

Senator Hume: Yes. Thank you. So those people will have a much better retirement outcome thanks to the Your Future, Your Super legislation. In fact, our estimate and Treasury's estimate is that there is around \$17.9 billion in retirement savings that will be made in the next 10 years because of these reforms.

Senator WALSH: So when you set out with this signature policy, you were saying to yourself that you would be pretty happy if six per cent of the people that you've communicated with about being in an underperforming fund decided to get out after receiving that one letter that you sent them?

Senator Hume: I'll be pretty happy the moment all Australians are in a fund that's delivering for them. There were so many that weren't, and their members didn't even know it.

Senator WALSH: Six per cent is the success benchmark for you, Minister?

Senator Hume: There are 89,291 people who have actively made the choice, and for those that haven't made the choice, it's okay because we have their backs as well.

Senator WALSH: A tiny proportion of the people that I assume you would want to make that decision.

Senator Hume: Would you rather have them stay there, Senator Walsh? What is the alternative that Labor has come up with? I haven't seen you present a single alternative. In fact, your unions are encouraging people to stay in underperforming funds. The Maritime Union actually wrote to its members and begged them to stay in an underperforming fund.

Senator WALSH: Well would you—

Senator Hume: Is that correct? I should check that with APRA. That's the case, isn't it?

Senator WALSH: Minister, are you—I'd like you to be on the opposition benches asking the questions.

Senator Hume: Well I'd probably ask some more sensible ones.

Senator WALSH: That would be great if you were. But, essentially, this is a signature policy, and what you've done is send people that registered letter that you—

Senator Hume: No, the super funds sent it. We didn't send it.

Senator WALSH: Thank you for the correction. You required the super funds to send that registered letter. You've done some advertising to employers that we heard about earlier today. You've got something in the works. But essentially, you've completely failed to communicate to people that they're in these underperforming funds—they're now stapled to them—and only six per cent of people have got out.

Senator Hume: Again, this is an intentional—

Senator WALSH: This is a complete disaster. How is it anything other than a complete disaster?

Senator Hume: Senator Walsh, be serious.

Senator WALSH: I'm very serious.

Senator Hume: There are thousands and thousands of people—

Senator WALSH: At least I had the list, I had the numbers with me, Minister.

Senator Hume: who are much better off already, today, from these reforms, which, I might remind you, you resisted.

Senator WALSH: Yes. We said that no-one should be stapled to an underperforming fund.

Senator Hume: And they're not. They can leave at any time—

Senator WALSH: And today the majority of people are stapled to underperforming funds.

Senator Hume: You also voted against choice, which would have left those people in those underperforming funds and not given them the opportunity to move. You also voted against Protecting Your Super, so you would have stopped people having not only reduced fees, but abolishing exit fees as well, so they couldn't change funds without a penalty. You have not supported a single piece of superannuation legislation until last week—not one.

Senator McALLISTER: [inaudible]

CHAIR: It is, Senator McAllister. I have given a bit of latitude, because the questions have been very political, to be frank.

Senator WALSH: Based on data provided by APRA.

CHAIR: I have given the minister a little bit of latitude, to be frank.

Senator McDONALD: Good evening to APRA officials. At the Senate estimates hearing on 28 October 2021 I asked a question about how new business volumes for the retail life insurance advice channel had declined by 50

per cent over the last five years as a result of less financial advisers, less commissions, and a reduction in those advisers who are providing advice on life insurance products. I also made the point that new business is very important for life insurance as it serves to add younger lives to the life insurance pool, and it covers some of the fixed costs of these companies. I asked whether such a significant decline in new business was very concerning for APRA. I noted that since the APRA reforms to the individual disability income insurance market from 1 October 2021 new business volumes have declined even further.

The answer I received last October seemed to suggest that the problem was attributable to recent premium increases as a result of losses experienced by life insurers. These losses have largely been limited to the individual disability income insurance product. So why has this driven such a large reduction in new business across the board? Can you please confirm if this decline in new business is of material concern to APRA, and further explain what has been driving this decline in new business and what are the consequences for the life insurance market?

Mrs Rowell: I think the drivers of new business volumes in life insurance are quite complex. They are significantly linked to the level of premiums that are charged, but also to the priority that individuals place on life insurance in the context of their overall circumstances. There have been a number of changes to the life insurance market and retail disability products in particular over the last little while. Those new products are very different to previous products in place. They have more sustainable pricing, terms and conditions, but getting behavioural response to those new products to change, particularly in the current environment, which is quite uncertain for many people I think, is proving challenging. So there has been a dip in new business volumes. I don't have the precise numbers in front of me. We can take that on notice. Our understanding from the insurers is that they are getting a reasonable response to the new products, but it is taking time to explain the changes to both the advisers and the policyholders to get the take-up.

