

MAY 2017

## CLAIMS HANDLING

### Submission to the Insurance in Superannuation Working Group

## ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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# CONTENTS

<b>INTRODUCTION .....</b>	<b>3</b>
CLAIMS HANDLING PRINCIPLES.....	4
STANDARD TIMEFRAMES FOR SUPERANNUATION FUNDS .....	5
ENHANCING COMMUNICATIONS THROUGHOUT THE CLAIMS JOURNEY .....	6
CLAIMS HANDLING GOVERNANCE.....	7
FURTHER CONSIDERATIONS .....	8

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## INTRODUCTION

CHOICE appreciates the opportunity to provide the following comments to the Insurance in Superannuation Working Group consultation on claims-handling.

Consumers making a life insurance claim are often at their most vulnerable. This puts superannuation funds in a special place of trust and responsibility, with an obligation to ensure claims are treated fairly. An enforceable, consumer-centred code is a necessary step towards meeting community expectations.

A good claims-handling experience is one of the most important features of an insurance product, yet there is currently little-to-no transparency or data that consumers can use to assess the claims-handling practices of life insurers.

There is significant scope for superannuation funds to improve the claims handling process by taking a proactive approach to information provision. There are good examples across the broader insurance industry of modern claims-handling practices that are backed by strong online support services. The creation of an industry code should be seen as an opportunity to bring the entire industry up to a higher standard and redress much of the reputational damage that has been done to the sector in recent years.

Key recommendations:

- That an enforceable code is created with clear obligations on industry;
- That claims handling principles are consumer focused;
- That superannuation funds commit to increasing consumer access to information, including online claims-handling processes; and
- That superannuation funds release clear, useful and comparable data on claims-handling performance.

## CLAIMS HANDLING PRINCIPLES

1. Do you agree that an industry Code should be developed to guide superannuation funds in the principles to be applied when handling claims?
2. Are there any other guiding principles that you believe should be incorporated into the Code?

CHOICE strongly agrees that an enforceable industry Code is required as a matter of urgency for the superannuation industry. Operationalising claims handling principles through an industry Code should create a common understanding between consumers and their fund about how they will be treated during the claims process. This will likely reduce complaints so long as standards reflect community expectations and are adequately communicated to consumers.

The principles as currently worded focus on internal processes, separate from the consumer experience. A better starting point would be to develop principles that explain the consumer outcomes industry is attempting to achieve.

For example, the following principles are directed at improving processes with third parties:

- Each superannuation fund should be aware of and monitor claims activity and durations through the entire claims journey, and should not wait for the insurer's decision prior to commencing their involvement in the claim. This will allow the superannuation fund to consider whether any additional documentation may be required to enable the benefit to be released from the superannuation environment once the insurer has made a decision, and to ensure that the superannuation fund oversees the timeframes in which the insurer is assessing the claim from their perspective
- The superannuation fund's arrangements with a third party administrator must allow the fund to impose the appropriate service levels referred to later in this paper where the administrator plays a role in the assessment and processing of a claim
- Superannuation funds assess the alignment of their claims philosophy with that of the insurer(s)<sup>1</sup>

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<sup>1</sup> The Insurance in Superannuation Working Group, 2017, 'Discussion paper: Claims handling', p.5

These would be better articulated by stating something similar to “Superannuation funds will reduce the impact of claims handling timeframes and multiple information requests on consumers by:

- monitoring claims activity and insurer processes;
- not waiting for an insurer’s decision prior to becoming involved in a claim;
- setting appropriate service level agreements with third party administrators; and
- aligning claims handling philosophy with the insurer(s).”

Similarly, the principle on governance arrangements could be expanded upon to explain how these would contribute to member outcomes. For example, one outcome may be ensuring governance structures are in place to ensure relevant decision makers meet regularly enough to consider claims within stated timeframes. This could be added to by setting principles around what good governance arrangements look like.

Finally, rather than stating “Superannuation funds consider whether their claims philosophy should be published on the fund’s website either in full, or in summary form,” the principle should be something similar to:

- Superannuation funds will be transparent about their claims philosophy by publishing it on their website either in full, or in summary form, so that consumers have clarity about how a claim is likely to be treated both when comparing funds and at claims time.

