Financial Services Council

Meeting of the Life Board Committee

Agenda

Life Board Committee meeting to be held on **Monday 4 September 2017**, from **12.00pm** to **1.30pm**, at FSC Level 24, 44 Market Street Sydney, followed directly by the FSC/APRA Liaison meeting from **1.30pm** to **3.00pm**.

Teleconference details
Telephone number: **1800 652 319**
Conference code: **6412 4390**

Item		Responsibility	Page	Action Required
1	**WELCOME, PRESENT AND APOLOGIES**	**Co-Chair**		
1.1	LCCC Business Plan and Budget	Nick Kirwan	Verbal	Resolution
2	**STANDING ITEMS**			
2.1	CEO Update	Sally Loane	Verbal	Noting
2.2	Life Board Committee Policy Priorities and Working Group Update	Jesse Krncevic	Page 3	Noting
3	**GENERAL BUSINESS**			
3.1	APRA/ASIC Claims Handling Data Collection Update	Jesse Krncevic	Page 9	Noting
3.2	Insurance in Superannuation Working Group (ISWG) Code of Practice	Nick Kirwan	Page 11	Noting
3.3	Embedding the Life Code and the Scope of Life Code 2.0	Nick Kirwan	Page 14	Noting
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3.5	Industry Data Update	Jesse Krncevic	Page 21	Noting
4	**OTHER BUSINESS**			
4.1	LBC/APRA Liaison Meeting	Co-Chair	Page 109	Noting
5	**MEETING NOTES**			
5.1	Meeting Notes of the FSC Life Board Committee meeting held on Thursday 22 June 2017	Co-Chair	Page 111	Resolution
6	**CLOSE** The next meeting of the FSC Life Board Committee will be held on **Monday 13 November 2017 from 2.30pm to 4.00pm**	**Co-Chair**		

Co-Chairs
Brett Clark
Damien Mu

ATTENDEES		Meeting Attendance	Attendance record 2017
Brett Clark (Co-Chair)	TAL Life Limited	Attending	3/4
Damien Mu (Co-Chair)	AIA Australia Limited	Attending	3/4
Andres Webersinke	General Reinsurance Life Australia Ltd		2/4
Andrew Linfoot	Munich Reinsurance Company of Australasia Limited	Apology	3/4
Anna Gladman	Hallmark Life Insurance Company Limited	Attending	2/4
Anthony Brown	NobleOak Life Limited	Attending	0/4
Christopher McHugh	Suncorp Life Limited	Attending	2/4
Chris Plater	Challenger Life Company Holdings Pty Ltd		1/4
David Hackett	MLC Life Insurance	Attending	3/4
Deanne Stewart	Metlife Insurance Limited		3/4
Dion Russell	SCOR Global Life Australia Pty Ltd	Attending	3/4
Gerard Kerr	ANZ Wealth Australia Limited	Attending	3/4
Gerd Obertopp	Hannover Life Re of Australasia Ltd		3/4
Helen Troup	CommInsure	Attending	2/4
Justin Delaney	TAL Life Limited		0/4
Mark Senkevics	Swiss Re Life and Health Australia Limited		2/4
Mark Stewart	RGA Reinsurance Company of Australia Limited	Attending	2/4
Matthew Way	St Andrew's Life Insurance Pty Ltd		2/4
Megan Beer	AMP Limited		3/4
Simon Swanson	ClearView Wealth Limited	Attending	3/4
Sue Houghton	BT Financial Group	Apology	3/4
Tim Bailey	Zurich Financial Services Australia Ltd		3/4
FSC Secretariat			
Sally Loane	Chief Executive Officer	Attending	
Allan Hansell	Director of Policy	Attending	
Paul Callaghan	General Counsel	Attending	
Mel Toomey	Senior Policy Manager	Attending	
Jesse Krncevic	Senior Policy Manager	Attending	
Nick Kirwan	Policy Consultant	Attending	
Brian Francis	Consultant Secretariat	Attending	

2. STANDING ITEMS

2.2	**Life Board Committee Policy Priorities and Working Group Update**
Reporting Officer:	Senior Policy Manager Jesse Krncevic
Paper provided:	Life Board Committee Policy Priorities and Working Group update
Action required:	To discuss and **NOTE** the update for inclusion in the next FSC Board papers.

LIFE BOARD COMMITTEE POLICY PRIORITIES AND WORKING GROUP UPDATE

For Approval

Life Board Committee Mandate

This Committee has responsibility for developing the FSC's strategies and policies in relation to life insurance.

The Committee's objectives are to:

- develop policies and standards for the life insurance industry to support the provision of affordable and appropriate life insurance and financial protection for Australians;
- encourage and support the industry to continually improve its efficiency and effectiveness for the benefit of its consumers;
- improve levels of consumer awareness of the value of adequate levels of life insurance;
- support and promote underwriting practices that are based on a fair and evidence-based assessment of risk;
- maintain and increase consumer confidence in the life insurance industry; and
- continually advocate an appropriate regulatory and tax regime to ensure the most efficient delivery of life insurance products to Australians.

The Committee has oversight of the FSC's relationship with relevant regulators and State and Federal government departments that have responsibility for life insurance, including: the Australian Prudential Regulation Authority (APRA); Australian Securities and Investments Commission (ASIC); the Department of Treasury and State revenue offices.

The Committee also is the overarching governance body for the Financial Services Council's Investment working groups. Updates for these groups are below.

Life Policy Priorities 2017

1. Finalising the life insurance remuneration reforms to reduce conflicts of interest
2. Improving group insurance in superannuation by developing FSC policy positions to reform group insurance and incorporate trustees into the Life Insurance Code of Practice
3. Developing consistent claims reporting and better insurance data including mental health data which will assist industry and provide a factual basis for responding to industry concerns regarding industry claims practices
4. Embedding the Life Insurance Code of Practice (Code) and establishing the Code Compliance Committee
5. Developing the following areas for the Code – minimum medical definitions, ASIC approval of the Code, funeral insurance and mental health initiatives that respond to concerns about discrimination in insurance
6. Removing regulatory barriers to improve the life insurance industry

LIFE WORKING GROUP UPDATE

Summary - Active Working Groups Meet regularly (at least once during the year).	
1.	Group Insurance
2.	Lapse Reporting
3.	Life CCI
4.	Life Code of Practice
5.	Life Regulatory Affairs
6.	Mental Health
7.	Underwriting and Claims
8.	Life Insurance Inquiry
9.	Direct Insurance (New)
10.	APRA Claims Reporting

1. Group Insurance

Last met: 3 August 2017

- Working group considered the ISWG draft Code and discussed the FSC's submission to the Productivity Commission.

Next meeting: 31 August 2017

2. Lapse Reporting

Last met: 16 February 2017

- The Lapse Reporting WG has been providing feedback to ASIC for the Lapse Notice which is being issued in August 2017 from ASIC to insurers. Members provided feedback to proposed changes.
- We understand ASIC have incorporated the changes requested and have commenced issuing notices to life insurers.

Next meeting: TBA

3. Life CCI

Last met: 11 July 2017

- At the last meeting the group identified the following issues to take forward: Aligning with other industry bodies, Value for money (low loss ratios), Single premiums, Sales practices, Deferred sales model, Risk of contagion and ASIC reviewing their 2011 Report.

Next meeting: W/C 4 September

4. Life Code of Practice

Last met: 25 April 2017

- Code Transition working group participating in ongoing meetings to facilitate code transition.

Next meeting: Currently meeting weekly

5. Life Regulatory Affairs

Last met: 8 May 2017

- Working group finalising electronic disclosure submission.

Next meeting: TBA

6. Mental Health

Last met: 2 June April 2017

- Tim Bailey and Mark Senkevics are the new Co-Chairs of the working group.
- This group is currently working with KPMG to develop a research proposal and an industry-wide impairment data collection.
- This group is also developing a roadmap for the FSC Mental Health Roundtable working groups to present to beyondblue and MHA on 23 June

Next meeting: Currently meeting fortnightly.

