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SPEECH

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CHECK AGAINST DELIVERY

Good morning, everyone — thanks so much for that warm welcome.

It's always a pleasure to address the Financial Services Council — something I've done on many occasions.

The FSC plays a vocal, active role in promoting a fair and efficient financial system, for the benefit of all Australians.

And life insurance is a prominent part of the picture.

Australians now spend around $18 billion a year on life insurance products to protect themselves and their loved ones financially.

And, to its credit, the industry pays out more than $10 billion to policyholders annually, with more than $7 billion of the difference with incoming premiums going towards operating expenses. This takes place in an industry that hold total assets of around $233 billion.

That's an economic contribution worth acknowledging and celebrating.

And today, I will share a few thoughts on what the Government sees as some of the big issues for the life insurance industry in the year ahead.

Superannuation and life insurance

I will start with the connection between superannuation and life insurance.

Now, everyone here understands the critical importance of our superannuation system.

It is now worth $2.6 trillion and it's growing every day. In just the past twelve months, the system has grown by almost another $240 billion.

Superannuation is the largest financial asset of most Australians; and the second largest asset after the family home.

Our superannuation system provides a vehicle for over 14.8 million Australians to save for their retirement.

It also provides life insurance cover on almost 14 million accounts, most commonly on a default basis.

There is no doubt that default superannuation has been an important contributor to increased levels of life insurance cover in Australia – with over 70 per cent of total life insurance policies being held through superannuation.

However, it is important to ensure that members receive appropriate cover, value for money and good outcomes in relation to that insurance.

Consider this. In the year ending June 2016, $8.4 billion was spent on insurance premiums provided through APRA regulated superannuation funds.

This equates to almost 15 per cent of total employer contributions to these funds in the same period. Let that figure sink in – almost 15 per cent of total retirement savings over the period.

Life insurance can be a valuable thing. None of us know how life will pan out, and it pays to be prepared by having the financial safety net that insurance can provide.

And that default life insurance offered through superannuation can certainly provide efficiency benefits compared with individually distributed and underwritten policies.

However, in determining the appropriate settings for the superannuation system now and into the future, we must ensure that the benefits of default cover are not outweighed or reversed by an undesirable erosion of peoples' hard earned retirement savings.

If I'm honest with you all here today – I am concerned that some, possibly many, default members are paying too much for cover that goes beyond what they need. In other words, they are not receiving value for money.

Now, this might be a situation that some people are happy with, but for others such as low-income members, younger members and disengaged members, this is not a good outcome.

I am concerned that young members are defaulted into cover that does not suit their current needs, and I am concerned that disengaged members – the millions of Australians who for whatever reason have left the choices around their superannuation to be made by their employer – are defaulted into cover that they might not even be able to claim on.

As you all here would be aware, it's not possible to claim on more than one income protection insurance policy (IP), but there are examples of individuals who, after changing employers, are defaulted into new cover that includes IP. This means they are paying for both their old IP and their new IP cover, even though they could only ever claim on one of these policies.

However, my biggest concern is that insurance premiums are eroding low balance dormant accounts.

This is such a significant issue for the estimated 40 per cent of Australians with multiple accounts.

Trustees have a duty to act in the best interests of members and to ensure that insurance arrangements do not unduly erode retirement balances.

But I've got to say – I am not convinced these obligations are currently being taken as seriously as they should be, across the industry.

If premiums are being taken from people's retirement savings, trustees must be certain that the cover provided is appropriate and not excessive.

In a compulsory superannuation system where the majority of members are disengaged, it is vital to ensure that they get value for money insurance cover.

It is incumbent on trustees to ensure their members are not sacrificing contributions and earnings for insurance cover they do not need or cannot claim on.

In 2014-15, there were almost 50,000 Australians with five or more superannuation accounts from each of which an insurance premium, in addition to other fees and charges, was being deducted.

Take a blue collar worker on a median income starting out in the workforce at 20 years of age, earning an average annual income of $56,000 across their working life.

With death, TPD and income protection cover the effect of five sets of premiums and fees could reduce the final retirement balance by up to 42 per cent, or $349,000.

If the same blue collar worker had just one superannuation account with insurance, the negative effect of fees and premiums on their retirement savings could be reduced to 12 per cent or $93,000.

Situations like this need to be addressed. While solutions are unlikely ever to be perfect, there is no excuse for not taking steps to improve outcomes where we can, and it is up to all of us – both Government and the industry – to work proactively towards fixing this.