Senator McDONALD: So you will take on notice the decline figure I have quoted, 50 per cent over the past five years. If you could take that on notice I would appreciate it. At the Senate estimates hearings on 28 October 2021 I asked a question about a response from APRA to a question on notice from Senator Small in June 2021, in which APRA justified life insurers giving large discounts to new clients on the basis that having them underwritten again reduces the risk they pose. I asked the question, given that some insurers are offering a 25 per cent discount in the first year, supposedly as a result of the underwriting process which the insurer needs to pay for, how can this be a good thing for the other policyholders in the insurance pool?

Mrs Rowell: I don't think I can add anything more to the previous response we gave on this. The way insurers manage the pricing of their portfolio across new and existing customers is a commercial decision for the insurers. There are a number of reasons for them pricing the way they do. It's important to be sure, when you're quoting the figures, that you are comparing like with like. Often the new policies that are being sold to the new policyholders will have different terms and features to the existing policies. So I think some more granular analysis would be needed to understand exactly what the discounts or the differential in pricing between new and existing customers was and whether it was a like-for-like comparison. Beyond that, I don't have anything to add beyond what we said at the previous hearing

Senator McDONALD: So you don't think the discounts are a further indicator of a life insurance market that is in difficulty? I wonder if you would have concerns—

Mrs Rowell: We are concerned about life insurance. We are concerned about the products, the pricing, the sustainability and the cost of insurance. That's why we are pushing the insurance industry to respond and to make changes to all those aspects of what they're offering so that we get a good outcome for policyholders so that they can get valuable cover at a reasonable price and that the insurers can write sustainable business. So it is a concern, and that's why we've taken action in the disability income space.

Senator McDONALD: So the pricing practices of the funds, of the offerings, are you taking any interest in that? Are you tracking that and reviewing what the impact of the changes would be?

Mrs Rowell: We are monitoring the response of the life insurers, in particular to our disability income product expectations. We're looking at a range of things, including what's happening to pricing and also what's happening in the terms and conditions, the changes they're making to their underwriting and claims processes and the like. It's an ongoing process. It's early days. These new products were only put in the market from October last year. So that will be an ongoing process for us to monitor over the next 12 to 24 months and beyond.

Senator McDONALD: So you'll be having a review, a fixed kind of review period, at 12-24 months? Is that your intention?

Mrs Rowell: Yes. We have communicated to the insurers our expectation of what we want them to do over the next little while. We have regular updates from insurers to give us information on what they're doing and the

changes they're making to their whole process around disability income insurance, and we are getting regular information on premium changes as well so that we can monitor what's happening in the market.

Senator McDONALD: Would you publish a review decision? How does APRA go about that process?

Mrs Rowell: There are two different ways in which we would deal with those reviews. There's the specific feedback to individual insurers, which we would not make public. But we would often publish some sort of summary report of general themes and findings of what we're seeing, whether by way of a letter to industry or in some sort of insight article or other published report. It really depends on the nature of what we find and the level of concern we have, as to the depth and nature of what we would publish or the form of what we would publish.

Senator McDONALD: I guess some of the questions I'm asking are hopefully flagging the concerns that industry has brought to me. In response to questions that I asked at the previous Senate estimates, APRA released data on the extent of premium increases for the individual disability income insurance market, suggesting that the average increase in 2020 was 15 per cent, which is before any age based increase. I'm keen to know what the average increase was for 2021.

Mrs Rowell: I don't have that information to hand. I will take that on notice and see what we're able to provide.

Senator McDONALD: Thank you very much. I'd also like to know the maximum average increase by any one insurer; the extent of increases for level premium businesses; the average increase for closed products such as agreed value policies that have in the past been so important to small business operators. I'm hearing that some of these increases, since APRA intervened in the IDII market, have been as much as 70 per cent. An average of 15 per cent can hide what is really going on and the impact this might be having on everyday Australians. Whilst you may have commenced your intervention into the IDII market with a primary focus upon the sustainability of these life insurers, what are you doing to ensure that these life insurance companies are being fair to their existing policyholders who are now in closed products?

Mrs Rowell: We are expecting that life insurers develop a plan to transition their existing policyholders from the existing products to new products and we expect them to do that in a fair and equitable way. It's important to understand that that is a challenging process and not entirely within the insurer's hands. That is because those policyholders have a choice of keeping the existing policy, which has all the terms and conditions that go with it, but there is also a significant increase in premium to deal with the losses that have been incurred for those products in the past, which is what the insurers are responding to. The alternative decision that they can make is to move to a newer product that perhaps has different terms and conditions that are slightly less generous but is more stably priced and more sustainable going forward. How the life insurers balance those decisions and the information that they give to policyholders is clearly important, but ultimately that's an arrangement between the life insurer and the policyholder. We monitor, engage and review how that's being managed, but it's not something that we can necessarily directly control. It's a decision for the insurers and the policyholders.

Senator McDONALD: Isn't it a challenge for the policyholders that they get to a point where they're not insurable under another fund? I'm reflecting on personal experience, where I'm now apparently too old and too risky to insure. So I'm going to stick with the wildly expensive fund that I have—better something than nothing.

