

Legal costs and costs associated with complaints handling add to the overall costs of insurance. There are a few structural issues with the life insurance industry: 1. Skills shortages (ageing workforce, under investment in insurance technical training, low salaries in the life and super industries relative to the general insurance industry) 2. Poor technology and under investment in systems and best practice business process 3. Increase in complaints to FOS (see attached 3 year history of FOS complaints) driven by: 3.1. Outdated medical definitions and policy wording leading to declinatures or partial declinatures of claims 3.2. Lack of skills and over-reliance on solicitors for advice drives disputes and costs 3.3 Increased activity by plaintiff solicitor firms (unintended but caused by changes in workers compensation and CTP legislation, driving claims to T & PD. 3.4. increased litigation (see 3.3 above) in claims causing increased legal costs in defending legal action, driving up claims costs 4. Poor management of claims and claims costs, especially legal costs 4.1 No legal management software in place to actively manage external solicitor performance (costs and SLA's) driving legal costs up between 5 - 30% 4.2 No vendor management software in place to actively manage other claims suppliers (assessors, rehab providers etc) 4.3 Little commerciality to claims decisions - despite FOS complaint costing \$10,000 plus potential legal costs involved in disputing a claim, claims below \$15,000 continue to be denied/disputed 4.4 FOS stats show that many claims resolved during FOS complaint process in favour of the claimant - this indicates poor claims judgement 5. Gaps in claims processes and procedures and claims practices that are outdated 6. Industry remuneration practices - poor remuneration in general across the life and superannuation industry. Higher salaries in general insurance. 7. Increasing cost of new business acquisition

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