Actuaries Institute.

Disability Insurance in Australia: Findings and Recommended Actions

September 2024

Disability Insurance Taskforce
of the Actuaries Institute

About the Authors

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

Disclaimer

About the Actuaries Institute

The Actuaries Institute is the peak professional body for Actuaries in Australia. The Institute provides expert comment 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 analytical and risk management expertise to allocate resources efficiently, identify and mitigate emerging risks and to help maintain system integrity across multiple segments of the financial and other sectors. This unrivalled expertise enables the profession to comment on a wide range of issues including life, general and health insurance, climate change, superannuation and retirement income policy, enterprise risk management and prudential regulation, the digital economy, finance and investment and wider health issues.

Actuaries use data for good by harnessing the evidence to navigate into the future and make a positive impact. They think deeply about the issues at hand, whether it is advising on commercial strategy, influencing policy, or designing new products. Actuaries are adept at balancing interests of stakeholders, clients and communities. They are called upon to give insight on complex problems, they will look at the full picture. Actuaries analyse the data and model scenarios to form robust and outcome-centred advice.

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.

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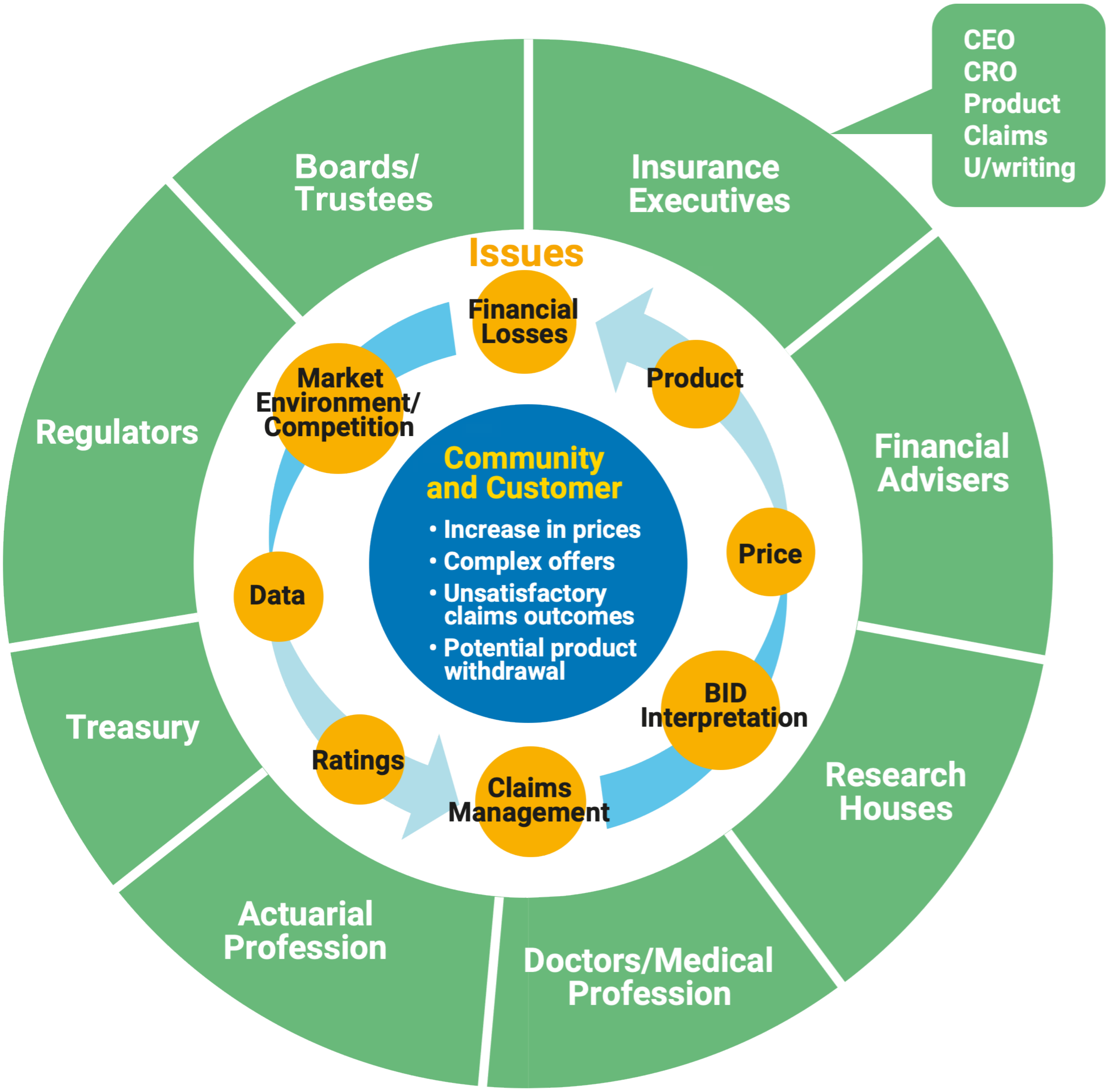
Disability Insurance Ecosystem[1] in Australia



Participants

1. The diagram has been reproduced and slightly updated from the IDII Findings and Recommendations document published in December 2022. Trustees have also been included in the Ecosystem as Group Disability Insurance in Superannuation is now included in the document.

