Council of Australian Life Insurers

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

4 March 2024

Dear Committee members,

Improving Consumer Experiences, Choice, and Outcomes in Australia's Retirement System

The Council of Australian Life Insurers (CALI) is the trusted voice of life insurance in Australia. We support Australians to make informed choices about their future and help them live in a healthy, confident and secure way over their lifetime, including when they decide to retire.

CALI welcomes the Committee's focus on improving the retirement system for all Australians. Our submission responds to a number of the inquiry's terms of reference and also reflects recent submissions CALI has made to Treasury on the objective of superannuation, retirement and advice.

Peace of mind in retirement

As Australians live longer they are spending more time in retirement. With five million people currently in or preparing to retire it is clear there is a significant demographic change and longevity risk facing our nation.

Australia's life insurers stand ready to help. CALI continues to advocate for more Australians to have access to quality advice that supports them to make informed financial decisions during their working life and manage their finances in retirement.

Choice and control are very important to ensuring a person experiences a dignified retirement. CALI believes life insurers can play a greater role in protecting people's financial security beyond their working life with products that offer a more reliable and stable retirement income. This could include aged care expenses, although at this stage the industry is focused on meeting customers' needs through delivering retirement solutions.

In Attachment A we outline reforms that would support life insurers to do this, including:

- Increasing access to financial advice, including limited advice provided directly through life insurers.
- Government and superannuation trustees providing Australians with information, guidance and advice about retirement options and products at all stages of life.
- Introducing superannuation nudges towards retirement products that may better suit peoples' circumstances and help overcome current 'default' behaviour.
- Delivering new Government comparison tools to support choice and competition in the market.
- Putting in place standards for superannuation funds to apply in designing retirement income products and offerings.
- Reviewing the capital rules for annuities to ensure they strike the right balance between stability and affordability.
- Reviewing the social security treatment of all income stream products.
- Considering the potential for legacy product challenges in any future regulatory or legislative change.

Council of Australian Life Insurers Limited
ACN 659 620 998
PO Box R1832 Royal Exchange | NSW Australia 1225

Life insurance, superannuation and retirement

Life insurance is woven into our nation's world class superannuation system. Almost 10 million Australians are protected by insurance in superannuation.[1] It is an effective way to provide accessible and affordable insurance to working Australians, who may otherwise have no cover at all.

Working Australians benefit from access to good value life insurance products with high claims admission and payout ratios through the superannuation system. This is especially important for Australians who are facing increased cost of living pressures. Currently almost ten million working Australians can access this important protection without hitting their household budget.

Life insurance complements government safety nets including the National Disability Insurance Scheme, the Disability Support Pension and Jobseeker payments. Almost 20 per cent of Australians who retire before the age of 55 do so because of sickness, injury, disability or to care for someone who is ill, has a disability or is elderly.[2]

Life insurance in superannuation plays a critical role in protecting the retirement savings of millions of Australians and helps to prevent early draw downs on retirement balances. It is in line with the Federal Government's proposed objective of superannuation.

Without it, many Australians would be left critically underinsured and the Federal Government would be faced with far higher welfare and disability support costs. Underinsurance is already estimated to cost the Federal Government more than $600 million each year.[3]

Australia's life insurers will continue to contribute to the united effort to deliver better retirement outcomes for Australian retirees and look forward to participating further in this inquiry.

To discuss our views further, please contact Michael Johnston, General Manager Policy, at michael.johnston@cali.org.au.

Kind regards,

Christine Cupitt
Chief Executive Office
Council of Australian Life Insurers

[1] Australian Prudential Regulation Authority (APRA) 2023(a), *Annual superannuation bulletin June 2015 to June 2023 – superannuation entities*, 2023, https://www.apra.gov.au/sites/default/files/2024-01/Annual%20superannuation%20bulletin%20June%202015%20to%20June%202023%20-%20superannuation%20entities_1.xlsx

[2] Australian Bureau of Statistics, Retirement and Retirement Intentions 2020-21 (latest release), 29 August 2023, Retirement and Retirement Intentions, Australia, 2020-21 financial year | Australian Bureau of Statistics (abs.gov.au)

[3] Rice Warner, *New research shows a larger under insurance gap*, 2020, https://www.ricewarner.com/new-research-shows-a-larger-underinsurance-gap/

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Attachment A – Detailed submission

More choice and control in retirement

CALI and our members want Australian retirees to have more choice about how they maintain their lifestyle in retirement. Life insurers can play a greater role in protecting people's financial security beyond their working life with products that offer a more reliable and stable retirement income.

