

Document A-2
**Findings and
Recommended Actions
for Individual Disability
Income Insurance**

IDDI

VERSION 1.0 • MAY 2021

Disability Insurance Taskforce of the Actuaries Institute

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About the authors

This document has been prepared by the Disability Insurance Taskforce of the Actuaries Institute (the Taskforce).

Disclaimer

This paper is published by the Disability Insurance Taskforce for the purpose of providing information on its work on individual disability income insurance. The Disability Insurance Taskforce is comprised of a range of participants and stakeholders in the Individual Disability Income Insurance ecosystem. The work of the Disability Insurance Taskforce has been to establish guidelines for a sustainable ecosystem including the development of a Reference Product for Individual Disability Income Insurance. The work has been undertaken to promote better, more sustainable outcomes for both consumers and the industry. The Taskforce participants have shared knowledge on the basis that the outcome was of public benefit in advancing the debate of more sustainable product design.

Acknowledgement of country

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.



About the Actuaries Institute

The Actuaries Institute is the sole professional body for Actuaries in Australia. The Institute provides expert commentary on public policy issues where there is uncertainty of future financial outcomes.

Actuaries have a reputation for a high level of technical financial expertise and integrity. They apply their risk management expertise to allocate capital efficiently, identify and mitigate emerging risks and to help maintain system integrity across multiple segments of the financial and other sectors.

This expertise enables the profession to provide important insights on a wide range of issues including life insurance, health insurance, general insurance, climate change, retirement income policy, enterprise risk and prudential regulation, finance and investment and health financing.

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Individual Disability Income Insurance Ecosystem¹ in Australia



¹ The diagram was used in the original document in September 2020. It was noted in one piece of feedback that employers also participate in the ecosystem, particularly with the return-to-work focus adopted in the Taskforce work. Lawyers also play a significant role in the claims process.

1 Summary

The Disability Insurance Taskforce (the **Taskforce**) set up by the Actuaries Institute has conducted a comprehensive review of issues with Individual Disability Income Insurance (IDII) in Australia.

This document is an update of the report (the **Original Document A**) which was issued in September 2020 for consultation with interested parties.

This document contains an overview of the feedback received through the consultation process, the response of the Taskforce to that feedback and the final recommendations from the Taskforce.

The background to this work, the arguments supporting the draft recommendations and the aims of the Taskforce were set out in detail in the original documents – all available [here](#).

List of Recommendations

For ease of reference, a list of recommendations is provided below:

Section 3: Customer and Community Interests

3.1 (a) Improve Participant understanding of insurance pooling concept

Life Insurers, the **FSC** and the **Actuaries Institute** should proactively take opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.

3.1 (b) Improve Participant understanding of insurance pooling concept

In addition, the **FSC** should work with the Actuaries Institute, consumer advocates, adviser bodies, and AFCA to produce a public statement about fairness in relation to life insurance from the perspectives of the community, IDII policyholder (current and future) and IDII claimant, as a reference.

Section 4: Consumer Protection and Advocacy

4.1 Improve insurer insights into customer claim experiences

4.1(a) Individual **Life Insurers** should engage with consumer advocacy bodies (CABs), AFCA and selected customer advocacy lawyers systematically and based on this provide board and senior management ongoing insights into the extremes of customer experience.

4.1(b) Based on insights gained by individual insurers, the **FSC** should produce a compilation of anonymised case studies at industry level to aid Life Insurers in assessing their products and practices, and their relative experience.

4.1(c) Individual **Life Insurers** should update products to improve alignment between insurer and customers' expectations.

4.2 Prepare a statement of good practice covering the role of all parties involved in customer claims

The **FSC** should work with the appropriate legal professional body, adviser bodies, complaints and consumer advocacy bodies, medical professional bodies, underwriting and claims professionals and others to develop a statement of good practice covering all parties involved in the claims process.

4.3 Defer standardisation of definitions

The **Actuaries Institute** should review market practice regarding definitions two years after the introduction of the Sustainability Guide and consider whether standardisation of definitions would be beneficial.

Life Insurers should use the Reference Product as an aid in balancing innovation and clarity with respect to definitions for the purpose of improving risk management of IDII.

Section 5: Features of the Product/Market

5.1 Introduce simpler and cheaper product alternatives

Life Insurers, without necessarily changing the use of financial advisers or making other changes to distribution, should:

- thoroughly investigate consumer preferences for features/price trade-offs and introduce simpler/cheaper product alternatives; and
- produce products suited to different market segments – with one outcome being clearer differentiation on benefits and on cost. Note: The DDO should support such a shift in focus.

5.2 Develop simpler explanations around what is and is not covered

Life Insurers should develop succinct and accessible ways to simply explain what is and is not covered – not just at inception, but continually during the policy period. This would complement the policy document and/or PDS.

5.3 Improve communication, understanding and management of risks and uncertainty

Life Insurers should adopt the Sustainability Guide in addressing risks and uncertainty, building on existing practices as appropriate.

5.4 Impose strong controls on level of benefits and income replacement ratios

Life Insurers should impose strong controls on level of benefits and income replacement ratios, using the Sustainability Guide and the Reference Product as a basis for decision making alongside the company's own target sustainability and risk outcomes.

In addition, **Life Insurers** should ensure any ancillary benefits appropriately compensate for financial loss and do not provide a windfall for the customer.

5.5 Improve Guaranteed Contract Term management

Life Insurers should avoid overly long-term guarantee periods for terms and conditions and use the Sustainability Guide in decision making.

Life Insurers and the **FSC** should devise protection for policyholders to ensure fair treatment at rollover (e.g. incorporate broad intent in the original policy for use at a 5-year rollover point), including consideration of enhancements to future customer engagement and servicing.

5.6 Embed Loss Minimisation Principle in policy contracts

Life Insurers should embed in policy contracts an obligation for claimants to undergo all necessary treatment and support for return to work, as reasonably required by the insurer and as appropriate for the claimant.

Subject to legal impediments, **Life Insurers** should embed in policy contracts incentives to notify the insurer of a claim within a reasonable period of incapacity commencing.

5.7 Improve data quality

The **Actuaries Institute** should issue specifications for data which are necessary to support sustainability and which insurers should gather.

The **FSC** should include data requirements (as per specifications from Actuaries Institute above) in FSC standards.

5.8 Improve communication of pricing philosophy

Life Insurers should ensure their pricing philosophy is formulated through the lens of customer outcomes, is clearly articulated and is signed off by the Board, for internal use.

5.9 Improve understanding of Level Premium business

Life Insurers should conduct research as to current understanding and expectations of advisers

and customers of Level Premium business, and include clear explanation and examples in Product Disclosure Statements, Annual Communications etc.

Section 6: Life insurance company governance and management of IDII

6.1 Review Board composition

Boards should review their capabilities and

- bolster life insurance experience to target substantial representation by directors with deep strategic and operational understanding of the life insurance business, garnered through working in the industry (recognising that this should not come at the expense of appropriate Board diversity); and
- ensure regular Board access to independent expert advice.

6.2 Review product governance and reporting to the board

Boards, Actuaries, CROs and CEOs should adopt the Sustainability Guide, including heat map and assessment against the Reference Product, and incorporate in formal reporting to the Board.

6.3 Meaningfully shift focus to customers

Boards, Actuaries, CROs and CEOs should shift Life Insurer focus (via reporting, performance assessment, remuneration etc) to long-term sustainable outcomes for all customers, in terms of product, pricing, services and practices.

6.4 CEO and Management Accountability

Boards should

- hold formal post-implementation reviews after significant product changes over a multi-year period to assess actual long-term performance;
- hold management to account (acting reasonably) for long-term performance; and
- ensure remuneration reflects uncertainties (with reference to the Sustainability Guide).

Section 7: Regulation and the Law

7.1 Produce examples of application of Best Interest Duty (BID) application to life insurance

ASIC should produce examples of application of BID, including the trade-off of features and price, for IDII (and other life insurance) and include in RG 175. This should include consideration of customers moving from legacy to new IDII products.

Pending **ASIC** provision of examples in RG 175, the **Actuaries Institute, FSC and FPA/AFA** should produce examples of application of BID for IDII (and other life insurance).

7.2 Consider this report in deployment of DDO

Life Insurers should review the Original Document A (sections 5 and 7 in particular), this report and its recommendations, and consider how DDO may be deployed to encourage IDII products of differing levels of complexity and price, with a consequent boost to sustainability.

7.3 Maintain APRA intervention

APRA should maintain the current intervention until such time as industry demonstrates a sustained improvement in practices and outcomes.

7.4 APRA should set expectations regarding the Sustainability Guide and monitoring

APRA should maintain expectations that insurers should either implement the Sustainability Guide (including use of the Reference Product) or put in place equally effective alternatives. APRA should also report back to each insurer their position on adoption of the Sustainability Guide and scoring vs peers.

The **Actuaries Institute** should ensure the Sustainability Guide is reviewed after 12 months to reflect lessons learnt and to improve the guide for future use.

7.5 Review of the 1995 Life Insurance Act fitness for purpose

Treasury and APRA should review the Life Insurance Act and all other relevant insurance legislation (including the Insurance Contracts Act) for fitness for purpose in modern markets and society.

7.6 Improve understanding of s48 of the Life Insurance Act 1995

The **Actuaries Institute** should conduct training and discussion sessions on implications of s48 for IDII product design and pricing.

7.7 Review legislative impact of rehabilitation costs

FSC should review and update submissions with respect to rehabilitation costs particularly addressing improved customer and sustainability outcomes and feedback from prior reviews.

Treasury should review relevant legislation after considering proposals in the updated FSC submission and other consultation with industry.

Section 8: Financial Advice

8.2 Make amendments to the product ratings process

(a) **Rating houses**, working with **Licensees** should amend the product ratings process to ensure that:

1. The contribution of a feature to the rating is proportional to its value to the customer (in terms of claims payments);
2. In support of (1), rating houses require that insurers provide evidence of the value of all new features to the product. If evidence is not forthcoming, then provide no value in the ratings;
3. Rating houses discuss with the insurer their approach to the Sustainability Guide, form a view on their commitment to it and publish a separate sustainability rating (see 8.2 (b)) for the product; and
4. Rating houses work with Licensees to ensure that greater weight is given to long term product cost given that the consumer may be unable to switch product in the future.

(b) Work should be undertaken by **Life Insurers, Rating Houses, Adviser representatives** and the **Actuaries Institute** to develop an appropriate Sustainability Rating metric to be published alongside the existing Product Ratings. This Sustainability Rating metric should:

- be based on the Sustainability Guide, to the extent that it measures features that benefit consumers through more predictable pricing or claims outcomes, with the Taskforce providing an initial basis for discussion to help the development of this work;
- be consistently and fairly assessed and applied across all of the Industry; and
- have its usage included in the BID examples being produced to ensure appropriate consideration is given to Sustainability.

(c) The FSC should publish claims data so that advisers can understand the relative value to customers of different benefits and definitions.

8.3 Issue guidance regarding rating use

In the absence of regulation of rating houses with respect to the ratings process, and given the focus of current guidance, ASIC should issue guidance to advisers and insurers on appropriate use of product and sustainability ratings in communication and promotion of insurance products (including pricing), and in advice to customers, to ensure a sustainable, fair and effective system.

Section 9: Underwriting & Claims Management

9.1 Life Insurers should engage more effectively with GPs in claims management

Life Insurers should:

- request factual medical information from the GPs only e.g. treatment plan, current stage of treatment, how patient is responding;
- use assessments from occupational physicians, occupational therapists and other specialist practitioners in assessing a customer's function and capacity to work; and
- through claims assessors, retain ownership of the decision regarding payment of claim.

9.2 Make more effective use of experts in claims management

Life Insurers should:

- develop clear guidelines for the use of subject matter experts by the claims function and incorporate these into claims competency frameworks;
- collect sufficient data to monitor use of experts and impact they have on claims outcomes and customer's experience; and
- ensure claims assessors retain ownership of the decision regarding payment of claim.

9.3 Improve the way claims information is sought from the medical community

The FSC should adopt a standard form across the industry to collect medical information developed in conjunction with the medical community.

9.4 Develop Industry financial and occupational underwriting benchmarks

ALUCA should develop industry underwriting benchmark (as a risk management tool for life insurers) in relation to financial and occupational underwriting topics such as:

- Potential for overlap in different types of living benefit covers (e.g. IDII, critical illness and TPD);
- Underwriter focus on job duties (rather than job title); and
- Revalidation of policyholder financial and occupational details at least every five years.

Life Insurers should adopt the Sustainability Guide and assess their current practices against the industry underwriting standards.

9.5 Improve underwriting and claims data

Life Insurers should:

- Develop a strategy for underwriting and claims data, including identifying gaps in current practices and develop action plans accordingly; and
- Implement a dashboard of claims and underwriting data for monitoring by the Board.

9.6 Focus on return to work and lift rehabilitation

Life Insurers should:

- Focus on supporting customers to return to work, and such support should be as soon as possible after the sickness or injury occurs; and
- Make more use of rehabilitation support, invest in understanding the most beneficial rehabilitation methods and incentivise early reporting of claims.

In line with recommendation 7.7, Life Insurers should work with the FSC to consider prior feedback received on similar proposals to ensure issues are addressed.

9.7 Develop the claims management and underwriting profession

Life Insurers should:

- Work with FSC and ANZIIF to develop a minimum industry wide qualification standard for claims assessors and underwriters, including ongoing continual professional development requirements;
- Develop competency frameworks for the different roles within their claims management and underwriting functions; and
- Perform regular assessments against their competency framework as part of ongoing quality assurance processes and address gaps as identified.

9.8 Simplify the claims ecosystem

Life Insurers should engage with other stakeholders in disability support systems (e.g. Workers Compensation, certain Vehicle Insurance schemes such as Compulsory Third Party, National Disability Insurance Scheme, Disability Support Pension, Superannuation etc.) to identify opportunities for improvement and simplification, particularly when a disabled person transitions between different disability support systems. Possible areas to explore would include standardised claims forms and sharing of common information (subject to privacy and consent considerations).

9.9 Improve claims resourcing

(a) **Life Insurers** should:

- Review or develop claims case-load targets, specify required actions and reporting when case-loads are beyond target levels; and
- Develop ways for the industry to grow the population of claims assessors (such as by partnering with ALUCA and ANZIIF).

(b) The **FSC** (consulting with ALUCA) should develop case load benchmarking for the industry.

(c) The **FSC** should establish and maintain links with appropriate external medical experts to provide ongoing ad-hoc advice as required in relation to issues of relevance to the ongoing sustainability of the life industry.

New Recommendation

9.10 Claims Practices should be clearly and meaningfully articulated and applied

- (a) **Life Insurers** should ensure that their documented claims practices are clearly and meaningfully articulated and take into consideration, at a minimum, the matters addressed in the claims sections of SPG250, LPG240 and LICOP.
- (b) **Life Insurers** should have the effectiveness and consistency of their actual claims practices reviewed against their documented claims practices, with the results reported to the Board.

Section 10: Risk Management

10.1 Ensure adequate support for breadth of CRO role

The **Actuaries Institute** should consult with APRA, CROs and AAs to develop a discussion note on good practice covering:

- effective work practices between CROs and AAs to ensure complete coverage of IDII risks;
- the second line role of CROs with respect to the Sustainability Guide;
- expectations of other senior executives in support of the roles of CROs and AAs;
- matters that should be covered in the Actuarial Advice Framework;
- involvement of the Appointed Actuary in company strategy;
- ensuring that the Appointed Actuary's views are properly aired and considered in significant IDII decisions; and
- responsibilities in the oversight of implementation of the Sustainability Guide.

10.2 Ensure CROs deal with long term risk and uncertainty in IDII

Now addressed in Recommendation 10.1

10.3 Collaborate to share good practice for life insurer risk management

The **FSC** should arrange the establishment of a forum for CROs for regular sharing of best practice across the life insurance industry.

Section 11: Actuaries' Professional Obligations

11.1 Actuarial advisors to be explicit about uncertainty

Appointed Actuaries, Pricing/Product Actuaries and Chief Actuaries should ensure that their advice is clear about the level of uncertainty inherent in the product and what actions are required to reduce uncertainty over time. This includes:

1. Ensuring that CPS320 advice explicitly discusses key uncertainties and articulates what the organisation would need to do to manage those uncertainties;
2. Applying the actuarial control cycle to the management of uncertainty over time;
3. Ensuring the Financial Condition Report (FCR) comments on managing uncertainty and on Sustainability Assessments (see Sustainability Guide);
4. Adopting good practice for 'pricing for uncertainty' as detailed in the Sustainability Guide;
5. Articulating the consequences for consumers of accepting uncertainty into the product design and pricing (see the Sustainability Guide); and
6. Carefully considering and quantifying where possible tail risk/uncertainty and use of plausible but extreme scenarios in advice to management and Boards, as well as considering implications for pricing, reserving, capital stress margins etc.

The **Actuaries Institute** should develop and implement training and guidance in the above.

11.2 Increase Appointed Actuary oversight of claims and underwriting standards

Appointed Actuaries should review the Actuarial Advice Framework to cover the following:

- Appointed Actuaries and Pricing/product actuaries to work collaboratively with claims and underwriting functions to understand changes in claims and underwriting practices,

and as appropriate formally consider implications of any such changes for pricing, reserving, capital stress margins etc.

- The senior management roles responsible for formally advising the Appointed Actuary and Board on suitability and/or changes in product terms, product pricing, underwriting rules/practices and claims rules/practices; and
- The expectations of those senior management roles for identifying matters and the thresholds triggering the need for providing that advice.

11.3 Improve pricing for uncertainty

The **Actuaries Institute** should adopt and promote the Discussion Note: *Analysing Disability Income and Setting Assumptions*. The **Actuaries Institute** should also consider developing or adding to existing practice guides and professional standards the relevant matters addressed in the Discussion Note.

The actuarial control cycle should be embedded as set out in the Sustainability Guide.

11.4 Clarify respective roles of CRO and AA

Now addressed in Recommendation 10.1.

11.5 Improve training and development of AAs

The **Actuaries Institute** should ensure training is available for actuaries on communication and influencing skills, how to effectively work with other senior management and Boards, etc.

The **Actuaries Institute** should facilitate mentoring of Appointed Actuaries by former Appointed Actuaries and other actuaries with senior management or Board experience.

The proposed discussion note (see recommendation 10.1) issued by the Actuaries Institute on the role of AA and CRO should cover good practice in respect of the Actuarial Advice Framework and engagement of AAs in the company's strategy.

11.6 Improve organisational and cultural environment

Now addressed in Recommendation 10.1.

2 Actuaries Institute's Process

Leading up to September 2020 Papers

The Taskforce engaged with representatives of all parties who play a role in the performance and effectiveness of IDII. The primary means of engagement took the form of interviews based on the Discussion Guide. The Discussion Guide was provided in full to all interviewees.