Mrs Rowell: Again, that's a challenge for the industry. There is a process called underwriting to assess risks. We expect insurers to do that in a fair and transparent way. There are a range of insurers out there who have different terms and different approaches to underwriting. I would not like to think that, just because you're getting older, you're uninsurable. There would be insurers out there willing to write reasonable risks whatever the age of the policyholder.

Senator McDONALD: That's a hopeful note to finish on, Chair. Maybe I am insurable after all.

CHAIR: Absolutely. I think you're insurable, and I think your deductible would be very, very low indeed. Senator Small has some questions. Can you hear me, Senator Small?

Senator SMALL: I can, indeed, from behind the iron curtain here. Thank you, Chair, and good evening.

CHAIR: Fire off, Senator Small, as quickly as you can.

Senator SMALL: In response to some questions from my colleague Senator Brockman in the June estimates last year, APRA indicated that a review of the sole purpose test would follow once the Your Future, Your Super reforms had passed. Many industry participants that I've talked to have asked why a 21-year-old piece of guidance is yet to be updated. Can you offer any guidance on how that review is going and what the time line looks like?

Ms Cole: I think that I missed the date line. I think it might have preceded my joining APRA, so I might ask Ms Smith to answer the question.

Mrs Smith: Thanks for the question. In relation to the sole purpose test, since that time with the Your Future, Your Super reforms, we've also had the introduction of the best financial interests duty, which is an important duty which extends the onus onto trustees to act in the best financial interests of members and also reverses the onus of proof. What we're doing is looking at all of our standards and guidance in relation to what the introduction of the best financial interests duty means, and we're in the process of doing that. With the sole purpose test and the best financial interests duty, that will be wrapped up in the review which we're currently undertaking to ensure that the standards and guidance that we have in place are best incorporating these higher standards and requirements. Over the course of the next few months, into 2022, that review will incorporate the sole purpose test and best financial interests duty.

Senator SMALL: So would it be fair to expect that to be finalised by, say, midyear?

Mrs Smith: I don't know that I can commit to a time frame but I know that we're in the process of looking at all of the guidance that we have in the context of the best financial interests duty. So I would hope that if it's not completed it will be well in train.

Senator SMALL: Thank you.

Ms Cole: We're also looking at testing with trustees the way that they're approaching the change to best financial interests duty. With the benefit of the reverse burden of proof, we're being very active in asking them to identify how they approach that new duty. Anything that we [inaudible], any changes to guidance or standards, will be informed by those real-life interactions with the entities that we supervise.

Senator SMALL: Thanks for that. I think that's getting to the crux of it. That's what industry really needs.

There's one other issue that I touched on last estimates as well, and that's the IDII market. As I understand it, tranche 3 is scheduled to commence on 1 October this year and it requires life insurance underwriters to provide contract renewal every five years, subject to policy terms and conditions that apply at that time. What, if any, disadvantages could this result in for consumers, particularly looking at things like reduced terms, increased costs or even, in extreme cases, the total loss of cover?

Mrs Rowell: I will respond on that. It follows on from the questions from Senator McDonald. We are aware of the implications and pros and cons of moving to the five-year policy contract term. There are questions of providing certainty and stability for policyholders as well as insurers versus some of the issues that you refer to, which are continuing access to cover and the need to re-underwrite and the like. They're complex things to balance. When we introduced the IDII measures, we felt that there was a need to make significant changes in the IDII market to address the underlying losses and poor outcomes for policyholders that were occurring. The five-year contract term was one of a set of measures. It's the only one that remains to be put in place, and we did defer it because of the feedback we had from industry about some of the challenges and complexities.

We've had further engagement through the Financial Services Council and with individual insurers over the last couple of months, and we are still discussing with them those challenges and the pros and cons, if you like, of that measure. We will need to communicate our response to industry as to proceeding or otherwise with that particular provision in the coming months.

Senator SMALL: Do you have a firm deadline by which you would communicate that to industry, given it's quite obviously profoundly important to those working in that space?

Mrs Rowell: We don't have a firm time line but we are aware of the importance and the urgency. It is actively under discussion and consideration within APRA, and we would hope to be communicating—I'd like to commit to it being by the end of March but there are no guarantees on that. But that's the goal we're working towards: to make a decision and communicate by March as to whether or not we're proceeding with that requirement.

Senator SMALL: Thanks very much, Mrs Rowell.

CHAIR: Senator McAllister?

Senator McALLISTER: I think my questions are probably best directed to Mrs Smith. Since the Choice Heatmaps were published, has APRA identified any issues with the data that they relied on or any inaccuracies in the Choice Heatmap results?

Mrs Smith: Thank you for the question. We published the Choice Heatmap using data that was provided by SuperRatings. At this point in time, we don't collect data on the [inaudible] factor; that's provided directly to APRA. But we're in the process of collecting that now. We produced that heat map using data—that we used to the best of our ability—that represented what we wanted to be able to publish to provide transparency. To the extent that we've achieved that and provided transparency, we've had some questions from industry around the