The industry has recognised that there is a pressing need to address the problems with life insurance in superannuation, but unfortunately, the results have not matched the ambition of those leading the work.

While the Code of Conduct put out by the Insurance in Superannuation Working Group included some solutions to these vexing issues, the fact that it will not be binding on trustees means these industry-led solutions will not actually be realised.

So what now? I can only reiterate that where industry cannot or will not act, the Government will step in and take action.

I understand that the FSC are working on their own Code and it must deliver meaningful change on difficult issues. It must materially improve outcomes for all members, but especially those for whom the current arrangements are not working.

Life Insurance Code of Practice

That leads me on to the FSC: *Life Insurance Code of Practice* which, as you know, has been in operation since 30 June 2017.

The FSC and the life insurance industry deserve credit for initiating this Code.

As I know you are all aware, the Code sets out the life insurance industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for their life insurance services, such as being open, fair and honest.

It also sets out timeframes for insurers to respond to claims, complaints and requests for information from customers.

The Code covers many aspects of a customer's relationship with an insurer, from buying insurance to making a claim, to providing options to those experiencing financial hardship or requiring additional support.

The Code is binding on the life insurance company members of the FSC – who together represent almost the entire sector – and is monitored by an independent committee, that ensures effective compliance by life insurers.

Insurers can be sanctioned if they do not correct breaches of the Code.

I encourage the FSC and the industry to continue their efforts towards gaining ASIC approval of the Code. ASIC approval will strengthen consumer confidence in the Code by ensuring, among other things, that it meets ASIC's standards on remedies for consumer complaints. In this sense, ASIC approval is important for both practical and symbolic reasons.

Unfair Contract Terms

Also on the consumer front, the Government will soon consult on extending the unfair contract term provisions to insurance contracts, for both general and life insurance.

The unfair contract term laws currently apply to standard form consumer and small business contracts.

Now, some of you here today may be of the view that the unfair contract term protections should not apply to life insurance contracts.

However, many outside the insurance industry disagree. For example, the Australian Consumer Law Review said that extending protections to insurance contracts will 'address inconsistencies in the level of protection provided across all standard form contracts.'

A reform such as this would also bring Australian unfair contract terms protections into line with regulatory approaches in the United Kingdom and New Zealand.

But in saying that, I also want to assure the industry that Government is aware of the differences between life insurance and other products covered by contract, and we will be mindful of these nuances in our consideration of the issue.

Treasury expects to release a proposal paper on extending unfair contract term protections to insurance for the industry's consideration soon.

We value the FSC's well-considered submissions to all our consultations. And I am sure you and your members will continue to work constructively with us on this important issue.

Inquiry into the Life Insurance Industry

Now, like most you, we are keenly awaiting the Parliamentary Joint Committee's report on the life insurance industry, and we expect to receive this by the end of the month.

As part of its terms of reference, the Committee will report on the need for reform and improve oversight of the industry.

It will also provide an assessment of relative benefits and risks to consumers of the different elements of the life insurance market, being direct insurance, group insurance and retail advised insurance.

Following the release of the report, the Government will carefully consider the recommendations and will respond in due course.

Rehabilitation costs

The ability of life insurers to pay rehabilitation costs to members is another issue where industry and government continue to engage.

I acknowledge that you have been calling for reform of regulatory barriers to provide early rehabilitation and medical benefits in relation to continuous disability policies.

The Government appreciates your views on reforms which could potentially improve return to work rates and health outcomes for individuals on these types of disability payments.

The Government is prepared to consider ways to remove any artificial barriers to supporting the needs of people returning to work.

These are the types of issues that Government looks to industry to lead on, and we will continue to engage with you so that we can achieve better outcomes – outcomes that involve more people getting back into the workforce, because like you, the Turnbull Government understands the value of work for individuals.

Closing remarks

So let me finish up by thanking you again for the chance to open today's conference.

This annual event always creates a great opportunity for the life insurance sector's leaders to come together, to share ideas, and most importantly, to tackle the challenges.

As I said earlier, the Governments sees the life insurance sector as crucial in providing millions of Australians with financial security — in managing risk and providing piece of mind.

The industry is also a major contributor to our economy and an integral cog in the Australian financial system.

And it’s an industry — through the leadership of the Financial Services Council — that is committed to improving its practices.

Thank you and all the best for the remainder of the conference.