

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (THIRD REPORT)

Commonwealth Bank of Australia

CBA18QON: [76]

Mr THISTLETHWAITE: Last time we met, we discussed the Ernst & Young report into CommInsure. You stated—I think you were quoting that report—that there were 'no incentives anywhere which encouraged people to deny legitimate claims'. In the wake of that, ASIC have reported on what was occurring at CommInsure. They take a different view. In their report, they state:

In relation to key performance indicators (KPIs) for some claims staff, ASIC identified that for previous financial years KPIs included net loss ratios and income protection terminations rates.

Peter Kell from ASIC has called these incentives 'unacceptable'. He said, 'The wrong sorts of incentives were in place, absolutely.' That paints a very different picture to the Ernst & Young report, doesn't it?

Mr Narev: I'll have to come back to you on notice. The Ernst & Young report was very clear, and both ASIC's and APRA's reviews were also very clear, that there was no evidence to substantiate large numbers of the allegations made. In terms of the specific comparison between ASIC's finding on that point and the Ernst & Young review, which was very clear, I'll need to come back to you.

Answer: Claims staff in CommInsure do not receive incentives to decline claims or delay case assessments. They are rewarded for their strong focus on customer outcomes.

The performance of claims staff is assessed against balanced scorecards that contain multiple Key Performance Indicators (KPIs), such as quality of customer outcomes and customer experience. Each KPI has a relative weighting on the scorecard, and the overall scorecard provides guidance on the staff member's eligibility for

incentives. These incentives generally represent only a small proportion of the staff member's overall pay.

Ernst & Young conducted two independent reviews of CommInsure claims staff KPIs in the 2015 and 2016 financial years.

Previously, for a small number of claims staff in CommInsure, a small proportion of their overall scorecard included some financial outcomes as KPIs. Where those KPIs were included in scorecards, their weighting was typically low (around 10-15 per cent of the overall potential incentive payment) relative to other KPIs such as customer outcomes and customer experience.

Given the number of balancing KPIs and the weighting of all relevant KPIs in the scorecard, Ernst & Young formed the view that the inclusion of these financial outcomes as KPIs at those low weightings was unlikely to have incentivised undesirable behaviour by staff.

While the independent reviewer found that the overall balance of CommInsure's claims staff KPIs was unlikely to have led to adverse customer outcomes, CommInsure has removed those KPIs for all claims staff. The removal of those KPIs was acknowledged by the Australian Securities and Investments Commission in their report into CommInsure in March 2017.

ASIC has subsequently noted that including these financial outcomes in the KPIs of claims assessors represents an "unacceptable conflict of interest" for any insurer. This is an in-principle finding, independent of the weighting of the KPI in question, or whether that weighting was likely to incentivise staff to deny legitimate claims. There is also now a provision in the Life Insurance Code of Conduct which prohibits the inclusion of such incentives.

We are satisfied that the total balanced scorecard of a claims staff member, together with their risk and people capability requirements, encouraged good customer outcomes.