

16 July 2017

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Australian Prudential Regulation Authority  
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By email only: [lifecclaimsdata@apra.gov.au](mailto:lifecclaimsdata@apra.gov.au)

Dear Ms Richards

**APRA – Response to Submissions – Life Insurance – public reporting of claims information – update on progress**

The Financial Services Council (FSC) welcomes the opportunity to make the attached submission to the Australian Prudential Regulation Authority on the consultation paper on the life insurance – public reporting of claims information – update on progress.

As the peak body that represents life insurance companies in Australia, we also welcome the opportunity to work with APRA and ASIC to ensure this information is reported and published in a way that improves transparency and promotes consumer trust. FSC and its life insurance members have also committed to build on the APRA and ASIC Claims Handling Data Collection project to collect more granular information from the industry over time in a range of areas including the underlying cause of claims.

In publishing claims information there are risks that the results could be misunderstood if great care is not taken in the way the information is published. For this reason, we are of the view that extensive consumer testing and guidance on how to interpret published claims data will be key to the success of the APRA and ASIC claims handling data public reporting.

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange. It is the fourth largest pool of managed funds in the world.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely

JESSE KRNCVIC  
**Senior Policy Manager**

## 1. Update on industry data collection

### *Industry claims data collection*

The FSC and its members wish to build on APRA and ASIC's existing Claims Handling Data Collection project to collect more granular information from the industry in a range of areas including better information on the types of impairments claims are paid for.

The industry-led solution, which will be conducted by KPMG, will also include a blue print for FSC life insurance members to collect better consumer data in an industry-standardised format over time.

The new data will:

- help consumers understanding of the benefits of life insurance;
- apply greater transparency and accountability to the claims handling process;
- support the sustainability of the life insurance industry through insights that will lead to better product development; and
- inform public policy debate.

The first industry data collection will coincide with APRA Phase 2 Round 1 claims data collection.

### *FSC Standard 25 – Life Insurance Industry Data Collection Policy*

The FSC is also in the process of finalising its own Life Insurance Industry Data Collection Policy Standard. This will ensure that FSC life insurance members continue to:

- improve their data collection practices and contribute to the FSC industry data collection mechanism administered by FSC;
- commit to improve industry data through standardisation and quality of data collected;
- use of common terminology and data element definitions; and
- ensure the industry collects more granular, meaningful and accurate data over time.

## 2. FSC feedback on consultation questions

### **Feedback question 1 – Industry level data publication**

We recommend that for publication purposes, death claims are grouped by the following cover types:

- Death cover, where terminal illness claims and death claims are reported separately (two categories).
- CCI death claims (as currently proposed in data spec)
- Funeral insurance claims (as currently proposed in data spec)
- Accidental death cover claims

There are different considerations that apply to each of the above five categories. Therefore grouping all these claims together may create a misleading impression of the underlying claims experience.

We recommend that Claims Reported is defined as follows such that the timeframes are not misleading and are in line with the proposed definition in the next iteration of the FSC Life Insurance Code of Practice:

- Claims Reported means that the life insurer is aware that the person is making a claim on the life insurance policy, and has received enough information from the customer to start the claims assessment process.

The FSC proposes collaborating with APRA and ASIC to ensure consistent claims definitions across the industry in Codes, Code compliance and industry data collection exercises.

The FSC questions whether APRA's proposal to publish a minimum of 50 finalised claims on a rolling 12-monthly basis is an appropriate threshold, and whether it is statistically relevant. At this level, small life insurer or insurers entering into a product and distribution segment are likely to experience higher volatility in their reported performance for the purpose of the comparison. Under the proposed threshold, a few declined claims may place insurers in this situation beneath the average in that segment. This could potentially slow the growth of the small/new participants.

## **Feedback question 2 – Proposed Reporting Standard**

The FSC supports the proposal to introduce a Claims Data Reporting Standard, and would appreciate the opportunity to provide feedback on the specific provisions of the Standard when drafted, particularly as to the required “appropriate standards of quality” (on page 25).

The industry is still working on aligning its data recording to APRA's Data Collection format (noted by APRA on page 5). For the industry this requires both system changes and process changes to the way data is entered by staff. The process changes can result in a disconnect between new and historical data. Also, APRA has now confirmed in this paper that the Data Collection template is based on the P1R2 template, with ongoing amendments being adopted in P1R3.

This means there can be lags between the adoption of APRA's definitions or data fields and the consistent recording of such data at an appropriate standard of quality. We would appreciate the opportunity to provide further feedback on how changes to data requirements are accommodated in the Claims Data Reporting Standard.

The FSC and its members are of the view that claims data should be collected in a spreadsheet format, not in a flat form in the medium term. This is to ensure APRA processes and standards, as well as those being undertaken by the FSC through the industry data collection project have been finalised, tested and evaluated.

### **Feedback question 3 – Public benefit of a non-confidentiality determination**

The FSC believes that an informed public is good for the consumers and the industry. To ensure the public is properly informed, the FSC is of the view that extensive user testing of the proposed publication is undertaken (on page 23). FSC is of the view that it is important for different audiences to be part of the testing. As a minimum, consumers, market commentators and advisers should be the targeted to ensure that the publication of data is not confusing or misleading.

The FSC would welcome the opportunity to be involved in designing the user testing and analysing the results.

### **Feedback question 4 – Detrimental to commercial interests of a non-confidentiality determination**

The FSC is of the view that publishing this information is likely to have commercial impacts across the industry.

The FSC believes that the most appropriate way to mitigate unintended impacts to commercial interests is through rigorous consumer testing and learnings from other markets who publish claims data (i.e. the United Kingdom and Singapore etc.).