Those interviewed included representatives from:

- Senior people at ASIC, AFCA, and (together) the Financial Rights Legal Centre and the Consumer Action Law Centre
- Non-executive directors
- CEOs
- CROs
- Appointed Actuaries
- GI industry specialists
- The life insurance task force set up by FPA and AFA, involving senior executives and adviser representatives
- Product rating houses
- The FSC Life Board Committee
- Claims and underwriting professionals
- A member of a law firm with deep experience in consumer life insurance claims
- A benchmarking consultant to the life insurance industry
- Treasury

In addition, there was a workshop with APRA. APRA also has participated as an observer on the Taskforce, as has the Financial Services Council.

Throughout this paper, these participants in the IDII ecosystem, are referred to as **Participants**.

The Taskforce also reviewed the professional guidance for actuaries advising on disability income insurance business.

Nature of Feedback Received during Consultation Process

The Taskforce received feedback during the consultation period and afterwards, through various channels:

- **Formal Submissions** received from a variety of parties.
- A **survey** held towards the end of the consultation period - the Taskforce ran an online anonymous survey which gave respondents the opportunity to rate their level of agreement with the 45 recommendations and give some more general feedback.
- **Webinars** held late October 2020 and late December 2020 for any interested parties.

- **Discussions** with various parties including:
 - some life company boards
 - a number of individual life company directors
 - CROs
 - Appointed Actuaries
 - product managers
 - ASIC representatives
 - AFCA, Australian Lawyers Alliance, Public Interest Advocacy Centre
 - Ratings Houses
 - FPA/AFA task force and management
 - Treasury
- **Personal and anecdotal feedback** e.g. Taskforce Working Group meetings, regular industry interactions.
- Ongoing interaction with APRA and the FSC.

The Taskforce has now considered all feedback and finalised its views and recommendations.

Response to Consultation Feedback

The Taskforce thinking following analysis of the feedback, and its final recommendations were conveyed to interested parties through two webinars in early February 2021 and another focused on technical actuarial matters in March 2021.

Those webinars, together with one on the Sustainability Guide in December 2020, also outlined the Taskforce thinking on changes that were needed to produce final versions of the Sustainability Guide and Reference Product.

This document addresses the response to the Provisional Recommendations. The final recommendations (as summarised at the webinars) are set out below.

It also considers the feedback received on the Sustainability Guide and the Reference Product and addresses the response by the Taskforce. Final versions of the Sustainability Guide and the Reference Product have been produced, and these accompany this document.

Those steps and the three finalised documents draw to an end the main part of the Taskforce work on IDII.

Final Steps on IDII

The Taskforce now intends to work with the various participants in the ecosystem to seek to have the recommendations implemented, and the use of the Sustainability Guide and Reference Product embraced by life insurance company boards, senior management and technical areas.

3 Customer and Community Interests

A note on the survey results mentioned in the following commentary

The online survey mentioned above was conducted in late October 2020.

It was anonymous to encourage frank participation. Respondents were asked to indicate their level of support for the 45 recommendations in Document A: Agree, Partly Agree or Disagree. There were also opportunities for free-form comments from respondents.

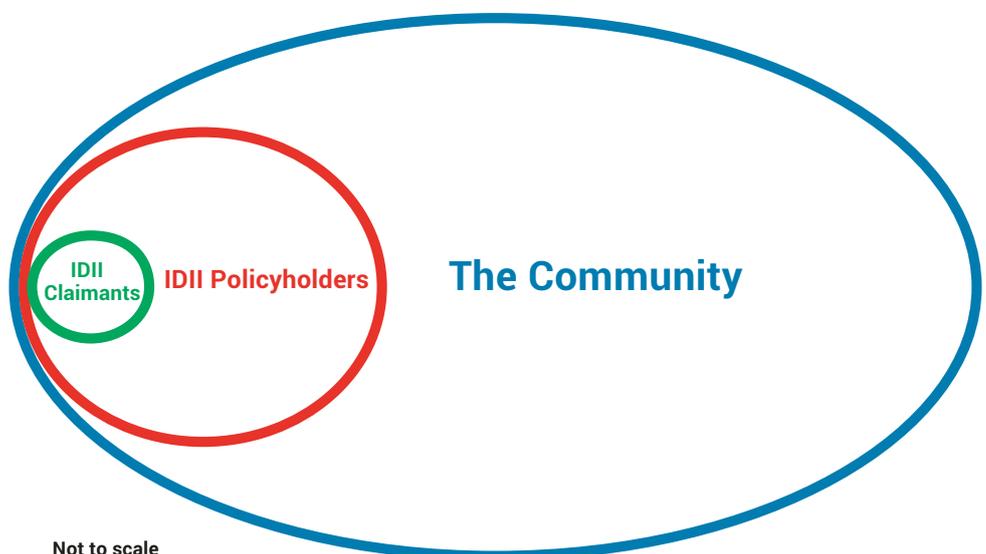
It was open to participation by anyone with an interest in the topic and it was promoted to all parties who participated in earlier discussions with the Taskforce as well as to the wider actuarial profession. Information about the background of respondents was collected:

There were 125 respondents in total, about half of whom were actuaries. The responses thus give strong indication of the level of support from interested parties but it could not be claimed to be necessarily representative of the views of all interested parties. The formal submissions received help address that deficiency.

There were also numerous free-form comments.

Overall, there was strong support for the recommendations, but there were also some interesting and valuable challenges. These are discussed in the following sections where appropriate.

In the September 2020 document, there was a section on the importance of the insurance pooling concept. The following diagram is reproduced from that document. It shows the concept of pooling, and is intended to highlight the interests of the various parties in an insurance risk pool – in particular, if higher than expected claims are paid to claimants, the cost flows through to other policyholders, and ultimately to affordability for the community. The diagram has been included here to give context for some of the recommendations.



Recommendations

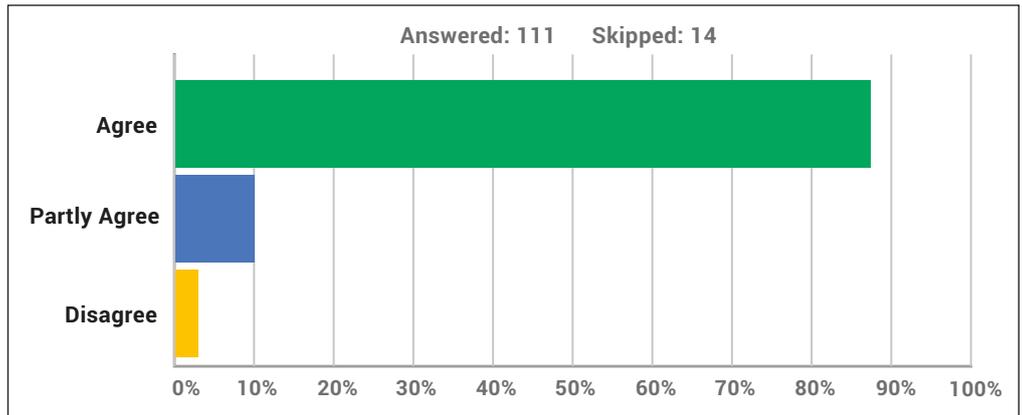
3.1 Improve Participant understanding of insurance pooling concept

Provisional Recommendation Sept 2020 (part a):

Insurers, the FSC and the Actuaries Institute should proactively take opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.

Feedback Received and Taskforce Response

Survey:



There was strong support in the survey and more generally for this recommendation. There were some arguments in the survey and submissions against it. Some of these tended to have a technical basis. There also were questions whether or not this is important to customers. The Taskforce sees this recommendation as important to a broad group of stakeholders.

The Taskforce has maintained this recommendation.

Final Recommendation:

3.1 (a) Improve Participant understanding of insurance pooling concept

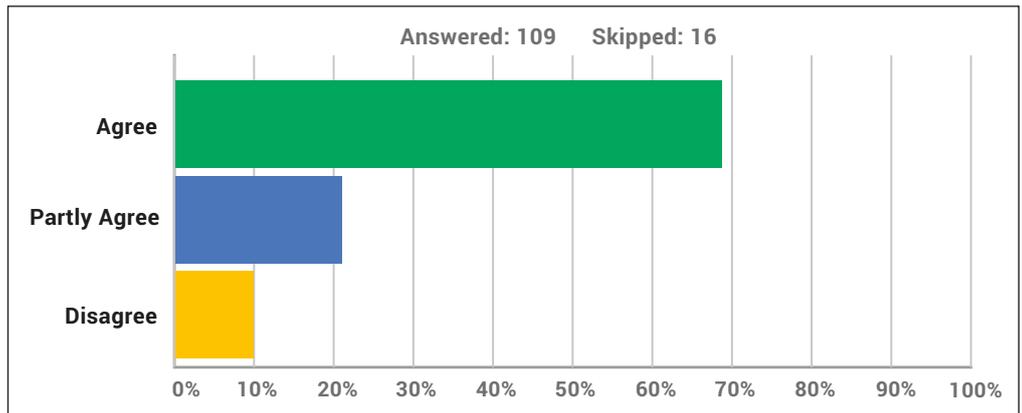
Insurers, the FSC and the Actuaries Institute should proactively take opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.

Provisional Recommendation Sept 2020 (part b):

In addition, the **FSC and the Actuaries Institute** should produce a public statement about fairness in life insurance as a reference.

Feedback Received and Taskforce Response

Survey:



There was slightly less support for this part of Recommendation 3.1, with a number of negative comments e.g. what would it cover, difficulty in definition of fairness, does it help sustainability etc. Suggestions were made that other parties could be involved e.g. consumer advocates and/or regulators to give a broader perspective. The Taskforce considered there was merit in this view and has changed the recommendation accordingly.

The Taskforce has maintained the recommendation but with a wider group of sponsors.

Final Recommendation:

3.1 (b) Improve Participant understanding of insurance pooling concept

In addition, the FSC should work with the Actuaries Institute, consumer advocates, adviser bodies and AFCA to produce a public statement about fairness in relation to life insurance from the perspectives of the community, IDII policyholder (current and future) and IDII claimant, as a reference.

4 Consumer Protection and Advocacy

Recommendations

4.1 Improve insurer insights into customer claim experiences

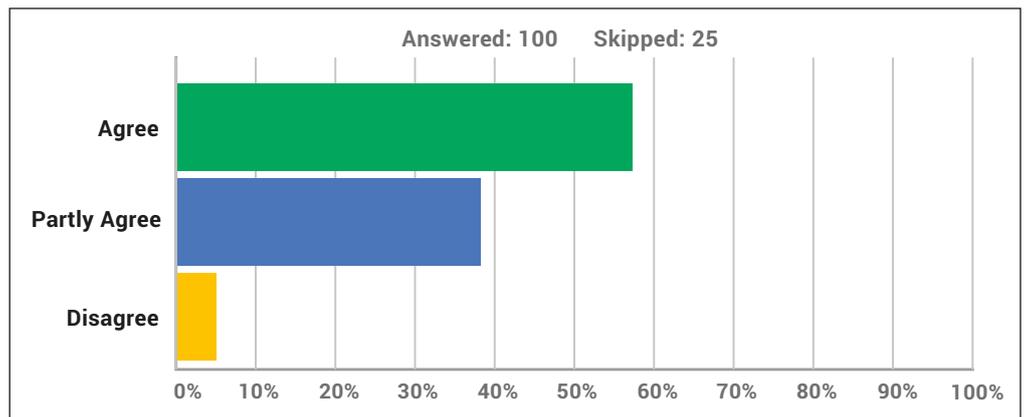
Provisional Recommendation Sept 2020:

Insurers should engage with consumer advocacy bodies (CABs), AFCA and selected customer advocacy lawyers systematically to gain ongoing insights into the extremes of customer experience. In addition, **Insurers** should update products to improve alignment between insurer and customers' expectations.

The FSC should publish case studies of customer experiences for the industry.

Feedback Received and Taskforce Response

Survey:



There was some confusion over the purpose of this and in particular whether the information provided was for internal purposes or for publication. Suggestions were made that there should be a broader perspective of different customer experiences (that is, good as well as poor), but this seemed to be based on an assumption the information would be in the public domain.

The original Taskforce intent was that this would be for internal senior management and board consideration, so that there was clear awareness of actual cases of poor customer experience for the company concerned.

The Taskforce has revised the recommendation to make the purpose clearer and to better separate the components.

Final Recommendation:

4.1 Improve insurer insights into customer claim experiences

4.1(a) **Individual Life Insurers** should engage with consumer advocacy bodies (CABs), AFCA and selected customer advocacy lawyers systematically and based on this provide Board and senior management ongoing insights into the extremes of customer experience.

4.1(b) Based on insights gained by individual insurers, the FSC should produce a compilation of anonymised case studies at industry level to aid Life Insurers in assessing their products and practices, and their relative experience.

4.1(c) **Individual Life Insurers** should update products to improve alignment between insurer and customers' expectations.

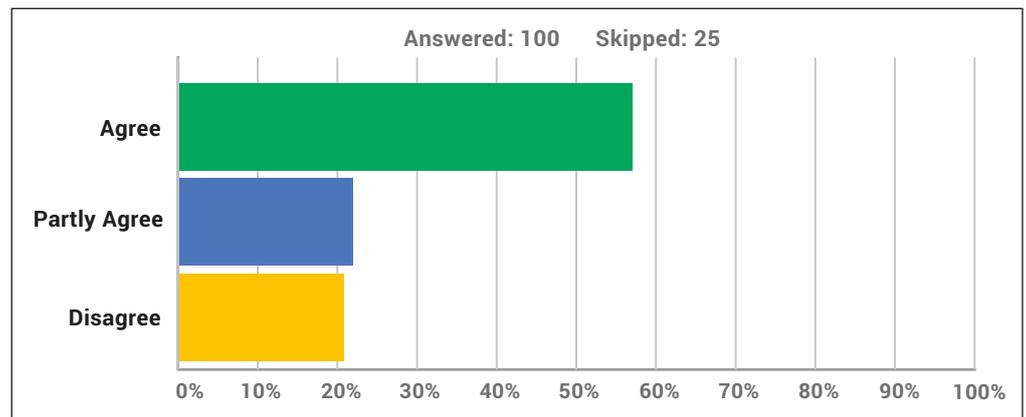
4.2 Establish a code of conduct for legal involvement in customer claims

Provisional Recommendation Sept 2020:

The FSC should work with the appropriate legal professional body to develop a code of conduct setting out appropriate customer-focused conduct with respect to claims activity. In addition, the FSC should publish an outline of appropriate roles of various groups in the claims process (insurer, adviser, trustee, medical support, lawyers, complaints bodies, etc).

Feedback Received and Taskforce Response

Survey:



Extensive feedback was received, with some areas of disagreement. There were arguments that there are existing checks and balances for lawyers. There was a particular concern that the recommendation might create added restrictions rather than improve customer outcomes, and may be difficult to effectively implement. Doubts were expressed about the likely effectiveness and acceptance of the proposal.

The Taskforce intends to engage with stakeholders and propose they develop a statement of good practice (not a code of conduct), covering multiple parties involved in the claims process.

Final Recommendation:

4.2 Prepare a statement of good practice covering the role of all parties involved in customer claims

The FSC should work with the appropriate legal professional body, adviser bodies, complaints and consumer advocacy bodies, medical professional bodies, underwriting and claims professionals and others to develop a statement of good practice covering all parties involved in the claims process.

4.3 Defer standardisation of definitions

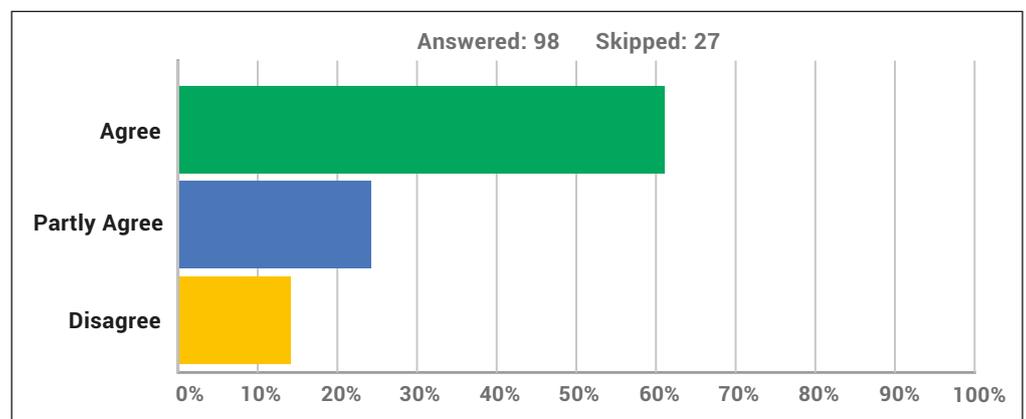
Provisional Recommendation Sept 2020:

Life Insurers should use the Reference Product (as set out in Section 5) as an aid in balancing innovation and clarity with respect to definitions.

The **Actuaries Institute** should review market practice regarding definitions 2 years after the introduction of the Sustainability Guide.

Feedback Received and Taskforce Response

Survey:



The recommendation was a little confusing.

There was support for deferring standardisation of definitions and reviewing market practice with IDII at a later stage to see if standardisation may be required. However there was limited support for standardisation of some definitions at this point.

Some feedback noted a degree of scepticism as to how the Reference Product would be used and whether it would improve sustainability. The Taskforce sees the Reference Product (and approach to definitions) as a critical risk management tool for the sustainability of IDII.

The Taskforce has clarified the recommendation.

Final Recommendation:

4.3 Defer standardisation of definitions

The Actuaries Institute should review market practice regarding definitions 2 years after the introduction of the Sustainability Guide and consider whether standardisation of definitions would be beneficial.

Life Insurers should use the Reference Product as an aid in balancing innovation and clarity with respect to definitions for the purpose of improving risk management of IDII.

5 Features of the Product/Market

Recommendations

Note: Where Life Insurers are indicated as the responsible party, the Board should closely oversee the implementation, to ensure that management is not diverted by other incentives.

5.1 Introduce simpler and cheaper product alternatives

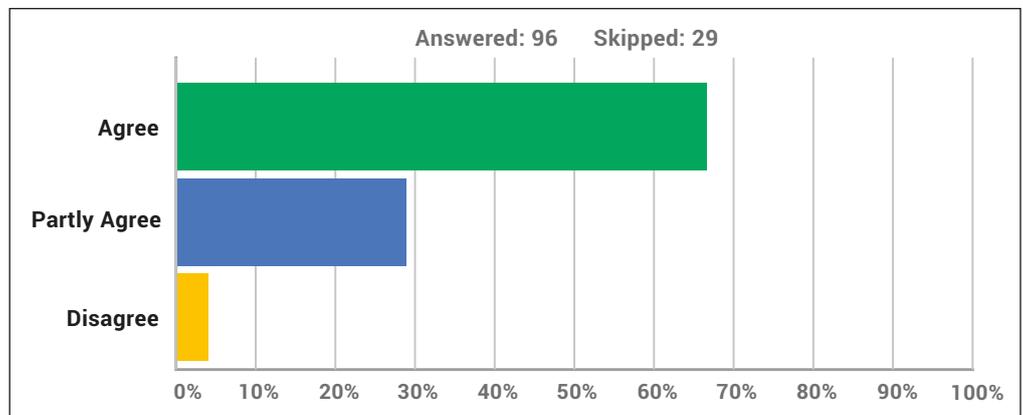
Provisional Recommendation Sept 2020:

Life Insurers, without necessarily changing the use of financial advisers or making other changes to distribution, should:

- thoroughly investigate consumer preferences for features/price trade-offs and introduce simpler/cheaper product alternatives; and
- produce products suited to different market segments – with one outcome being clearer differentiation on benefits and on cost. Note: The DDO² should support such a shift in focus.

