



4 May 2016

To the Chairs of APRA-registered Life Insurers

Information Request Related to Claims Oversight and Governance

The life insurance industry would be aware of recent publicity alleging that inappropriate handling of claims and out of date definitions have disadvantaged claimants.

APRA's engagement with industry in recent years has emphasised the need to improve practices and governance generally. The introduction of LPG 270 (supporting SPS 250) has provided impetus for industry to address poor practice in the group risk space; and builds on the existing prudential framework e.g. CPS 220 and CPS 510.

Life insurers have undertaken a number of initiatives in recent years to improve practices in the group risk space. We are aware also that many life insurers have undertaken reviews of their claims management processes.

A number of the themes raised publicly regarding the handling of group risk claims align with the issues APRA has canvassed with industry and individual institutions in the recent past¹. These include:

- Insurers being satisfied that they have appropriate terms and conditions in place for group insurance schemes and that there is a systematic process to identify and analyse any potential changes to product terms and conditions;
- Whether insurers are assessing claims fairly and in accordance with the policy terms - this is an important element in order for the board to be confident that it is meeting its obligations under section 48 of the *Life Insurance Act 1995*; and
- The level of alignment between the claims philosophy of life insurers and superannuation trustees and how this alignment is achieved and operationalised.

While these matters have arisen in the context of group risk insurance, similar considerations will apply to individual business.

Recent public debate also has raised questions about culture within life insurers, in particular how fairness in the assessment of claims is achieved on an ongoing basis.

APRA now is requesting information from boards describing how the insurer satisfies itself that the above matters and any others seen by the insurer as relevant in this context, are addressed. We are not seeking

¹ For example, refer to APRA's 'Letter to life insurers (including friendly societies): Group Insurance' dated 18 May 2015.

details of individual claims but information on the framework and mechanisms insurers have established to address these matters effectively.

Your response should address any issues you may consider relevant and would be expected to include or refer to information such as:

- Any specific work on culture (e.g. surveys or board discussions) that bears particularly on claims handling;
- The nature of any engagement with trustees in the last 6 months to discuss claims practices, including in response to the recent publicity;
- Any claims philosophy material provided to superannuation trustees in respect of group risk insurance schemes tendered for or contracted since 1 January 2014;
- How planned actions to address any issues identified or desired improvements have been operationalised and monitored e.g. changes to benefit definitions;
- How the board monitors claims outcomes including whether claims are handled fairly in accordance with policy terms and in a timely fashion;
- How the board oversees the appropriateness of the insurer's response to customer complaints, including how improvements and 'lessons learned' are identified and operationalised; and
- Remuneration arrangements for relevant staff (including claims staff) and how the board has determined that these align with the relevant requirements of CPS 510 and support appropriate claims outcomes.

The above are suggestions and are not meant to be prescriptive or exhaustive.

We would appreciate a succinct response that addresses the issues identified by the board as being relevant. We are not expecting to receive large volumes of documents as part of your reply. Existing policies and other documents may be referenced but we do not expect to receive copies of such material.

APRA is working co-operatively with the Australian Securities and Investments Commission (ASIC) with the aim of seeing improved practices so that beneficiaries are dealt with fairly in accordance with policy terms.

We would appreciate a response to the above by no later than Friday 17 June 2016. Should you require any further information or clarification please contact your APRA supervisor.

Yours Sincerely,



Geoff Summerhayes
Member