A wide range of existing and potential product issuers are established in the market and we believe the private sector has the skill and capacity to support the retirement needs of many Australians. Life insurers believe that providing insurance to address longevity risk complements many existing life insurance products. It is also a significant growth opportunity as more Australians retire, increasingly with significant superannuation balances.

An efficient global market exists for pricing longevity risk. Australian insurers are connected to large global capital pools and global reinsurers who have deep experience with longevity risk products. Some life insurers in Australia are already working in partnership with superannuation trustees to provide longevity protection to superannuation members, and these partnerships have grown since the introduction of the Retirement Income Covenant (RIC). Some life insurers also offer retirement income products with longevity protection outside of superannuation.

CALI believes the age pension will remain an important longevity solution for many Australians. Independent research commissioned by CALI found that more than one in two Australians (51 per cent) intend to claim the aged pension at some point during their retirement, while a third of people are not sure. Just 15 per cent say they do not intend to claim the aged pension at all.[1] These consumer intentions and expectations will influence the development of a market for longevity protection products.

The role of life insurers in providing retirement income solutions

As well as playing a role in protecting people's savings through their working life, life insurers can play an important role by providing longevity risk protection products to manage longevity risk and other risks in retirement. When we refer to longevity risks, we are referring to the risk of retirees outliving their retirement savings. This can consist of a complex interaction of markets, sequencing, inflation and other risks with ageing. Globally, the role of life insurers in providing longevity risk protection products is well established and insurance providers have substantial expertise in efficiently pricing and managing longevity risk.

Annuities are the most common form of longevity protection product. People in retirement can use their superannuation or savings outside superannuation to buy an annuity from a superannuation fund or life insurer. An annuity provides a person with a guaranteed income for a period of time. This could be a set number of years or for the rest of the person's life. Annuities can also be deferred with payments to commence at an agreed point in the future.
Historically the uptake of longevity risk protection products has been low. In 2020, the Retirement Income Review found that:
Explanations for this behaviour include the current framing of annuities and their complexity, perceived lack of value for money, and the role of the Age Pension in providing a constant income stream. Other

[1] CALI life insurance sentiment tracker report, February 2024 *NB. Time period refers to October 2023 to January 2024.*

contributing factors are the role of funds in only offering account-based pensions, as well as the incentives for financial advisers to recommend products that require regular monitoring and subsequent financial advice.[2]

While uptake is presently low, longevity risk protection products can offer significant advantages for people in retirement. A particular advantage is that life insurers are prudentially regulated. Where they offer longevity risk products, they are required to meet minimum capital requirements. This provides confidence that the insurer will be able to meet their future obligations. The capital base is very important in helping to secure the retirement of Australians who access annuity products offered by life insurers and to underpinning confidence and financial system stability.

Life insurers in Australia are already working in partnership with superannuation trustees to provide longevity protection to superannuation members, and this has been increasing since the introduction of the Retirement Income Covenant (RIC).

For example:

- Challenger has developed partnerships with TelstraSuper and Commonwealth Superannuation Corporation which are both in response to the RIC; and
- TAL has developed a partnership with AMP Superannuation funds to launch a retirement solution which combines the features of an account-based pension and an annuity.

Other superannuation funds are actively exploring retirement income options with life insurers. Several trustees have undertaken procurement processes recently to develop longevity solutions for members. These have been very competitive with good interest from life insurers, including foreign providers. In these processes, superannuation funds' decisions about whether to move forward have been affected by concerns about whether products will achieve the necessary scale as well as regulatory uncertainty, rather than concerns about the effectiveness or cost of longevity risk protection.

A wide range of existing and potential product issuers are established in the market and we believe the private sector has the skill and capacity to support Australians' retirement needs. Life insurers see providing insurance for longevity risk as a complement to other life insurance products and a significant growth opportunity as more Australians retire, and with larger superannuation balances.

In addition, there is interest in the Australian market from insurers with established products in other countries. For example, in a recent investor presentation day, global reinsurer SCOR highlighted its concerted effort to build on its expertise providing longevity products in the United Kingdom (UK) and explore and expand to new longevity markets, with a particular interest in Australia.[3]

To date, the key barrier for providers to bring products to the market has been the uncertainty about the level of demand when balanced against the cost of development and challenges of managing a product that does not achieve scale. As mentioned, some of CALI's members have well-developed products that they provide in other markets, including working with pension funds. They have not brought these to the Australian market yet because they need to see the demand exists to underpin a sustainable product offering.