7. Underwriting and Claims

Last met: 8 March 2017

- Working group discussed potential priorities for 2017.

Next meeting: TBA

8. Life Insurance Inquiry

Last met: 9 November 2016

- This group may meet to finalise FSC's third PJC submission.

Next meeting: TBA

9. Direct Insurance

Last met: 15 February 2017

- Discussion of ASIC's direct insurance review taking place in 2017 and discussion regarding the direct insurance market segment.

Next meeting: No further meetings at this stage.

10. APRA Claims Reporting

Last met: 1 August 2017

- This group will be convening to discuss APRA's Phase 2 data collection.

Next meeting: TBA

Summary - Dormant Working Groups Not currently meeting. When an issue emerges which requires attention, groups will be reactivated.	
1.	Disability Working Group
2.	Data standards sub group

LIFE POLICY UPDATE

1. Life Insurance Inquiry

The FSC lodged its supplementary submission to the Parliamentary Joint Committee (PJC) on Corporations and Financial Services (PJC) life insurance inquiry to address some of the concerns raised by stakeholders during the hearings. The FSC held a series of briefings with PJC members to discuss some of their concerns.

The FSC is developing a third submission to the PJC on the use of genetic tests by the life insurance industry.

2. ASIC Lapse Reporting

ASIC advised the FSC in February that Lapse reporting to ASIC would be postponed until June 2017. The FSC is awaiting further feedback from ASIC regarding changes to the next Lapse reporting notice. The FSC will update the Lapse Reporting WG with information of any changes to the Lapse notice once ASIC has made a decision.

3. Unfair Contract Terms

The Australian Consumer Law's recent final report made a proposal to apply Unfair Contract Terms (**UCT**) protections to contracts regulated by the *Insurance Contracts Act 1984* (Cth), specifically, contracts of life insurance.

The FSC lodged a submission to the Legislative and Governance Forum on Consumer Affairs (CAF) Ministers responsible for fair trading and consumer protection laws to express the industry's concerns with the proposal.

The FSC has held a series of briefings with CAF members to discuss the industry's concerns.

4. APRA and ASIC Life Insurance Claims Reporting

Members have now submitted their Phase 1 claims data to APRA and ASIC. Phase 2 data collection is likely to commence in 2018 in quarter 1.

FSC has lodged a submission to respond to APRA's discussion paper 'Towards a transparent public reporting regime for life insurance claims information'.

5. CCI

There have been a number of recent high profile cases in the media of ASIC reporting that firms are refunding premiums to policyholders of CCI (and other policy types). In the light of these developments, the WG looking at Code 2.0 should consider any strengthening of the Code in this area as part of the wider strategy on CCI.

6. Collaborative Partnership for Work Participation

Comcare administers the Commonwealth's workers' compensation scheme. Comcare has established an initiative “Collaborative Partnership for Work Participation” which includes establishing a cross-sectoral national partnership to improve work participation by using the evidence of health benefits of work to improve return to work and stay at work.

Comcare has undertaken consultations nationally to develop a shared agenda, and have an outline of a program of work.

Comcare has issued invitations now to the ICA, ASFA, leading employers, Safe Work Australia, Department of Employment and Department of Social Services.

Comcare is asking that the FSC contribute $250,000 to participate in the Collaborative partnership.

RECOMMENDATION: That the Board Committee **NOTE** the report for inclusion in the FSC Board papers.

3. GENERAL BUSINESS

3.1 **APRA/ASIC Claims Handling Data Collection Update Claims Update**

Reporting Officer: Senior Policy Manager Jesse Krncevic

Paper provided: APRA/ASIC Claims Handling Data Collection Update Claims Update

Action required: To read and **NOTE** the APRA/ASIC Claims Handling Data Collection Update Claims Update report.

APRA/ASIC CLAIMS HANDLING DATA COLLECTION UPDATE

For Noting

Issues

- APRA and ASIC are wanting to collect and publish claims handling data on an ongoing basis

Discussion

1. Background

The FSC identified late last year, on the back of ASIC's 498 report on claims handling, that it was important for the industry to be more actively involved in APRA/ASIC's review of the claims handling data reporting.

The FSC established the APRA Claims WG to develop consistent claims definitions for the industry and to provide the regulators with guidance on the claims data collection.

In Phase 2, APRA will have refined the PHASE 1 claims data collection framework to ensure that the data collected is more comparable between insurers.

The FSC lodged its submission in response to the APRA discussion paper – Towards a transparent public regime for life insurance claims information.

As part of its submission, the FSC proposed:

- Appropriate publication of claims information based on consumer testing, which found that consumers only want to see claims paid and claims denied.
- Standardised claims information representation across the industry
- FSC to publish aggregate data on its website
- Individual insurer to present their own claims data using the industry standardised format
- An industry-led data collection mechanism (this will be discussed in more detail in the industry data agenda item)

2. Next steps

The FSC will continue to engage with APRA and ASIC to negotiate what claims data should be made publicly available, how it should be presented, and an industry-led data collection mechanism. The FSC and its members will continue to feedback queries or concerns to APRA and ASIC as they arise.

3. Future decisions

The LBC may need to make future decisions about matters such as industry-led data collection.

3. GENERAL BUSINESS

3.2	**Insurance in Superannuation Working Group (ISWG) Code of Practice**
Reporting Officer:	Policy Consultant Nick Kirwan
Paper provided:	Insurance in Superannuation Working Group Update
Action required:	To read and **NOTE** the Insurance in Superannuation Working Group (ISWG) report.

THE INSURANCE IN SUPER WORKING GROUP (ISWG) CODE OF PRACTICE

For Noting

Issue:

The ISWG Code of Practice for Trustees.

Recommendation:

The LBC is asked to **Note** the progress of the ISWG in developing a Code of Practice for Trustees and is invited to discuss and comment on the current key issues.

Discussion:

1. Progress

The ISWG has now decided that the ongoing Code will be managed by the combined trade associations that make up the ISWG under an MoU.

Since the last LBC meeting in June, the ISWG Governance Board has established a new sub-group to draft the Code. This Code WG is Chaired by Andrew Howard (Rest) and supported by Sarah Phillips who drafted the existing FSC Life Code. Nick Kirwan represents FSC on that WG.

Since its formation, the sub-group is meeting at least fortnightly (sometimes weekly) to make progress, with a significant amount of work between meetings. It has now produced a full draft end to end Code.

The draft Code has obligations for Trustees regarding insurance in super and is structured to address, amongst other things, the following key concerns:

- Payments by insurers to trustees
- Account balance erosion, particularly for certain groups such as young members
- Low member engagement
- Duplicate cover in multiple accounts
- Claims handling

2. Key Issues

To date, the Governance Board has looked to resolve a number of key issues. Of these, the issues that have caused most attention are as follows:

2.1 How to ensure all trustees sign up

At the heart of the issue is the fact that, unlike FSC, the other trade associations that make up the ISWG do not have powers to bind their members. Additionally, trustees have a legal obligation to put the interests of their members first whereas some obligations in the current Code can conflict with this – for example, automatically cancelling cover.

At present, the (other) trade associations are exploring whether they can introduce binding powers.

2.2 Premium Caps

At the heart of the account balance erosion issue is ensuring that premiums are sustainable and affordable. Accordingly, the ISWG is committed to introducing a premium cap.

The current proposal for consideration is having a cap of 5% of SG for under-25s, and a lifetime cap of 10% of SG for everyone. However, these are proving highly controversial.

Of 14 funds considered, the ISWG estimates that 4 would not currently comply with the proposed lifetime cap, and 9 would not comply with the proposed under-25s cap.

2.3 What governance to implement

FSC has proposed extending the scope of LCCC (and perhaps re-naming it) to include the monitoring and governance of the ISWG Code for Trustees. However, there are strongly held views within the ISWG Governance Board that a new, separate Code Compliance Committee should be established.

As the implementation date of the ISWG Code is not imminent, this decision is not currently a high priority, although it is likely to need to be resolved in the coming months.