### **Feedback question 5 – Publication principles**

The FSC considers the proposed publication principles to be appropriate, subject to determining the appropriate level of “sufficient granularity” (on page 30).

The publication principles should be explicit that consumers can easily obtain and easily understand the information.

### **Feedback question 6 – Educational materials on insurer level publication**

The FSC supports appropriate educational material being provided with the published data. There is a risk that some data, such as average sums insured, without any other context may result in poor decisions. We support appropriate user testing by APRA to ensure that unintended consequences of publication are avoided.

The FSC and its members would like to be involved in the development of the education materials. Some principles that should be applied to the education materials are:

- Explanations should be in plain English, consumer friendly and avoid overly technical/industry-specific jargon.
- Provide detailed additional commentary for sophisticated users.
- Be carefully positioned, for example, if materials are presented in a separate document, this may limit those who read it.

APRA has sought feedback on educational material to support comparisons. Intuitively the ability for consumers to compare claims performance across insurers is a positive outcome but there are risks to be mitigated.

- Human nature is such that a table of numbers representing comparative performance will be readily absorbed by consumers, whereas guidance and explanations will not.
- Every insurers' data will have a different experience and will vary by distribution channel and line of business. These differences will be compounded by variations due to size and age of their books, product features, processes, pricing, level of underwriting etc. Consumers will need guidance in understanding these factors and in assigning priorities to each.
- Claims performance is only one aspect that a consumer should consider when making decisions. Guidance is required as to the broad range of factors to be considered, and the relative priority of each in the context of the consumer's circumstances. Product suitability, pricing, sustainability, and so on need to be considered.
- It should also be reinforced that current performance provides no certainty with regard to future performance. This is particularly pertinent in the claims environment, as the expected elapsed time from purchase to claim would be expected to be significant.

The FSC recommends that, prior to initial publication, some focus groups are run with consumers, market commentators and advisers to provide insight into how tables are interpreted and, in order to get sound outcomes, what this means for what is published and what guidance is required.

Furthermore, to ensure education materials are developed appropriately, we recommend that individual insurers are consulted on materials that will be accompanying their published data.

### ***FSC consumer testing***

The FSC has previously undertaken consumer testing in relation to the presentation of claims data. The objective of the consumer testing included:

- to test consumer reactions, understanding of claims performance and comparison data;
- ascertaining which data has most relevance to consumers and the format of data most useful to consumers; and
- assess the proposed data against consumer expectations and perceptions.

### ***Some of the findings and observations from consumer testing***

FSC has previously conducted consumer testing which provided some useful insights into the presentation of claims data to consumers.

The consumer testing conducted by the FSC indicates consumers are more likely to engage with simple charts, as opposed to data tables. Information presented as percentages were preferred to absolute numbers.

Where consumers were showed claims acceptance rates alongside claims denied (with brief categories of reasons for denial), perceptions of the life insurance industry improved as the level of acceptance rates was higher than consumers had expected.

Explanations of the reasons for claims denied offered clarity and insight into the way claims are assessed.

Where data was voluminous or presented in tables, this was less engaging and less well understood than charts.

Based on the FSC consumer testing and experiences of claims data publication in other markets, the FSC suggests that alternative modes of presentation are explored by the APRA and ASIC. Possible alternatives could include simple charts or a website drop down functionality to reduce consumers misinterpreting or making inappropriate comparisons between insurers, distribution channels or lines of business.

### **Feedback question 7 – Proposed insurer level publication**

Although supportive of a publication regime, FSC recognises that there may be some unintended consequences. To avoid these, care and sufficient time needs to be taken before insurer level information is published. Some of these concerns are as follows:

- The “average sum insured” is unlikely to be informative for consumers, as it will be heavily influenced by the insurer’s age profile, socio-economic profile and business mix. In addition, the averaging of sum insured over what may be wide suite of products which serve different purposes and offer differing levels of cover may create a misleading impression to consumers. We recommend this not be published.
- Market share by annual premium may be misleading as premiums may vary significantly for the same reasons as average sum insured. Market share by lives insured may be a better representative of relative size between insurers.
- The references to “Open claims” and “Open disputes” are potentially misleading as they include both *ongoing* claims and disputes at the start of the reporting period and *new* claims and disputes during the reporting period. This could be addressed in the educational material (Feedback question 6) but otherwise would give an incorrect impression as to the number of claims or disputes lodged in any reporting period. We consider that disputes as a proportion of claims may be a more representative indication of the rate of disputes than the actual number of disputes.
- The reference to “Claims undetermined rate” and “Disputes undetermined rate” may be confusing as it may suggest the claims or disputes *cannot* be finalised rather than the claims or disputes *have not yet been* finalised. This could be addressed through educational material (Feedback question 6) or by changing the description to “Not yet determined”.
- As with the average sum insured and average premium, the “Average claim amount paid” and “Average dispute resolved payment amount” is likely to be misleading as it is very dependent on the insurer’s product design, target market and business mix. We recommend this not be published. In addition, dispute payments may include additional elements such as legal costs which ought not to be considered part of the amount paid in respect of the underlying claim.
- We recommend that the median claims processing duration and median disputes processing duration be used rather than the mean as this would be less susceptible to outliers, particularly for disputes which are expected to be of a much smaller volume and therefore more sensitive to outliers.

- The FSC Life Insurance Code of Practice has time-frames for settling disputes (unless unexpected circumstances arise) – these are two months for income related claims and six months for lump sum claims. This means that APRA should give the context that, in any given year, up to one sixth of income related claims and half of lump sum claims might be expected not to be finalised where the claim was received later in the year.

The FSC is of the view that a rigorous evaluation should be undertaken after the first industry claims data publication. The industry would appreciate being involved in this process.