



26 August 2014

Mr David Murray AO
Financial System Inquiry
GPO Box 89
Sydney NSW 2001
By email: fsi@fsi.gov.au

Dear Mr Murray

Financial System Inquiry Interim Report – supplementary submission

Thank you for the opportunity to make a supplementary submission to this Inquiry.

At Suncorp Life, our aim is to ensure our customers have confidence in their futures and certainty in their ability to provide for their families if circumstances change.

Life insurance has not traditionally had the same policy focus or public profile as banking, superannuation or general insurance. We urge the FSI and Government to ensure that life insurance is given an appropriate level of focus and resourcing.

The Interim Report notes that many submissions raised the issue of underinsurance in both the general and life insurance sectors. Life insurance products play an important role in the community as they protect the insured and their dependents against the financial risks associated with premature death, permanent and temporary disability, as well as various specified critical medical conditions.

However the adequacy of cover remains an issue, with many Australians holding an insufficient level of insurance to cover their living expenses in the event of accidents, illness or injury. To answer the question asked by the Inquiry, yes, underinsurance is a major problem in Australia.

There should be consideration of public policy changes to improve the take-up of private life insurance cover including income and private personal injury and sickness cover. Analysis of the net financial impact of the introduction of appropriate financial tax incentives and disincentives to achieve improved levels of cover should be explored (analogous to the existing policy settings on private health insurance where there is a rebate system as an incentive for taking out cover and a levy for those that don't).

In addition, a co-operative approach between industry and Government to raise awareness of the differences between the National Disability Insurance Scheme (NDIS), National Injury Insurance Scheme (NIIS) and privately provided health, personal injury, sickness and life cover should be undertaken.

Improvements are needed to ensure there is transparency of the product assessment process undertaken by ratings houses. I recommend Government and the life insurance industry focus on simplicity and value in the delivery of products and services to consumers. This includes development of a simplified life, trauma, total and permanent disability (TPD) and income protection product assessment questionnaire that could be accessed by consumers through the ASIC *MoneySmart* website. I also support a move towards general categorisation of products.

The Interim Report notes that a number of submissions raised concerns about the operational risks and costs associated with the ongoing operation of 'legacy products'. The Report suggests reinvigorating moves to provide for a practical, cost-effective and consistent product rationalisation regulatory framework. I support this and recommend that Treasury should issue a discussion paper on the options for streamlining and simplifying the life insurance product rationalisation mechanism, including consideration of tax implications.

Priority needs to be given to life insurance given the absence of an existing efficient mechanism relative to other areas such as superannuation. However, for completeness, superannuation should be included in any further review and cross-sector rationalisation should be examined, to enable the rationalisation of life insurance company issued superannuation into modern superannuation products.

I've previously recommended that Treasury take the lead with industry in reviewing the role of the Appointed Actuary. The Actuary role has not kept pace with changing business structures and is too compliance focused rather than being strategic. For example, corporate executive structures have evolved considerably with new roles such as Chief Risk Officer now in place and a huge step-up in governance and risk management practices across many financial services companies. This has created complexity and increased demand on the role of the Appointed Actuary who now sits as a 1st, 2nd and 3rd line of defence. In addition, there is an inherent challenge between the interests of policyholder's and commercial priorities.

Via the Financial Services Council (FSC) Suncorp Life has engaged Ernst Young (EY) to conduct a research project exploring the deep challenges facing the Appointed Actuary role. EY plans to conduct qualitative research domestically, and engage with a number of overseas EY offices to seek their guidance on equivalent international models. Hopefully, this research will prove to be valuable to policy makers.

As an FSC Board Member, I point the FSI to their submission and recommendations.

I welcome the opportunity to contribute further to the development of initiatives which will support and deliver a more sustainable life insurance sector.

Further, as the Interim Report has not outlined draft recommendations, it is important that dialogue between stakeholders and the FSI Committee continue up until the final publication of the report. If possible, it would be useful for interested stakeholders to see and comment on a draft version of the final report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Summerhayes', written in a cursive style.

Geoff Summerhayes
Chief Executive Officer
Suncorp Life