Feedback Received and Taskforce Response

Survey:



Feedback argued that these actions were already in place across the industry, although comments were also received of the need to change elements of the distribution approach to give effect to this recommendation. Some product design related feedback was also received e.g. offering cover against 'subjective' disabilities as an option and not part of core cover.

The Taskforce has maintained the recommendation, noting that DDO and other recommendations related to distribution and BID are highly relevant to sustainability (particularly recommendation 7.1/8.1).

Final Recommendation:

5.1 Introduce simpler and cheaper product alternatives

Life Insurers, without necessarily changing the use of financial advisers or making other changes to distribution, should:

² Design and Distribution Obligations: <https://asic.gov.au/regulatory-resources/find-a-document/consultation-papers/cp-325-product-design-and-distribution-obligations/>

- thoroughly investigate consumer preferences for features/price trade-offs and introduce simpler/cheaper product alternatives; and
- produce products suited to different market segments – with one outcome being clearer differentiation on benefits and on cost. Note: The DDO³ should support such a shift in focus.

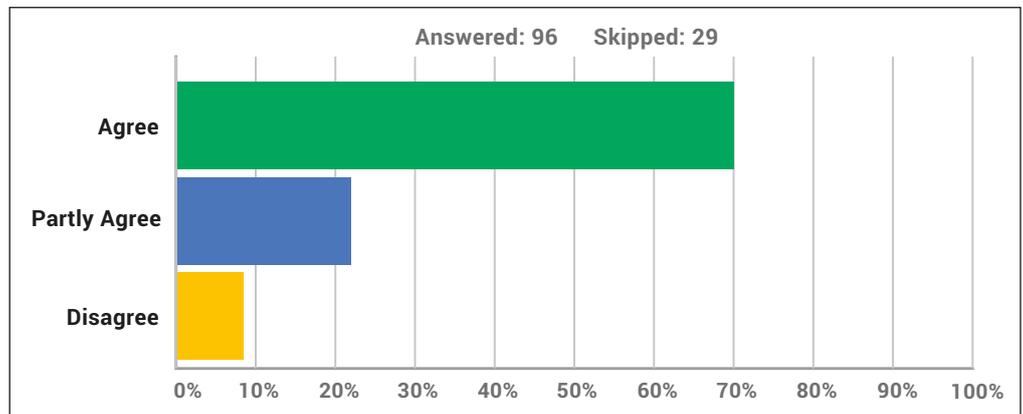
5.2 Develop simpler explanations around what is and is not covered

Provisional Recommendation Sept 2020:

Life Insurers, should develop succinct and accessible ways to simply explain what is and is not covered – not just at inception, but continually during the policy period. This would complement the policy document and/or PDS.

Feedback Received and Taskforce Response

Survey:



There was large support in principle for this recommendation, although some feedback was received around the need for regulatory and legal support to give effect to this recommendation. Some concern was also raised that simpler explanations may not be possible for some aspects of product design. The Taskforce noted the feedback provided and believe the implementation challenges identified can be appropriately addressed.

The Taskforce has maintained the recommendation.

Final Recommendation:

5.2 Develop simpler explanations around what is and is not covered

Life Insurers, should develop succinct and accessible ways to simply explain what is and is not covered – not just at inception, but continually during the policy period. This would complement the policy document and/or PDS.

5.3 Improve communication, understanding and management of risks and uncertainty

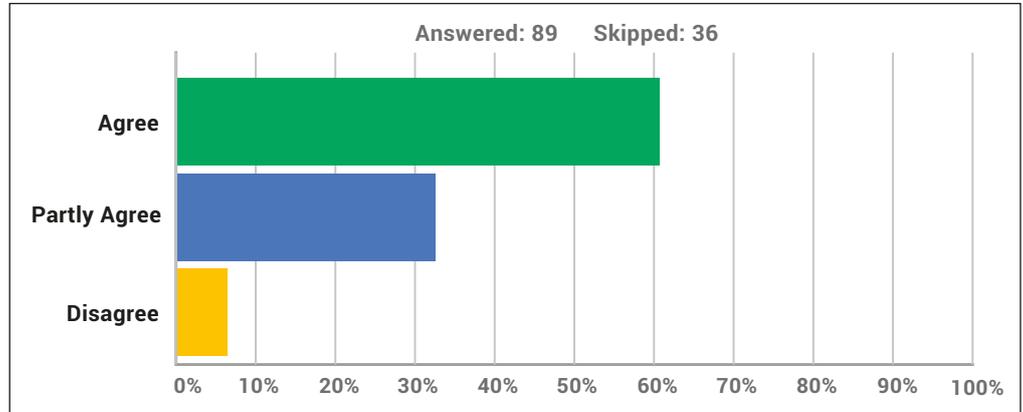
Provisional Recommendation Sept 2020:

Life Insurers, Actuaries, Product Managers, CROs, CEOs and Boards should adopt the Sustainability Guide in addressing risks and uncertainty.

³ Design and Distribution Obligations: <https://asic.gov.au/regulatory-resources/find-a-document/consultation-papers/cp-325-product-design-and-distribution-obligations/>

Feedback Received and Taskforce Response

Survey:



There was generally strong support for this recommendation, but there were a number of concerns about the detail. Much of the feedback was about whether the Sustainability Guide should be 'adopted' as per the recommendation or 'considered' in the context of the insurer's existing practices.

There were a number of useful suggestions to refine specific elements in the Sustainability Guide, and these are addressed in Section 13 of this document.

The Taskforce considers that there are benefits to the industry as a whole if there is a degree of commonality in the factors considered in assessing sustainability, and this influenced its final position.

Taskforce has maintained the recommendation with some wording clarification.

Final Recommendation:

5.3 Improve communication, understanding and management of risks and uncertainty

Life Insurers should adopt the Sustainability Guide in addressing risks and uncertainty, building on existing practices as appropriate.

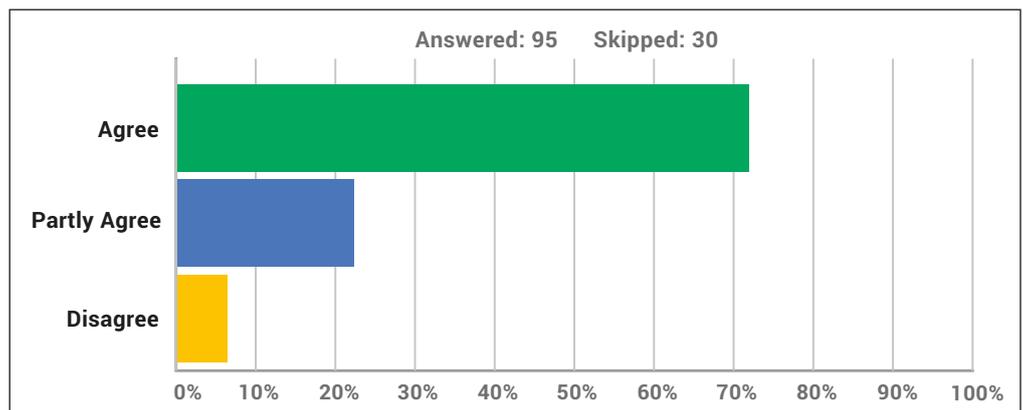
5.4 Impose strong controls on level of benefits and income replacement ratios

Provisional Recommendation Sept 2020:

Life Insurers should impose strong controls on level of benefits and income replacement ratios, using the Sustainability Guide and the Reference Product. In addition, **Life Insurers** should ensure any ancillary benefits compensate for financial loss and do not provide a windfall for the claimant.

Feedback Received and Taskforce Response

Survey:



Overall, there was strong support for controls on replacement ratios. Some feedback suggested controls in the Reference Product were excessive e.g. a 60% replacement ratio is too low. There also was concern raised that an age 60 benefit cessation is too early, and that the controls would make the product more restrictive than group insurance.

There was feedback that the Reference Product doesn't align with APRA guidance, which suggests a potential misunderstanding that the Reference Product is intended as a 'maximum' rather than a 'benchmark'. We also understand that APRA intends its guidance to be 'guardrails' within which the industry should operate.

The Taskforce noted the feedback provided and believes the challenges identified can be addressed with appropriate use of the Sustainability Guide and Reference Product.

Sections 12 and 13 in this document provide more explanation of the rationale for the position taken by the Taskforce.

The Taskforce has maintained the recommendation with some wording clarification.

Final Recommendation:

5.4 Impose strong controls on level of benefits and income replacement ratios

Life Insurers should impose strong controls on level of benefits and income replacement ratios, using the Sustainability Guide and Reference Product as a basis for decision making alongside the company's own target sustainability and risk outcomes.

In addition, **Life Insurers** should ensure any ancillary benefits appropriately compensate for financial loss and do not provide a windfall for the customer.

5.5 Improve Guaranteed Contract Term management

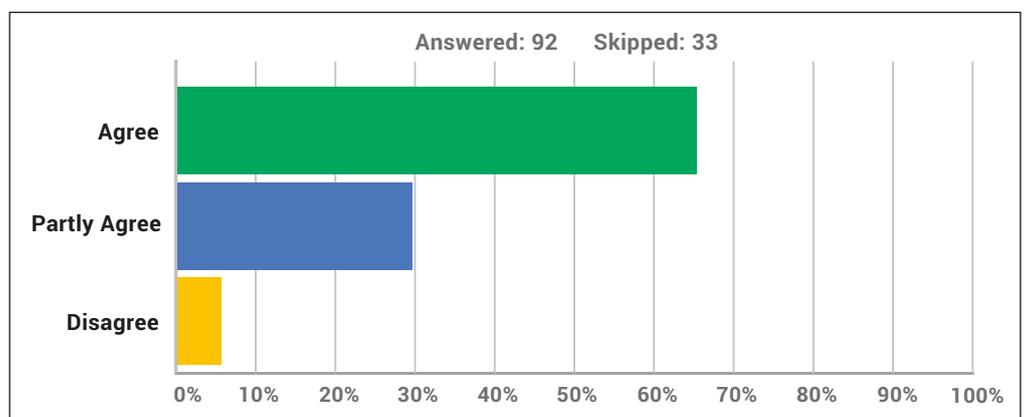
Provisional Recommendation Sept 2020:

Life Insurers should avoid overly long-term guarantees and use the Sustainability Guide as a reference.

Life Insurers and the **FSC** should devise protection for policyholders to ensure fair treatment at rollover (e.g. incorporate broad intent in original policy for use at a 5-year rollover point).

Feedback Received and Taskforce Response

Survey:



There was strong directional support for the limiting guarantee periods for terms and conditions. However, concern was raised on the practical implications of implementing a five-year period for terms and conditions, including potential customer, premium and commission impacts.

The Taskforce notes the feedback and acknowledges there may be some implementation challenges to this recommendation. Notwithstanding this, the Taskforce considers there are ways through these issues and believes this limit to be an important discipline to support sustainability. This includes the ability to regularly update key rating factors and benefit terms.

The Taskforce has maintained the recommendation with some wording clarifications.

Final Recommendation:

5.5 Improve Guaranteed Contract Term management

Life Insurers should avoid overly long-term guarantee periods for terms and conditions and use the Sustainability Guide for decision making.

Life Insurers and the **FSC** should devise protection for policyholders to ensure fair treatment at rollover (e.g. incorporate broad intent in the original policy for use at a five-year rollover point), including consideration of enhancements to future customer engagement and servicing.

5.6 Embed Loss Minimisation Principle in policy contracts

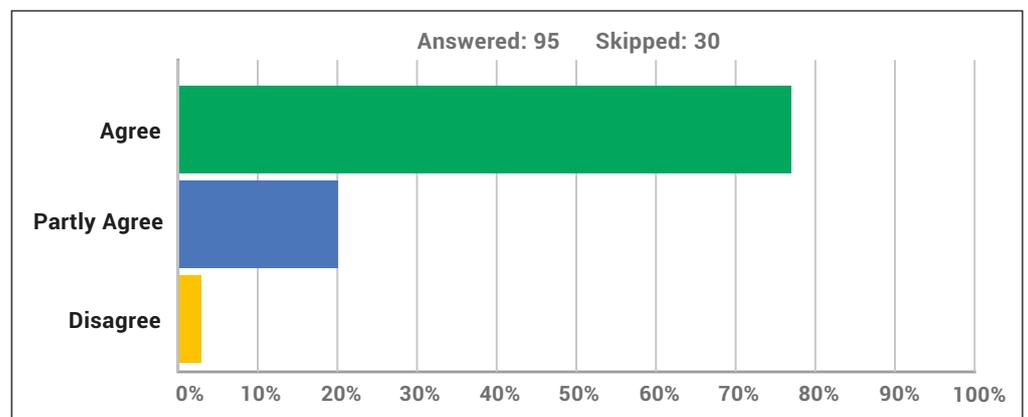
Provisional Recommendation Sept 2020:

Life Insurers should embed in policy contracts an obligation for claimants to undergo all necessary treatment and support to return to work, as reasonably required by the insurer.

Subject to legal impediments, **Life Insurers** should embed in policy contracts incentives to notify the insurer of a claim within a reasonable period of incapacity commencing.

Feedback Received and Taskforce Response

Survey:



There was general agreement with this recommendation, although some concern was raised that rehabilitation programs may not be suitable or needed by all claimants. This is an important point, particularly to ensure that rehabilitation/retraining is provided only where appropriate to improve customer outcomes and only if this is consistent with medical advice.

The Taskforce has maintained the recommendation with some wording clarifications.

Final Recommendation:

5.6 Embed Loss Minimisation Principle in policy contracts

Life Insurers should embed in policy contracts an obligation for claimants to undergo all necessary treatment and support for return to work, as reasonably required by the insurer and as appropriate for the claimant.

Subject to legal impediments, **Life Insurers** should embed in policy contracts incentives to notify the insurer of a claim within a reasonable period of incapacity commencing.

5.7 Improve data quality

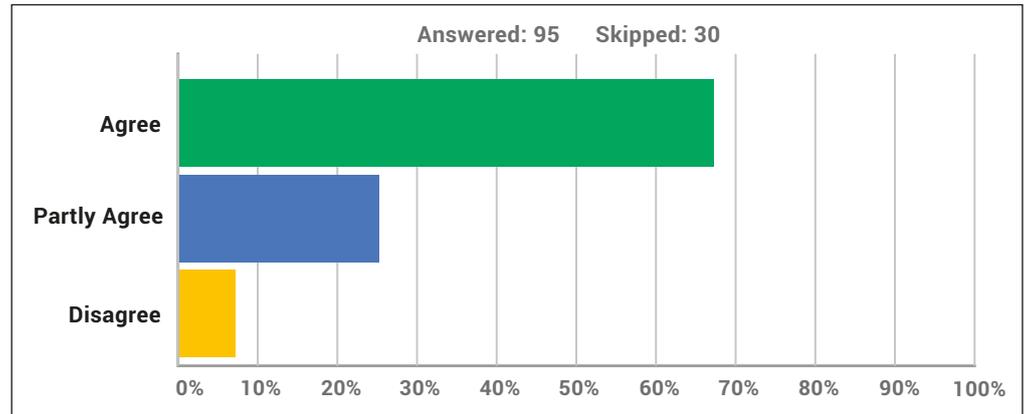
Provisional Recommendation Sept 2020:

The **Actuaries Institute** should issue specifications for data which are necessary to support sustainability and which insurers should gather.

The **FSC** should include data requirements (as per specifications from Actuaries Institute above) in FSC standards.

Feedback Received and Taskforce Response

Survey:



There was acknowledgement that data standards in the industry need significant improvement, and there would be benefit for various parties in standard practices and better management by life companies. There was broad support for the Actuaries Institute to be more involved in industry data standards, and it was noted that the FSC has some power to mandate standards.

It was also noted that substantial volumes of data are already collected but that there were issues in terms of its effective use.

The Taskforce has maintained the recommendation.

Final Recommendation:

5.7 Improve data quality

The **Actuaries Institute** should issue specifications for data which are necessary to support sustainability and which insurers should gather.

The **FSC** should include data requirements (as per specifications from Actuaries Institute above) in FSC standards.

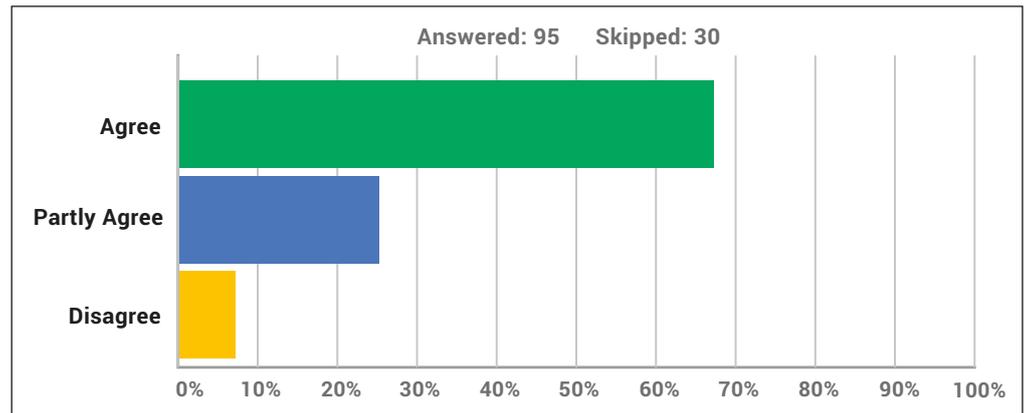
5.8 Improve communication of pricing philosophy

Provisional Recommendation Sept 2020:

Life Insurers should ensure their pricing philosophy is clearly articulated internally and signed off by the **Board**.

Feedback Received and Taskforce Response

Survey:



While there was strong support for this, there were various comments or concerns.

There was a view that companies already have a pricing philosophy. However, this may have reflected a narrow perspective of pricing philosophy, covering target return on capital, margins and the like, whereas a true philosophy would cover broader perspectives such as attitude to discounts, margins for contingencies and uncertainty, intended use of repricing rights etc. On the other hand, there was a view that the pricing philosophy should cover more issues than stated in the Sustainability Guide. (On this last point, the Sustainability Guide only details elements of a pricing philosophy that are most relevant to sustainability but insurers should consider whether other matters should also be documented.)