1 Executive Summary

Disability insurance in Australia provides critical cover for people and their families who may suffer loss of income because of disability. For the disability insurance product offering to endure, it must perform as expected by customers and be priced so that premiums reflect the underlying risk and are stable and predictable over time. This enables outcomes that promote alignment between customer and insurer, including the ongoing capacity for insurers to pay claims.

Following APRA's regulatory intervention, the Actuaries Institute Disability Insurance Taskforce (the **Taskforce**) was established by the Actuaries Institute to conduct a comprehensive review of issues with individual disability income insurance (**IDII**) in Australia. This review culminated in the release of recommendations from the Taskforce in May 2021. Details, including responses to feedback received during consultation, can be found in the December 2022 version.

The Taskforce has focused on initiatives to implement its key recommendations, including broadening its considerations to include total and permanent incapacity (TPD) and Trauma as well as Group Insurance. This has led to a number of additional recommendations and alterations being made to existing recommendations.

In respect of **TPD and Trauma**:

- Life insurers should consider the interaction of lump sum and income protection disability cover benefit levels.
- Life insurers should consider improving the quality of underwriting and claims data for TPD and Trauma and their linkages with IDII.
- The Actuaries Institute should continue to extend its IDII Data Collection Guide to include TPD and Trauma. The Council of Australian Life Insurers (**CALI**) should consider including these requirements in CALI data standards.
- The Actuaries Institute should consider extending support for actuaries in relation to pricing for uncertainty to cover a broader range of uncertainty and how this can be aligned into the pricing philosophy.
- The Actuaries Institute should consider issuing Lump Sum Guidance for assumption setting.
- Amendments made to incorporate TPD and Trauma into existing recommendations: standard definitions, communicating risk and uncertainty, guaranteed contract management, best interest duty examples, engagement with medical professionals and benchmarking financial and occupational underwriting.

In respect of **Group Insurance:**

- Superannuation trustees (in addition to Life insurers, CALI and the Actuaries Institute) should also consider proactively taking opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.
- Superannuation trustees and life insurers should consider the applicability of APRA's product IDII sustainability measures to group insurance.
- Superannuation trustees and life insurers should consider the extent to which TPD 'education, training and experience' definitions can be improved to reflect the modern workplace.
- Life insurers should consider producing regular industry studies into group claims reporting patterns.
- Treasury should consider clarifying that default disability benefits under the Superannuation Industry (Supervision) Act 1993 can be provided through either permanent incapacity (TPD) or temporary incapacity (Group Disability Income) benefits.
- Superannuation trustees and life insurers should consider the underwriting practices for members who elect to increase insurance cover above default levels.

The work of the Taskforce has completed. The Taskforce expects that its initiatives will support boards, management, regulators, actuaries in their various professional roles, other insurance professionals and other interested parties to promote sustainability across all forms of disability insurance in Australia, in line with APRA's expectations and sustainability measures for IDII.

Overall, the Taskforce believes that some of the key areas of focus for all stakeholders to support sustainability in the broader Disability Insurance Ecosystem are as follows:

- Improving the understanding of the Insurance pooling concept (page 9).
- Developing better data collection and understanding of the risks and uncertainty not just within stand-alone disability insurance products but also across different disability benefit types (pages 9–10).
- Ongoing development of Best Interest Duty examples of application for Financial Advisers (page 9).
- Amendments to the existing Product Ratings processes to include an assessment of the relative sustainability of different products (page 15).

Since APRA's regulatory intervention in 2019, the industry introduced a new IDII product suite (with tightened definitions) to the market. Yet, by no means is the future of disability insurance assured. It is incumbent for all stakeholders to continue improving sustainability practices across all forms of disability insurance in Australia, consistent with APRA's ongoing expectations of the life insurance industry.

Consistent with the Sustainability Guide published by the Actuaries Institute, in this document, the words 'sustainable' and 'sustainability' should be read in the following context:

- Products that perform as expected by customers, with features that:
  - 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.
- Product features and underwriting that:
  - promote alignment between customer and insurer through appropriate consideration of each customer's insurable interests; and
  - 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 disability insurance products to the market.
- Community confidence as to the enduring value and fairness of disability insurance.

2 Retail TPD and Trauma

The TPD and Trauma Working Group has concluded that the weaknesses documented by the Taskforce for the life insurance ecosystem for IDII are equally relevant for wider products.

The TPD and Trauma Working Group has reviewed, with TPD and Trauma products in mind, the 45 recommendations in the Taskforce's Findings and Recommended Actions for Individual Disability Income Insurance. In completing that review, the TPD and Trauma Working Group recommended:

- Four of the 45 existing recommendations are amended to accommodate specific TPD and Trauma considerations.
- One new recommendation is added, to accommodate TPD and Trauma considerations.
- The work being done to support existing recommendations is extended to specifically address TPD and Trauma products.

Amendments to May 2021 Recommendations

The following amendments have been made to Recommendations 5.4, 5.7, 9.5 and 11.3.

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

Life Insurers should consider imposing strong controls on level of benefits and income replacement ratios, and should consider using the framework in the Sustainability Guide as a basis for decision making and setting the company's own target sustainability and risk outcomes.