Nick Kirwan
24 August 2017

3. GENERAL BUSINESS

3.3	**Embedding the Life Code and Scope of Life Code 2.0**
Reporting Officer:	Policy Consultant Nick Kirwan
Paper provided:	Embedding the Life Code and Scope of Life Code 2.0
Action required:	To read and **NOTE** the Embedding the Life Code and Scope of Life Code 2.0 report.

EMBEDDING THE LIFE CODE AND THE SCOPE OF LIFE CODE 2.0

For Noting and Discussion

Issue:

Embedding the Life Code and the scope of Life Code 2.0.

Recommendation:

The LBC is asked to **Note** the update on embedding the Life Code of Practice and discuss the scope and timescale for Life Code 2.0.

Discussion:

1. Embedding the Life Code

Since the last LBC meeting, the Life Code has fully come into effect. This has meant the following:

- All 22 Code subscribing members completed their adoption letters to LCCC and FSC on time.
- The LCCC has now fully come into operation and has had its first formal meetings.
- The have been 7 instances of self-reported systemic Code breaches.
- LCCC has started to engage with members.
- FSC has started discussions with LCCC about operational issues, such as its website, reporting and complaints.

The Code WG continues to meet to gather and record any implementation issues and is looking at developing a checklist for reporting breaches.

2. Life Code 2.0

Work has now started on scoping out the requirements of Code 2.0 with the intention of publishing it around July 2018 for implementation in 2019. The Code WG has monthly meetings in the diary for the year ahead.

FSC has already made public commitments about some enhancements such as mental health. FSC has had a first Code meeting with MHA, PIAC, superfriend and beyondblue and further meetings are scheduled.

Possible other areas for consideration in Code 2.0 are:

- Fixes to matters arising
- Changes to complement the ISWG Code, such as standard TPD & IP wordings

- Further work on the medical trauma definitions, such as reviews, pass-backs, other conditions?
- Strengthening the CCI provisions
- Strengthening the Funeral Plan provisions
- Reviewing the provisions on claims authorities
- Including examples to illustrate principles

Nick Kirwan
24 August 2017

3. GENERAL BUSINESS

3.4 **Mental Health Working Group Update**

Reporting Officer: Senior Policy Manager Jesse Krncevic

Paper provided: Mental Health Working Group Update

Action required: To read and **NOTE** the Mental Health Working Group Update report.

MENTAL HEALTH WORKING GROUP UPDATE

For Noting

1. Background

FSC Mental Health Working Group

The mental health working group has been convening fortnightly.

The working group has been focusing on the Biopsychosocial (BPS) research project, overseeing activity of the FSC mental health roundtable (including working groups), industry impairment data, code 2.0 (mental health obligations) and mapping out individual insurer mental health initiatives.

FSC mental health roundtable – Working Groups (next roundtable will be taking place on the 18th September 2017)

Mental health roundtable – Code working group

The first WG meeting with PIAC, MHA and beyondblue was held a few weeks ago.

The purpose of the meeting was for the stakeholders to suggest mental health obligations that they would like included in Code 2.0.

Mental health roundtable – Broader strategy WG

We held the first working group meeting with beyondblue, Mental Health Australia, the beddoes institute, Australian Medical Association, Royal Australian and New Zealand College of Psychiatrists and SuperFriend a few weeks to update the member to update the group on the Code working group (roundtable WG) and other FSC developments.

The FSC developments discussed included:

- the biopsychosocial research
- mapping out of insurer specific mental health initiatives
- Early intervention policy
- Industry data

We anticipate that this working group will be an advisory group to review FSC mental health initiatives and to raise potential mental health consumer issues as they arise.

2. Work in progress

BPS Research update

FSC and KPMG held a teleconference call with beyond blue and MHA regarding the research scope of the BPS research. The feedback was overwhelmingly positive and they asked for some immaterial changes.

The intention is for the FSC to co-brand the research with beyondblue and MHA.

The next steps are to convene a steering group consisting of FSC mental health working group members, Sally Phillips (TAL) and Joanne Graves (AIA), academics, workers compensation experts, MHA and beyondblue for the research.

The steering group will evaluate the research methodology initially, then convene periodically to review:

- stage 1 (grey literature review and interviews);
- stage 2 (collation and evaluation); and
- stage 3 (documentation and evaluation).

A timeline for delivery of the research will be circulated to the LBC once it has been developed by KPMG.

Industry Impairment data

(see item 3.5 of the board papers)

Early intervention policy development update

Although early intervention (formerly known as targeted rehabilitation) is an existing FSC policy , we have asked Mental Health Australia, beyondblue and Public Interest Advocacy Centre to endorse the policy.

We are making immaterial changes to the policy in order to secure their formal endorsement.

Mental health initiatives on a per company basis

Based on our previous survey of Mental Health initiatives on a per company basis, the FSC was able to produce the slides attached with Mental Health Australia and beyondblue.

As a follow up to the initial exercise, the Mental Health WG would like to determine the level of progress that has been achieved by each company for each particular MH initiative in the spreadsheet.

The aim is to be able to quantify the level of industry progress for each MH initiative (i.e. whether the initiative is established or well-embedded/ in progress/no (for not addressed). The FSC would then overlay market share on the level of industry progress for each MH initiative.

3. Future decisions

The LBC will need to make future decisions about matters such as approving major mental health initiatives with mental health stakeholders.

3. GENERAL BUSINESS

3.5 **Industry Data Update**

Reporting Officer: Senior Policy Manager Jesse Krncevic

Paper provided:
A. Industry Data Update
B. Super Choice Proposal
C. KPMG Proposal
D. KPMG Additional Annex

Action required: To read and **APPROVE** a proposal.

INDUSTRY DATA UPDATE

For Approval

Background

One of the top priorities for the LBC in 2017 is to develop a framework/platform to collect better life insurance industry aggregate data. Better industry data will allow for the life insurance industry to start rebuilding.

The FSC would like to explore the concept of leveraging both the existing data captured but also (centralising and coordinating) the APRA/ASIC claims reporting data which is required moving forward. APRA has made it clear in its discussion paper, that they would encourage the industry to suggest an industry-led data collection mechanism. This presents the industry with a 'once in a lifetime' opportunity to establish such a mechanism, where historically regulators collected this data.

The FSC would anticipate that the data collection will provide industry wide statistics on claims paid by line of business and on a wide range of impairments, including on Mental Health conditions. The impairment data project will seek a coordinated and proactive approach to the data collection to minimise the impact and burden of such data collection on the industry.

The view is for the FSC to own the data provided by individual companies, (similar to what is done in other regions around the globe and the existing FSC genetic testing underwriting database), which is then aggregated by a consultant to provide reporting, and potentially analysis.

In owning the data and meeting the APRA/ASIC obligations, the FSC will be able to provide the report to industry stakeholders before it being released to the wider community. This will ensure a consistent methodology in reporting across the industry and allow for any industry outliers to understand the reasons why they differ before the report is released.

The data captured also presents an opportunity to commence rebuilding the trust of the industry within the wider community, beyond what is need to satisfy APRA/ASIC's requirements, simply by producing additional (facts/experience based) material which transparently showcases the benefits of life insurance and the good work the industry does (e.g. no. claims paid, individuals impacted, dollar value, segmented by line of business and channel, and if possible by impairment incl. mental illness - which provides a medium for the industry to unbiasedly exhibit the impact of mental illness on the industry).

We would expect the data requirements and quality to improve over several reporting iterations, with a target data reporting state to be achieved in three years.