Another concern was that a pricing philosophy may restrict the company's ability to reprice in future (particularly if published).

The Taskforce considers that a documented pricing philosophy for internal purposes is important because (as evidenced by price increases over the last decade) repricing rights are extremely valuable and, as such, the basis on which actuaries assume those rights will be exercised and hence how they are valued should be documented and agreed by the Board.

The focus should be on customer outcomes, and the Taskforce has modified the recommendation accordingly.

Final Recommendation:

5.8 Improve communication of pricing philosophy

Life Insurers should ensure their pricing philosophy is formulated through the lens of customer outcomes, is clearly articulated and is signed off by the **Board**, for internal use.

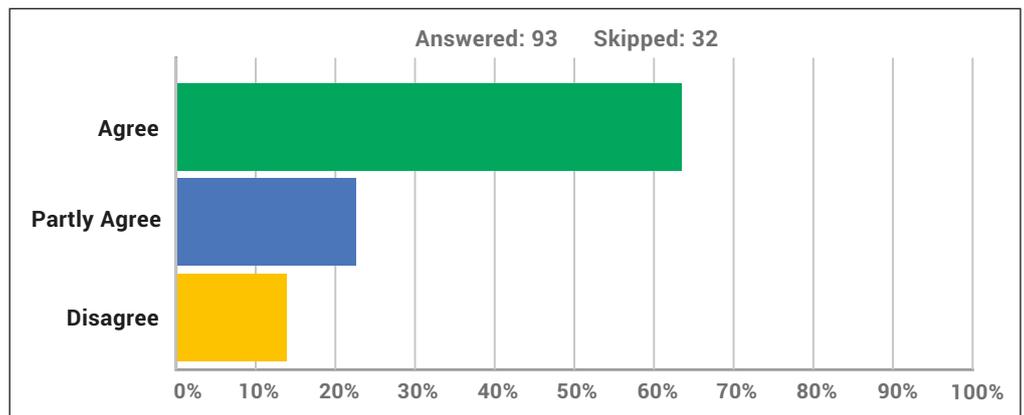
5.9 Improve understanding of Level Premium business

Provisional Recommendation Sept 2020:

Life Insurers should conduct research as to current understanding and expectations of advisers and customers of Level Premium business, and include clear explanation and examples in Product Disclosure Statements, Annual Communications etc.

Feedback Received and Taskforce Response

Survey:



There was general support for this recommendation. Feedback was provided that this is a known issue in the industry and has been for some time, and therefore the extra value from any research was questioned.

There was however general support for providing extra explanation in disclosure documents and other communications to customers.

It was also noted that in major overseas markets, level premiums are more the norm and the Australian market is unusual in this respect.

The Taskforce has maintained the recommendation.

Final Recommendation:

5.9 Improve understanding of Level Premium business

Life Insurers should conduct research as to current understanding and expectations of advisers and customers of Level Premium business, and include clear explanation and examples in Product Disclosure Statements, Annual Communications etc.

6 Life insurance company governance and management of IDII

The Original Document A considered a range of matters concerning governance and management of the IDII product line. It included perspectives from a number of stakeholders, gathered prior to its development. This included

- Board Directors
- The CEOs
- The CROs
- Product Managers

Since then, further discussions have been held with members of these groups to seek reactions to the recommendations in September.

Feedback was also received through the various channels mentioned earlier.

Recommendations

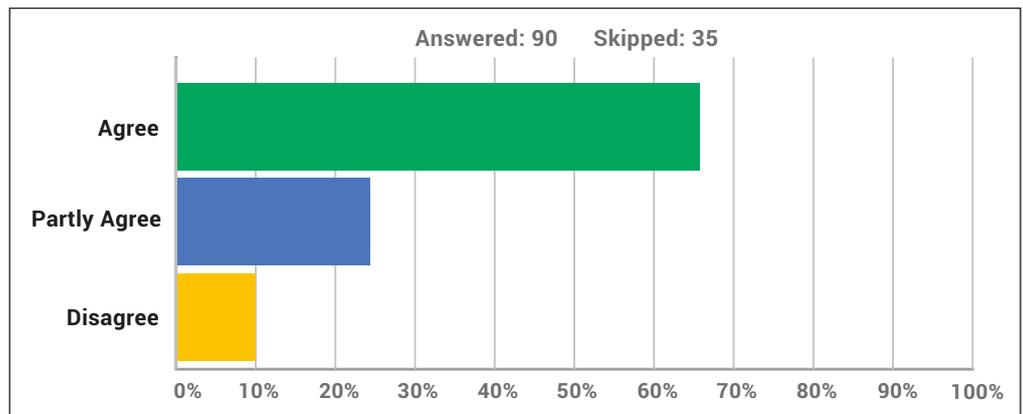
6.1 Review Board composition

Provisional Recommendation Sept 2020:

Boards should review their capabilities and bolster life insurance experience to target at least two or three directors with deep operational life insurance experience (recognising that this should not come at the expense of appropriate Board diversity); and ensure regular Board access to independent expert advice.

Feedback Received and Taskforce Response

Survey:



There was general support for this recommendation, although feedback was received about the extent to which it was possible to have all desirable general Board capabilities as well as deep operational experience in life insurance. There were also concerns that focussing on a certain capability e.g. life insurance expertise may compromise diversity, and that targeting a certain number of Board members with certain capability may not be appropriate.

There were various comments questioning what was meant by 'deep operational experience'. The general thinking by the Taskforce was that there was a strong need for board members who had a deep understanding of the life insurance business garnered through working in the industry. This has been clarified in the recommendation.

In a number of discussions with individual Board members there was good, though not unequivocal support for this recommendation, noting that some of the considerations raised were important.

Taskforce has maintained the recommendation, with clarification of numbers and operational experience.

Final Recommendation:

6.1 Review Board composition

Boards should review their capabilities and

- **bolster life insurance experience to target substantial representation by directors with deep strategic and operational understanding of the life insurance business, garnered through working in the industry (recognising that this should not come at the expense of appropriate Board diversity); and**
- **ensure regular Board access to independent expert advice.**

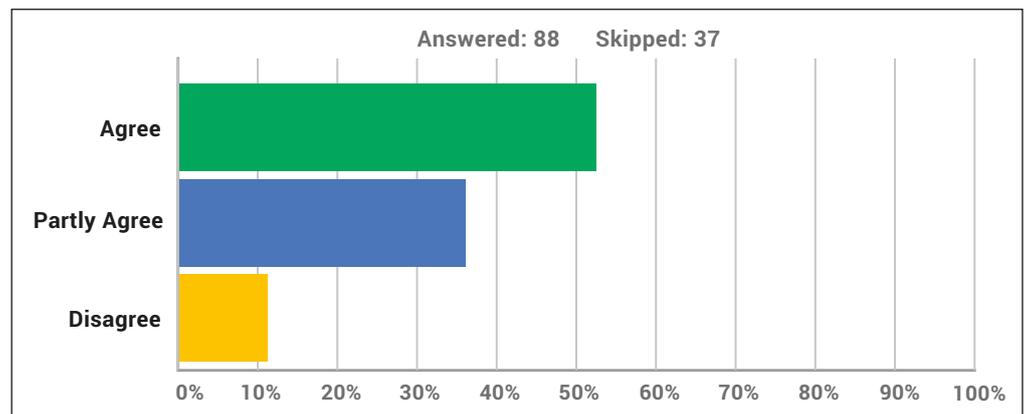
6.2 Review Board information

Provisional Recommendation Sept 2020:

Boards, Actuaries, CROs and CEOs should adopt the Sustainability Guide, including Heat Map and assessment against Reference Product, and incorporate in formal reporting to the Board.

Feedback Received and Taskforce Response

Survey:



Feedback provided was that the Sustainability Guide will be useful across many scenarios and initiatives. However, there were views expressed that existing frameworks (e.g. Risk Appetite Statements) should cover the same issues.

There was a significant number of respondents to the survey who indicated partial agreement. This reflects feedback regarding the suitability of the Reference Product and whether all aspects of the Sustainability Guide are appropriate and applicable across all products, as well as for reinsurers. These points are considered in sections 12 and 13 of this document. Changes have been made to both the Reference Product and Sustainability Guide.

The Taskforce encourages life insurers to apply the principles of the Sustainability Guide to other products and notes that extending to TPD in particular should be relatively straightforward. In addition, the Taskforce believes that reinsurers should be able to apply many principles of the guide.

The Taskforce has maintained the recommendation.

Final Recommendation:

6.2 Review product governance and reporting to the board

Boards, Actuaries, CROs and CEOs should adopt the Sustainability Guide, including Heat Map and assessment against the Reference Product, and incorporate in formal reporting to the Board.

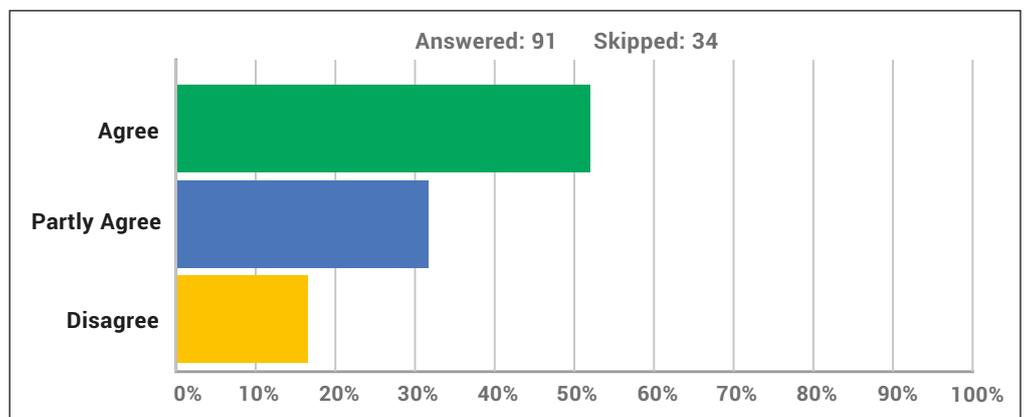
6.3 Shift focus to customers

Provisional Recommendation Sept 2020:

Boards, Actuaries, CROs and CEOs should shift Life Insurer focus (via reporting, performance, remuneration etc) to obligations to customers – product, services and practices – over the long term.

Feedback Received and Taskforce Response

Survey:



There was general agreement for the intent of the recommendation and ensuring appropriate focus on customer obligations. Survey participants provided some feedback that this type of reporting should be occurring across insurers and that it was important to consider sustainable practices impacting all customers. The Taskforce notes that the recommendation addresses much more than reporting.

The Taskforce has slightly amended the recommendation to ensure more substantial weight is given to sustainable customer outcomes across all customers in the risk pool.

Final Recommendation:

6.3 Meaningfully shift focus to customers

Boards, Actuaries, CROs and CEOs should shift Life Insurer focus (via reporting, performance assessment, remuneration etc) to long-term sustainable outcomes for all customers, in terms of product, pricing, services and practices.

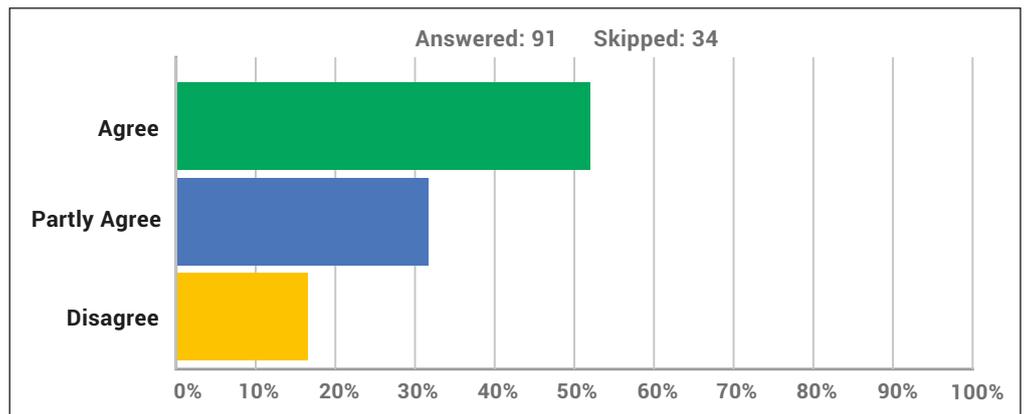
6.4 CEO and Management Accountability

Provisional Recommendation Sept 2020:

Boards should hold management to account for long-term performance, hold formal post-implementation reviews for at least 5 years after significant product changes and ensure remuneration reflects uncertainties (with reference to the Sustainability Guide).

Feedback Received and Taskforce Response

Survey:



There was general agreement with the intent of the recommendation and the importance of accountability for long term performance.

There was, however, some misunderstanding about the intent of the five year period, and whether there was flexibility regarding this. Concern was also raised around the ability to objectively assess performance after 'black swan' events.

There were comments about remuneration needing to comply with FAR and APRA standards, and of course this is accepted.

The Taskforce slightly amended the recommendation to make clear accountability must be against a reasonable benchmark, and that lessons from performance be captured systematically.

Final Recommendation:

6.4 CEO and Management Accountability

Boards should:

- hold formal post-implementation reviews after significant product changes over a multi-year period to assess actual long-term performance;
- hold management to account (acting reasonably) for long-term performance; and
- ensure remuneration reflects uncertainties (with reference to the Sustainability Guide).

7 Regulation and the Law

Following the publication of the Original Document A, further discussions were held with APRA, ASIC and Treasury.

Recommendations

7.1 Produce examples of application of Best Interest Duty (BID)

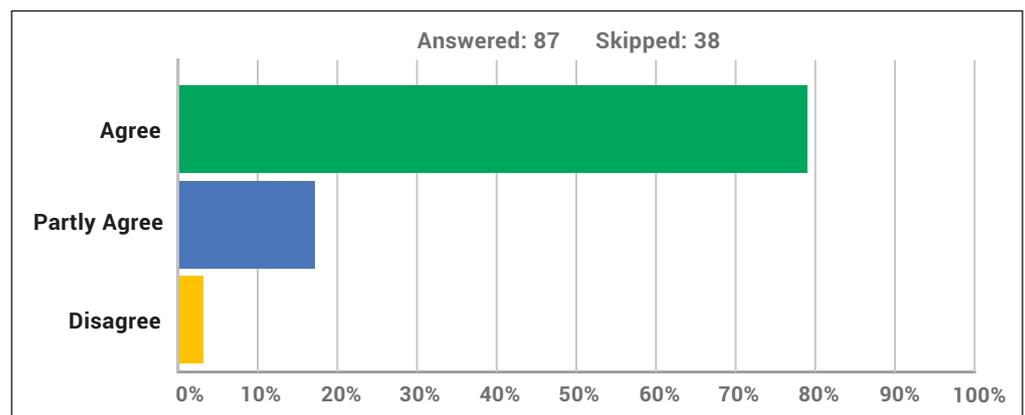
Provisional Recommendation Sept 2020:

To help insurers, rating houses and advisers, **ASIC** should produce examples of application of BID, including the trade-off of features and price, for IDII (and other life insurance) and include in RG 175.

Pending **ASIC** provision of examples in RG 175, the **Actuaries Institute, FSC and FPA/AFA** should produce examples of application of BID for IDII (and other life insurance).

Feedback Received and Taskforce Response

Survey:



Good support was provided for this recommendation.

A number of implementation challenges were identified, including where accountability should lie for this e.g. distribution licensee vs insurer.

Concern was noted regarding the advice process in customers moving from legacy to new IDII (and other products) and how these trade-offs would be assessed in the examples. The reference to 'help insurers' was seen as self-serving and biased towards insurers.

The Taskforce notes that, in addition to the specific references to BID in ASIC's RG 175.242, there is various other guidance from ASIC which is quite relevant for this issue. This includes:

- RG 175 paras 331 to 352, which covers conducting a reasonable investigation, research reports, market benchmarking, switching costs and benefits and approved product lists; and
- RG 234 about advertising financial products and services.

The new DDO obligations and Report 562 on vertically integrated institutions and conflicts of interest are also relevant to this issue.

However, the Taskforce is concerned with the way the guidance is interpreted in practice for life insurance – in particular in the trade-off of benefits and price, and the high frictional costs for consumers changing insurer (such as time, medical impairments and expenses). It notes that there

is a focus on investment arrangements in the examples provided in ASIC guidance and little that is specific to insurance. The Taskforce continues to believe that insurance-specific examples would be of significant benefit.

The Taskforce has maintained the recommendation and expanded it to consider BID for customers moving from legacy to new IDII products.

Final Recommendation:

7.1 Produce examples of application of Best Interest Duty (BID) application to life insurance

ASIC should produce examples of application of BID, including the trade-off of features and price, for IDII (and other life insurance) and include in RG 175. This should include consideration of customers moving from legacy to new IDII products.

Pending ASIC provision of examples in RG 175, the Actuarial Institute, FSC and FPA/AFA should produce examples of application of BID for IDII (and other life insurance).

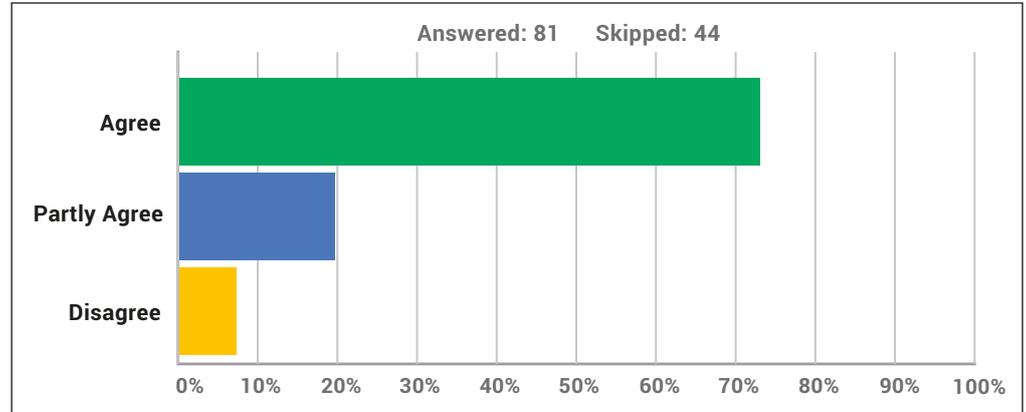
7.2 Consider this report in deployment of DDO

Provisional Recommendation Sept 2020:

ASIC should consider this report and its recommendations, how DDO may be deployed to address existing issues and advise industry accordingly.

Feedback Received and Taskforce Response

Survey:



Good support was provided for this recommendation, although feedback was provided that the recommendation would benefit from a more direct link to how these actions would address sustainability.

Other concerns were raised through the feedback, although these were related to DDO itself and so not considered relevant to the recommendation.

The Taskforce is interested in how DDO may help with the development and promotion of simpler, lower-cost products alongside more sophisticated versions. Amongst other things, the Taskforce considers this will help with the issues addressed in 7.1 and with sustainability of outcomes for customers. There was a view that it was life insurers rather than ASIC who should consider the implications of DDO.

