituting a policy to investigate all claims flagged as potentially fraudulent. This is a policy that consumers would be unaware of and has great potential to impact negatively upon innocent insurance policyholders, given the flaws of the red flag processes in place to identify fraud. Over-investigation or high levels of surveillance activity is potentially

problematic and will lead to significant claims handling issues. Collecting data on investigation and surveillance practices will assist in identifying these practices for regulators. Data could include the number of claims that have surveillance actively being conducted, the number of interviews being conducted for the purposes of investigating a claim, the number of independent medical examinations being sought.

**Recommendations**

16. APRA and ASIC should collect data on investigation and surveillance practices and publish statistics on an industry-level.

**Other issues: Demographic data**

Financial Rights believes that it is appropriate for APRA and ASIC to collect demographic data as a part of this program. Financial Rights strongly believes that such data will provide important insights into whether life insurance products are being appropriately sold.

For example, the 2015 ASIC report into funeral insurance found major problems with their design and distribution.\(^{18}\) While 51.2% of consumers with funeral insurance were aged between 50-74, 50% of indigenous consumers with funeral insurance were under 20. Young people are extremely unlikely to need to rely on funeral insurance. This is also a product that becomes less valuable for consumers the longer they have the policy, with sales to young indigenous consumers indicating significant issues with the distribution of products. Funeral insurance companies are preying on communities and selling products that are poor value, especially when compared with funeral bonds, pre-paid funeral options, some life insurance products or simple savings accounts.

With respect to the recent decision to have QBE refund $15.9 million in CCI sold through car yards,\(^{19}\) ASIC found that that QBE CCI insurance was sold to young people (under 25 year olds) who had no dependents and who were unlikely to need the cover. Again the collection of demographic data will assist appropriate identification of issues and proactive regulation in this area.

The gathering of basic demographic data will empower both industry and regulators to improve the suitability of insurance products being sold. This is particularly useful with broadened powers relating to proposed Design and Distribution Obligation and Product Intervention Powers.

---


Recommendations

17. APRA and ASIC should collect demographic data in order to identify problematic sales and distribution practices.

Concluding Remarks

Thank you again for the opportunity to comment. If you have any questions or concerns regarding this submission please do not hesitate to contact Financial Rights on (02) 9212 4216.

Kind Regards,

Karen Cox
Coordinator
Financial Rights Legal Centre
Direct: (02) 8204 1340
E-mail: Karen.Cox@financialrights.org.au