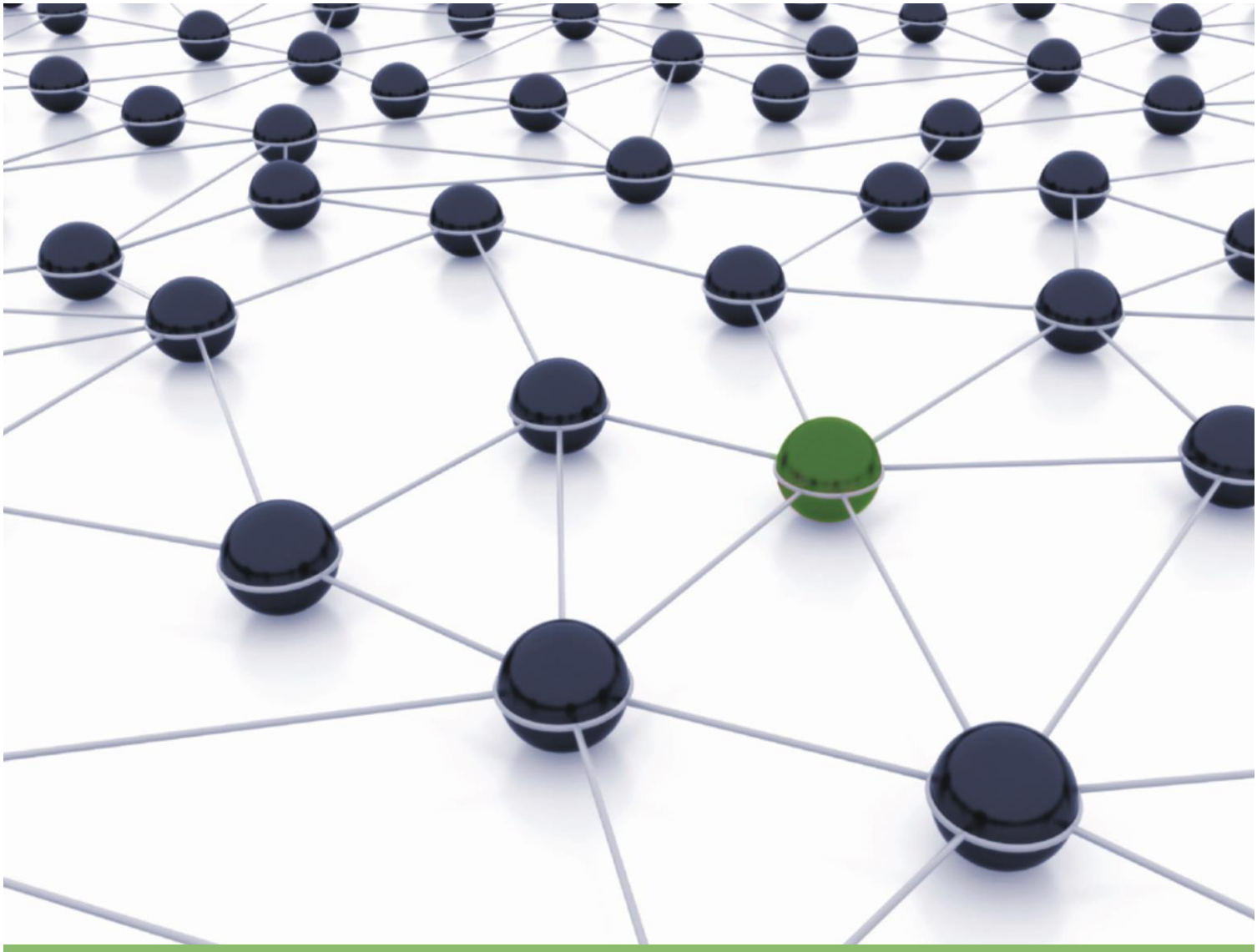
Two consultants have approached the FSC with possible solutions for the industry. The costs, suggested solutions and the FSC recommendation are summarised below.

RECOMMENDATION: Both consultants have submitted very good proposals for an industry data collection mechanism. The FSC is of the view that the KPMG proposal as presented is better value for money and has substantial additional benefits such as analysis of the data prior to regulator

submission, the provision of three mental health research projects over three years (with an estimated value of $300,000) while leveraging existing data collection mechanisms.

For these reasons, we would recommend that the LBC approve KPMG as the sole provider of the industry data collection mechanism

Consultant	Costs	Overview	Governance structure	Is analysis of data offered?	Future vision	Extras
SuperChoice	**Set-up** $450k **Ongoing** $53k per year	• More granular data than APRA/ASIC – in real time or periodically (monthly) – in preferred format by insurer • Leverages existing SuperChoice technology • Will not analyse data and interpretation of data • Design of platform to be finalised by end of 2017	✓ **Steering committee WG** – comprised of C-Suite for oversight **Technical WG** – life insurance technical data experts	✗	✓ • Potential for extension of access to advisers and licencees • Updating policyholder personal details • Monitoring of claims in real time • Validate claims history of consumer • Fraud prevention	✗
KPMG	**Set-up** $0 **Ongoing** $20k per year (on existing costs for DI and Lump Sum investigation ($52,259))	• Better data to help industry advocacy • Satisfy regulatory reporting requirements at both an entity and aggregate industry level • Better underwriting and claims data • Providing both high level and more granular data insights beyond experience and regulatory data reporting • Moving towards consistent and possibly real-time data • Improving underwriting, risk assessment and client outcomes for mental health • Leveraging existing data collection method	✓ **Steering committee WG** – comprised of C-Suite for oversight **Technical WG** – life insurance technical data experts	✓	✓ • Third party data sharing – to increase industry transparency • Real-time claims data submission • Fraud detection capability • Analysis linking underwriting decision and claims outcomes using additional data from automated underwriting engines • Development of lapse data and analysis, which may seek to further streamline data submission by removing the duplication with the ASIC data submission	✓ 1. KPMG has offered at no extra cost to include three mental health research projects over three years, at an estimate value of $300,000. 2. Advocacy dashboard for the FSC



FSC FINANCIAL SERVICES COUNCIL

Proposal for the Provision of Life Insurance Data Collection Services "LIDEx"

SuperChoice
Innovative Solutions for Superannuation e-Commerce

Commercial in Confidence

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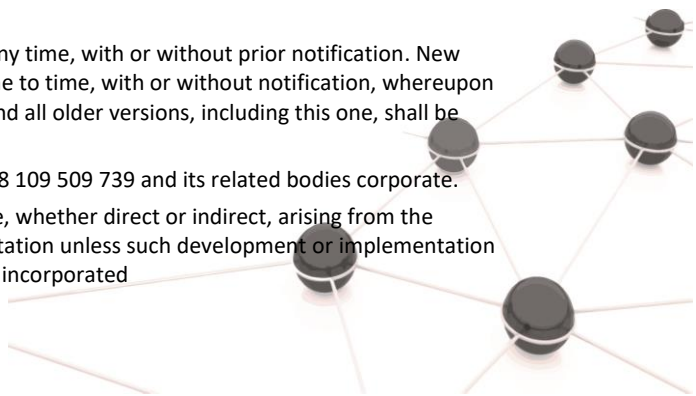

Proposal Contact Details

Date	7 August 2017	
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Executive Summary

This proposal responds to the FSC's invitation of 31 July 2017 to propose on providing a life insurance data collection service (refer to Appendix A for FSC Invitation document).

The FSC is proposing a data collection service that will serve both the industry and APRA Phase 2 requirements. We will therefore consider APRA's criteria in addition to the FSC's requirements.

Late last year, SuperChoice began engaging with a range of insurers to establish Life Insurance Data Exchange (LIDEx), an industry data and transaction utility. The first phase of LIDEx was originally designed to be a retail and direct policy register, followed by a claims register and group life functionality. This direction however pre-dates the 8 May 2017 APRA discussion paper as well as the FSC project.