The Taskforce has maintained the recommendation with some clarification provided.

Final Recommendation:

7.2 Consider this report in deployment of DDO

Life Insurers should review the Original Document A (sections 5 and 7 in particular), this report and its recommendations, and consider how DDO may be deployed to encourage IDII products of differing levels of complexity and price, with a consequent boost to sustainability.

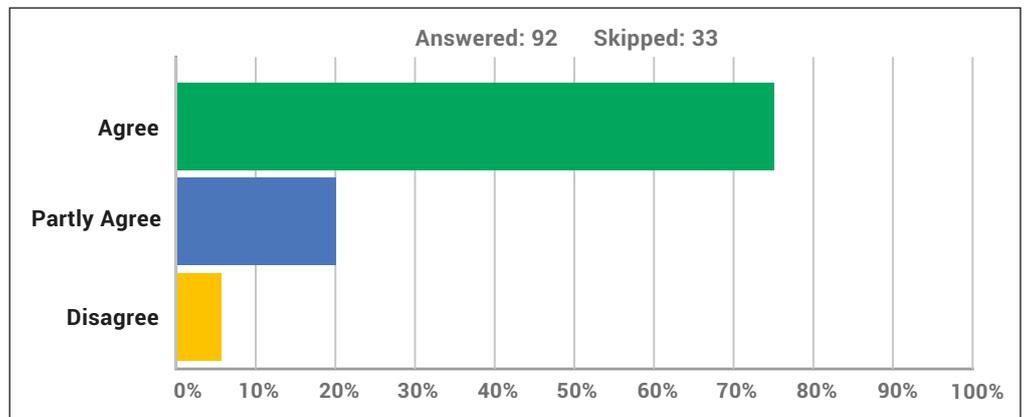
7.3 Maintain APRA intervention

Provisional Recommendation Sept 2020:

APRA should maintain the current intervention until such time as industry demonstrates a sustained improvement in practices and outcomes.

Feedback Received and Taskforce Response

Survey:



The feedback noted good support across the industry for APRA’s intervention, with this intervention having a positive impact in addressing sustainability concerns.

Feedback was provided that addressing IDII (or similar) issues remains the industry responsibility and there shouldn’t be a reliance on APRA to intervene to fix these or similar issues going forward.

The Taskforce has maintained the recommendation.

Final Recommendation:

7.3 Maintain APRA intervention

APRA should maintain the current intervention until such time as industry demonstrates a sustained improvement in practices and outcomes.

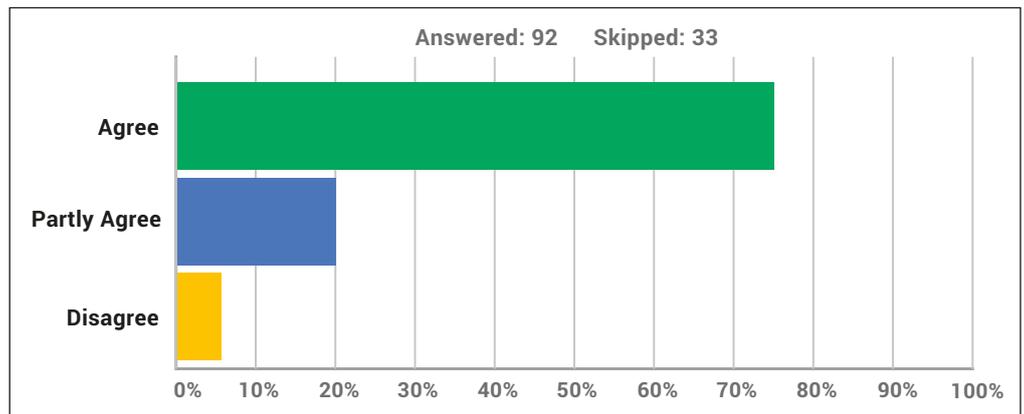
7.4 APRA should set expectations regarding the Sustainability Guide and monitoring

Provisional Recommendation Sept 2020:

APRA should set expectations that insurers should either implement the Sustainability Guide (including use of the Reference Product) or put in place equally effective alternatives. APRA should also report back to each insurer their relative position vs peers.

Feedback Received and Taskforce Response

Survey:



APRA has now broadly supported adoption of the Sustainability Guide in their December 2020 letter to the industry, thus supporting the first part of this recommendation.

Through the survey and other feedback, a variety of contradictory views were provided on APRA's role in providing feedback on the relative position on use of the Sustainability Guide and scoring, as originally proposed by the Taskforce. There also were concerns as to whether APRA was the appropriate entity for this, and that APRA's support would encourage adoption of the Reference Product as the default product for the market, and so dampen innovation.

The Taskforce has largely maintained the recommendation but has proposed that the Sustainability Guide is reviewed after 12 months to reflect lessons learnt and to improve the guide for future use.

Final Recommendation:

7.4 APRA should set expectations regarding the Sustainability Guide and monitoring

APRA should maintain expectations that insurers should either implement the Sustainability Guide (including use of the Reference Product) or put in place equally effective alternatives. APRA should also report back to each insurer their position on adoption of the Sustainability Guide and scoring vs peers.

The Actuarial Institute should ensure the Sustainability Guide is reviewed after 12 months to reflect lessons learnt and to improve the guide for future use.

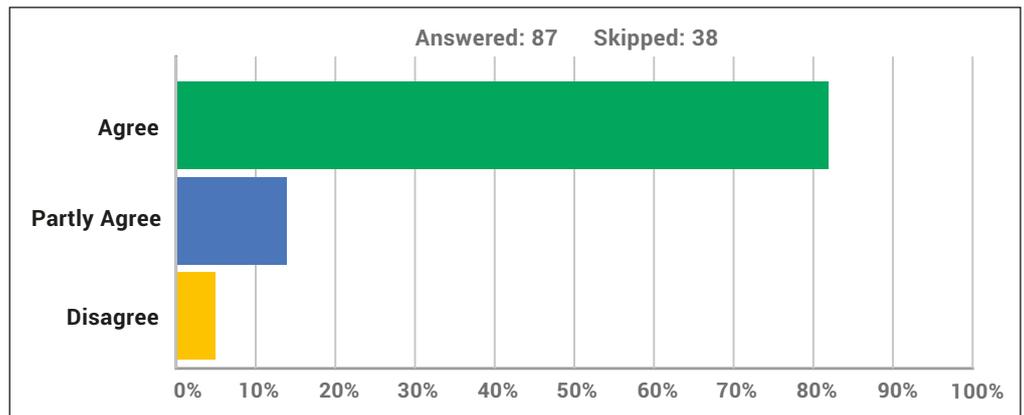
7.5 Review of the 1995 Life Insurance Act fitness for purpose

Provisional Recommendation Sept 2020:

Treasury and APRA should review the Life Insurance Act fitness for purpose.

Feedback Received and Taskforce Response

Survey:



Good support was provided for this recommendation, with comments mostly positive. Some concern was noted that any review gives due regard for protecting policyholder interests.

Feedback was also provided that there may be benefit in also undertaking reviews of other insurance legislation, particularly the Insurance Contracts Act.

The Taskforce agreed to broaden the recommendation to include other relevant legislation.

Final Recommendation:

7.5 Review of the 1995 Life Insurance Act fitness for purpose

Treasury and APRA should review the Life Insurance Act and all other relevant insurance legislation (including the Insurance Contracts Act) for fitness for purpose in modern markets and society.

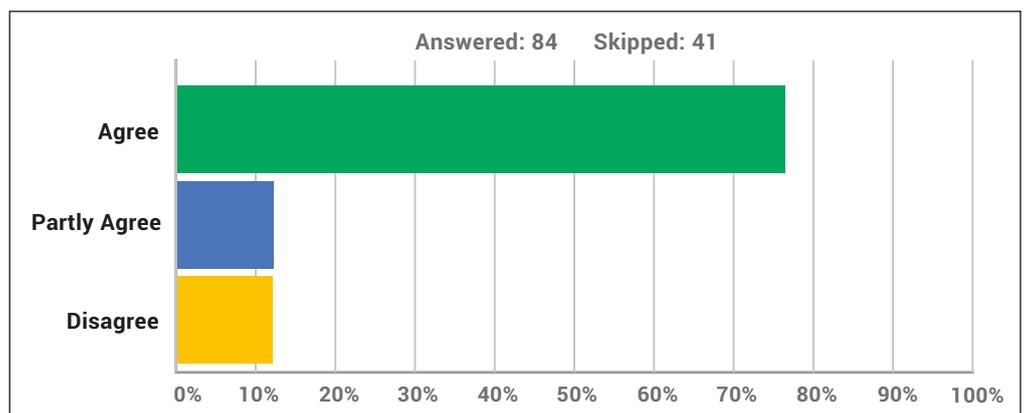
7.6 Improve understanding of s48 of the Life Insurance Act 1995

Provisional Recommendation Sept 2020:

The Actuaries Institute should conduct training and discussion sessions on implications of s48 for IDII product design and pricing.

Feedback Received and Taskforce Response

Survey:



Strong support for this recommendation was provided in the survey. Notwithstanding this, a series of negative comments were received, particularly questioning the relevance of the recommendation to IDII and product design and pricing, as well as actuaries' expertise with respect to s48.

Some feedback also questioned if this would increase the level of regulation and asked why this section only. The Taskforce notes this particular section is critical from a sustainability perspective.

Taskforce has maintained this recommendation.

Final Recommendation:

7.6 Improve understanding of s48 of the Life Insurance Act 1995

The **Actuaries Institute** should conduct training and discussion sessions on implications of s48 for IDII product design and pricing..

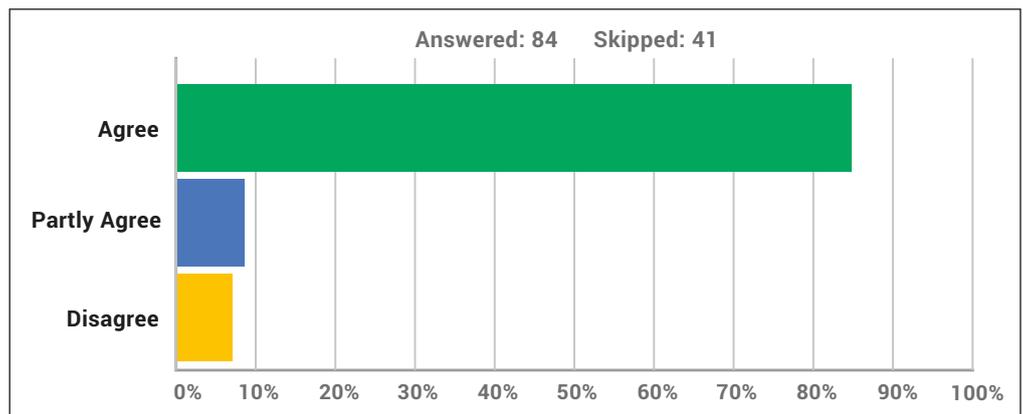
7.7 Review legislative impact of rehabilitation costs

Provisional Recommendation Sept 2020:

Treasury should review relevant legislation after considering proposals in the relevant FSC submission and other consultation with industry.

Feedback Received and Taskforce Response

Survey:



Whilst there was strong support provided in the survey, there was significant concern expressed in comments and submissions, mainly with respect to past rejection of this idea by previous reviews and inquiries (notably by the Parliamentary Joint Committee on Corporations and Financial Services in 2018). Arguments were also made that more analysis is needed to make the case that this recommendation is required, and whether rehabilitation has such a proven link to improving sustainability outcomes.

Suggestions were also made that there should be a more holistic system covering health and life insurance to give effect to this recommendation.

The Taskforce significantly restructured the recommendation to promote change in legislation which will allow most effective contribution by life insurance to positive customer outcomes.

Final Recommendation:

7.7 Review legislative impact of rehabilitation costs

FSC should review and update submissions with respect to rehabilitation costs particularly addressing improved customer and sustainability outcomes and feedback from prior reviews.

Treasury should review relevant legislation after considering proposals in the updated **FSC** submission and other consultation with industry.

8 Financial Advice

Recommendations

8.1 Produce examples to support adviser interpretation of BID

Provisional Recommendation Sept 2020:

See Recommendation 7.1

8.2 Make amendments to the product ratings process

Provisional Recommendation Sept 2020:

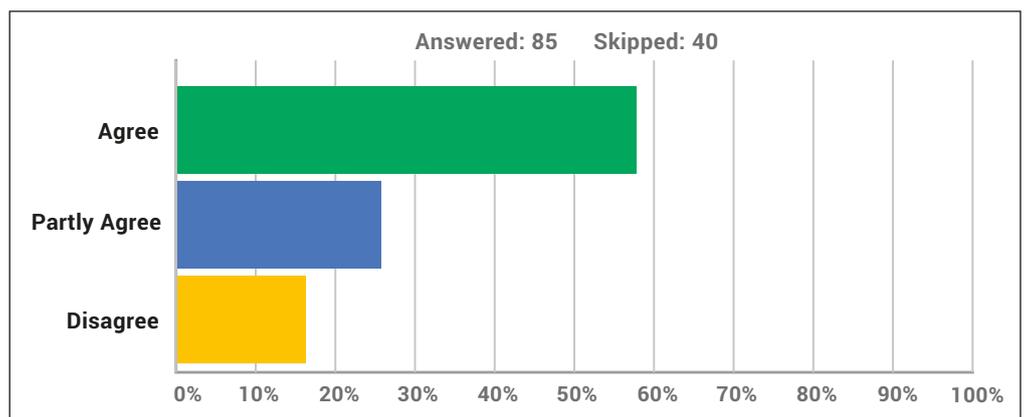
Rating houses should amend the product ratings process such that:

1. The contribution of a feature to the rating is proportional to its value to the customer (in terms of claims payments).
2. In support of (1), rating houses require that insurers provide evidence of the value of all new features to the product. If evidence is not forthcoming, then provide no/low value in the ratings.
3. Rating houses discuss with the insurer their approach to the Sustainability Guide, form a view on their commitment to it and take this into consideration in the value score of features.
4. Rating houses encourage advisers to place a greater weight on long term product cost on the assumption that the consumer may be unable to switch product.

The FSC should publish claims data so that advisers can understand the relative value to customers of different benefits and definitions.

Feedback Received and Taskforce Response

Survey:



There was a wide range of feedback provided in respect of rating houses.

There was broad support that ratings should include benefit features relevant for the customer and that rating houses should measure sustainability.

It was pointed out that some rating platforms already contain a number of sustainability indicators/measures (such as premium payable over 10 years rather than just one year). However, it was observed that there is no requirement for the adviser or Licensee to use these measures when using the rating platforms.

Adviser feedback suggested that rating houses should place greater importance on long term pricing stability and also, that if this was built into the rating system, then financial advisers would necessarily take this into account.

A number of participants thought that, whilst including a sustainability metric into the rating house scoring was a valuable concept, it might be difficult to implement. However, parties also expressed interest in working through this issue and further insight on how the Actuaries Institute may see this working in practice was requested.

Feedback was also given that, to be effective, sustainability measures need to be embraced by the industry, and that they should be independently reviewed (i.e. not by the rating houses).

In considering all of the feedback, one of the Taskforce's main aims has been to move the Sustainability Rating away from the 'value score of features' (as in the original Recommendation) so that it clearly sits alongside rather than being part of a total rating house assessment.

In addition, the Taskforce has sought to ensure that any sustainability rating metric:

- remains tied to the Sustainability Guide, to the extent that it measures features that benefit consumers through more predictable pricing or claims outcomes;
- has a broader group of stakeholders participate in its derivation (building on the work of the Actuaries Institute); and
- is linked into the BID examples being prepared so that its application is appropriately considered.

Accordingly, the Taskforce has revised the recommendation as follows:

Final Recommendation:

8.2 Make amendments to the product ratings process

(a) Rating houses, working with Licensees should amend the product ratings process to ensure that:

1. The contribution of a feature to the rating is proportional to its value to the customer (in terms of claims payments);
2. In support of (1), rating houses require that insurers provide evidence of the value of all new features to the product. If evidence is not forthcoming, then provide no value in the ratings;
3. Rating houses discuss with the insurer their approach to the Sustainability Guide, form a view on their commitment to it and publish a separate sustainability rating (see 8.2 (b)) for the product; and
4. Rating houses work with Licensees to ensure that greater weight is given to long term product cost given that the consumer may be unable to switch product in the future.

(b) Work should be undertaken by Life Insurers, Rating Houses, adviser representatives and the Actuaries Institute to develop an appropriate Sustainability Rating metric to be published alongside the existing Product Ratings. This Sustainability Rating metric should:

- be based on the Sustainability Guide, to the extent that it measures features that benefit consumers through more predictable pricing or claims outcomes, with the Taskforce providing an initial basis for discussion to help the development of this work;
- be consistently and fairly assessed and applied across all of the Industry; and
- have its usage included in the BID examples being produced to ensure appropriate consideration is given to Sustainability.

- (c) The FSC should publish claims data so that advisers can understand the relative value to customers of different benefits and definitions.

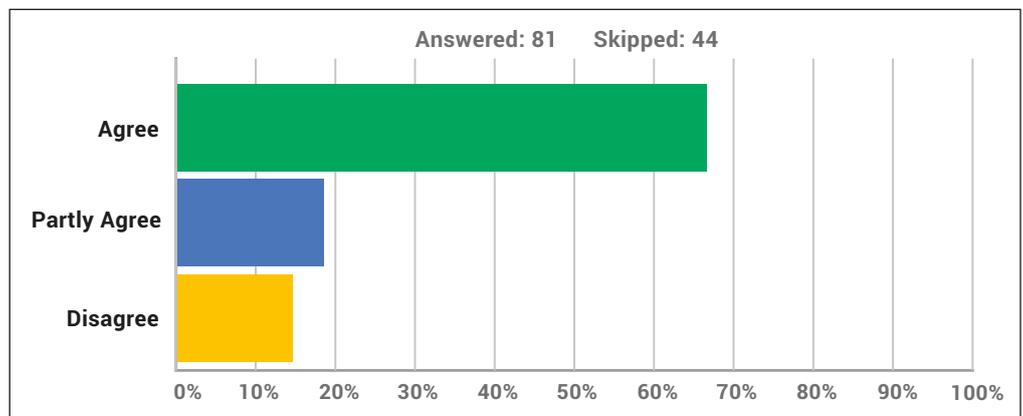
8.3 Issue guidance to Insurers regarding rating use

Provisional Recommendation Sept 2020:

In the absence of any regulation of rating houses, ASIC should issue guidance to insurers and advisers on appropriate use of ratings in communication and promotion of products, and in advice to customers, to ensure a fair and effective system.

Feedback Received and Taskforce Response

Survey:



The Taskforce notes that there is commentary in RG 234.80 to 85 on promotion of ratings. But this is mainly focused on credit ratings to retail customers, whereas for insurance advisers are the users of the ratings.

