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MEMBER

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Dr Kathleen Dermody
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Dear Dr Dermody

Inquiry into the Scrutiny of Financial Advice: Submission on the Life Insurance Industry

The Australian Prudential Regulation Authority (APRA) welcomes the opportunity to make a submission to the Senate Economics Committee Inquiry into the Scrutiny of Financial Advice (the Inquiry). In particular, we respond to the call for submissions on the life insurance industry as a result of the additional matters referred by the Senate to the Economics References Committee on 2 March 2016. The attached report contains the detail of APRA's submission. In summary:

- The significant losses experienced by life insurers and reinsurers in 2013-14 have been a focus for APRA's prudential supervisors. The profitability of the sector has been highly volatile due to mispricing of risk.
- APRA's supervisory work in 2014/15 encouraged the life insurance industry to address the causes of mispricing in risk insurance. APRA also wrote to insurers in May 2015 about claims practices, highlighting insurer's legal responsibilities and clearly articulating APRA's position.
- APRA's view is that the claims management processes of an insurer should align to its claims philosophy. The philosophy should be a long term view. Where insurance is taken out through superannuation (group insurance) it should form part of the agreement with superannuation trustees, and not change in the short term to improve profitability.
- APRA supports the Financial System Inquiry (the FSI) recommendation regarding the rationalisation of legacy life products. Legacy products become more complex and expensive to administer over time and may use now outdated medical definitions. Industry needs to do more to ensure legacy products are updated and rationalised. There are however, a range of legal, consumer and tax issues that inhibit an insurer's ability to update legacy products. Introducing a rationalisation mechanism as recommended by the FSI would help address this issue but this requires legislative change.

APRA notes that the matters under consideration by the Inquiry more directly come within ASIC's mandate. However I look forward to assisting the Inquiry and considering its recommendations on how APRA can contribute to better outcomes for life insurance policyholders.

Yours sincerely,