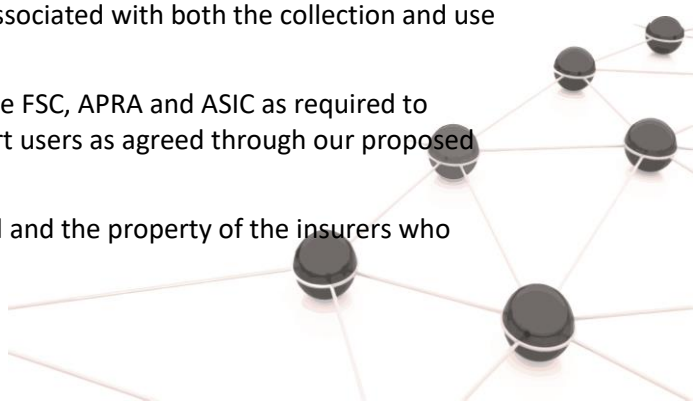
In response to APRA and FSC requirements, we propose to provide the FSC Data Collection Service via a modified LIDEx solution that will:

- incorporate the claims register simultaneously with the policy register and include insurer-based group life policy and claims information
- target the initial functionality to meet the APRA and FSC requirements

Proposal - key features

The main features of our proposal to use LIDEx to operate an industry-led solution for data collection include the following:

- LIDEx will be operated by SuperChoice, a transaction data technology specialist that has an almost 20 year track record of successfully partnering with financial services companies to establish industry solutions over time – an essential pre-requisite for this journey
- LIDEx will provide a level of data granularity that will initially match or exceed the level of detail being sought by APRA and ASIC and which is also readily extensible in the future
- The ability to ensure timeliness, completeness and accuracy of the data collected with LIDEx collecting data from individual insurers in real time or periodically (minimum every month)
- A timely implementation arising from the background work and preparation done to plan and prepare for LIDEx during 2017 (before publication of the May APRA paper)
- The solution will leverage the existing SuperChoice platform and associated technology and systems to ensure reliability of systems performance along with protocols and protections for data security, confidentiality and privacy
- LIDEx will incorporate a governance and management approach that gives the FSC and insurers control over strategic data questions associated with both the collection and use of the data held
- SuperChoice will willingly work with insurers, the FSC, APRA and ASIC as required to optimise the data collection process and support users as agreed through our proposed governance process
- An assurance that the data remains confidential and the property of the insurers who supply the data



- An independence and absence of conflicts of interest, as SuperChoice sees the data collection and its availability to the industry and regulators as an industry service, not a vehicle to enable SuperChoice to offer consulting services

The above features are elaborated upon in the remainder of this proposal.

The FSC has requested specifically that we propose -

1. a model for the proposed industry data collection
2. costings
3. clear timeline for initial data collection implementation
4. roadmap for improvements to data collection regime over three years

Our proposal explores firstly APRA's objectives and also potential efficiency gains and cost savings to the industry. It then goes on to cover the four items above and associated topics.

APRA's objectives and potential industry benefits

This topic lies at the heart of the rationale for the proposed industry data collection and underlies both the FSC invitation document and our proposal.

Rather than summarise the position here, it is elaborated in the pages immediately following this Executive Summary.

Our Proposed Model

The model is described in two parts: *functionality and service*; and *operating framework*.

Regarding *functionality and service*:

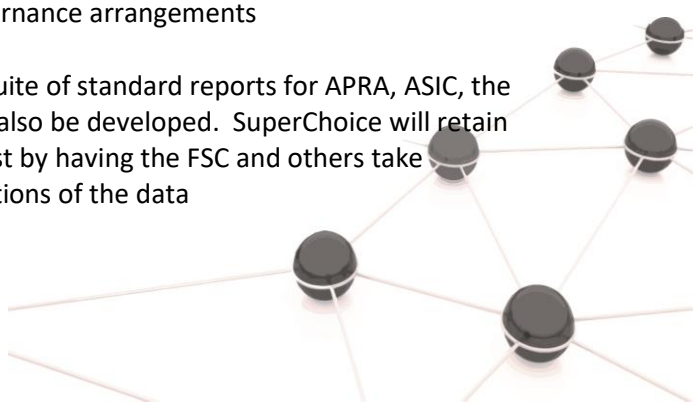
- We are proposing to use SuperChoice's proven *platform and systems* to implement and then operate LIDEx. Initially LIDEx will comprise a policy register and claims register for all insurers that is updated at least monthly

- We are considering basing the *data specification* on the ACORD standard already in use by several insurers but the standard will need to be developed in conjunction with APRA and the FSC to ensure that all requirements are met

- On data submission, insurers will transmit their data in their own preferred format, either in real time or by monthly input, and LIDEx will translate that data to a common format for submission to APRA and to use as agreed from time to time with the FSC and with insurers

- Access to the data held within LIDEx is via a portal to which the FSC, APRA and individual insurers have access to in accordance with the governance arrangements

- As to reporting services, LIDEx will offer a defined suite of standard reports for APRA, ASIC, the FSC and individual insurers. Additional reports can also be developed. SuperChoice will retain its independence and absence of conflicts of interest by having the FSC and others take responsibility for arranging analyses and interpretations of the data



Regarding the *operating framework*:

- Effective *governance and management* of LIDEx is crucial to its success as a timely, cost-effective and competent service to the FSC, insurers and reinsurers, APRA and ASIC

  SuperChoice will be requesting the FSC to assist with establishing an *Advisory Board* for LIDEx. Its main role will be to consider strategic questions about the development of LIDEx including matters relating to ASIC and APRA as well as to the FSC and insurers.

  A key feature of the appointment of an Advisory Board is that it puts the current and future direction of the data collection service in the hands of the FSC and the industry itself.

  SuperChoice is also proposing to create the *LIDEx Technical Group*. While we have extensive expertise in financial services technology and will design and build the LIDEx system, there also needs to be strong and capable specialist life insurance expertise to supplement SuperChoice's expertise. The Technical Group will have a major role during the design and development stages of LIDEx.

- Successful delivery of the data collection service will rely not only on SuperChoice's resources but also on insurers and the FSC each meeting a set of obligations relating to management of the project

  Insurer obligations during development will include providing relevant advice and assistance to SuperChoice staff to ensure the correct functionality, conduct testing and assisting with resolving any functional issues.

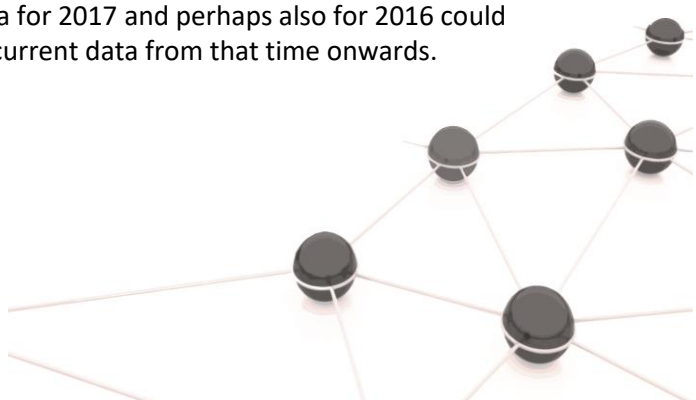
  FSC obligations will involve the need to commit the necessary skilled resources and management attention to support SuperChoice's work. Activities include authorising and providing access to stakeholders and staff, facilitating access to insurer staff, ensuring effective cooperation with SuperChoice and coordinating the involvement of FSC and insurer representatives as required.

  For successful project delivery, it will also be important that the FSC is able to meet these obligations in a timely manner.

- The SuperChoice *project team* has a strong combination of relevant systems and insurance industry knowledge and expertise. The core members of our team are Stuart Korchinski (Engagement Manager), John Trowbridge (Senior Adviser) and Ian Gibson (Project Manager)

Timeline and implementation plan

SuperChoice expects to complete the design and commence development before the end of 2017. We then expect to complete the development and begin implementation and operation from 1 July 2018. Subject to insurer constraints, all insurer data for 2017 and perhaps also for 2016 could be collected during the second half of 2018 along with current data from that time onwards.



Roadmap for improvements over three years

It is not yet clear how much improvement might be needed to the data collection system once it is established. SuperChoice expects the model to be fully operational by the end of 2018 but we note that the LIDEx model is also extensible according to the future needs, plans and wishes of insurers and the FSC.

Proposed Costing and Commercial Arrangements

We are envisaging a contractual arrangement with the FSC which covers design and implementation and the first three years of operating LIDEx.

Design and implementation: To establish LIDEx as an operating service requires SuperChoice to carry out three phases: Initiation, Build and Test & Pilot. We estimate that the professional time required across these three phases is more than 450 man-days over a nine month period. At an average fee rate of $1,000 per day, we foresee each of these phases costing an estimated $150,000 or $450,000 in total over the nine months. We've chosen to discount our usual fees by 33% to reflect our commitment to the initiative. We are happy to discuss in further detail the assumptions underpinning this level of resources.

