Actuaries Institute Podcast Title: Life Insurance and Wealth Management Practice Committee practice update podcast

Date: 29 May 2020
Speakers: Anton Kapel and David Millar
Duration: 19:51

Introduction:

Anton: Hello and welcome to the Actuaries Institute podcast. This episode is part of the practice update series, and we'll bring you the latest news and developments from the Institute's Life Insurance and Wealth Management Practice Committee, or LIWMPC. My name is Anton Kapel and I'm the Convenor of the LIWMPC and today I'm joined by Dave Millar. Hi, Dave.

David: G'day.

Anton: The LIWMPC's focus is on supporting actuaries working in life insurance and wealth management. More and more though, we see ourselves getting involved in cross-practice initiatives and we'll mention a few of these later. Currently, the LIWMPC has 14 members. At the end of 2019, we underwent a refresh, with some members rotating off and three new members joining the committee. We now have people with a broad range of skills and experience that cover more or less, all the key areas of actuarial work in the life insurance and wealth management sectors.

David: And Anton, it would be remiss of us to progress without saying that as part of that refresh, you became the new Convenor of the practice committee, which saw Ilan's time at the helm come to an end. And look, I think Ilan created a number of really good initiatives that the committee is hoping to take forward. And as you said, with the refresh that is ultimately helping us define our strategic focus at the moment, and it's been a pretty crazy time over the last few months, and ultimately this podcast would have had you and me sitting in a room together a couple of months ago, in fact, talking about what we are going to do over the next couple of years and what was facing both the life and the wealth industries and things have moved on markedly over the last couple of months.

David But back on that strategic refresh, we have recently taken the opportunity to stand back and assess what our key areas of strategic focus should be over the coming period, and most of that has been done via Zoom and Team meetings. And whilst that work isn't complete yet, we are aiming to ensure that we don't get swamped reacting to emerging issues, and that we devote some of our resources to longer term priorities as well. In doing so and reflecting back on Ilan's time, one of the things that Ilan did during his time, was set up basically a Life Subcommittee that has attracted probably 50 or 60 members at the moment. That's given the LIWMPC the capacity to deal with a wide range of emerging issues quite quickly and set up time bound working groups that have been able to address and attack various things as they arise.

David: And similarly, the Wealth Management Subcommittee was reinvigorated last year as well. There's probably around 20 members and I, as part of the practice committee, also sit on that subcommittee as well. We've got a couple of working groups there, one around customer outcomes, focused on the impact of legislation and reg changes on customer outcomes and also a second one around wealth distribution and focused on the impact of financial literacy on wealth outcomes.

David: In terms of other key work streams that the practice committee has, obviously, the response to COVID-19 and I expect that we'll be spending a little bit of this podcast talking about that and regulatory responses and actuary responses and life care responses to that and also another very big topic of which there are a number of groups addressing at the moment is the disability income issues in the market. On top of that, the other working groups or committees that we do have under the practice committee relate to education for our students, as well as our CPD and comms teams. So, there's a fair bit going on there, Anton.\

Anton: **There's clearly a lot going on and look, the thing that's obviously top of everyone's mind, right at the moment is COVID-19. It has been a major event**

for everyone. For life insurers, probably two main impacts that the pure effects of COVID-19 itself maybe haven't had a huge impact in Australia, but the secondary effects are potentially huge. There are, before you even get to claims, just operationally companies having to learn to work from home and deal with very different operational environments has been one thing, but for insurers now, the potential impact on claims, on income protection and TPD products in particular, is definitely causing a lot of concern. The industry has responded to this.

Anton: **The FSC has come out and gathered the industry together to make a number of statements in how the industry will respond to COVID-19. Obviously, the regulators have been very active with APRA and ASIC getting involved on a number of fronts. For insurers, one of the impacts of COVID-19 was a massive disruption in financial markets, which has hit a number of companies. And there will be, I think, claims impacts coming through in the not too distant future.**

Anton: **So, the Institute has recognized this as a major event and has pulled together quite a massive response. A cross practice working group has been formed under Jennifer Lang and a Life Stream member, Daniel Longden has been doing a load of work in recent weeks. There is a blog on the Institute website and encourage anyone who is interested in getting information on COVID-19 to look at that blog. And then the working groups are producing a number of discussion documents, addressing particular issues of relevance to the different practice areas and there are some up there on the life insurance side already and more are coming.**

David: Anton. I think that *Actuaries Digital*, just having that digital format. I was on that committee many years ago when it actually moved across to the digital format and brought many members kicking and screaming to be fair over to that format. I think it's something like that that's actually really shown it's worth really in this type of environment where people have been able to publish things in real time and get that out to the membership in a very easily consumable way. And so, I certainly commend that blog and a number of other articles that have been published over the last little while because they're very readable, very timely and they help everybody get across the key issues as they develop.

