AFA Responds to Claims by Maurice Blackburn

by Phil Anderson, AFA General Manager, Policy and Professionalism

On Tuesday 21 April 2020, APRA and ASIC released their latest report on life insurance claims and disputes for the 2019 year. This is an important report that contains a significant amount of data, where much work still needs to be done to better understand these results and the impacts on consumers.

The following day, Maurice Blackburn Lawyers released a media release that jumped to a range of conclusions and questioned the value of life insurance obtained through financial advisers. Specifically, their statement included the following quote – "This report has some very compelling data that makes clear that group insurance through super remains a crucial product that delivers significantly greater value for consumers than other policies, including those supposedly tailored by financial advisors."

How do we Measure Value for Consumers?

This statement was directly at odds with a comment in the report - "APRA urges caution in interpreting the information presented in Table 2 as a measure of consumer value". It is very easy for the financial advice sector to dispute the Maurice Blackburn statement by referencing the average benefit paid, from information in the following table, sourced from the APRA data:

Type of Cover	Individual Advised	Group Super	Advised v Group
Death	$399,659	$130,773	306%
Total and Permanent Disability	$482,271	$123,191	391%
Disability Income Insurance (per month)	$6,465	$3,828	169%

In our view, the most meaningful measure of value for clients in life insurance is what the client or their family receives in the event of a life insurance event and how this aligns with their actual needs. The average claim benefits demonstrate very clearly that those clients who receive specific tailored life insurance advice from a financial adviser receive a benefit far more relevant to their circumstances and their household debt and living costs. This clearly demonstrates significantly more value for financial advice clients.

What is Missing from the Claims Paid Ratio?

Maurice Blackburn has sought to utilise the claims paid ratio as the sole determining factor of value. This is certainly a useful measure, however it is not a complete measure, in two important ways. Firstly, it does not include all costs that clients experience and neither does it take into account the complexity of the product.

A true measure of the direct benefit to clients/group super fund members would be the net return to clients/members divided by the total cost to clients/members. This is the actual amount of money in the hands of the client after the finalisation of a successful claim. In the majority of cases, where a financial advice client experiences a life insurance claims event, their financial adviser will assist them or their loved ones to make a claim at no additional cost. Clearly in some cases, a Group Super member might need to pay a lawyer such as Maurice Blackburn to assist, advise or even commence legal proceedings with respect to the claim. From what we understand, these lawyers often charge at least 30% of the claims benefit. There are no statistics on how much of life insurance benefits end up being paid to lawyers, however the inclusion of this information in the data collected would be very important when measuring value. We call for the collection of data on fees paid to lawyers on life insurance claims.

In terms of the full cost to the client, this would need to take into account any costs incurred by the super fund that are otherwise paid for by the member out of their super fund fees, and not just through life insurance premiums. This might include insurance administration, call centres, general advice and even intra-fund advice related to insurance.

It is also important to take into account that income protection insurance paid by clients outside superannuation is tax deductible to them, which significantly reduces the effective cost. This has not been taken into account.

Group Super products are simpler products. This is because the insurer is insuring a larger group of people in the one fund at lower levels of cover and therefore, provided the member is being insured for less than the automatic acceptance limit, there is no requirement for underwriting. Underwriting, which often includes medical examinations, is an expensive activity, however this is important where the amount insured is so much greater, as is demonstrated by the table above. The premiums paid by Group Super members do not include any ongoing advice or support to ensure that their level of cover continues to align with their needs. If the member takes on more debt or has additional children, there is no means for them to have their level of insurance reset. This is a service that is built into the remuneration paid to financial advisers. A more comprehensive and complex product and service, that is better able to meet the needs of the client, naturally costs more.

There is one other important element of value, which is the emotional benefit of a client having confidence that they have the right level of insurance to meet their needs and that this remains up-to-date. Let's not ignore this important emotional value that applies to financial advice clients. Let's also keep in mind that financial advisers will also recommend group insurance products to their clients, where that best meets their needs.

How to Interpret the Disputes Data?

Maurice Blackburn has also focussed on the issue of disputes. They have selectively chosen to pick out the product that has reported the highest level of disputes, and made the following statement – "income protection through super led to just 33.7 disputes per 100,000 people insured, compared to retail income protection policies, which came in at a staggering 150.5 disputes per 100,000 people insured."

Once again, they have ignored the specific advice from APRA on using this data. "However, APRA urges caution in interpreting this information. The dispute rate per finalised claim could be considered a more appropriate measure of the probability of a claims-related dispute." It is essential to note that there is a much higher frequency of claims for retail advised clients (1.32% for individual advised versus 0.49% for Group Super). Thus, when adjusted for claims frequency, as APRA suggested, the disputes ratio is much more comparable.

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We support further analysis of this disputes data as there is likely to be a range of reasons for the material differences. One obvious reason is that it only measures complaints received or addressed by the life insurer. In a Group Super case, there is undoubtedly a substantial number of disputes/complaints that are dealt with and resolved by the super fund, without even making it to the insurer. Individually advised clients may also be more motivated to complain, as they have more to gain, should their claim prove to be successful. Individual advised products are also more complex and require underwriting, which is likely to lead to greater room for disputes. Group super products, without underwriting, will have much less exposure to issues with respect to non-disclosure. Financial advisers also play an active role in advocating for their clients, where they disagree with the decision of the insurer. This is surely a good thing.

It is important that this data is analysed in detail to genuinely understand the meaning of it and what needs to be considered to maximise the outcome for consumers. Making uninformed claims before the completion of this research is not appropriate or helpful.

Next Steps

We welcome further investigation of the APRA claims and disputes data and will not be leaping to conclusions or making broad unsubstantiated claims. Neither will we be seeking to undermine consumer confidence in one segment of the life insurance market at this most challenging time as the country comes to terms with the impact of the coronavirus pandemic.

Financial advisers are just one stakeholder in this important industry. The financial advice sector does not have much data above what APRA has provided and the AFA certainly does not have all the answers. We are open to further investigation of the data and are willing to contribute where we can. At the same time, we call on greater transparency from all stakeholders. Those who are entirely excluded from the current statistical data need to be much more transparent about their impact on the net benefits received by consumers before making such untested claims.

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