SuperChoice can undertake this setup work on a fixed price basis following confirmation of project scope.

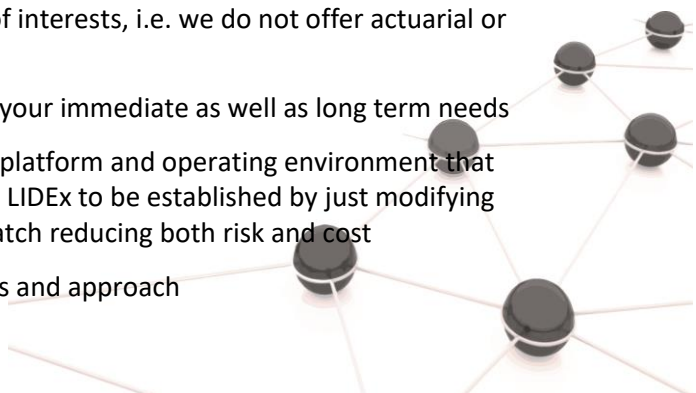
Operating costs: Based on our current understanding, we estimate the annual operating costs covering staff, software licenses, systems, communications, data storage, support, maintenance along with continuing governance and management to be in the range $500,000 to $800,000 p.a., pending review and confirmation once the Initiation Phase is complete. Across the FSC's membership of over 25 life insurers and reinsurers, these total annual costs are equivalent to an approximate average of $20,000 to $30,000 per member or something less than $2,500 a month.

These estimates and the associated assumptions are elaborated in the proposal.

Why Select SuperChoice?

SuperChoice is uniquely positioned to leverage its LIDEx solution to satisfy the FSC's and APRA's requirements. SuperChoice:

- has a track record of enduring partnerships including 15+ year relationships with several FSC members including AMP, ANZ and Mercer - we believe that this is a critical pre-requisite for success for the proposed Data Collection Service
- partners with several other FSC members, such as TAL, AIA, Suncorp, MLC and Zurich
- has a sound understanding of the industry's and the regulators' needs
- is independent and does not have any conflict of interests, i.e. we do not offer actuarial or consulting services
- can quickly leverage existing capability to meet your immediate as well as long term needs
- has an established service oriented architected platform and operating environment that is composed of modular capability which allows LIDEx to be established by just modifying core components rather than building from scratch reducing both risk and cost
- is flexible regarding structure, commercial terms and approach



APRA Objectives and Potential Industry Benefits

As explained in its discussion paper issued on 8 May 2017, APRA proposes to collect detailed data on policies, claims and disputes, on behalf of ASIC and APRA. To quote from the paper:

> "The agencies' objectives (for Phase 2) … are to:
>
> - improve accountability and performance of life insurers; and
> - facilitate an informed public discussion about the performance of the life insurance industry."
>
> "The aim is to achieve these objectives through publication of credible, reliable and comparable data."
>
> "…comment is invited on:
>
> - The best way for insurers to provide data for Phase 2, having regard to the objectives
> - Whether an alternative approach to data collection in Phase 2, such as an industry-led approach, should be considered."
>
> "When proposing an alternative, stakeholders are encouraged to articulate how the alternative would meet the data collection objectives, together with any efficiency gains and cost savings that would flow from the alternative."

In summary, APRA is asking what is the best way for insurers to provide data and should an industry-led approach be considered?

An industry-led approach?

SuperChoice believes that:

- the best solution for all parties (the FSC, insurers and reinsurers, APRA and ASIC) is an industry-led approach, for reasons noted in the FSC Invitation Document and for further reasons explained below, and
- a powerful and cost-effective industry approach is the proposed LIDEx model

A useful introduction to LIDEx, before explaining it in full, is to compare it with an APRA data collection and to look at efficiency gains and cost savings that can be achieved.

How would the LIDEx model meet the APRA objectives?

A brief comparison of the APRA approach and an industry-led data collection based on LIDEx demonstrates some important functional differences:

APRA data collection	LIDEx data collection
APRA leads data definition alignment	Insurers lead data definition alignment
All insurers amend systems, as required, to send data to APRA at regular intervals, say quarterly	All insurers send data to LIDEx, either in real time or at least monthly
APRA collates and checks the data, undertakes analysis for itself and ASIC	LIDEx collates, checks, cleanses and aligns the data continuously
The two agencies publish analyses and reports of their choice	At the end of each APRA data collection period, LIDEx submits data to APRA based on their needs

The LIDEx data collection service will meet all of APRA's requirements, as illustrated in this table, and which also delivers valuable additional benefits to APRA as well as to the FSC and industry.

Are there efficiency gains and cost savings if the LIDEx model is adopted?

Efficiency gains and cost savings will emerge for all participants as a result of the following differences between an APRA data collection and the LIDEx model.

If data collection were to be undertaken by APRA, then:

- APRA will decide what is to be collected and when, what is to be published and when
- APRA will consult with the FSC and insurers but ultimately decide all the details
- Insurers will only have access, on a company and industry basis, to reports set by APRA

By contrast, important attributes of the LIDEx data collection service and underlying systems, for the benefit of both APRA and the industry, are:

- LIDEx collects a more comprehensive range of data (i.e. not restricted to APRA input or output) and available more often
- Flexible usage (i.e. insurers interact directly with LIDEx for a variety of analysis & reporting)
- LIDEx acts as "translator" and accepts data in any agreed format (i.e. each insurer can use its own format, with LIDEx translating the data to APRA's required format)
- Insurers have full access and control of the underlying data (i.e. insurers can validate not only the data but also interpretations of the data by regulators and others)
- FSC and Insurers can respond effectively to regulators, governments, consumer groups, the media and others (either whole of industry or by company)
- LIDEx provides extra functionality of benefit to insurers, advisers, licensees, policyholders, claimants and others
- LIDEx can facilitate introducing a common data standard for the industry
- Governance by the industry, led by senior industry executives, with management that is responsive and flexible according to the priorities of the FSC, insurers and APRA

LIDEx can deliver efficiencies and cost savings for APRA, FSC, individual insurers and reinsurers.

Benefits to APRA

APRA benefits from:

- a single centralised source of data
- follow-up on data transmission from insurers, checking and cleansing of the data and timely submission of the data to APRA:
  - LIDEx will maintain a continuously updated register of policies and claims that will benefit the quality and timeliness of data collection
- an expert standing forum for APRA (and ASIC) with LIDEx and the industry

Benefits to the FSC

The FSC gains all the same benefits as APRA along with ready access to industry-wide data. These benefits are of considerable value to the FSC and the industry.

An industry data service will transform the FSC's and industry's ability to undertake industry analysis for its own promotional and defensive purposes as well is for public information purposes.

Benefits to insurers

Insurers benefit from -

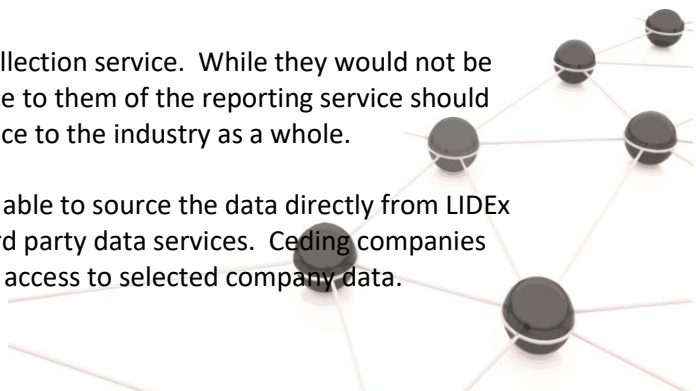
- being able to delegate to LIDEx and the expert standing forum the primary interaction with APRA and ASIC on matters of data collection
- progressive development of standardised data definitions and related matters
- access to industry data in the same form as their own data for comparative analysis
- potential for a wider scope of services from LIDEx (for example access, under proper controls, for advisers to policy and claims information for their advised clients)
- opportunity to delegate to LIDEx the supply of company and industry information to third parties who currently have to source data directly (such as KPMG for mortality and morbidity studies, Plan for Life, NMG and Rice Warner), subject to suitable commercial agreements between individual insurers, the FSC, SuperChoice and the third party

There may be some transition costs for insurers to migrate from their current arrangements including for APRA's Phase 1 requirements and recent data requests from ASIC. We expect that the operational benefits of LIDEx will more than compensate for any upfront and transition costs.