Anton: **Yeah, and it's been a great initiative and it's a great platform to allow us, as you said, to publish things quickly. Another area of focus in recent times has been disability income products and there are two groups that the Institute has set up, Disability Income Taskforce and the Product Sustainability Working Group. It's clear that disability income has been a problem for the industry for a number of years, and APRA has recently stepped in to try and force some change.**

Anton: **The Institute established the Disability Income Taskforce to investigate the topic and propose ways that the actuarial profession can support change and under the Taskforce, the Product Sustainability Working Group has done some really interesting work to develop what I'd call a default sustainable product. It's not necessarily intended to be a product that that companies would sell as is, it's more a benchmark that companies can use to assess product design going forward. I don't think anyone would kid themselves to think that this work of itself is going to solve the problems that the disability income poses. I think it gives us a tool that helps actuaries to be part of what I hope will be the solution in the not too distant future.**

David: I think on that, Anton, I think it's a really good thing that the Actuaries Institute has this taskforce and is putting forward a piece of thought leadership like that. I think it's, again, it's quite proactive of the Institute, which is really good to see and I can only imagine that having lost around about $2 billion last financial year and with COVID-19 expecting to lead to further deterioration in claims experience, increased loads on claims managers, people feeling perhaps disgruntled and due to the lack of understanding about the products terms and conditions and what they're actually covered for. I can only imagine that something like this, particularly being used as a benchmark for product design going forwards will be very valuable for the industry.

Anton: **Another topic that I would have expected to have headlined this podcast, if we'd done it a couple of months ago is the Royal Commission. It's clearly faded a little bit in terms of priority, given the**

arrival of COVID-19, but there is still a load of work for the industry coming out of the Royal Commission. One key initiative of the LIWMPC in respect to responding to the Royal Commission is the establishment of the Customer Outcomes Working Group. And perhaps, Dave, you could talk a little bit more about that.

David: Look, I think that group has been established under the Wealth Management Subcommittee. So, I'd say that group has focused a little bit more around some of the reg changes coming out of the Royal Commission, that probably are a bit more around the superannuation aspects. We've certainly seen things like the Reg Guide 97 on the fees and the like that have meant that there's a fair bit more disclosure that are required from super funds. We've also seen the SPS 515 come out as well, which we can talk about a little bit more later, but there are a number of things that trustees of funds, of super funds, of wealth funds, et cetera, have a needing to do to respond and ultimately providing a great deal more transparency and accountability to their members and customers.

David: And look, I think very similar things are happening across a number of working groups on the life side as well, which is very encouraging to see, and clearly, customer-centric type product design, customer-centric, claims, experiences, the big buzz words at the moment and I think all the insurers and all of the financial services organizations across the country have that front in mind.

David: And, you talked about perhaps the Royal Commission being the front of mind piece to reuse that phrase two or three months ago, I think it is still there. And whilst both regulators APRA and ASIC have released statements basically saying that they're delaying some of the supervisory activities and focusing on COVID-19 as you would expect that they would do, and that includes the delay in a number of the pieces of the Royal Commission findings being put into place, as well as the supervisory adjustments that are going to be enacted on organizations with regards to the prior topic, the disability topic.

David: I think it's very clear in the messaging for both of those regulators that the responsibilities and the way that the organizations are responding and remaining focused on their core responsibilities is going to be critical and will be something that will be assessed by both regulators over the 12 to 24-month period as we come out the other side of this.