In addition, **Life Insurers** should consider any ancillary benefits and whether they appropriately compensate for financial loss.

Amendment: In considering the level of benefits, Life Insurers should also consider investigating the interaction of lump sum products with other lump sum products and IDII insurance coverage and develop solutions to reduce/remove overlapping of cover.

Rationale: The proposed amendment addresses interactions between Lump Sum and IDII.

5.7 Improve data quality

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

The **CALI** should consider including data requirements (as per specifications from the Actuaries Institute above) in **CALI** standards.

Amendment: The Actuaries Institute should continue to identify the recommended data that should be collected for TPD and Trauma to complement IDII and form a customer level picture.

Rationale: The proposed amendment enables the industry to understand the interactions between Lump Sum and IDII.

9.5 Improve underwriting and claims data

Life Insurers should consider:

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

Amendment: Identifying linkages between IDII and TPD underwriting data and claims.

Rationale: The proposed amendment addresses interactions between Lump Sum and IDII.

11.3 Improve pricing for uncertainty

The **Actuaries Institute** should consider promoting the Technical Paper: 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 Technical Paper.

The **Actuaries Institute** should consider embedding the practices in the Technical Paper in the actuarial control cycle as set out in the Sustainability Guide.

Amendment: The **Actuaries Institute** should consider extending their existing practice guidance and professional standards to include considerations in relation to how life companies may align pricing for uncertainty into the pricing philosophy. The **Actuaries Institute** should also consider providing guidance on a broader range of uncertainty other than claims risk.

Rationale: The proposed amendment would ensure that actuarial advice on pricing for uncertainty is consistent with the company's overall pricing philosophy, which encompasses other connected factors such as the level of cross subsidies across policies and benefits, the clawback of past losses, level of competition and changes in reinsurance arrangements.

New Recommendations

One recommendation has been added to **Section 11: Actuaries' Professional Obligations:**

- The Actuaries Institute should consider issuing a Lump Sum Guidance note or Information Note for assumption setting, including updating the IBNR Information Note published in 2014.

Rationale: A holistic approach is recommended to ensure that the industry understands interactions between benefits at a customer level.

Scope Expansion of IDII Sustainability Practices to Retail TPD and Trauma

The following table summarises the IDII recommendations that could be extended to retail TPD and Trauma products.

Recommendation	Recommended Action
4.3 Defer standardisation of definitions	Standard definitions may be more beneficial for Trauma products as a sustainability metric. Consider consulting with ACCC to understand their views on the standardisation of definitions for life insurance.
5.3 Improve communication, understanding and management of risks and uncertainty	Revise Sustainability Guide to incorporate sustainability measures for TPD and Trauma products and provide equivalent sustainability guidance to Life Insurers, Boards, Chief Risk Officers (CROs), Appointed Actuaries etc.
5.5 Improve Guaranteed Contract Term management	Consider whether the alternative solutions the industry could implement to better manage long-term guarantees could also be applied to TPD and Trauma products.
7.1 Produce examples of application of Best Interest Duty (BID)	Examples should cover TPD and Trauma products.
9.1 Life Insurer should engage more effectively with GPs in claims management	Consider how to engage medical professionals appropriately in the TPD and Trauma claims assessment process.
9.3 Improve the way claims information is sought from the medical community	Check the extent of ALUCA's work in this area to date and updates required for TPD and Trauma products.
9.4 Develop Industry financial and occupation underwriting benchmarks	ALUCA should include TPD and Trauma products in their industry benchmark work.

3 Group Insurance

The provision of default death and TPD insurance in MySuper products is a legislative requirement in Australia, providing a value for money safety net for death and disability while allowing members to tailor their levels of insurance cover as their insurance needs change. Sustainability in the group insurance context takes many forms, including:

- The existence of an affordable level of default cover, which does not inappropriately erode members' retirement saving account balances.
- Confidence that claims will be admitted, based on clear, fair and reasonable terms and conditions, with a member centric claims philosophy and experience.
- Good value insurance, as measured by cents in the dollar of premium returned as claims.
- A need for affordable and competitive premiums, providing stability in the offers to members.

While the Group Insurance Working Group concluded that group insurance is relatively efficient at a system wide level, it identified some threats to ongoing sustainability:

- TPD is a benefit design that offers a significant lump sum payment for permanent disabilities only, against which a continuum of disabilities with uncertain outcomes is assessed. Analysis of a portfolio of claims identified several instances where:
  - the member had a financial incentive to prove the permanence of disability;
  - rehabilitation was discouraged until the claim was admitted (which may result in an adverse long-term wellbeing outcome for the customer); and
  - the need to prove permanence of disability to achieve financial compensation that resulted in secondary mental harm and ultimately a worse health outcome.
- The availability and flexibility of the hours and types of work available are evolving such that TPD claims are now being admitted for disabilities that do not prove to be permanent. This involves an element of adaptability amongst workforce participants as they find industries and roles where they can continue to contribute meaningfully and earn income.
- Changing social attitudes to disability has changed the nature of claims – away from physical injury and to ailments requiring more judgement to assess, such as mental ill-health. There is a need to consider how the principles of insurability and macro fairness apply, including:
  - diagnosis may not relate to prognosis or the impact on a person's ability to work;
  - reliance on self-reporting of symptoms and difficulty in validation; and
  - severity and prospects of recovery may take many years to emerge and it is difficult to assess permanence within the claims assessment timeframes required by the *Life Insurance Code of Practice*.