A certain market and sufficient scale are critical to making these products affordable for Australians and to meeting sustainability and conduct expectations of regulators. Products with very few customers create challenges in delivering the benefits of risk pooling to customers. Scale allows for a greater diversity of members who can benefit from that risk pooling. Scale and diversity contribute to the security of the risk pool and consequently the ability to deliver more affordable products and more certain costs for retirees.

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[2] Commonwealth of Australia 2020, *Retirement Income Review: Final Report*, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf, p 439.
3 SCOR, *Investor Day 7 September 2023*, 2023, www.scor.com/en/investor-day-2023, p 33.

Reforms to support greater use of longevity risk protection products

As discussed above, there is a well-established global market for longevity risk protection and the Australian financial sector includes providers who have the expertise, capacity and capital to meet growing demand in the market. CALI believes there are some regulatory reforms which would make it easier for Australians to affordably access longevity risk protection, including:

1. Increased access to financial advice: enabling superfunds and life insurers to provide simple financial advice to members through the *Delivering Better Financial Outcomes* package. We welcome the Federal Government's commitment to reducing red tape for financial advisers and expanding advice via superannuation funds and other licensees. This will ensure many more Australians are able to access retirement advice. CALI is also advocating for life insurers to be able to provide limited advice to better serve customers.

2. Better information at all stages of life: enhancing the availability of information, guidance and advice to Australians from Government and industry at all stages of their life about retirement options and products would make a big difference. It would also be useful if all customer touch points in the superannuation system assisted people to navigate the whole retirement income system, for example super trustees could assist members to understand their eligibility for the Age Pension and assist them to comply.

3. Superannuation nudges: enabling superannuation funds to nudge people towards retirement products that may better suit their circumstances. This will be critical to overcome the default behaviour that is exhibited where retirees hold an account-based pension product and draw down at the minimum amount they are allowed.

   Where retirees take no action in response to information and nudges, consideration could be given to permitting superannuation funds to transition members to a retirement income product that would be in their best interests. If superannuation funds are permitted to do this, the regulatory framework should ensure:

   - Members are transitioned to arrangements and products that comply with appropriate standards;
   - Members are given sufficient notice and opportunity to opt out; and
   - Members are able to choose to change their arrangement with no impact on them or other members.

4. Government comparison tools: providing simple and effective disclosure and comparison tools to support choice and competition in the market. Given differences in the design and objective of retirement income products and the varying needs of Australians in retirement, it is more challenging to provide simple comparison and performance tools like those that exist in the accumulation phase of superannuation. The bundling of products, where Australians may use more than one retirement income product to meet different needs, also increases the complexity of comparison. However, effective and relatively simple comparison tools that Australians can use would be a critical source of information for consumers and help drive choice and competition in the market.

5. Standards for superannuation trustees: putting in place standards for superannuation funds to apply in designing retirement income products and offerings. This would allow trustees, working with life insurers, the flexibility to continue to innovate and tailor their solution to their members' needs.

Factors that could be considered as part of this framework include:

- The level of longevity protection included in products. Including an insurance guarantee provided by an APRA-regulated insurer gives confidence in the promise of lifetime income, even for the longest living members.
- Consideration of protections for older members who may experience cognitive decline and need protection from either elder abuse or their own compromised decision making.
- Account for interactions with other aspects of the retirement system and government programs, including the Age Pension and aged care.
- Provision of strong prudential standards and supervision to protect against counterparty risk and maintain confidence and stability in the financial system.
- Consideration of exposure to capital market and inflation risks and how these risks can be managed.

6. Review the capital rules for annuities: ensuring they strike the right balance between stability and affordability. Compared to global standards, Australia has a particularly conservative prudential capital treatment of long-term insurance liabilities, which results in relatively high regulatory capital levels, but more significantly, regulatory capital requirements that spike up during times of market stress. This means the cost of providing annuities is higher in Australia than in some other markets. APRA should consider reviewing its regulatory capital settings to ensure they strike the right balance between system stability and affordability. One specific adjustment that could be considered is to allow a more market sensitive illiquidity premium in liability valuations.