Anton: **Thanks, Dave. Just quick again, a number of other issues facing the life insurance industry at the moment. We saw a wave of ownership changes go through in the last year or two with some of those deals now closing or getting very close to closing, but also some further sale activity being talked about in the market. On the group insurance front, the PYS and PMIF legislation has taken effect, although it will probably take some time before we fully understand what the impacts of those changes will be on claims experience and on retention. Claims practices are still very much in the spotlight with the APRA and ASIC life insurance claims and disputes statistics now being reported regularly. And I think we're still working through the implications of the asset report on TPD that was recently published.**

Anton: **I guess it's not all doom and gloom, although I'm probably struggling to find a positive here. At least the IASB deferred the implementation of IFRS 17 by a year, so we have a little bit of extra time to prepare for that change.**

David: It's like they had a crystal ball, Anton. They did that just prior to COVID-19 being declared a pandemic. So, they clearly knew the impact was on the horizon. Look, and I'll probably touch it a couple of matters on the wealth side as well. Obviously, headlined in the last little period around COVID-19 has seen significant falls in market values across a number of asset classes and sustained volatility in the stock market and increasing unemployment rates, is it's interesting over the last couple of weeks and I'm sure everyone that's listening to this podcast will be well versed in JobKeeper and the mis-estimation in the amount of money that perhaps will be spent on that product or that initiative over time. But certainly, the unemployment rates is something that everybody's keeping a close eye on at the moment. It'd be very interesting to see where that caps out at and for how long those high unemployment rates will linger, I guess.

David: Now one of the things as a result, I think everyone again listening to this podcast is well aware around the debates that are occurring around the access to superannuation, the early access to that and one of the other things that trustees are facing at the moment is also expediting a bunch of the remediation activities that they're undertaking. And so there needs to be increased vigilance in both sides. We've heard about some of the fraudulent cases of withdrawal of superannuation, and similarly, wanting to make sure that customers have appropriately remediated where they have been put in disadvantageous positions. Plenty of the different activities coming out of the Royal Commission and looking to provide restitution for customers. Trying to expedite, as well, some of those payments in this environment is quite a challenge for a number of trustees and it will be interesting to see how that eventuates over the next six to 12 months.

David: I did touch earlier, as I said, SPS 515, where trustees are now required to undertake annual business performance reviews and helping to determine whether they're achieving their strategic objectives. That's something our customer outcomes group is looking at very closely, along with those RG 97 updates that I talked about. It'll be interesting to see the 'MySuper Headmaps' as they come out and the next ones will be published in June as APRA's not taking their foot off the gas on that one. As well as, and Anton mentioned it earlier, around the various mergers and transaction activity on the life side, there's quite a bit happening in the wealth space as well and the superannuation industry where some of the larger public funds and now some of the midsize industry funds are looking to merge as well.

David: Now Anton, I might pass back over to you just to talk about how the Practice Committee itself is involved in a number of cross practice activities and the way that we're partnering and being involved with a number of regulators that as COVID-19 and other various things impact our industry.

Anton: **Thanks, Dave. I said at the start, I think there's more and more cross practice activity that's going on. Look, I won't call out everything, but until we've already discussed COVID-19 Royal Commission have definitely been some issues that have impacted all practice areas, but we also found ourselves working with the other practice areas on things like the design and distribution obligation working group and on anti-discrimination.**

Anton: **Another interesting dynamic that where we are seeing some change in the focus of the committee in recent times is that we're definitely getting more involved with the regulators. We spend more time face to face with that APRA and with ASIC in the past 12 months than we have in prior years. And I don't see that changing in the near future. I think that interaction will only continue. But before we wrap up, we'd just like to give a plug to the Actuaries Institute Virtual Summit which is going to run throughout at August. There are a number of life insurance and wealth management sessions that we've planned for that and I encourage everyone to attend that summit.**

David: I think that will be great, Anton. I think having it over three or four weeks will mean that people will be able to attend a lot more sessions than perhaps they would have otherwise. It's a bit of a shame, we were looking forward to seeing what the Institute does around the networking side. That's always been a big plus of getting everyone in a room together which clearly is not going to happen during August. So I'm certainly looking forward to seeing how we network in this post-COVID environment, because that's a critical part of what we do within the Institute, share ideas and bring everyone up.

Anton: **So just before we the close, I'd like to have the opportunity to thank all the volunteers who have given an enormous amount of time to support professions through participation in all the various committees, working groups and task forces that we operate. We are always looking for more volunteers, so if you would like to get involved, please do contact us. That's all from us now. Thanks Dave, for joining me.**

David: Thanks very much, Anton. It's been a pleasure.