



10 October 2018

Mr Wayne Poels
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Email: helpdesk-OBPR@pmc.gov.au

Dear Mr Poels

REGULATION IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS: CLAIMS AND DISPUTES REPORTING REQUIREMENTS FOR LIFE INSURERS

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the Claims and Disputes Reporting Requirements for Life Insurers.

I am satisfied that the RIS addresses the concerns raised in your letter of 6 September 2018. Specifically, APRA has provided more detail on:

- the policy problem, including what the current community concerns are and the need for intervention;
- how better availability of data will have positive impacts on consumer outcomes;
- the consultation section, including expanding on key issues raised in submissions;
- the net benefits section, in particular stepping through the additional controls a formal collection has over a voluntary collection; and
- how the performance of a formal collection will be measured and reviewed.

A summary of the RIS is at Attachment A.

A regulatory offset has not been identified. However, APRA is seeking to pursue net reductions in compliance costs and will work with affected stakeholders and across Government to identify regulatory burden reductions where appropriate.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the *Australian Government Guide to Regulation*.

I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

Yours sincerely,

Pat Brennan
Executive General Manager
Policy and Advice Division

What is the problem?

In 2016, the Australian Securities and Investments Commission (ASIC) conducted a thematic review to identify any systemic concerns with claims handling across the life insurance industry (see ASIC REP 498 'Life insurance claims: An industry review'). A key finding was that there is a clear need for better quality, more consistent and more transparent data about insurance claims.

Why is government action needed?

Given growing community concern over the handling and payment of claims across the life insurance industry, the limited information available to better assess and understand the effectiveness and performance of insurance products, and the issues with data provided to ASIC by insurers, the report recommended the establishment of a consistent public reporting regime for claims data and claims outcomes, including claims handling timeframes and dispute levels across all policy types.

As there is currently no ongoing public reporting regime for life claims and disputes data, consumers and other stakeholders cannot readily compare the claims performance of different insurers. This lack of transparency has given rise to a lack of confidence in the integrity of the claims assessment process and by extension the industry as a whole. These issues have been raised in evidence in the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

Accordingly, there is a need for industry wide, timely provision of data that is credible, reliable, comparable and of a standard that can be published at both an industry-aggregate and entity level.

What policy options are you considering?

Option 1: Voluntary collection and reporting of claims and disputes data

- APRA would request life insurers to voluntarily provide claims and disputes data on a 'best endeavours' basis.

Option 2: Formal collection and reporting of claims and disputes data

- APRA would compel insurers to provide claims and disputes data under a reporting standard, issued under the *Financial Sector (Collection of Data) Act 2001* (FSCODA).

Option 3: Status quo - No collection of claims and disputes data

- APRA would not collect claims and disputes data from life insurers.

What is the likely net benefit of each option?

Option 1: Voluntary collection and reporting of claims and disputes data

This option would fall short of addressing the policy problem and need for intervention. A voluntary framework for the reporting and publication of claims and disputes information would not have controls to ensure that data being provided is of sufficient quality to rectify the data limitations of ASIC's report. As the data would not be subject to the reporting requirements of the FSCODA, they could be of varying quality, timeliness and usability.

Option 2: Formal collection and reporting of claims and disputes data

The policy problem and need for intervention would be adequately addressed as this option would meet the agencies' needs for high quality data on claims and disputes. The implementation of this option would see a strengthened framework for the reporting and publication of claims and disputes information due to its mandatory nature and stricter reporting requirements – providing sufficient controls to ensure that data being provided rectifies the data limitations outlined in ASIC's report.

Option 3: Status quo - No collection of claims and disputes data

The policy problem and need for intervention would remain. There would be no mechanism to address the data limitations outlined in ASIC's report. Ceasing the collection of claims and disputes data from the life insurance industry would leave consumers and other stakeholders in the current position that data is poor and unreliable. The agencies would not have the benefit of access to consistent reliable data to inform their regulatory activities.

Who will you consult and how will you consult them?

APRA and ASIC (the agencies) have developed the proposals and preferred option through extensive consultation with life insurers, consumer representatives, service providers and the Financial Services Council (FSC). Informal consultation between the agencies, and with the FSC, has been ongoing with regular meetings at senior levels. Formal consultation has taken place through the issue of a number of papers: the May 2017 Discussion Paper, the November 2017 Information Paper and the May 2018 Response Paper.¹

What is the best option from those you have considered?

APRA considers Option 2 to be the preferred option to deliver better quality, more consistent and more transparent data about life insurance claims as it delivers the highest net benefit.

How will you implement and evaluate your chosen option?

APRA will give effect to the proposed reporting requirements by determining a reporting standard, under the FSCODA.

Given the heightened level of concern, noting that claims handling issues have been raised in the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, reinforcing the need for intervention, it is APRA's intention to make the reporting standard as soon as possible. This is also consistent with public commitments made by both APRA and ASIC.

APRA regularly reviews its prudential and reporting framework as part of APRA's policy development process. Such reviews would consider whether the requirements continue to reflect good practice or impose undue regulatory burden.

¹ <https://www.apra.gov.au/life-claims-data-collection>