Benefits to reinsurers

We expect that reinsurers will participate in the data collection service. While they would not be contributing data, their role in the industry and the value to them of the reporting service should serve reinsurers well and enhance the value of the service to the industry as a whole.

Reinsurers benefit from access to industry data and are able to source the data directly from LIDEx without having to rely on their ceding companies or third party data services. Ceding companies would also be able to authorise their reinsurers to have access to selected company data.



FSC Objectives and Project Scope

FSC requirements

This proposal responds to the FSC's invitation of 31 July 2017 to provide a life insurance data collection service (refer to Appendix A for the FSC Invitation document).

The FSC has concluded on behalf of its life insurance members that the industry should establish its own data collection service to submit data to APRA and ASIC rather than continue to do so individually.

The FSC is proposing a data collection service that will serve the industry and meet APRA's information requirements, including APRA Phase 2 reporting.

SuperChoice has been asked to put forward:

1. a model for the proposed industry data collection
2. costings
3. clear timeline for initial data collection implementation
4. roadmap for improvements to data collection regime over three years

The model is required to deliver "one source of truth for life insurance claims across retail, group and direct", along with industry access to claim decline and dispute rates by company.

The FSC also highlights several important considerations:

- ownership of data
- privacy
- commercial interests
- alignment of field collection to meet regulatory requirements
- frequency of data collection and reporting
- availability of data to industry, public and regulatory authorities
- security of data

The main drivers of the request for proposal are for the FSC to have access to industry information that covers all distribution groups and all policy benefit types, along with an opportunity for the industry to lead a comprehensive data collection service that responds to the Regulators' requirements.

Establishing a centralised data collection facility will also lead to future reductions in ad hoc requests of insurers by APRA and ASIC.

Data collection is to cover retail, direct and group life in respect of both policies and claims, with claims data to include extensive information on disputes.

This proposal document responds to these needs and goals.

Project scope

The scope of the proposed project embraces the four specific items requested along with some other topics we regard as integral to ensuring the successful carriage of the project:

1. **Model**

   Functionality and service

   - Platform and systems solution
   - Data specification
   - Data submission process
   - Reporting services

   Operating framework

   - Governance and management
   - Insurer obligations
   - FSC obligations
   - SuperChoice project team

2. **Timeline and implementation plan**

3. **Roadmap for improvements**

4. **Costings and implementation plan**

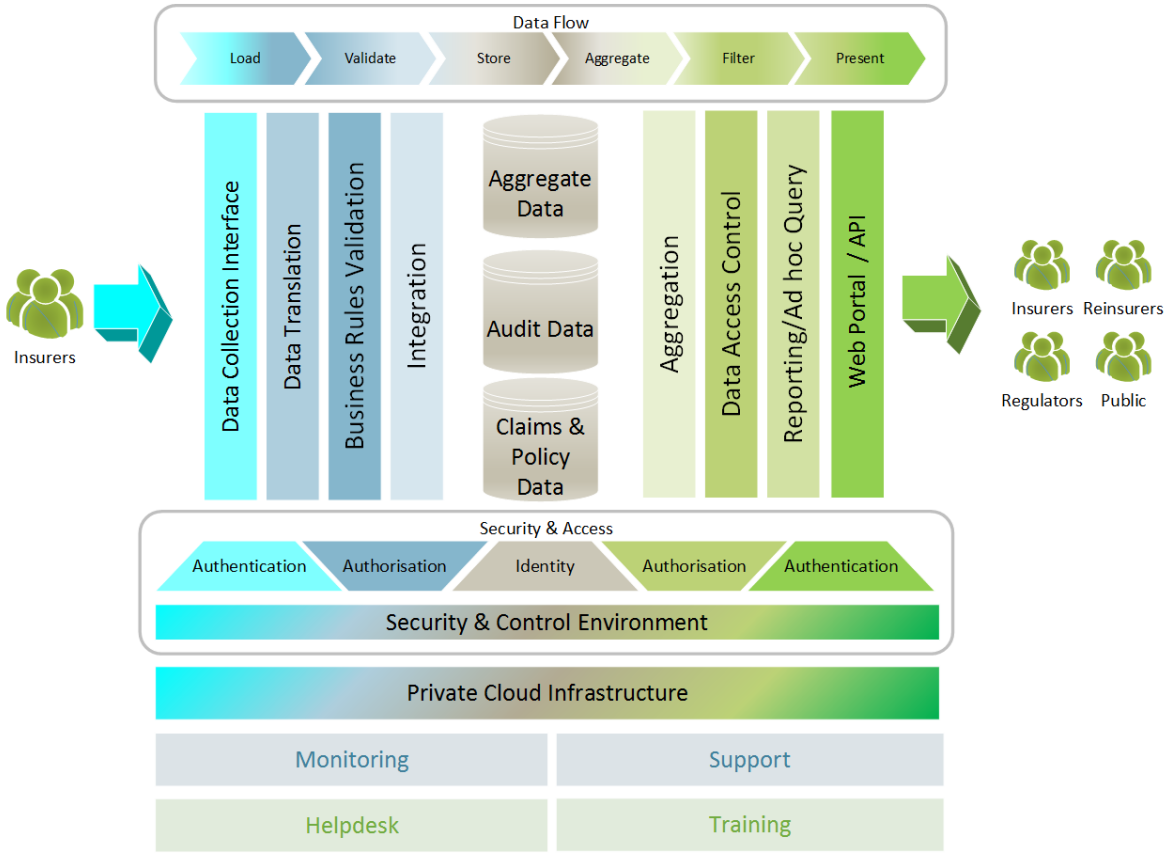
Each of these topics is dealt with in the remainder of this proposal.

Proposed Model – Functionality and Service

Platform and systems solution

LIDEx will be established by re-configuring SuperChoice's distributed micro-services based data exchange platform and secure environment to provide the data collection service capability.

The following diagram illustrates LIDEx's functionality. The top section shows the data flow while the middle section illustrates how insurers gain access to the system to enter data, what happens to it on entry and how the users gain access to reports and other outputs. The bottom section highlights the systems and associated functionality and resources needed to operate the system.



The key components of LIDEx as per the above diagram include:

- Data Collection Interface via Web Portal or API – A secure web portal will enable data file uploads. A feature of the portal is the File Wizard which, following an initial configuration, enables insurers to provide the required data using their existing reporting suite. This means the service can be established without requiring insurers to develop new data reporting extracts. The platform is also able to source data via an API
- Business Rules Validation – Once data has been received it is validated against business rules established by insurers during the design phase to improve the integrity of the data
- Database – Claims & Policy, Audit and Aggregated data will be stored in carefully architected non-relational data base schema designed to optimise query flexibility and performance

- Reporting / Ad hoc Queries – A common tool will be provided to enable users to access authorised data
- Security & Control environment – SuperChoice's regularly audited system of policies, procedures and tools designed to operate a safe and secure environment will cover LIDEx. This component also specifically addresses the Privacy and Confidentiality obligations highlighted in the FSC request for proposal
- Private Cloud Infrastructure – The platform will reside on an established private cloud delivering reliable back up, disaster recovery and business continuity

Key LIDEx functionality includes:

- Having the ability to record and track both individual and aggregated claims and policy information in real time for all sectors of the life insurance industry, including group life through superannuation funds if and when trustees can be brought into the fold
- Matching lapsed policy data with replacement policy data
- Aligning agreed categories of claims and policies (regardless of bundled status for any applicable stamp duty classification)
- Providing claims experience reporting
- Providing routine reporting to APRA and ASIC
- Supporting ad hoc queries to meet information requirements of insurers, reinsurers, FSC, regulators, government and other authorised parties

Data specification

Specification of the data items for the policy and claims registers will need to be developed to meet the requirements of APRA and ASIC as well as other needs identified by the FSC and insurers. This includes but is not limited to the mortality and morbidity studies undertaken by KPMG for the FSC.