Amendments to May 2021 Recommendations

The following amendment is in relation to Recommendation 3.1 (a).

3.1 (a) Improve Participant understanding of the insurance pooling concept

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

Amendment: Life Insurers, Superannuation Trustees, CALI and the **Actuaries Institute** should consider proactively taking opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.

Rationale: The principles of macro fairness in the Actuaries Institute's Fairness in the Life Insurance System – Concept Note equally underpin insurance in superannuation.

New Recommendations

- Three recommendations have been added to **Section 5: Features of the product/market:**

  5.10: Applicability of APRA product sustainability measures to group insurance

  Superannuation Trustees and **Life Insurers** should consider applying relevant measures introduced by APRA to promote sustainable IDII product design in designing products for individual funds (for example, the APRA measure that requires IDII claim payments to be limited to a maximum of 70% of pre-disability income after six months and for disability definitions to typically switch from own to any occupation after 24 months on claim).

  Rationale: The insurability principles in the Actuaries Institute's *Individual Disability Income Insurance Sustainability Guide* equally underpin insurance in superannuation.

  5.11: Improve TPD work definitions

  Superannuation Trustees and **Life Insurers** should consider the extent to which TPD 'education, training and experience' definitions consider members' ability to perform a job that they may reasonably become suited to with further (as well as past) education, training or experience within a reasonable period, taking into account reasonable rehabilitation, retraining or reskilling.

  Rationale: Reflects the modern workplace and improves premium sustainability by reducing the number of TPD claims that are now being admitted for disabilities that do not prove to be permanent.

  5.12: Group claims reporting data

  Life Insurers (through CALI) should undertake regular industry studies into group claims reporting patterns, showing trends by reporting delay and benefit type.

  Rationale: There are currently no industry experience studies for group insurance. Delays of many years in the reporting of disability claims make pricing and reserving difficult, which is only discovered many years after the exposure period. Improved industry data would help mitigate this risk.

- One recommendation has been added to **Section 7: Regulation and the Law:**

  7.8 Clarify the Superannuation Industry (Supervision) Act 1993

  Treasury should consider amending the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to clarify that default disability benefits can be provided by way of either permanent incapacity through TPD and/or temporary incapacity through Group Disability Income Insurance (GDII).

  Rationale: Default insurance benefits are likely to be driven primarily by the requirement to not inappropriately erode the retirement income of members, and as such, default insurance benefits will almost certainly not be able to provide an affordable mix of TPD and GDII that comprehensively meets members' insurance needs. The proposed amendment to the SIS Act would facilitate default GDII benefits, with the following advantages:

  - GDII supports members financially in the event of illness or injury, whether or not this proves to be permanent.
  - GDII promotes rehabilitation and return to wellness and, where possible, return to the workforce.
  - Mental illness is now one of the primary causes of group insurance claims for disability. GDII has the benefit of generally not requiring an assessment of permanence (which can take many years to determine for some cases of mental illness).
  - GDII reflects the modern workplace, where members try to adapt to their disabilities and can also try to reskill with support from employers/insurers and return to the workforce in a different role. This promotes efficiency in the system, particularly through more sustainable premiums for all members.

- One recommendation has been added to **Section 9: Underwriting & Claims Management:**

  9.11: Underwriting practices above default group insurance cover

  Superannuation Trustees and **Life Insurers** should consider underwriting practices for members with insurance cover above default levels and the extent to which members who materially increase their cover are automatically subject to underwriting or other suitable risk measures.

  Rationale: Following recent regulatory changes, the group insurance market is increasingly resembling the retail market (with falling coverage rates and increased member tailoring of cover). This increases the prevalence and impact of anti-selection. Historical features allowing members to increase cover without underwriting may not sufficiently mitigate the anti-selection risk.

2. Reflecting the collated views of Taskforce members from an August 2023 survey on the top three recommendations considered to be material in the ongoing promotion of sustainability practices.

4 Key Recommendations

Progress Made

The following table identifies the key recommendations expected to make the most material difference to the ongoing sustainability of disability insurance, based on the collective views of Taskforce members.[2] The Taskforce has made and documented its observations on the industry's progress made against each key recommendation in the table below. A full list of all recommendations is included in Appendix B.