7. Review of social security treatment of all income stream products: ensuring deferred lifetime annuities customers are not disadvantaged. Deferred lifetime income streams (those that delay the start of payments for a set amount of time, for example 5 or 10 years after purchase) are currently assessed under the same asset test rules as lifetime income streams that make payments immediately (i.e. from the date of purchase). Deferred lifetime annuities are fundamentally insurance products where consumers will need to have met the insured event (be alive at the time the deferral period ceases) to receive any benefits from the product. Applying the same asset test rules to both products creates a clear disadvantage to consumers of deferred lifetime annuities.

8. Legacy products: considering the potential for legacy product challenges in any future regulatory or legislative change. The life insurance industry currently experiences issues with outdated legacy products held by customers. Moving people on to newer products typically requires court or regulatory approval which can be a costly and time-consuming process. Further consideration should be given to how regulations can be designed now to avoid this issue emerging in the future in relation to retirement income products.

Insurance solutions for aged care funding

We note the Committee's interest in insurance solutions relating to aged care.

In Australia, the Government is the primary funder of aged care services, including home care and residential aged care. People accessing these services may also be required to contribute to the cost. How much they pay will depend on their financial situation and the type of service accessed.

As well as being a significant expense that many people need to manage in retirement, there is some evidence that concern about aged care and health costs later in retirement is one factor that affects Australians' confidence to draw down on their retirement savings.[4] Australia would benefit from policy settings that support people to efficiently manage all their financial needs throughout retirement, including potential costs of aged care and health. This requires a holistic approach that takes into account

[4] Commonwealth of Australia, *Retirement Income Review: Final Report*, 2020, https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf, p 440.

the significant interactions between superannuation and government programs such as the Age Pension and health and aged care supports.

Australia's life insurers are connected to global capital and expertise in products that support people's long-term care needs, including in aged care. These products are not currently offered in Australia. The unique superannuation, social safety net and aged care funding settings in Australia differ from those internationally where established markets exist. Current Australian settings continue to influence the development of a market for these types of products.

There may be opportunities for life insurers to provide products to support people to meet their aged care needs and assist in addressing aged care funding challenges in the future. The evidence from other countries shows that long-term aged care risks can be insurable. However, policy settings for aged care funding and the likely demand will affect whether there is community demand and a viable market for such products in Australia.

A discussion of options and issues for private insurance and financial products to fund aged care is included in the paper titled *Financing Aged Care* released by the Royal Commission into Aged Care Quality and Safety in June 2020.[5] We also note the Federal Government is soon expected to release the Aged Care Taskforce report which may canvass private funding for aged care.

Specific thoughts on two products that life insurers could offer are set out below. The demand for these products and impact on government expenditure will depend on a range of factors, in particular the policy settings for Federal Government funding of aged care and requirements for individuals to contribute to the cost.

1. Long-term care insurance

Long-term care insurance (LTCI) is a product available in some other countries, including in the United States (US) and Canada. *Financing Aged Care* are also lists examples from France and Israel which have had some success in establishing private long term-care insurance markets.[6]

Depending on the level of coverage, long-term care insurance pays out a portion of, or all, the expenses incurred in accessing care, which could include home care and residential care. Benefits are usually capped up to a pre-determined amount and may include features such as inflation protection and waiting periods. Premiums will depend on various factors, including the age at which a person takes out the policy, their health status, their gender and the level of coverage provided.

LTCI was previously available in the UK, however UK insurers no longer offer the product because it was deemed to be unsustainable. Several insurers have also withdrawn from the US market for the same reason.

There would be no strict regulatory barriers to the development of LTCI products in Australia. However, there are a range of factors that would need to be considered in determining whether LTCI would be an effective solution here, including the level of likely demand and the sustainability of the product.

Demand will be driven by various factors, including the level of Government support available for people entering aged care and other incentives for people to take up private insurance. It may be an attractive product for people who are not able to access Government support or who are faced with high personal contributions. However, it is likely to be unaffordable for people on low incomes and unattractive to people with higher means who can self-insure. There is a need to provide people with certainty about the

[5] Royal Commission into Aged Care Quality and Safety 2020, *Financing Aged Care*, https://apo.org.au/sites/default/files/resource-files/2020-06/apo-nid306691.pdf.
[6] Royal Commission into Aged Care Quality and Safety 2020, *Financing Aged Care*, 2020, https://apo.org.au/sites/default/files/resource-files/2020-06/apo-nid306691.pdf, p 37-39.

level of Government support, to enable people to plan their retirements accordingly and therefore manage their need for LTCI more effectively.