Whilst there was some support for rating house regulation, there was some scepticism noted as to what ASIC will be able to do from a guidance perspective.

There was some low appetite expressed for more regulation and guidance for advisers. Some feedback was provided as to mistrust of rating houses, although some felt that using products rated highest by rating houses might be safest due to BID.

There was a view that at a minimum rating houses should be required to have an AFSL. It was noted that an AFSL is currently required if general advice is provided.

There was concern about a comment made in the Original Document A which noted that a number of interviewees mentioned commission as a driver of problems, as the commission system encouraged more complex, expensive products. It was felt that this was a pejorative comment, given the Taskforce had chosen to not consider commission in its review.

The Taskforce has largely maintained the recommendation with clarification as to focus on ASIC guidance to advisers, appropriate use of ratings and balancing price, features and sustainability.

Final Recommendation:

8.3 Issue guidance regarding rating use

In the absence of regulation of rating houses with respect to the ratings process, and given the focus of current guidance, ASIC should issue guidance to advisers and insurers on appropriate use of product and sustainability ratings in communication and promotion of insurance products (including pricing), and in advice to customers, to ensure a sustainable, fair and effective system.

9 Underwriting and Claims Management

Recommendations

9.1 Life Insurers should engage more effectively with GPs in claims management

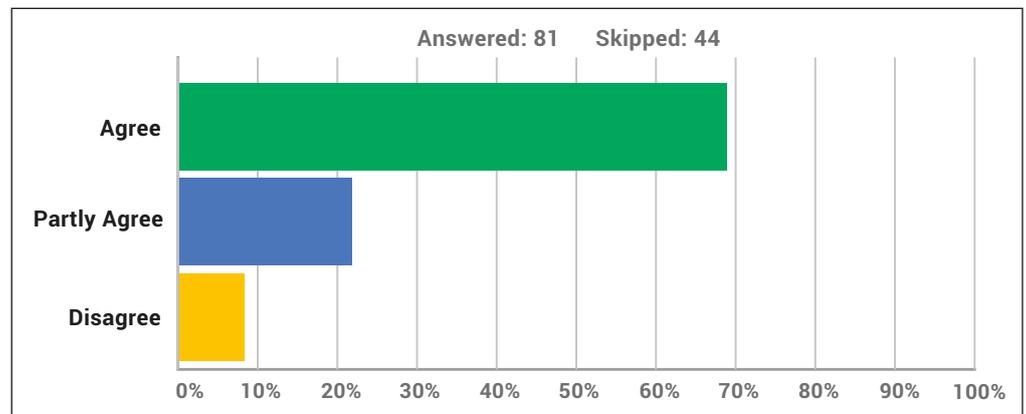
Provisional Recommendation Sept 2020:

Life Insurers should:

- request factual medical information from the GPs only e.g. treatment plan, current stage of treatment, how patient is responding;
- use assessments from occupational physicians, occupational therapists and other specialist practitioners in assessing a claimant's function and capacity to work;
- through claims assessors, retain ownership of the decision regarding payment of claim.

Feedback Received and Taskforce Response

Survey:



There was strong support and agreement for this recommendation, including from the medical community.

Feedback suggested that the training and skill required to assess a claimant's function and capacity to work was high, and the time commitment required by GPs to make some determinations may be unrealistic.

Broad support existed for the use of more specialists, particularly in the area of understanding function and capacity to work. It was also suggested that insurers often under-estimate the time and complexity to ensure good RTW outcomes.

A few pointed out the higher cost of using specialists.

Regardless of use of other experts, it was noted that GPs remain an important part of the claims ecosystem.

Feedback highlighted that the recommendation appeared to focus on claims, but they could be equally valid for the interaction of underwriters with the medical community.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.1 Life Insurers should engage more effectively with GPs in claims management

Life Insurers should:

- request factual medical information from the GPs only e.g. treatment plan, current stage of treatment, how patient is responding;
- use assessments from occupational physicians, occupational therapists and other specialist practitioners in assessing a customer’s function and capacity to work; and
- through claims assessors, retain ownership of the decision regarding payment of claim.

9.2 Make more effective use of experts in claims management

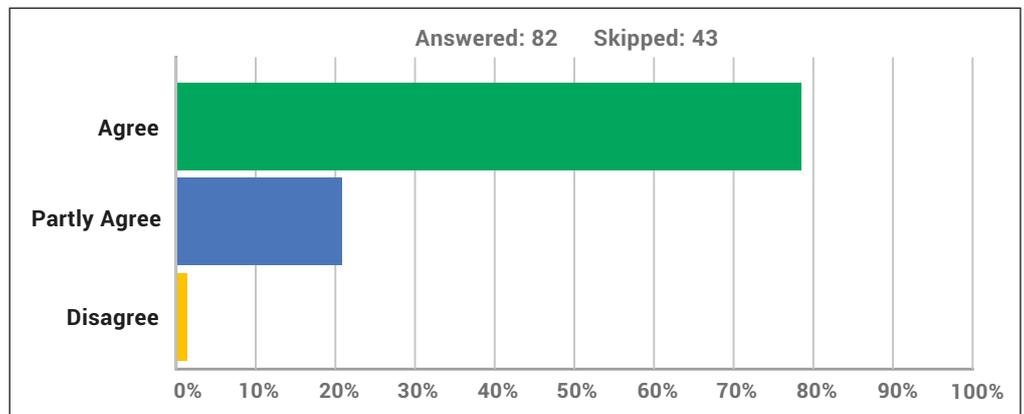
Provisional Recommendation Sept 2020:

Life Insurers should:

- develop clear guidelines for the use of subject matter experts by the claims function and incorporate these into claims competency frameworks;
- collect sufficient data to monitor use of experts and impact they have on claims outcomes and claimant’s experience;
- ensure claims assessors retain ownership of the decision regarding payment of claim.

Feedback Received and Taskforce Response

Survey:



There was support for evidence and data-based decision processes. Some suggestions were made that independence and objectiveness should be required of all participants in assessing claims, and some form of audit/assessment was proposed. The Taskforce notes that claims are now considered to be a financial service and will be regulated accordingly.

The Taskforce sees that the recommendation allows such considerations to be implemented by insurers as appropriate.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.2 Make more effective use of experts in claims management

Life Insurers should:

- develop clear guidelines for the use of subject matter experts by the claims function and incorporate these into claims competency frameworks;
- collect sufficient data to monitor use of experts and impact they have on claims outcomes and customer’s experience; and
- ensure claims assessors retain ownership of the decision regarding payment of claim.

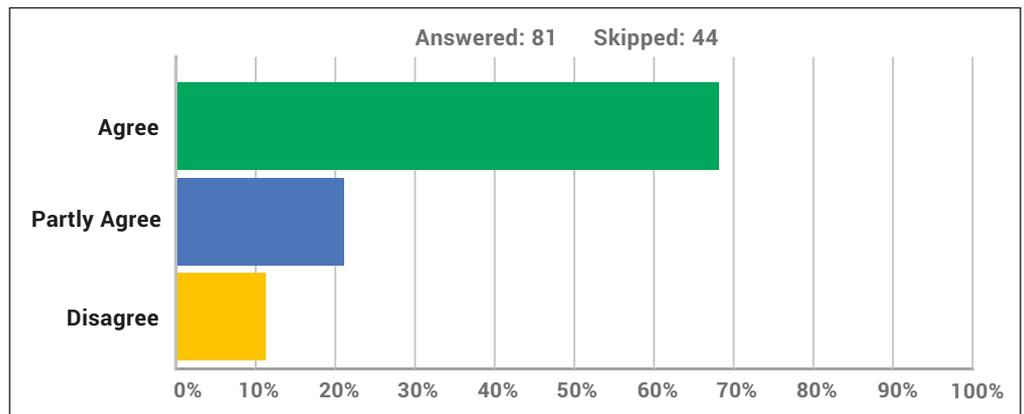
9.3 Improve the way claims information is sought from the medical community

Provisional Recommendation Sept 2020:

The **FSC** should adopt a standard form across the industry to collect medical information and developed in conjunction with the medical community.

Feedback Received and Taskforce Response

Survey:



There was general support for the recommendation but some concerns for potential operational inefficiency and possibility of insufficient details being recorded for each case-by-case situation. The Taskforce noted these potential challenges but believe that collection of this information consistently is an important discipline for sustainability.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.3 Improve the way claims information is sought from the medical community

The **FSC** should adopt a standard form across the industry to collect medical information and developed in conjunction with the medical community.

9.4 Develop Industry financial and occupational underwriting benchmarks

Provisional Recommendation Sept 2020:

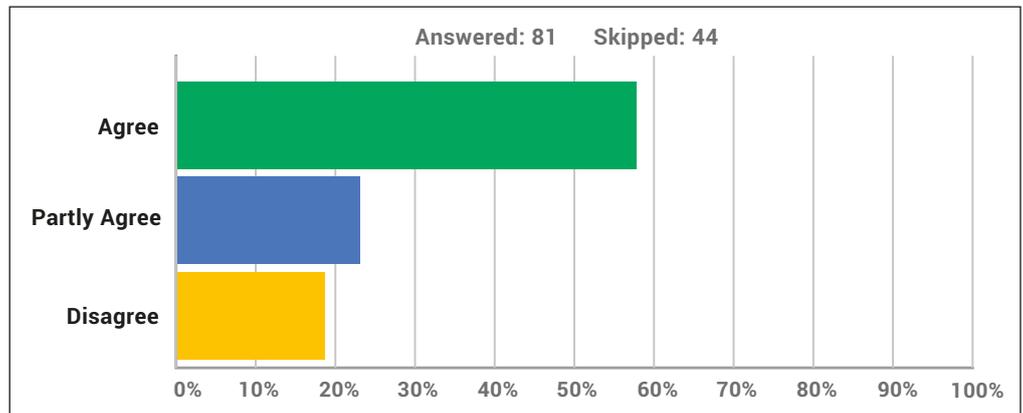
ALUCA should develop an industry underwriting benchmark (as a risk management tool for life insurers) to cover financial and occupational underwriting topics such as:

- Potential for overlap in different types of living benefit covers (e.g. IDII, critical illness and TPD);
- Underwriter focus on job duties (rather than job title); and
- Revalidation of policyholder financial and occupational details at least every 5 years.

Life Insurers should adopt the Sustainability Guide and assess their current practices against the industry underwriting benchmark.

Feedback Received and Taskforce Response

Survey:



There was general support for this recommendation although feedback was received that other bodies may be in a better position to develop the benchmark e.g. ANZIIF.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.4 Develop Industry financial and occupational underwriting benchmarks

ALUCA should develop industry underwriting benchmark (as a risk management tool for life insurers) in relation to financial and occupational underwriting topics such as:

- Potential for overlap in different types of living benefit covers (e.g. IDII, critical illness and TPD);
- Underwriter focus on job duties (rather than job title); and
- Revalidation of policyholder financial and occupational details at least every 5 years.

Life Insurers should adopt the Sustainability Guide and assess their current practices against the industry underwriting standards.

9.5 Improve underwriting and claims data

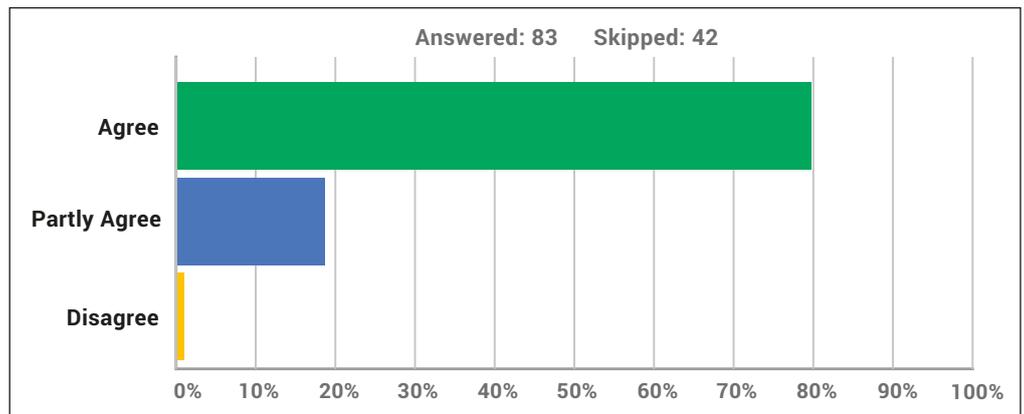
Provisional Recommendation Sept 2020:

Life Insurers should:

- Develop a strategy for underwriting and claims data, including identifying gaps in current practices and develop action plans accordingly;
- Implement a dashboard of claims and underwriting data for monitoring by the Board.

Feedback Received and Taskforce Response

Survey:



The feedback to this recommendation noted that life companies are collecting data, however more work is required to support sustainability. Furthermore, some information presented to Boards may not be helpful to them. This was noted by the Taskforce, with these matters able to be addressed by life companies in the implementation of relevant reporting.

This recommendation also supports collection of better data to enable improved industry level analysis and research.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.5 Improve underwriting and claims data

Life Insurers should:

- Develop a strategy for underwriting and claims data, including identifying gaps in current practices and develop action plans accordingly; and
- Implement a dashboard of claims and underwriting data for monitoring by the Board.

9.6 Focus on return to work and lift rehabilitation

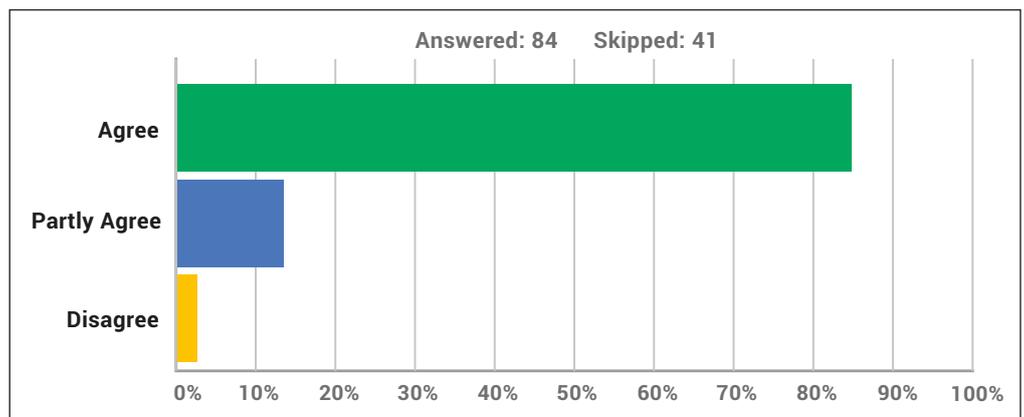
Provisional Recommendation Sept 2020:

Life Insurers should:

- Focus on supporting customers to return to work, and should be as soon as possible after the sickness or injury occurs;
- Make more use of rehabilitation support, invest in understanding the most beneficial rehabilitation methods and incentivise early reporting of claims.

Feedback Received and Taskforce Response

Survey:



There was general agreement with this recommendation, and in particular strong support from the medical community. There was feedback around the capacity of the industry to implement these changes, particularly feedback from the Parliamentary Joint Committee on Corporations and Financial Services regarding the prior FSC proposal to allow payment of medical expenses under life policies.

The Taskforce has maintained this recommendation with some wording clarification.

Final Recommendation:

9.6 Focus on return to work and lift rehabilitation

Life Insurers should:

- Focus on supporting customers to return to work, and such support should be as soon as possible after the sickness or injury occurs; and
- Make more use of rehabilitation support, invest in understanding the most beneficial rehabilitation methods and incentivise early reporting of claims.

In line with recommendation 7.7, **Life Insurers** should work with the **FSC** to consider prior feedback received on similar proposals to ensure issues are addressed

9.7 Develop the claims management profession

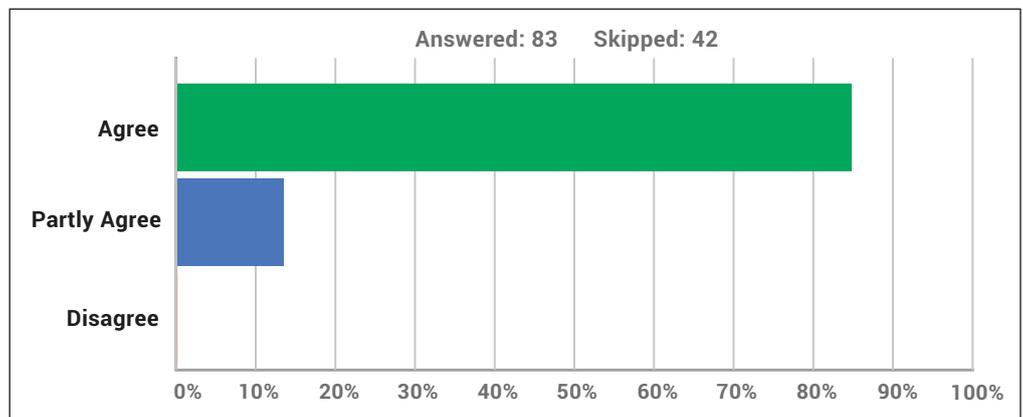
Provisional Recommendation Sept 2020:

Life Insurers should:

- Work with ALUCA and ANZIIF to develop a minimum industry wide qualification standard for claims assessors, including ongoing continual professional development requirements;
- Develop competency frameworks for the different roles within their claims management functions;
- Perform regular assessments against their competency framework as part of ongoing quality assurance processes and address gaps as identified.

Feedback Received and Taskforce Response

Survey:



There was general support for this recommendation. Some feedback was provided that claims assessors could have formal vocational qualifications and suggestions that the qualification should be mandatory, and that underwriters should be subject to similar training.

The Taskforce notes the Life Insurance industry recent commitment to the development of a Professional Standards Framework for Claims and Underwriting Professionals with the support of ANZIIF.

The Taskforce has maintained the recommendation and extended the recommendation to cover underwriting.

Final Recommendation:

9.7 Develop the claims management and underwriting profession

Life Insurers should:

- Work with FSC and ANZIIF to develop a minimum industry wide qualification standard for claims assessors and underwriters, including ongoing continual professional development requirements;
- Develop competency frameworks for the different roles within their claims management and underwriting functions; and
- Perform regular assessments against their competency framework as part of ongoing quality assurance processes and address gaps as identified.