Key Recommendation	Progress Made
Section 3: Customer and Community Interests	
Recommendation 3.1: Improve Participant understanding of the insurance pooling concept	In September 2021, the Taskforce published a concept note on Fairness in the Life Insurance System. Ongoing communication will be required to continue to promote the principles outlined in the concept note to the public. The Actuaries Institute should take appropriate opportunities to encourage the actuarial profession and other stakeholders to regularly consider these principles, especially in the pricing space.
Section 5: Features of the Product/Market	
Recommendation 5.1: Introduce simpler and cheaper product alternatives	Significant progress has been made in relation to Recommendation 5.1. Life insurers have ceased offering the legacy IDII products with more liberal product features and introduced to the market more sustainable IDII products.
Recommendation 5.3: Improve communication, understanding and management of risks and uncertainty	The Taskforce published a Sustainability Guide. This Guide is intended to help stakeholders consider critical aspects of product design, operational practices, pricing uncertainty, risk management and risk appetite. It provides clarity about important practices that may lead to poor sustainability. The Guide is intended to help stakeholders continually improve their frameworks, policies and day to day practices to mitigate risks and improve long-term IDII sustainability for consumers and insurers.
Recommendation 5.4: Impose strong controls on the level of benefits and income replacement ratios	The life insurance industry has introduced to the market more sustainable IDII products, aimed at indemnifying losses and minimising windfall gains. In addition, life insurers are now collecting data to enable replacement ratio analysis.
Recommendation 5.5: Improve Guaranteed Contract Term management	The Taskforce established a Contract Terms Working Group to explore alternative solutions the industry could implement to better manage long-term guarantees. The Working Group has developed a framework for assessment and is exploring a range of possible risk management options. The Actuaries Institute will work closely with the Contract Terms Working Group in 2024 to develop proposals for consideration with stakeholders.
Recommendation 5.7: Improve data quality	In February 2024, the Taskforce published a Discussion Note: Disability Income Data Collection Guide to outline data fields that are important to support sustainability for IDII and to assist insurers with determining what data they could collect for their portfolio to assist with the consideration of product sustainability. The Guide also captures data fields relating to TPD and Trauma claims to assist insurers in understanding the interaction between IDII and other covers.

Key Recommendation	Progress Made
Section 7: Regulation and the Law	
Recommendation 7.1: Produce examples of application of Best Interest Duty (BID) to life insurance	During 2023 and 2024, the Taskforce's BID Working Group has been working with Financial Advice Associations (FAAA) to produce an example of BID application to IDII Products where products with a range of different benefits can be appropriately considered. This example will be submitted to ASIC for their consideration and endorsement. The FAAA could also consider incorporating this case study into the education material for financial advisers and developing further case studies as appropriate.
Section 8: Financial Advice	
Recommendation 8.2: Make amendments to the product ratings process **Recommendation 8.3: Issue guidance regarding rating use**	During 2022 and 2023, the Taskforce's Sustainability Measurement Working Group has been developing a principles-based Sustainability (or Stability) Measurement Framework that could be used to rate the relative sustainability of different products. A consultation process has commenced to seek views from key stakeholders. CALI should consider taking the principles onboard to develop a Sustainability/Stability product rating mechanism and encourage adoption of the revised product ratings by the advisers.
Section 9: Underwriting & Claims Management	
Recommendation 9.6: Focus on return to work and lift rehabilitation	The Taskforce's Claims & Underwriting Working Group has recently published a Discussion Note: IDII Work Capability Assessment to support actuaries' understanding of good practice principles insurers might use to improve the effectiveness and clarity of how disability and work capacity are defined in IDII contracts. The Actuaries Institute could consider whether further work could be done to support actuaries in this area.
Section 10: Risk Management	
Recommendation 10.1: Ensure adequate support for breadth of CRO role	The Taskforce's CRO Working Group published a Discussion Note: The Role of the Risk Function in Life Insurance Product Sustainability to assist life insurance CROs and risk functions with guidance as to their roles in product sustainability.
Recommendation 10.3: Collaborate to share good practice for life insurer risk management	An Insights session, for both actuaries and risk professionals, was held by the Taskforce to present this material. In addition, in association with CALI, the Taskforce's CRO Working Group helped establish a CRO Forum for regular sharing of best practice across the life insurance industry. CALI has taken on the responsibility for ongoing CRO Forum sessions.
Section 11: Actuaries' Professional Obligations	
Recommendation 11.1: Actuarial advisers to be explicit about uncertainty **Recommendation: 11.3 Improve pricing for uncertainty**	In September 2021, the Actuaries Institute released an Information Note on Analysing Disability Income Experience and Setting Best Estimate Assumptions (reclassified to a Technical Paper in February 2023). The Taskforce has also proposed several amendments to the Professional Standards to address the recommendations. Insights sessions and Appointed Actuary forums have been used to present these proposals and obtain initial feedback. Once published, the Actuaries Institute should promote the updates to the profession and ensure that appropriate sustainability considerations are captured in actuarial practice.

A. Taskforce Initiatives

Since May 2021

Acknowledging the broad range of actionable items and stakeholders in the ecosystem to drive sustainable practices across the industry, the Taskforce established nine Working Groups, each focusing on one key area of implementation of the May 2021 recommendations.