There are a number of areas where principles would give further guidance to superannuation funds on community expectations around claims handling, including:

- Ensuring internal dispute resolution processes are effective and clear to consumers.
- Respecting privacy of data, including only requesting information when relevant and explaining the need for any data request to members.
- Protecting members experiencing financial hardship, including expedited claims handling and facilitated advance payment to assist with immediate hardship.
- Being transparent with members about their ability to claim.
- Taking a proactive approach to communicating with members about claims processes, including providing member statements, product disclosure statements and claims forms on first contact.

## STANDARD TIMEFRAMES FOR SUPERANNUATION FUNDS

3. What do you consider to be appropriate timeframes for superannuation funds to take the

actions set out in section B1 above?

4. Are there any other actions required by the superannuation fund that should have a timeframe established?

Some of the timeframes for superannuation funds to take the actions set out in the issues paper could be improved through better information provision. For example, it's unreasonable for the issuing of claims forms to take up to five business days. Consumers increasingly expect to be able to interact with businesses instantly online and the Code should require information such as product disclosure statements, member statements and claims forms to be made available online. Consumers should not be required to enter passwords or log-in to access general information, such as PDSs and claims forms. Only information related to specific member accounts should require a password or log-in process. There should be a complementary requirement to make hardcopies available on request to cater for the needs of people without online access, or limited technical skills.

In terms of a timeframe for code implementation, superannuation funds should look to make changes within the first 12 months of Code establishment. Some changes will require renegotiation of processes with insurers and other third parties. Given the significant involvement of insurers in the Insurance in Superannuation Working Group (ISWG), it is expected that the need for these changes will be well understood by both parties and therefore the process for change can be expedited.

## ENHANCING COMMUNICATIONS THROUGHOUT THE CLAIMS JOURNEY

5. Do you agree with the development of minimum communication standards for trustees?
6. Should they be mandatory or good practice guidance?
7. What additional/alternative communication should be required to improve understanding of and confidence in the claims process for people claiming?

CHOICE agrees that minimum communication standard should be developed and made mandatory under a code.

Communications standards should look to provide information in a form which is accessible and relevant to individual consumers. For example, communication on claims handling practices

could be done far better if members could track a claim through an online portal. Again this matches community expectations about the ability to interact with businesses online. Once these systems are built there is the potential for significant cost savings as consumers will have the ability to live track the claim process, minimising the need for more expensive telephone, in person and letter based communication. This is an approach increasingly being adopted by insurers across the industry; mandatory standards could potentially see the group insurance sector leapfrog the broader insurance sector in its claims handling processes.

Creating seamless communication portals for consumers should be a key principle. Other sectors are increasingly using dedicated claims handling case managers. This approach is particularly important for people making a life insurance claim. In most cases these people are going through a recent trauma and are in a position of vulnerability. Having to work through overly bureaucratic processes or constantly re-explaining their case to new staff members can heighten levels of stress and lead to poor claims handling experiences.

Understanding of and confidence in the claims handling process would also be increased if superannuation funds made an active commitment to not discourage members from making a claim. This type of clause exists in the Life Insurance Code of Practice (LICO P) and is a useful measure to ensure members receive fair treatment. Superannuation funds occupy a special place of trust for many members who may not receive advice from any other source. In these cases it is incumbent on funds to not dissuade a member from making a claim.

## CLAIMS HANDLING GOVERNANCE

8. Do you agree with the development of guidance in relation to governance standards for superannuation in relation to claims handling set out in B3 above?
9. Should this be good practice guidance or mandatory minimum standards?
10. What, if any, additional areas should be addressed with respect to governance standards on claims handling?

CHOICE maintains that the best way to meet community expectations is to create enforceable minimum standards on claims handling governance. The list of governance standards as outlined in the discussion paper form a good basis for mandatory minimum standards.

Ensuring proper oversight and review structures are in place for staff training, ensuring procedural fairness and avoiding real or perceived conflicts are the core elements of good claims handling practice. Requirements on superannuation fund governance structures to

regularly review these practices will help to ensure they continue to meet community expectations.