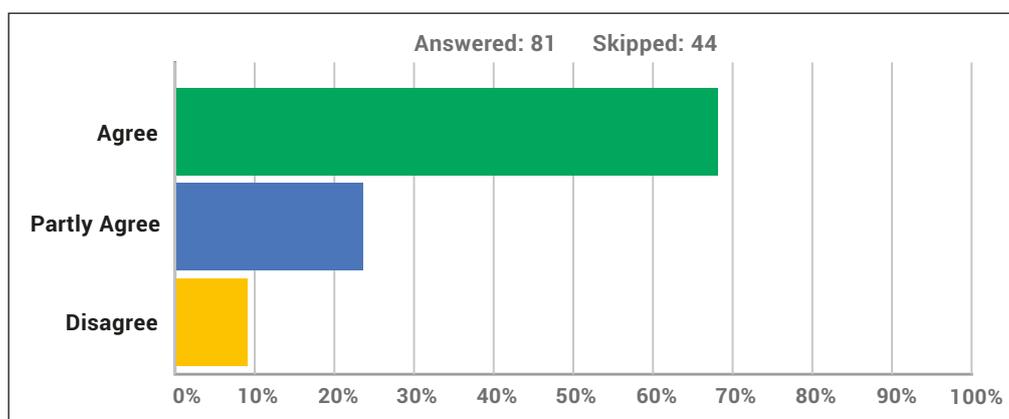
9.8 Simplify the claims ecosystem

Provisional Recommendation Sept 2020:

Life Insurers should engage with other stakeholders in disability support systems (e.g. Workers Compensation, certain Vehicle Insurance schemes such as Compulsory Third Party, National Disability Insurance Scheme, Disability Support Pension, Superannuation etc.) to identify opportunities for improvement and simplification, particularly when a disabled person transitions between different disability support systems. Possible areas to explore would include standardised claims forms and sharing of common information (subject to privacy and consent considerations).

Feedback Received and Taskforce Response

Survey:



There was general agreement provided on this recommendation, although some concern noted that this was a significant undertaking and the industry may not have sufficient capacity to implement effectively.

The Taskforce noted this feedback but believes this recommendation is important to ensure more sustainable outcomes in disability support.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.8 Simplify the claims ecosystem

Life Insurers should engage with other stakeholders in disability support systems (e.g. Workers Compensation, certain Vehicle Insurance schemes such as Compulsory Third Party, National Disability Insurance Scheme, Disability Support Pension, Superannuation etc.) to identify opportunities for improvement and simplification, particularly when a disabled person transitions between different disability support systems. Possible areas to explore would include standardised claims forms and sharing of common information (subject to privacy and consent considerations).

9.9 Improve claims resourcing

Provisional Recommendation Sept 2020:

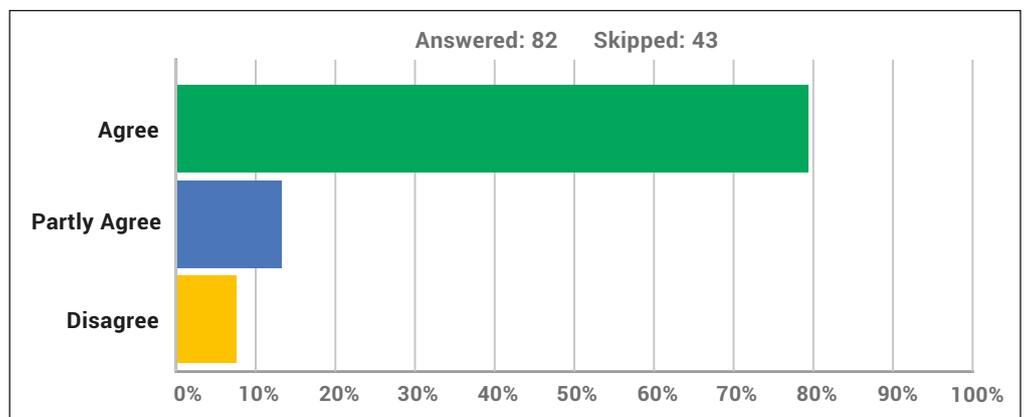
Life Insurers should:

- Review or develop claims case-load targets, specify required actions and reporting when case-loads are beyond target levels;
- Develop ways for the industry to grow the population of claims assessors (such as by partnering with ALUCA and ANZIIF).

The **FSC** (consulting with ALUCA) should develop case load benchmarking for the industry.

Feedback Received and Taskforce Response

Survey:



There was general agreement to this recommendation. It was noted that case-loads can vary between insurers depending on the nature of portfolio, ways of working, technology and triage of risk profiling. There was also a question as to whether these issues should be considered on an individual insurer basis or industry wide.

The Taskforce noted this feedback was relevant for consideration in the implementation of the recommendation.

During discussion with stakeholders it was suggested that the industry would benefit from regular engagement with medical experts external to the industry.

The Taskforce has maintained the recommendation.

Final Recommendation:

9.9 Improve claims resourcing

(a) **Life Insurers** should:

- Review or develop claims case-load targets, specify required actions and reporting when case-loads are beyond target levels; and
- Develop ways for the industry to grow the population of claims assessors (such as by partnering with ALUCA and ANZIIF).

(b) The **FSC** (consulting with ALUCA) should develop case load benchmarking for the industry.

(c) The **FSC** should establish and maintain links with appropriate external medical experts to provide ongoing ad-hoc advice as required in relation to issues of relevance to the ongoing sustainability of the life industry.

New Recommendation:

A life insurer's claims practices are fundamentally important to many claims outcomes. However, the Taskforce has formed the view such practices do not seem to be consistently documented nor applied by many insurers.

Well considered, meaningful and documented practices should provide useful and practical guidance to claims management staff in making challenging claims decisions – particularly those that may be considered marginal. They also should help in consistent assessments and outcomes.

The Taskforce notes that APRA's SPG250 provides significant guidance on an insurer's claims philosophy for superannuation fund trustee consideration (which is mandatory under SPS250) when the trustee is selecting and monitoring the performance of its insurer. This guidance is just as relevant for insurers to consider in their development of documented claims practices for their own purposes. It is also pertinent for IDII and other individual life insurance business. APRA's LPG240 provides useful guidance on managing the risks associated with claims management, and insurers are bound by the claims section of the Life Insurance Code of Practice (LICOP). Both could be of help in documenting claims practices.

9.10 *Claims Practices should be clearly and meaningfully articulated and applied*

- (a) **Life Insurers** should ensure that their documented claims practices are clearly and meaningfully articulated and take into consideration, at a minimum, the matters addressed in the claims sections of SPG250, LPG240 and LICOP.
- (b) **Life Insurers** should have the effectiveness and consistency of their actual claims practices reviewed against their documented claims practices, with the results reported to the Board.

10 Risk Management

Recommendations

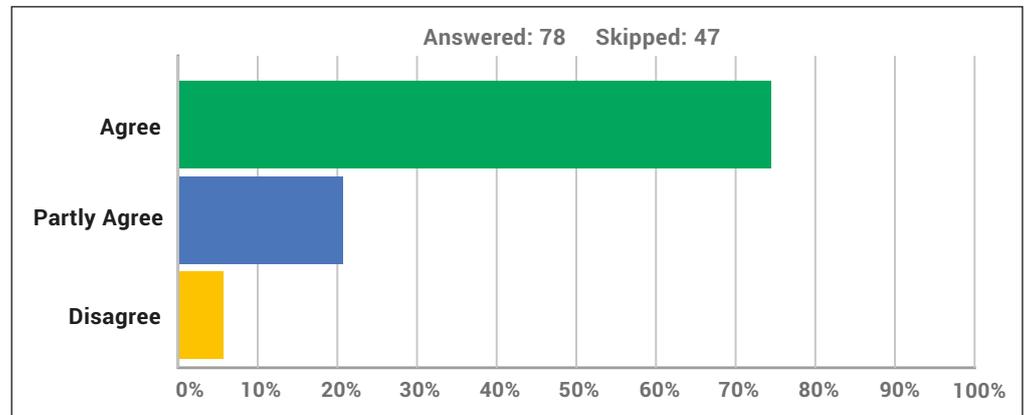
10.1 Ensure adequate support for breadth of CRO role

Provisional Recommendation Sept 2020:

Boards should ensure CRO job descriptions and practices should clearly cover all risks. In addition, **CROs, Appointed Actuaries and other executives** in a life insurer should develop protocols for working together to ensure a comprehensive and holistic approach to IDII business risks.

Feedback Received and Taskforce Response

Survey:



There was good support for four related recommendations on risk management (10.1, 10.2, 10.3 and 11.4), although a wide range of views were expressed including that roles are clear, roles should be clear or work needs to be done to clarify roles.

Feedback was provided that APRA could clarify the roles in standards. In addition, there were suggestions that the Actuaries Institute could help develop good practices for CRO and Appointed Actuary roles.

The Taskforce has changed the recommendation to propose that the Actuaries Institute develop a discussion note on good practice in these areas and others addressed in later recommendations.

Final Recommendation:

10.1 Ensure adequate support for breadth of CRO role

The **Actuaries Institute** should consult with APRA, CROs and AAs to develop a discussion note on good practice covering:

- effective work practices between CROs and AAs to ensure complete coverage of IDII risks;
- the second line role of CROs with respect to the Sustainability Guide;
- expectations of other senior executives in support of the roles of CROs and AAs;
- matters that should be covered in the Actuarial Advice Framework;
- involvement of the Appointed Actuary in company strategy;
- ensuring that the Appointed Actuary's views are properly aired and considered in significant IDII decisions; and
- responsibilities in the oversight of implementation of the Sustainability Guide.

10.2 Ensure CROs deal with long term risk and uncertainty in IDII

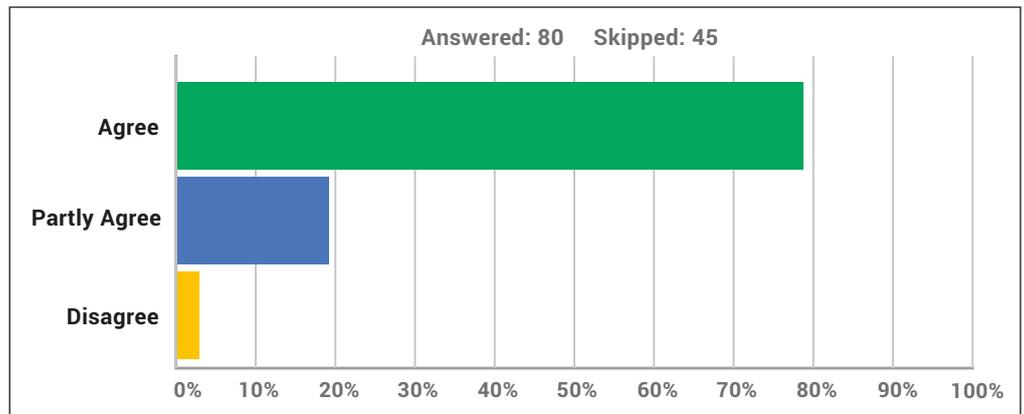
Provisional Recommendation Sept 2020:

CROs should apply second line oversight of implementation of the Sustainability Guide (including heat map and sustainability index) and to use it to help assess risks and uncertainties.

Life insurers should review the responsibilities of their Appointed Actuaries and CROs to ensure that the combined expertise of the disciplines is effectively deployed and appropriately supported by other executives.

Feedback Received and Taskforce Response

Survey:



See comments in 10.1 on previous page.

There was little specific feedback on the detail of this recommendation.

It was felt by the Taskforce that both parts of the recommendation could be dealt with by the discussion note in recommendation 10.1

Final Recommendation:

10.2 Ensure adequate support for breadth of CRO role

Now addressed in Recommendation 10.1.

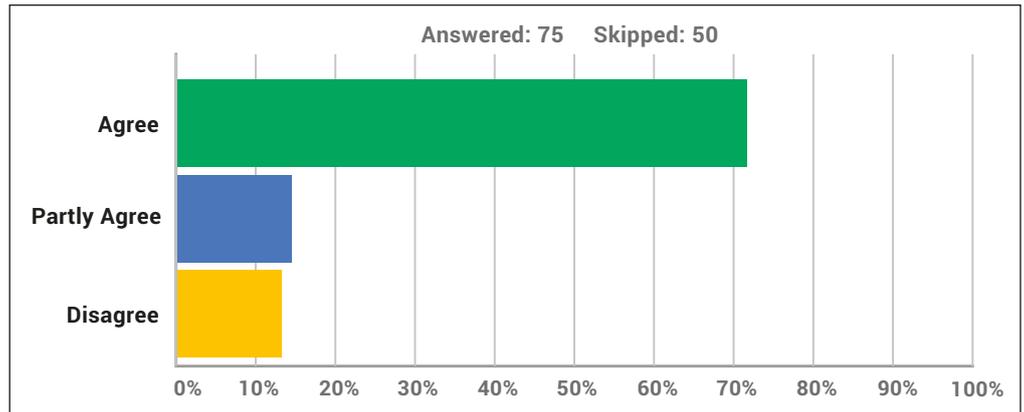
10.3 Collaborate to share good practice for life insurer risk management

Provisional Recommendation Sept 2020:

The FSC should establish a forum for CROs for regular sharing of best practice across the life insurance industry.

Feedback Received and Taskforce Response

Survey:



There was good support for this proposal, although there were some questions about whether the FSC would be best placed to operate this forum, or if the Actuaries Institute (or another body) should take the lead. The Taskforce view was that given many CROs are not actuaries (and this diversity should be encouraged) and the absence of a relevant risk management body, the FSC was the most appropriate choice.

The Taskforce has maintained the recommendation with a small change.

Final Recommendation:

10.3 Collaborate to share good practice for life insurer risk management

The FSC should arrange the establishment of a forum for CROs for regular sharing of best practice across the life insurance industry..

11 Actuaries' Professional Obligations

Recommendations

11.1 Actuarial advisors to be explicit about uncertainty

Provisional Recommendation Sept 2020:

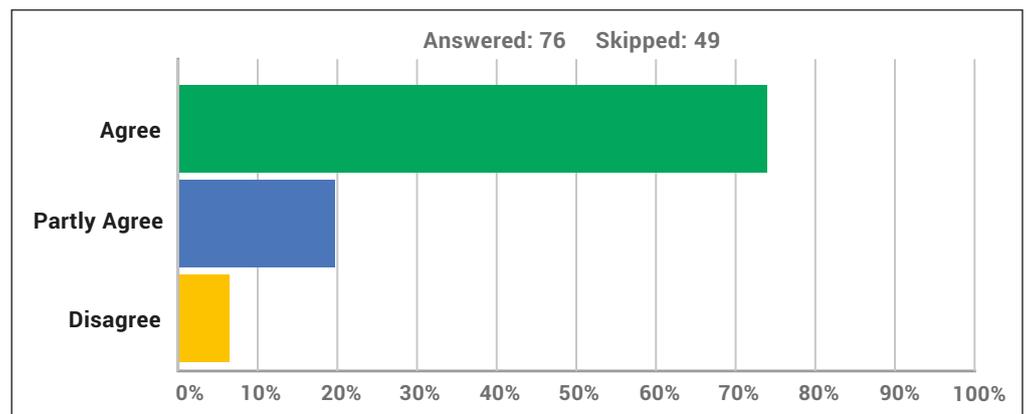
Appointed Actuaries, Pricing/Product Actuaries and Chief Actuaries should ensure that their advice is clear about the level of uncertainty inherent in the product and what actions are required to reduce uncertainty over time. This includes:

1. Ensuring that CPS320 advice explicitly discusses key uncertainties and articulates what the organisation would need to do to manage those uncertainties;
2. Applying the actuarial control cycle to the management of uncertainty over time;
3. Ensuring the Financial Condition Report (FCR) comments on managing uncertainty and on Sustainability Assessments (see Sustainability Guide);
4. Adopting good practice for 'pricing for uncertainty' as detailed in the Sustainability Guide;
5. Articulating the consequences for consumers of accepting uncertainty into the product design and pricing (see the Sustainability Guide);
6. Carefully considering and quantifying where possible tail risk/uncertainty and use of plausible but extreme scenarios in advice to management and Boards, as well as considering implications for pricing, reserving, capital stress margins etc.

The **Actuaries Institute** should develop and implement training and guidance in the above.

Feedback Received and Taskforce Response

Survey:



Responses varied from actuaries are already doing this through to actuaries are not decision makers on uncertainty and communicating uncertainty is not addressing the underlying issues such as product design.

The Taskforce recommendations recognise that lack of communication of uncertainty is not a root cause and it is only one of the many issues that the Taskforce has set out to address. However, clear communication of uncertainty, recommendations to reduce uncertainty and the

consequences for accepting uncertainty on customers and the insurer are all very important.

The Taskforce has maintained the recommendation.

Final Recommendation:

11.1 Actuarial advisors to be explicit about uncertainty

Appointed Actuaries, Pricing/Product Actuaries and Chief Actuaries should ensure that their advice is clear about the level of uncertainty inherent in the product and what actions are required to reduce uncertainty over time. This includes:

- 1 Ensuring that CPS320 advice explicitly discusses key uncertainties and articulates what the organisation would need to do to manage those uncertainties;
2. Applying the actuarial control cycle to the management of uncertainty over time;
- 3 Ensuring the Financial Condition Report (FCR) comments on managing uncertainty and on Sustainability Assessments (see Sustainability Guide);
4. Adopting good practice for 'pricing for uncertainty' as detailed in the Sustainability Guide;
5. Articulating the consequences for consumers of accepting uncertainty into the product design and pricing (see the Sustainability Guide); and
6. Carefully considering and quantifying where possible tail risk/uncertainty and use of plausible but extreme scenarios in advice to management and Boards, as well as considering implications for pricing, reserving, capital stress margins etc.

The **Actuaries Institute** should develop and implement training and guidance in the above.

11.2 Increase Appointed Actuary oversight of claims and underwriting standards

Provisional Recommendation Sept 2020:

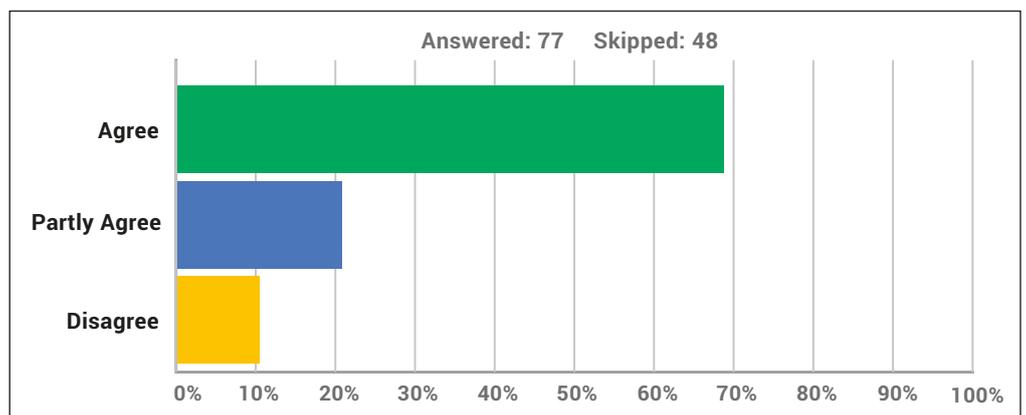
Appointed Actuaries should use their authority as Appointed Actuary to ensure that the company provides them with information on all changes in claims and underwriting practices as they occur.

Appointed Actuaries and Pricing/product actuaries should formally consider implications of any such changes for pricing, reserving, capital stress margins etc.