These focus areas and the objectives agreed for each working group were:

- **Data:** To address deficiencies in Data collection, access and analysis, develop a Data Collection Information Note, prioritise Research topics and consider a Data Accessibility framework.
- **Changes for Actuaries:** To progress the Taskforce's recommendations for Actuaries, including consideration of Professional Standards and encouraging initiatives to support Actuarial roles in sustainability.
- **Best Interest Duty (BID):** To develop a framework for the inclusion of sustainability in Adviser BID for Insurance, including drafting case studies and conducting stakeholder consultations.
- **Sustainability Measurement:** To propose a framework for the development of an objective measure of product sustainability, which can be considered by industry, rating houses and advisers, and to liaise with market participants to promote and support its development.
- **Implications for Chief Risk Officers (CROs):** To pursue the risk management recommendations, producing a discussion note to assist CROs and Risk Functions in their roles to support sustainability and assist in establishing a regular CRO Forum.
- **Underwriting and Claims:** To pursue recommendations made by the Taskforce in relation to claims and underwriting, including developing a framework for Actuaries to consider work capability assessment and rehabilitation.
- **Retail TPD and Trauma:** To extend the Taskforce's work on IDII to Retail TPD and Trauma insurance including the development of sustainability recommendations and consideration of the purpose of TPD and Trauma.
- **Group Insurance:** To extend the Taskforce's work on IDII to Group Disability Insurance and develop appropriate sustainability related recommendations.
- **Contract Term Management:** To explore ways to provide additional options to manage the risks associated with guaranteed long-term contracts.

Interaction with Stakeholders

To support these nine focus areas, the Taskforce engaged regularly with other stakeholders to ensure effective execution of actions and appropriate consultation and guidance were sought as initiatives progressed. Notwithstanding these interactions with stakeholders, the recommendations remain those of the Taskforce.

These stakeholders included:

- APRA
- FSC / CALI
- Actuaries Institute and Relevant Working Groups
- Appointed Actuaries
- Financial Adviser Associations (FPA, AFA and FAAA)

B. Updated Recommendations

This Appendix sets out the full list of recommendations incorporating the amendments made as part of this update.

Note: The Financial Services Council (**FSC**), Financial Planning Australia (**FPA**) and Association of Financial Advisers (**AFA**) were referenced in a number of previous recommendations. Since then, a new body was formed to represent the interests of the life insurance industry: The Council of Australian Life Insurers (**CALI**). The FPA and AFA have also merged to form a single financial advice association: Financial Advice Association Australia (**FAAA**). The Life Insurance Practice Committee (**LIPC**) is part of the Actuaries Institute. References have been updated accordingly.

Section 3: Customer and Community Interests

3.1 (a) Improve Participant understanding of the insurance pooling concept

Life Insurers, Superannuation Trustees, CALI and the **Actuaries Institute** should consider proactively taking opportunities to discuss and explain the insurance pooling concept with regulators, politicians, consumer advocates, media and customers.

The **Actuaries Institute** should take appropriate opportunities to encourage the profession to regularly consider these principles, especially in the pricing space.

3.1 (b) Improve Participant understanding of the insurance pooling concept

In addition, **CALI** should consider working 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 consider engaging with consumer advocacy bodies (CABs), **AFCA** and selected customer advocacy lawyers <u>systematically</u> 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, **CALI** should consider producing 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 consider updating 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

CALI should consider working 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

CALI should consider reviewing market practice regarding definitions two years after the introduction of the Sustainability Guide. If standardisation of definitions is considered beneficial a proposal to relevant parties (including regulators) should be prepared.

Life Insurers should consider using the Sustainability Guide as an aid in balancing innovation and clarity with respect to definitions for the purpose of improving risk management of all life insurance products.

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 consider:

- thoroughly investigating consumer preferences for features/price trade-offs and introduce simpler/cheaper product alternatives; and
- producing 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 consider developing 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 consider utilising the framework in 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 consider imposing strong controls on the level of benefits and income replacement ratios, and should consider using the framework in the Sustainability Guide as a basis for decision making and setting the company's own target sustainability and risk outcomes.

In addition, **Life Insurers** should consider any ancillary benefits and whether they appropriately compensate for financial loss.

Life Insurers should also consider investigating the interaction of lump sum products with other lump sum products and IDII insurance coverage and develop solutions to reduce/remove overlapping of cover.

5.5 Improve Guaranteed Contract Term management

Life Insurers should consider avoiding overly long-term guarantee periods for terms and conditions and consider using the framework in the Sustainability Guide for decision making.

Life Insurers and **CALI** should consider alternative mechanisms to manage the long-term guarantee business.

5.6 Embed Loss Minimisation Principle in policy contracts

Life Insurers should consider embedding 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 consider embedding 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 consider issuing specifications for data that are necessary to support sustainability and which insurers should gather.

The **Actuaries Institute** should consider identifying the recommended data that should be collected for TPD and Trauma to complement IDII and form a customer level picture.

CALI should consider including data requirements (as per specifications from the Actuaries Institute above) in **CALI** standards.

5.8 Improve communication of pricing philosophy

Life Insurers should consider ensuring 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 consider conducting 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.

5.10: Applicability of APRA product sustainability measures to group insurance

Superannuation Trustees and Life Insurers should consider applying relevant measures introduced by APRA to promote sustainable IDII product design in designing products for individual funds. In particular, where product features that may be offered (default or voluntary) are more generous than those in the IDII market (where, for example, claims payments are limited to a maximum of 70% of pre-disability income after six months and disability definitions typically switch from own to any occupation after 24 months on claim).

5.11 Improve TPD work definitions

Superannuation Trustees and Life Insurers should consider the extent to which TPD 'education, training and experience' definitions consider members' ability to perform a job that they may reasonably become suited to with further (as well as past) education, training or experience within a reasonable period, taking into account reasonable rehabilitation, retraining or reskilling.