## FURTHER CONSIDERATIONS

11. How can superannuation funds better access and use data and technology to improve the claims handling journey for customers?
12. Do you support the reporting of claims data by funds for publication? If so, what information should be reported / published?
13. Should the current exemption of claims handling from being considered a financial service be removed?
14. Is there merit in considering the establishment of an industry-funded Claims Assistance Service to assist people claiming who are having difficulty in understanding the claims process? If so, how would such a service operate and be funded

As already outlined the use of online support services to help consumers track claims can lead to significant savings for business and greatly improve the claims handling experience for consumers.

## Claims data

The quality of the claims handling process is one of the most important measures of the value of an insurance product, yet to date we have no reliable data on how different insurers or superannuation funds compare. Data gathering on claims processes doesn't just benefit consumers; it can help superannuation funds identify issues and look for opportunities to refine processes and ultimately reduce timeframes and improve member outcomes. Publishing claims handling data is an important measure for driving competition over claims handling processes. The Code should specify that claims handling data is released (such as claims ratios, processing time and average payouts) and the format of the data to ensure information is presented consistently across industry. Without this consistency, data will be useless to consumers.

Claims data is clearly something regulators have prioritised with the release of the discussion paper 'towards a transparent public reporting regime for life insurance claims information'.<sup>2</sup> This

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<sup>2</sup> APRA, 2017, 'Discussion paper - towards a transparent public reporting regime for life insurance claims information', available at: <http://www.apra.gov.au/lifs/Documents/Life%20claims%20data%20collection%20discussion%20paper%20final.pdf>

comes after the 2016 ASIC report into life insurance claims handling which found there is ‘a clear need for better quality, more consistent and more transparent data about insurance claims’.<sup>3</sup> CHOICE agrees with the APRA’s assessment that a claims handling reporting regime can improve competition between insurers and increase efficiency of claims handling. CHOICE provides independent comparisons of insurance and has experience in how consumers assess and search for these products. We believe these comparisons would be greatly enhanced through the inclusion of robust data on the claims handling performance of insurers.

A useful starting point would be to consumer test different types and presentations of claims handling data as part of a product comparison process. This would help ensure that only relevant data is collected and that this data is in a usable format for consumers to both make better purchasing decisions and guide expectations at time of claim. Further data may also need to be collected to assist regulators in ensuring market safety and superannuation funds to improve processes. The Financial Conduct Authority in the UK is already well progressed in collecting this type of data in the general insurance environment having completed a pilot in 2016.<sup>4</sup> Superannuation funds could look to this example to better understand the type of data that is indicative of a good claims handling experience.

## Financial service exemption

CHOICE agrees with ASIC’s assessment that the regulatory framework around claims handling could be strengthened by removing current exemption of claims handling from being considered a financial service.<sup>5</sup> This would give ASIC capacity to better target inappropriate incentives and poor investigator practices. We see significant consumer benefit in removing this exemption.

## Claims Assistance Service

CHOICE is concerned that there would be an inherent conflict in an industry funded Claims Assistance Service. However, there may be merit in providing generally applicable information on an industry website, so long as the information is produced in collaboration with consumer representatives with claims handling experience and regulators. This could seek to explain and communicate obligations made under the Code.

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<sup>3</sup> ASIC, 2016, ‘Report 498 – Life claims: An industry overview’

<sup>4</sup> Financial Conduct Authority, 2017, ‘Financial Conduct Authority publishes general insurance value measures scorecard’, available at: <https://www.fca.org.uk/news/press-releases/financial-conduct-authority-publishes-general-insurance-value-measures-scorecard>

<sup>5</sup> ASIC, 2016, ‘16-347MR ASIC issues industry review of life insurance claims’, available at: <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2016-releases/16-347mr-asic-issues-industry-review-of-life-insurance-claims/>

The need for claims assistance service may be partly mitigated by a commitment to clearer communication. We know from talking to case workers and members who contact CHOICE that many claims handling issues stem from basic misunderstanding and a lack of member communication. This may lead to consumers seeking legal advice in cases where it is not required, adding significant cost and reduced benefits to consumers.