Sustainability will partly depend on the take up of the product and ensuring there is a broad insurance base to appropriately pool risks across the insured population. In addition, Australian insurers will need to be able to effectively manage the cost of future claims. Aged care, particularly residential care, is expensive and costs are widely reported as growing significantly. For insurers to be able to provide a sustainable product with affordable and stable premiums, it is likely benefits would need to be capped. However, this may reduce the appeal of the product.

2. Annuities

Annuities are designed to provide people with a guaranteed income stream. Where these are a component of people's financial arrangements in retirement, they could also assist them to meet their private contributions to the day-to-day costs of aged care. These costs could include daily accommodation charges or regular private payments to in-home carers and therapists, but not upfront costs like refundable accommodation deposits.

In the UK, some insurers offer a product called an 'immediate needs annuity'. These products typically pay a monthly payment to a person's registered aged care provider for the rest of their life. Under current UK legislation there is no tax for the individual on the payments if they are paid to a registered care provider, compared to being taxed when paid to the individual. 'Immediate needs annuities' are designed to provide people with peace of mind to meet their care costs for the rest of their life. This type of product is not currently offered in Australia.

Beyond the general issues discussed above in relation to the market for longevity risk products, there are no strict regulatory barriers that would prevent insurers from offering annuities, including annuity products which are specifically designed for people entering aged care. However, under current regulations, the payments could not be restricted to aged care. Such products would operate in a similar way to other annuities and would be subject to the same means testing arrangements.

For some people entering residential aged care, paying a lump sum premium for an annuity product could be an alternative to paying a Refundable Accommodation Deposit (RAD) to an aged care provider. RADs are exempt from the pension assets test and the Federal Government currently guarantees the repayment of the RAD when the person dies or leaves residential aged care. As a result, for many people it is more attractive to pay a RAD rather than use the funds to purchase an annuity. The current RAD funding arrangement, whereby the RAD must be paid to the resident's estate, curtails the ability to provide insurance solutions that meet the need of funding a RAD.

The benefits of life insurance in superannuation

Life insurance is woven into our nation's world class superannuation system. Almost 10 million Australians are protected by insurance in superannuation.[7] This means 70 per cent of working Australians are protected by life insurance in superannuation.[8]

Life insurance in superannuation helps improve outcomes for Australians of all walks of life by increasing their access to meaningful cover and reducing the overall cost burden on social safety nets funded by the Federal Government.

[7] Australian Prudential Regulation Authority (APRA) 2023(a), *Annual superannuation bulletin June 2015 to June 2023 – superannuation entities*, 2023, https://www.apra.gov.au/sites/default/files/2024-01/Annual%20superannuation%20bulletin%20June%202015%20to%20June%202023%20-%20superannuation%20entities_1.xlsx
[8] In January 2024 the ABS reported there were approximately 14.2 million working Australians.

Group insurance in super is accessible, affordable and efficient because it provides default cover to working Australians (opt-out rather than opt-in) on a group insurance basis. This default approach is one of the key reasons behind the success of this model. If life insurance were to be offered on an opt-in basis, the number of people insured would be considerably lower. This would particularly impact blue collar workers, with only eight per cent likely to opt-in for insurance through their superannuation, compared with 18 per cent of workers across all occupations.[9]

Recent independent research commissioned by CALI found that 80 per cent of Australians with life insurance believe that life insurance through superannuation provides a suitable level of cover that meets people's individual needs.[10]

Insurance in superannuation also has a high rate of successful claims and high proportion of premiums paid out through claims, also known as the claims paid ratio (as shown in the table below), demonstrating the commitment of life insurers to their customers.

Table 1: Group superannuation: Admitted claims and claims paid ratios – June 2023[11]

Product	% of claims admitted	Claims paid ratio (4 year average June 2019- June 2023, expressed as percentage)
Death	98.3	72.7
Total and Permanent Disability (TPD)	92.3	91.9
Income Protection	97.0	91.9

Almost 50,000 new claims were admitted through insurance in superannuation life, TPD and IP insurance policies in 2022, and superannuation members received a total of $5.8 billion in claims paid in 2021-22 (see Table 2).[12] This demonstrates the valuable role insurance in superannuation life plays in the lives of Australians on their worst days.