5.12: Group claims reporting data

Life Insurers (through CALI) should undertake regular industry studies into group claims reporting patterns, showing trends by reporting delay and benefit type.

Section 6: Life Insurance Company Governance and Management of Products

6.1 Review Board composition

Boards should consider:

- reviewing their capabilities;
- bolstering 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
- ensuring regular **Board** access to independent expert advice.

6.2 Review product governance and reporting to the Board

Boards, Actuaries, CROs and **CEOs** should consider adopting the framework in the Sustainability Guide, including the suggested heat maps, and incorporate these into formal reporting to the **Board**.

6.3 Meaningfully shift focus to customers

Boards, Actuaries, CROs and **CEOs** should consider shifting 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 consider:

- holding formal post-implementation reviews after significant product changes over a multiyear period to assess actual long-term performance;
- holding management to account (acting reasonably) for long-term performance; and
- ensuring remuneration reflects uncertainties.

Section 7: Regulation and the Law

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

ASIC should consider producing 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, CALI** and **FAAA** should consider producing examples of application of BID for IDII (and other life insurance).

The **FAAA** could also consider incorporating this case study into the education material for financial advisers and developing further case studies as appropriate.

7.2 Consider this report in deployment of DDO

Life Insurers should consider reviewing this report and its recommendations, and how DDO may be deployed to encourage IDII (and other life insurance) products of differing levels of complexity and price, with a consequent boost to sustainability.

7.3 Maintain APRA intervention

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

7.4 APRA expectations regarding the Sustainability Guide and monitoring

APRA should consider maintaining expectations that insurers should either implement the framework contained in the Sustainability Guide or put in place equally effective alternatives. **APRA** should also consider reporting back to each insurer their position on the adoption of the Sustainability Guide vs peers.

The **Actuaries Institute** should consider ensuring that the Sustainability Guide is reviewed from time to time to reflect learnings from its application.

7.5 Review of the 1995 Life Insurance Act fitness for purpose

Treasury and **APRA** should consider reviewing 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 consider conducting training and discussion sessions on the implications of s48 for IDII product design and pricing.

7.7 Review legislative impact of rehabilitation costs

CALI should consider reviewing and updating submissions with respect to rehabilitation costs particularly addressing improved customer and sustainability outcomes and feedback from prior reviews.

Treasury should consider reviewing relevant legislation after considering proposals in the updated **CALI** submission and other consultation with industry.

7.8 Clarify the Superannuation Industry (Supervision) Act 1993

Treasury should consider amending the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to clarify that default disability benefits can be provided by way of either permanent incapacity through TPD and/or temporary incapacity through Group Disability Income Insurance (GDII).

Section 8: Financial Advice

8.2 Make amendments to the product ratings process

a. **Rating houses**, working with **Licensees**, should consider amending 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 value in the ratings;
   3. Rating houses discuss with the insurer their approach to sustainability, 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. Consideration should be given for work to 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. It is proposed that this Sustainability Rating metric should:

- be based on 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. **CALI** should consider publishing 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 consider issuing guidance to advisers and insurers on the appropriate use of product and sustainability ratings in the 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 to engage more effectively with GPs in claims management

Life Insurers should consider:

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

9.2 Make more effective use of experts in claims management

Life Insurers should consider:

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

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

CALI should consider adopting 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 consider developing an industry underwriting benchmark (as a risk management tool for life insurers) in relation to financial and occupational underwriting topics such as:

- The 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 X years.

Life Insurers should consider adopting the framework in the Sustainability Guide and assess their current practices against the industry underwriting standards.

9.5 Improve underwriting and claims data

Life Insurers should consider:

- Developing a strategy for underwriting and claims data, including identifying gaps in current practices and develop action plans accordingly;
- Implementing a dashboard of claims and underwriting data for monitoring by the **Board**; and
- Identifying linkages between IP and TPD underwriting data and claims.

9.6 Focus on return to work and lift rehabilitation

Life Insurers should consider:

- Focusing on supporting customers to return to work, and such support should be as soon as possible after the sickness or injury occurs; and
- Making 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 consider working with **CALI** to consider prior feedback received on similar proposals to ensure issues are addressed.

The **Actuaries Institute** could consider whether further work could be done to support Actuaries in this area.

9.7 Develop the claims management and underwriting profession

Life Insurers should consider:

- Working with **CALI** and **ANZIIF** to develop a minimum industry wide qualification standard for claims assessors and underwriters, including ongoing continual professional development requirements;
- Developing competency frameworks for the different roles within their claims management and underwriting functions; and
- Performing 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 consider engaging 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 consider:

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

b. **CALI** (consulting with **ALUCA**) should consider developing case load benchmarking for the industry.

c. **CALI** should consider establishing and maintaining 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 insurance industry.

9.10 Claims Practices to be clearly and meaningfully articulated and applied

a. **Life Insurers** should consider ensuring 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 consider having the effectiveness and consistency of their actual claims practices reviewed against their documented claims practices, with the results reported to the **Board**.

9.11 Underwriting practices above default group insurance cover

Superannuation Trustees and **Life Insurers** should consider underwriting practices for members with insurance cover above default levels and the extent to which members who materially increase their cover are automatically subject to underwriting or other suitable risk measures.

