

5 May 2011

Inquiry into Disability Care and Support  
Productivity Commission  
GPO Box 1428  
Canberra City ACT 2601

**By email:** [disability-support@pc.gov.au](mailto:disability-support@pc.gov.au)

Dear Sir/Madam

**Productivity Commission Draft Report:  
Inquiry into a National Disability Care and Support Scheme**

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advisory networks. The Council has over 130 members who are responsible for investing more than \$1.8 trillion on behalf of 11 million Australians.

Members of the FSC that are registered as a life insurer in Australia provide significant financial protection for Australians and their families in the form of life insurance products that provide support in the event of disability, serious illness or disease.

As such, FSC members are very interested in the outcomes of this inquiry, and we will seek to work with government as the final recommendations from the Productivity Commission are assessed and implemented.

I refer to our submission of 3 September 2010 where we provided comment on the Issues Paper for this inquiry.

The FSC wishes to again express in principle support for the establishment of a national disability care and support scheme. It is crucial, however, that the proposed schemes are designed and implemented in a way that does not create disincentives for working Australians and others who can afford it, to take personal responsibility for insuring against the risk of disability.

In this context, we make the following high level comments on the Productivity Commission's Draft Report of February 2011.

**1. The need to ensure Australia's underinsurance challenge is not made worse**

It is a fact that Australians continue to be chronically underinsured.

This is a challenge for individuals and their families when something goes wrong. It is also a major challenge for government with the significant impact on demand for social welfare support.

The *Lifewise*<sup>1</sup>/*NATSEM Underinsurance Report* (released in March 2010) found:

- One in five families will be impacted by the death of a parent or a serious accident or illness that renders a parent unable to work;
- As a result of underinsurance, the typical Australian family will lose half or more of their income following a serious illness, injury or the loss of one parent;
- 95% of families do not have adequate levels of insurance; and
- Underinsurance is expected to cost the federal Government \$1.3 billion over the next 10 years.

The FSC is very concerned that the establishment of the National Disability Insurance Scheme (NDIS) and the National Injury Insurance Scheme (NIIS) could significantly reduce the willingness or desire of Australians to take out their own insurance against the risk of catastrophic injury or disability. In particular, the establishment of these two schemes could create the false perception within the community that, for example, income protection, total and permanent disability insurance and trauma insurance are no longer necessary.<sup>2</sup>

In this regard, the FSC proposes the following actions which could reduce the risk of this false perception occurring, namely:

- removal of the word 'Insurance' from the title of the two schemes; and
- the clear explanation by government (both at the time of the public launch of the schemes and on an ongoing basis) of the specific kinds of support services that are to be provided under the NDIS and the NIIS and how these differ from financial support provided by life insurance products.

On the first point, FSC members believe that avoidance of the term 'insurance' may assist in reducing the potential for people to become complacent, believing that there is no need to purchase adequate insurance cover such as total and permanent disability and income protection insurance. In order to better reflect the nature and scope of the proposed schemes, we would suggest the word 'insurance' in the title of both schemes be replaced, for example with 'support' or 'services'.

On the second point, the FSC submits that it is extremely important that any public information campaign about the two schemes makes it very clear that the schemes do not provide insurance style benefits such as replacement income or a lump sum that can be applied purely at the discretion of the recipient (for example, to retire debt, pay rent, pay school fees and/or invest in the establishment of a small business).

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<sup>1</sup> *Lifewise* is an industry-wide campaign that aims to encourage Australians to take appropriate steps to protect themselves from the financial hardship that can result from accident, sickness or death. *Lifewise* commissioned this research to measure the social and economic cost of underinsurance.

<sup>2</sup> For definitions of these life insurance products, please refer to the FSC's first submission to this inquiry of 3 September 2010.

As most working Australians have some form of life and/or risk insurance cover via a superannuation fund, the FSC also submits that upon the commencement of the NDIS and the NIIS the government could work with superannuation trustees to provide clear information to super fund members about the difference between those support services that would be provided under the two schemes, and the kind of risk cover (typically income protection and/or total and permanent disability insurance) that fund members have via their superannuation fund. This would be an important initiative to support the retention by super fund members of their existing levels of risk cover, and it could in fact encourage super fund members to ensure that their risk insurance within their superannuation fund was in fact adequate for their needs.

Similarly, it would be useful for the government to provide an information campaign targeted directly at superannuation trustees to ensure they are not discouraged from taking out group risk cover for their fund members due to the existence of the two schemes.

In considering the potential impact of a NDIS and a NIIS on the willingness of Australians to maintain private insurance against the risk of disability, and in determining the design and implementation of the two schemes, it is worth bearing in mind the implementation of the 30% private health insurance rebate to “softly compel” the maintenance of private health insurance in the wake of the establishment of Medicare.

The FSC further submits that if the scope of either the NDIS or the NIIS were to change over time, the effect of such changes on the propensity of Australians to self-insure against disability or catastrophic injury risk must always be carefully considered.

## **2. Funding for the schemes**

We note that the draft report identified a number of different funding options for the NDIS and that as part of exploring these options, the Productivity Commission has identified that there is the potential opportunity to cut state taxes, including stamp duty on insurance policies. The FSC would strongly support the abolition of these highly inefficient taxes.

The draft report proposes that the NIIS be funded from existing insurance premium income sources and through small increases in municipal rates. The FSC would welcome further clarity on the funding mechanism for the NIIS and the proposed interaction with insurance premiums.

## **3. Further general comments on the potential role of the life insurance industry**

FSC members look forward to close consultation with the government on the overall interaction between the two schemes and the private sector insurance market to ensure the best possible outcome for those people who suffer a disability or catastrophic injury.

As previously submitted, the FSC notes that Australian life insurers have a range of skills and expertise that could be used to support the prudent, efficient and effective operation of

a NDIS or NIIS. Such expertise includes asset and claims management which will be vital to the sustainability of the NDIS and NIIS.

The Australian life insurance industry will also be willing to discuss with government the potential for product developments that could better support and complement the NDIS and NIIS.

Finally, the life insurance industry is cognisant of the fact that there will be potential implications for existing insurance coverage and policies once the details of the NDIS and the NIIS become clearer and the process of drafting legislation is undertaken. In particular, the definitions of injury and disability and the eligibility criteria for the schemes may well overlay with existing insurance. The FSC will seek to work with government on the details of legislation to implement the two schemes to ensure the appropriate interaction between the schemes and private insurance cover for Australians.

We look forward to raising these matters in more detail with government once the Productivity Commission has made its final recommendations for this inquiry.

#### **4. Conclusion**

The FSC and its members thank the Productivity Commission for the opportunity to make a further written submission to this important inquiry.

Yours sincerely

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