Table 2: Claims paid through insurance in superannuation – 2021-22[13]

Type	Claims Paid – Admitted this year	Claims Paid – Admitted previous years	Total value of claims paid
Death	10,483	375	$1,827m
Total and Permanent Disability (TPD)	16,368	2,008	$2,524m
Income Protection	20,825	30,400	$1,409m

[9] Deloitte Access Economics/ASFA, *The future of insurance through superannuation*, 2020, www.superannuation.asn.au/wp-content/uploads/2023/09/Insurance_through_superannuation_FINAL_v2.pdf, p 6.
[10] CALI life insurance sentiment tracker report, February 2024 *NB. Time period refers to October 2023 to January 2024.*
[11] APRA 2023(b), *Life Insurance claims and disputes statistics database June 2018 to June 2023*, https://www.apra.gov.au/sites/default/files/2023-10/Life%20insurance%20claims%20and%20disputes%20statistics%20database%20June%202018%20to%20June%202023.xlsx
[12] APRA 2023(b), *Life Insurance claims and disputes statistics database June 2018 to June 2023*, https://www.apra.gov.au/sites/default/files/2023-10/Life%20insurance%20claims%20and%20disputes%20statistics%20database%20June%202018%20to%20June%202023.xlsx
[13] Australian Prudential Regulation Authority (APRA) 2023(a), *Annual superannuation bulletin June 2015 to June 2023 – superannuation entities*, 2023, https://www.apra.gov.au/sites/default/files/2024-01/Annual%20superannuation%20bulletin%20June%202015%20to%20June%202023%20-%20superannuation%20entities_1.xlsx

When Australians receive life insurance directly through their life insurer or financial adviser, it is more tailored to their individual needs and provides them with a broader range of cover. The role of group insurance in superannuation is not to replace these, or other avenues for cover, but to provide an insurance safety net to those who might not otherwise have access to it. Insurance through superannuation ensures millions of Australians have a base level of protection, as well as providing an option to increase cover to better suit their individual circumstances.

It is also cost effective for Australians as premiums are paid using pre-tax income. These funds could not otherwise be used by Australians until retirement age and therefore don't impact their day-to-day household budgets. This is particularly critical as Australians face continued cost of living pressures, because it ensures people are not forced to choose between insurance cover and other immediate essentials such as housing, groceries and utilities. Having the ability to pay for this critical protection without hitting the household budget is a huge benefit to almost ten million working Australians.

Driving better outcomes for Australian customers

Insurance in superannuation has undergone several reforms in recent years to make it more effective for the people that it serves. Improvements include shifting to opt-in arrangements for younger Australians and those with low balances or no recent contributions. This means that life insurance cover is now automatically cancelled for superannuation accounts that have not received a contribution in 16 months, unless the person who owns the account specifically asks to maintain their cover. Life insurance is now also provided on an opt-in basis for superannuation accounts with balances less than $6,000, or if a person is less than 25 years old. This has comprehensively addressed concerns about balance erosion for some superannuation members that were raised by the Productivity Commission in its 2019 review of superannuation.

While these recent changes are significant, there is potential to do more to ensure the best outcomes for working Australians. Insurance through superannuation is offered by default at a group level, which means that cover is not tailored to meet a person's individual circumstances and needs. It is provided automatically unless a person chooses to vary their cover by contacting their superannuation provider. However, the reality is that very few Australians do this. In 2023, ASIC research estimated that more than 70 per cent of people with cover through their superannuation had retained the default insurance settings.[14]

CALI is currently participating in the Federal Government's consultation on the *Delivering Better Financial Outcomes* reforms. The ability to provide simple, affordable personal advice on life insurance is an important issue that must be addressed to ensure the needs of many Australians are being met. Currently the barriers to accessing advice are too high, leaving millions of life insurance customers without access to quality customer service and advice.

Independent research commissioned by CALI found that one third (32 per cent) of Australian workers had considered getting financial advice on life insurance in the last three months but had not acted on it[15]. Instead, many Australians were relying on their family and friends for financial advice. Recent research by Adviser Ratings found 480 advisers wrote 50 per cent of Australia's life policies in 2023[16], showing that there are too few financial advisers to meet the life insurance advice needs of millions of working Australians. In addition, Deloitte reported in the *Mind the Gap 2023* report that underinsurance cost

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[14] Australian Securities and Investments Commission (ASIC) 2023, *REP 760 Insurance in superannuation: Industry progress on delivering better outcomes for members*, https://download.asic.gov.au/media/smpp02v3/rep760-published-22-march-2023.pdf, p 3.
[15] CALI life insurance sentiment tracker report, February 2024 *NB. Time period refers to October 2023 to January 2024.*
[16] Independent Financial Adviser 2024, *Gap in advisers writing life insurance growing*, 14 February 2024, www.ifa.com.au/risk/33865-gap-in-advisers-writing-life-insurance-growing.

families a potential $25 billion in the last year[17], demonstrating the importance of the Government's reforms.

