

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

Question: aet 45

Topic: Life Insurance

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Senator MURRAY asked:

Senator MURRAY—Does ASIC look at the pricing of life insurance products as part of your oversight of consumer interest?

Mr D’Aloisio—We could take that on notice. I am certainly not aware of it.

Senator MURRAY—I am aware of a situation where a particular life insurance policy was increased to CPI and its quantum increased—and I am rounding it out—by nine per cent over four years. But the premium went up by well over 60 per cent. That strikes me as price gouging. I wondered if that sort of matter had been brought to your attention before with companies.

Mr D’Aloisio—I am not aware of it. We will take it on board to look at it. The only thing I would comment on is the 60 per cent increase in the premium may not have a lot to do with the actual inflation rate. It may only be partly to do with the inflation rate because there is what you would call ‘age step-ups’ and so on, which also, as you would know, go into setting these premiums. But we will take it on notice and have a look at it.

Senator MURRAY—I raise it with you because I am aware that that is the practice but, when insurance companies talk about life insurance CPI increases, they make it very, very clear and warn you that if you do that there is a price increase, which is quite proper. They do not say anything about age set-ups or anything else. Somebody who has been with an insurance company for 20 years finds that as they age suddenly the insurance premiums escalate and they therefore withdraw insurance at the very time they become more at risk.

Mr D’Aloisio—We will get our consumer protection people to have a look at it from the point of view of misleading—

Senator MURRAY—I think there is a disclosure issue there, if I may say so.

Mr D’Aloisio—I will take it on notice.

Answer:

ASIC does not oversee the pricing of life risk products such as life insurance as part of its mandate. However, ASIC is responsible for administering the disclosure requirements for these products under the *Corporations Act*.

Specifically, the disclosure requirements in Part 7.9 of the *Corporations Act* apply, including the requirement to disclose costs in a Product Disclosure Statement (*PDS*) (s1013D(1)(d)).

A PDS should explain the fees and costs associated with the product and the factors that impact on the costs. Dollar disclosure is not required given the cost of these products is typically dependent on

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numerous variables that change over time or relate to the particular characteristics of individual clients (see ASIC Class Order 04/1431 *Dollar disclosure: Costs of derivatives, foreign exchange contracts, general insurance products and life risk insurance products*).

Instead, a PDS in these circumstances needs to include:

- (a) a description of any significant factors that will affect the cost of acquiring the financial product; and
- (b) an explanation of the impact of each of those factors on the cost of acquiring the financial product.

For a life risk product, this means that a PDS will generally (among other things):

state that the amount of the premium may increase each year in line with consumer price index (*CPI*) increases (i.e. 'indexation factors'); and

explain that other factors such as age, gender, occupation or pastimes may impact on premiums.

If the product has a stepped insurance premium arrangement or a level insurance premium, these options should also be explained in the PDS.

In the case of a stepped premium, the premium is typically recalculated each year based on the age of the insured and (if relevant) any policy fees that apply. This means that an insured can pay more as they get older.

In the case of a level premium, the premium for a particular level of cover only changes where the insurer changes the policy rates or the policy fee. Premium rates are generally not increased for an individual policy unless premium rates for all other policy holders in that risk group are also increased. If an insured alters their policy during the year (e.g. to increase the level of cover), the premium will be recalculated.

In addition, some PDSs specifically state that an insured will be advised of a new premium before the renewal date to enable them to make a decision about whether they want to continue with the insurance arrangements.

While ASIC's responsibility for administering disclosure requirements in the *Corporations Act* does not extend to cover renewal notices, as a matter of industry practice, ASIC is aware that information about premium increases (including increases resulting from indexation factors) is typically included on renewal notices as they should show any increases in premium to enable insureds to decide whether they want to continue with their insurance arrangements.

ASIC has received one complaint about the issues raised by Senator Murray where a life insurance premium rose substantially over one year. In this instance, the policy was for term life insurance with a level premium up to the insured's age of 60, after which an annual stepped premium was applicable. This information had been disclosed in an appendix to the policy and accordingly, ASIC took no further action.