CEOs should mandate communication of changes in claims and underwriting practices to appropriate product/pricing governance bodies and also the Appointed Actuaries.

Feedback Received and Taskforce Response

Survey:



Comments were received on the need for clarity on the roles of the Appointed Actuary, CRO, Head of Claims and Chief Underwriter in advising on these matters, and on the need for these parties to work collaboratively.

Several submissions expressed a view that care is needed to avoid overloading Appointed Actuaries and the importance/accountability of good specialists in each area providing advice on impacts. Most acknowledged benefits of the Appointed Actuary having awareness of changes and being able to comment on those changes. It was felt that Appointed Actuaries should be able to rely on the advice of other professionals about the significance of the changes.

There was a suggestion that the recommendation implied a lack of trust of the insurers in actuaries, which was felt to be unjustified.

The Taskforce has reviewed the recommendation accordingly.

Final Recommendation:

11.2 Increase Appointed Actuary oversight of claims and underwriting standards

Appointed Actuaries should review the Actuarial Advice Framework to cover the following:

- Appointed Actuaries and pricing/product actuaries to work collaboratively with claims and underwriting functions to understand changes in claims and underwriting practices, and as appropriate formally consider implications of any such changes for pricing, reserving, capital stress margins etc.
- The senior management roles responsible for formally advising the Appointed Actuary and Board on suitability and/or changes in product terms, product pricing, underwriting rules/practices and claims rules/practices; and
- The expectations of those senior management roles for identifying matters and the thresholds triggering the need for providing that advice.

11.3 Improve pricing for uncertainty

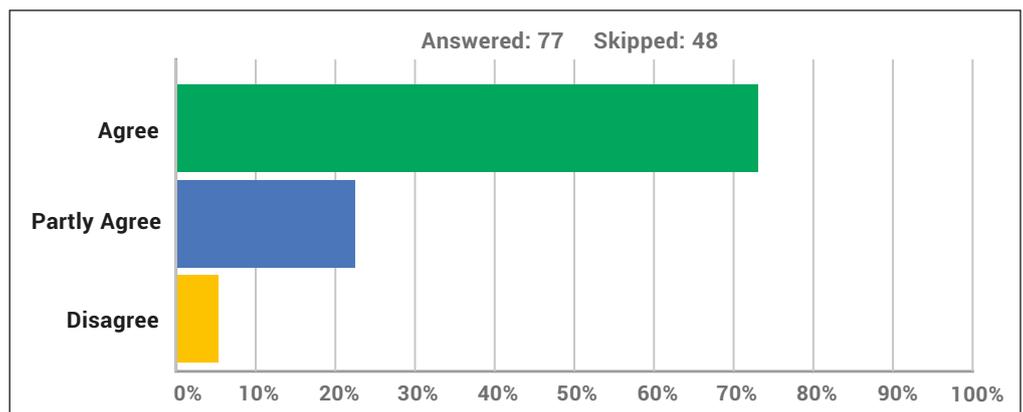
Provisional Recommendation Sept 2020:

The **Actuaries Institute** should adopt and promote the Discussion Note: *Analysing Disability Income and Setting Assumptions*. The **Actuaries Institute** should also consider upgrading the status of this Discussion Note.

The actuarial control cycle should be embedded as set out in the Sustainability Guide.

Feedback Received and Taskforce Response

Survey:



Noting strong support for this recommendation, the main feedback received was whether uncertainty is already appropriately included in best estimate assumptions. The Taskforce notes that the significance of this recommendation depends on the content of the Discussion Note *Analysing Disability Income and Setting Assumptions* now released for feedback.

In general, the view of the Taskforce is that actuarial practices are likely to need to change in this area because there has been a long history of best estimate assumptions underestimating claims cost.

It was recognised that guidance on how to consider the high uncertainty in setting best estimate assumptions for IDII products would be helpful.

The Taskforce has maintained the recommendation with some refinement of wording.

Final Recommendation:

11.3 Increase Appointed Actuary oversight of claims and underwriting standards

The **Actuaries Institute** should adopt and promote the Discussion Note: *Analysing Disability Income and Setting Assumptions*. The **Actuaries Institute** should also consider developing or adding to existing practice guides and professional standards the relevant matters addressed in the Discussion Note.

The actuarial control cycle should be embedded as set out in the Sustainability Guide.

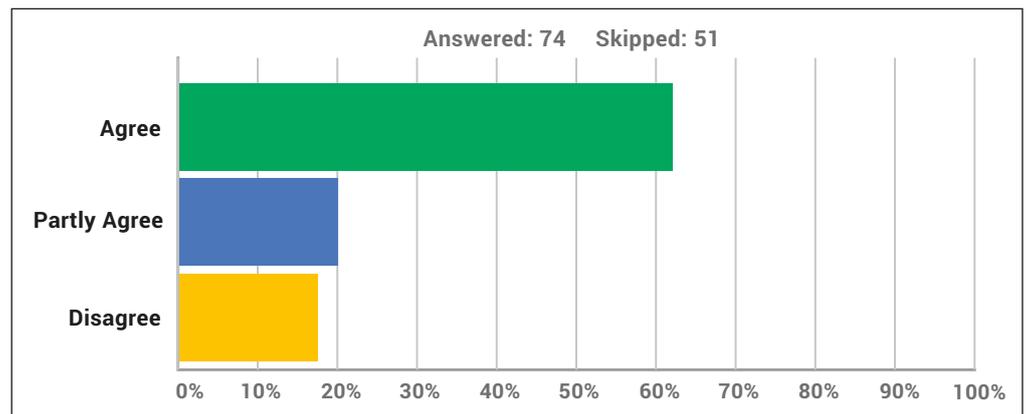
11.4 Clarify respective roles of CRO and AA

Provisional Recommendation Sept 2020:

The **Actuaries Institute** should develop guidance for Appointed Actuaries to work with CROs, including potential overlap of responsibilities.

Feedback Received and Taskforce Response

Survey:



While there was good support for this in the survey, there were views expressed that this was not an issue, that this should already be well understood etc. However, the Taskforce believes there is merit in addressing this specifically.

The proposed discussion note (see recommendation 10.1) issued by the Actuaries Institute on the role of AA and CRO should address this issue.

Final Recommendation:

11.4 Clarify respective roles of CRO and AA

Now addressed in Recommendation 10.1.

11.5 Improve training and development of AAs

Provisional Recommendation Sept 2020:

The **Actuaries Institute** should provide Appointed Actuaries with ongoing guidance/training sessions on communication and influencing skills, how to work with senior management and Boards, etc., with support of senior actuaries in the profession.

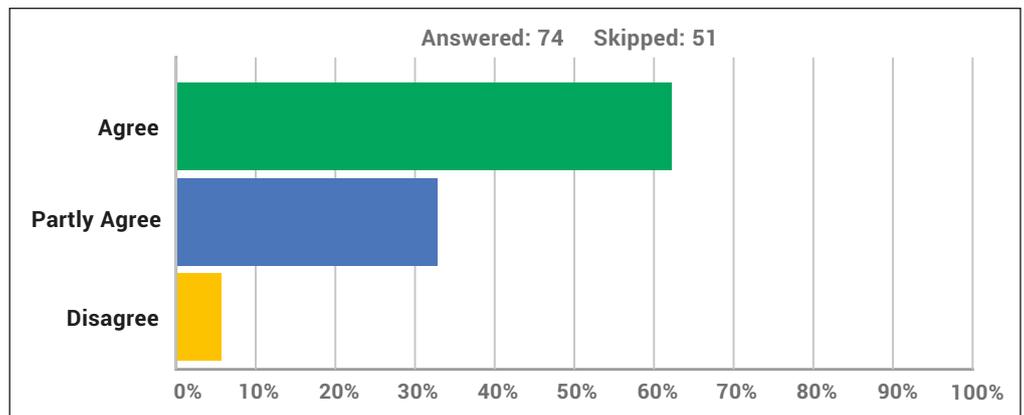
The **Actuaries Institute** should facilitate mentoring of Appointed Actuaries by senior actuaries.

Appointed Actuaries should use their authority as Appointed Actuary to ensure that the company provides them with information on the broader market environment and broader business deliberations for consideration in significant decisions and recommendations.

Insurers should have in place appropriate communication to share this information with Appointed Actuaries so that they can provide their advice within the wider business context.

Feedback Received and Taskforce Response

Survey:



Whilst there was general support for the recommendation, there was feedback that the recommendation suggests that actuaries are not senior members of the industry and that companies may be withholding information. The Taskforce noted that these implications were not intended.

The Taskforce redrafted the recommendation to remove those implications and to align with other related recommendations.

Final Recommendation:

11.5 Improve training and development of AAs

The **Actuaries Institute** should ensure training is available for actuaries on communication and influencing skills, how to effectively work with other senior management and Boards, etc.

The **Actuaries Institute** should facilitate mentoring of Appointed Actuaries by former Appointed Actuaries and other actuaries with senior management or Board experience.

The proposed discussion note (see recommendation 10.1) issued by the Actuaries Institute on the role of AA and CRO should cover good practice in respect of the Actuarial Advice Framework and engagement of AAs in the company's strategy.

11.6 Improve organisational and cultural environment

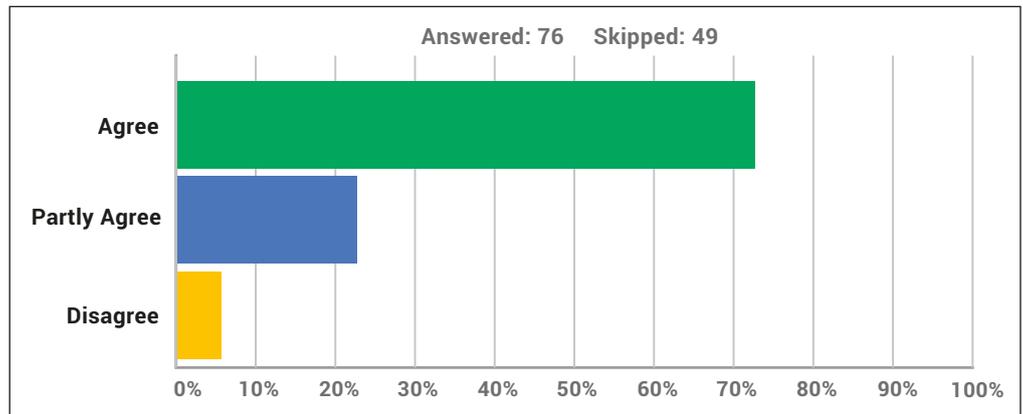
Provisional Recommendation Sept 2020:

CEOs and Boards should establish processes to ensure Appointed Actuary views, reasoning and insights are properly aired, heard and thoroughly considered in significant decisions.

The **Board, Chair of the Board, or Chair of the Risk Committee** should have regular meetings with the Appointed Actuary without management present.

Feedback Received and Taskforce Response

Survey:



Good support was received in the survey regarding this recommendation, though views were expressed that the recommended processes are already in place. There were comments about the need for the 'right person' to be the Appointed Actuary.

The Taskforce noted the feedback and intends for these issues to be captured in the proposed discussion note on CRO and Appointed Actuary practices.

Final Recommendation:

11.6 Improve organisational and cultural environment

Now addressed in Recommendation 10.1.

12 The Reference Product – Feedback and Changes

A key part of the package of proposals in September 2020 was the use of a Reference Product (RP). It was made clear that the purpose of the RP:

'... is not to dictate the design of a retail product. Rather, its purpose is to provide a reference point to aid senior management, the Board and regulators in assessing risk and uncertainty for both customers and insurance companies. In other words, it is intended to assist an insurer in the assessment of risks and uncertainty and in the prudential management of their individual disability income insurance product line.

Any significant difference in an insurer's product from the Reference Product is expected to be subject to rigorous assessment to meet minimum requirements for CROs, Appointed Actuaries, Product Managers, and CEOs.'

There was considerable interest in the details of the RP design. The feedback provided was very helpful and generated much debate amongst Taskforce and the Working Groups members. In turn, this led to a number of changes in the final version of the RP.

Nonetheless, it remains important to emphasise the Reference Product is intended to represent a sound benchmark product that has been specified with a wide cross-section of customers in mind. Some terms beyond the Reference Product may well be reasonable to provide:

- To some sub-groups of consumers with certain characteristics or needs; and/or
- When subject to additional controls (e.g. underwriting) or limitations on other terms.

Equally, the RP does not absolve insurers from assessing where more limited terms than the RP may be appropriate for certain other sub-groups of consumers.

All submissions were broadly supportive of the concept of the RP. Interestingly, some felt the RP was too limited and others felt it was not limited enough.

Detailed comments on specific matters raised and the response of the Taskforce were addressed in the Covering Note to the early release in April 2021 of the Document C-2 Reference Product – available [here](#).

Underwriting and Claims – key considerations under the Reference Product

The Taskforce has produced a draft Note⁴ which asks that claims managers, underwriters, and insurers take specific and immediate action in four areas in relation to financial underwriting:

1. **Calculating Insurable Income**
2. **Superannuation contributions**
3. **Insurable Monthly Income for self-employed individuals**
4. **Passive Income**

The draft Note will be available on the Actuaries Institute website, along with this and related documents produced by the Taskforce.

⁴ To be finalised by June 2021

13 The Sustainability Guide and Information Note – Feedback and Changes

Application of the Sustainability Guide (SG)

There was general support for the Sustainability Guide and the Taskforce was invited to extend the document to cover other benefits. Other feedback included that the SG should not replace existing processes - rather that the principles should be incorporated into existing processes and controls. The Taskforce agrees with these observations. In addition, the Taskforce would be pleased to see the SG adapted to suit other product lines, and section 2.4 of the SG now includes some high level guidance on how insurers may achieve this outcome.

Sustainability scoring and the sustainability heatmap (section 3.2 of the SG)

There was extensive feedback on the example sustainability impact ratings in the appendix to the SG. This included feedback from a number of insurers that have completed an assessment of their existing and draft new product designs. The feedback following these draft assessments has been particularly valuable. The impact ratings in the appendix have now been updated to reflect that feedback. Of particular note, the following changes were made to the SG:

- updating to align with changes to the Reference Product (RP);
- linking the extent of a variation from the benchmark to some impact ratings (e.g. the replacement ratio and total disability definition);
- reflecting that there are reasonable mitigations to sustainably allow benefit periods beyond 'to age 60' and that details of some of these would be helpful;
- replacing the benchmark practice related to consumer product testing with a more objective benchmark measure;
- introduction of benchmark variations related to the regular review of underwriting and claims manuals to ensure that they remain contemporary; and
- a more practical measure related to assessment of sustainability in pricing.

The reference in Section 3.2 of the SG to producing a weighted average dashboard was confusing. The approach now introduced is to produce unblended dashboards for new business separately to the possibility of a weighted average dashboard for historic business. This ensures that the new business sustainability score remains sensitive to incremental changes in design.

In recognition of the nuances involved in limiting the guarantee period for terms and conditions. (see recommendation 5.5), the Sustainability Guide elaborates on some factors that the Taskforce considers most important for insurers to consider. Specifically, as product terms become more liberal, the ability of insurers to modify contract terms becomes increasingly important to long term sustainability. This should in no way be taken as an endorsement by the Taskforce of insurers experimenting with unsustainable product designs but rather that environmental factors continue to change rapidly. In such an environment, insurers should not issue products with terms that are likely to need to be repriced upwards in future.

Product, underwriting and claims benchmark practices (sections 4.1, 4.2 and 4.3 of the SG)

These sections have been updated to align with the new version of the Reference Product.

Pricing for uncertainty (section 4.4 of the SG)

There was limited direct feedback on this section. However, the taskforce has developed a detailed Information Note for actuaries on IDII assumption setting. A draft of this Note has been published and presented to members of the Actuaries Institute. On the basis of this work and feedback received through this process, the SG has been updated to align with that Information Note and a number of improvements have been made to the description of uncertainty and benchmark practices.

Annual Sustainability Assessment (section 4.6 of the SG)

Feedback was received that some elements of the assessment related to claims and previous CPS320 advices were somewhat impractical. These have been updated to address this concern.

14 Conclusions and Next Steps

IDII plays a critical role for society in providing financial protection against loss of income because of disability. It is particularly important for those such as the self-employed and professionals who may have no other support available.

There are many Participants in the IDII ecosystem, all of whom contribute in some way to its health and wellbeing. The IDII ecosystem today is not healthy: the market is failing consumers and insurers are hurting badly, as they lose ever-increasing amounts while offering more and more complex products. Some have effectively withdrawn from the market.

The Taskforce has been through an extensive process to objectively and analytically assess the many factors at play in the retail IDII market with the aim of effecting significant change - either by directly making changes where it can or by driving change through reason, influence and transparency.

In particular, the Taskforce is seeking a series of changes in the industry so IDII will sustainably provide:

- Products that perform as expected by customers, with features that, compared with the present situation:
 - better meet their needs without frills, and reflect their insurable interests – both on policy inception and subsequently, and at individual and community levels; and
 - provide more certain outcomes and are more readily understood.
- Prices for customers that are more stable and predictable over time, better understood and more consistent with underlying risk, compared with the present situation;
- Product features and underwriting that a) promote alignment between customer and insurer through appropriate consideration of each customer's insurable interests, and b) support loss minimisation at time of claim;
- Financial outcomes for insurers that ensure a sustained ability to pay claims and that are sufficient to ensure insurers will continue to compete and provide valuable IDII products to the market; and
- Community confidence as to the enduring value and fairness of disability insurance.

This report, the associated Sustainability Guide and Reference Product represent a major milestone in the work of the Taskforce.

Driving Change

Consistent with its aims, the Taskforce has sought to influence the various parties it has engaged with along the way. It has received strong and wide, though not universal support in its work. This reflects the keen interest in the changes needed to the IDII product line and to life insurance generally.

While many of the Taskforce recommendations already have been embraced and implemented, many others remain open.

The Taskforce will continue to engage with interested parties to try to influence and drive change where needed.

Other Product Lines

The Taskforce has within its ambit all forms of disability insurance - IDII, TPD, trauma, both individual and group.

It chose to focus on IDII initially as this was where the problems with disability insurance were most prevalent.

Many of the Taskforce findings and recommendations are pertinent for the various types of disability insurance. The Taskforce strongly encourages industry and all parties to apply the thinking developed for IDII to all forms of disability insurance.

In due course, the Taskforce will specifically address the other forms of disability insurance. In the interim, it will first assess the success of its work on IDII and seek lessons from that work.

Conclusion

Through its work, the Taskforce has developed a path forward for the industry. This will involve change and contribution by the many participants in the IDII ecosystem. However, there has been very positive support for the work of the Taskforce, and the Taskforce is confident that there now is real momentum for change. The challenge now is to make it happen.

Finally, the Actuaries Institute wants to acknowledge the huge voluntary contribution by Taskforce members, the supporting Working Groups and many others from the broader community in reaching this point.



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