Section 10: Risk Management

10.1 Ensure adequate support for breadth of CRO role

The Actuaries Institute should consider consulting 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**;
- 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 disability insurance product decisions; and
- responsibilities in the oversight of any framework for sustainability adopted by the insurer.

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

CALI should consider arranging 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 advisers to be explicit about uncertainty

Appointed Actuaries, Pricing/Product Actuaries and **Chief Actuaries** should consider ensuring 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;
4. Adopting good practice for 'pricing for uncertainty';
5. Articulating the consequences for consumers of accepting uncertainty into the product design and pricing; 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 consider developing and implementing training and guidance in the above.

The **Actuaries Institute** should promote the updates to the profession and ensure that appropriate sustainability considerations are captured in actuarial practice.

11.2 Increase Appointed Actuary oversight of claims and underwriting standards

Appointed Actuaries should consider reviewing 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 consider extending their existing practice guidance and professional standards to include considerations in relation to how the life companies may align pricing for uncertainty into the pricing philosophy. The **Actuaries Institute** should also consider providing guidance on a broader range of uncertainty other than claims risk.

The **Actuaries Institute** should consider issuing a Lump Sum Guidance note or Information Note for assumption setting, including updating the IBNR Information Note published in 2014.

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 consider ensuring 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 consider facilitating mentoring of **Appointed Actuaries** by former **Appointed Actuaries** and other actuaries with senior management or **Board** experience.

The **Actuaries Institute** should consider having the proposed discussion note (see recommendation 10.1) issued by the **Actuaries Institute** on the role of **AA** and **CRO** 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.

C. Acknowledgements

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Disability Insurance Taskforce Members

Chair: Danny Shuttleworth

Working Groups Leads: Alison Nanson, Ash Bhalerao, Brad Louis, Gavin Teichner, Mark McClenahan, Richard Land, Rob Desoisa, Robert Kerr, Simone Leas and Wayne Brazel

Members: Alan Merten, Ian Laughlin, Mark Stewart and Stephen Hungerford

LIPC Liaison: Diarmuid Walsh and Nick Kulikov

Actuaries Institute Liaison: Aidan Nguyen and Vanessa Beenders

Secretary: Chen Yang

Working Groups and Members

Best Interests Duty: Gavin Teichner (Lead), Abhimannyu Narenthiran, Andrew Barker, Ayeeda Akhand, Clive Levinthal, Danny Alexander, Daisy Wang, Greg Martin, Luv Bhatnagar, Mark Ballantyne, Victoria Xie and Kit Ng (Secretary)

Changes for Actuaries: Alison Nanson (Lead), Briallen Cummings, Dan Antioch, Luv Bhatnagar, Stuart Mainland and Sophie Byth (Secretary)

Claims and Underwriting: Mark McClenahan & Wayne Brazel (Leads), Dr Matt Paul (Support Lead), Alisha Jones, Eimear Smith, Hugh Clayton, Jo Hetherington, Liza Varnier, Mark Segreto, Shweta Krishna, Yolanda Li and Hanna Beatrix (Secretary)

Data: Ash Bhalerao (Lead), Chit Wai Wong, Gary Xiao, Karti Mahendran, Kelvin Mo, Louise Devey, Maddie McGrade, Natalie Tan and Annie Chen (Secretary)

Group Insurance: Richard Land (Lead), Joseph Daley (Support Lead), Ben Lu, Chatapiwa Tiyago, Colin Yellowlees, Dale Jackson, Edmund Tsang, Eric Tsui, Gary Xue, Jenny Liu, Margaret Kerr, Mark McClenahan, Mary Liao, Shweta Krishna, Stephen Hungerford, Surath Fernando, Tian You, Victoria Xie, Yan Lei Sun and Rohan Dharni (Secretary)

Interaction with CROs: Simone Leas (Lead), Alan Merten (Support Lead), Harsh Makharia, Jaimie Sach, Matt Ralph, Nick Kulikov, Robert Milohanic, Rohan Rampen, Sarah Khoo and Gurpreet Singh (Secretary)

Sustainability Measure: Robert Kerr (Lead), Abhimannyu Narenthiran, Alan Merten, Ash Bhalerao, Chris Freeman, Daniel Lee, Sharon Yu and Daniel Cheng (Secretary)

TPD and Trauma Insurance: Brad Louis (Lead), Bozenna Hinton (Support Lead), Andrew Prichard, Ayeeda Akhand, Bryan Jones, Daniel Lee, Gary Guo, Greg Barn, Miao Shi, Paul Jacombs, Peter Corbett, Robert Dunn, Ryan Chen, Stephen Hungerford, Scott Rosengreen, Sharon Yu and Pallav Bajracharya (Secretary)

IDII Contract Term Work Group: Rob Desoisa (Lead), Stephen Dixon (Support Lead), Dale Jackson, Jason Evans, Michelle van den Berg, Neil Ch'ng and Christine Fan (Secretary)

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 2, 50 Carrington Street
Sydney NSW Australia 2000

t +61 (0) 2 9239 6100
e actuaries@actuaries.asn.au
w www.actuaries.asn.au

Actuaries Institute.