Addressing the advice gap by allowing life insurers to provide simple personal advice will help give Australians the information and advice they need to make informed choices about their life insurance needs. It will also support competition and choice in the life insurance market.

Life Code of Practice (Life Code) and claims handling in superannuation

The life insurance industry is committed to supporting customers throughout the claims process.

When a person makes an insurance claim in superannuation, the claim will be managed by the superannuation trustee as the owner of the Group Insurance policy (and/or its administrators) and its life insurance partner.

The Life Code sets timeframes for a Code subscriber (life insurer) to obtain all the information it reasonably needs, complete all reasonable inquiries and make a decision on a claim (unless there are circumstances beyond its control).

The timeframes set out in the Life Code are outlined below:

- For income-related claims (i.e. income protection), subscribers have two months from being notified of the claim or two months after the end of the waiting period to make an initial decision, whichever is later.
- For lump sum claims (including TPD and death insurance), subscribers have six months from being notified of the claim or from the end of any waiting period to make a decision, whichever is later.

The Life Code also includes standards for how life insurers will communicate with claimants during the claims process, including where there are delays.

The independent Life Code Compliance Committee (LCCC) closely monitors and reports on the life insurance industry's compliance with the Life Code and the conduct of individual insurers. The LCCC reports publicly on its activities and can apply sanctions and financial penalties for non-compliance.

Life insurers are required to report to the Australian Prudential Regulation Authority (APRA) on life insurance claims and disputes and reports are publicly released biannually via both the APRA and MoneySmart websites.

For claims finalised in the six months to June 2023, APRA found the average time to make a decision on insurance claims in superannuation was:

- 1.1 months for death insurance;
- 4.9 months for TPD insurance; and
- 2.0 months for income protection insurance.[18]

However, the data shows there are claims where these timeframes have not been met. AFCA has also reported an increase in complaints relating to insurance claims handling in superannuation. This is an issue that the industry takes very seriously. In response, action is being taken by individual insurers with their superannuation partners and at an industry level.

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[17] Deloitte Consulting 2023, *Mind the gap: How to provide the Australian community with the life insurance it needs*, https://www.deloitte.com/content/dam/assets-zone1/au/en/docs/industries/financial-services/2023/fs-mind-the-gap-how-provide-australian-community%20with-life-insurance-it-needs-august-2023-290823.pdf, p 5.

[18] APRA 2023(b), *Life Insurance claims and disputes statistics database June 2018 to June 2023*, https://www.apra.gov.au/sites/default/files/2023-10/Life%20insurance%20claims%20and%20disputes%20statistics%20database%20June%202018%20to%20June%202023.xlsx

Examples of specific actions that individual life insurers have taken with their superannuation partners include:

- Reviewing end to end claims processes, particularly for disputed and declined claims;
- Implementing digital claims technology and digital tools that allow superannuation trustees to self-serve on status of claims;
- Implementing claims triage models that transfer 'ownership' of a claim to a life insurer earlier in the process; and
- Establishing health, wellness and recovery programs that support members' health during a claim.

At an industry level, CALI and our members have been engaging with relevant superannuation industry associations to identify industry-wide actions which could improve claims handling. This includes mapping the end to end lifecycle of insurance claims processes, with a view to identifying key issues and gaps, determining the root cause of blockages contributing to complaints, identifying any opportunities for improvement and benchmarking against industry best practice.

Climate change

CALI acknowledges the risks associated with climate change and the adverse effects of changing weather patterns are likely to have on physical health, mental health, and livelihoods. The potential increase of morbidity and mortality risks must be better understood in the context of their impact on life insurance; however, life insurance is only one part of a broader health ecosystem and understanding the implications of climate change on life insurance requires collaboration with Government, policymakers, and other key stakeholders.

CALI supports the Australian Government's emission reduction goals of 43 per cent by 2030 and net zero by 2050. CALI members aim to achieve operational carbon neutrality by 2030 or sooner.

CALI also supports the Government's introduction of the climate disclosure regime and participation of life insurers, subject to appropriate timeframes and conditions.