As nominated by APRA and the FSC, the scope of data needs to cover:

1. Policies:
   - individual and group, both inside and outside super
   - open and closed products
   - retail and direct (with and without advice), also group in super
   - cover type (including death, TPD, trauma and income protection)
2. Claims :
   - open and closed with payment progress, duration information and payment outcomes
   - a range of data on disputed claims

By including adviser details in the policy register, ASIC's current data collection activities such as lapses and replacement policies could also be superseded or supplemented.

SuperChoice is evaluating basing the data collection on the ACORD data standard[1], which is in place or being adopted by several insurers (eg AMP, CommInsure and TAL).

If the ACORD data standard is adopted, variations may initially or subsequently be needed to accommodate the data requirements of APRA, ASIC and the FSC.

LIDEx will be live and open to continuous updating. Insurers will be expected to provide data feeds at least monthly to facilitate currency of the policy and claims registers.

Data Submission Process

Data Collection is performed via a secure web portal that enables data file uploads. A feature of the portal is the File Wizard which enables insurers to provide the required data using their existing reporting suite. This means the service can be established without requiring insurers to develop new data reporting extracts.

LIDEx is also able to source data via an API and use the web portal for inspecting the data. The advantage of the API is that it supports real-time data delivery and low on-going operating cost. In some cases, it might make sense for an insurer to commence by uploading a data file into the portal while the API is installed.

Reporting Services

LIDEx will offer a defined suite of standard reports to satisfy APRA and ASIC's requirements, supplemented with predefined standard reports for the FSC and individual insurers. LIDEx will be able to provide additional customised reports as required.

SuperChoice will work with the FSC during the design phase to specify the defined suite of standard reports to ensure they cover the known requirements.

SuperChoice understands that the FSC and others may wish to undertake or to arrange analyses and interpretations of the industry data collected. LIDEx will be able to furnish data and reports to meet the needs of such users but the analyses and interpretations themselves are outside the scope of LIDEx and also outside the scope of services that SuperChoice has on offer.

We believe this independence of SuperChoice and LIDEx from analysis and interpretation of the data are valuable to the FSC and the industry. It is also this feature of our proposal that ensures no conflicts of interest between SuperChoice and the FSC or insurers.

[1] Refer to Appendix B for an introduction to the ACORD data standard

Proposed Model – Operating Framework

LIDEx Governance and Management

Effective governance and management of LIDEx are crucial to its success as a timely, cost-effective and competent service to the FSC, insurers and reinsurers, APRA and ASIC.

SuperChoice has extensive project management capability, expertise and experience and is supplying the systems platform. It is important that the FSC and insurers have input to ensure an effective collaboration between SuperChoice as the LIDEx operator and the FSC and insurers.

Clear responsibilities among the active parties (i.e. the FSC, individual insurers and SuperChoice) are important. These responsibilities are outlined under "Key Assumptions" in the Costings and Commercial Arrangements section of this proposal.

The proposed governance framework is based on a governing Advisory Board, comprising four or five senior executives who are members of the Life Board Committee and an FSC executive, supported by a Technical Group whose role will be crucial in the design and development stage.

Advisory Board

SuperChoice requests the FSC to assist with establishing an Advisory Board for LIDEx whose main role is to consider strategic questions about the development of LIDEx including matters relating to ASIC and APRA as well as to the FSC and insurers. The Advisory Board will also consider data collection within the industry more generally as insurers will want to avoid duplication of data supply outside their own companies. It may also consider extending the functionality of LIDEx.

During the design and development phases, Stuart Korchinski will arrange and chair the Advisory Board meetings as CEO of SuperChoice and John Trowbridge will attend as senior adviser.

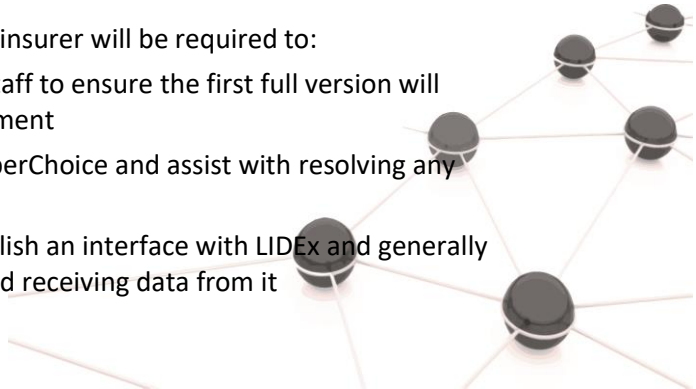
Technical Group

SuperChoice has extensive expertise in financial services technology and will design and build the LIDEx system but there also needs to be strong and capable specialist life insurance expertise. We therefore propose to create the LIDEx Technical Group comprising Ian Gibson of SuperChoice as chair, four or five life insurance industry specialists from participating insurers, an FSC representative and a subject matter expert, probably with an actuarial background, to be engaged by SuperChoice.

Insurer Obligations

To develop the first version of LIDEx, each participating insurer will be required to:

- Provide advice and assistance to SuperChoice staff to ensure the first full version will function properly within each insurer's environment
- Conduct testing as reasonably requested by SuperChoice and assist with resolving any functional issues
- Sign up to a formal services agreement to establish an interface with LIDEx and generally have access to it while also providing data to and receiving data from it



FSC Obligations

The FSC will be requested to commit the necessary skilled resources and management involvement to support SuperChoice's work. The scope of these activities will be as proposed herein or by subsequent agreement and will otherwise remain unchanged except as the parties may mutually agree in writing.

These activities are to:

- authorise and provide access to stakeholders and staff
- facilitate access to insurer staff as required
- obtain any consents needed from insurers and any other third parties to ensure that they cooperate effectively with SuperChoice so that it can perform its activities under this proposal
- coordinate the involvement of FSC and insurer representatives in various meetings and technical workshops

It will also be essential that the FSC perform its obligations in a timely manner.

A more complete statement of responsibilities and obligations is contained in the Costings and Commercial Arrangements section.

SuperChoice Project Team

Our project team has a strong combination of insurance industry knowledge and experience together with over 20 years of operating comparable capability in the superannuation and insurance industries.

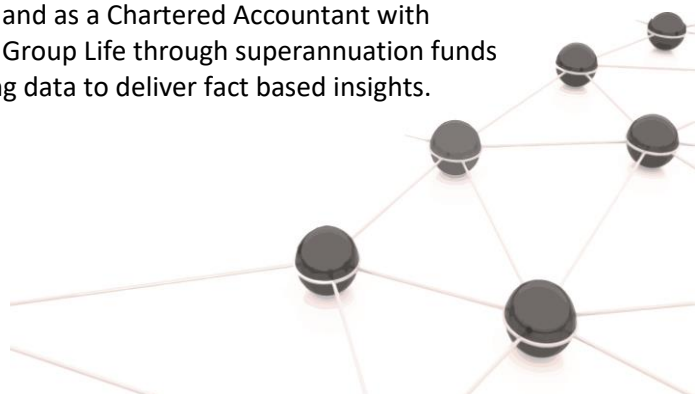
The core members of SuperChoice's project team are:

- Stuart Korchinski – Engagement Manager
- John Trowbridge – Senior Adviser
- Ian Gibson – Project Manager

Stuart Korchinski

Stuart is CEO and has been leading SuperChoice for the past 7 years where he has overseen its transformation and growth. He has a strong understanding of SuperChoice's technology platform and how it can be leveraged to cost effectively establish new solutions.

In previous roles as MD of Diversa Ltd, AAS (now Link Admin), Chief General Manager of Allianz's Financial Institutions and Direct personal lines business and as a Chartered Accountant with KPMG, Stuart also has detailed operational expertise in Group Life through superannuation funds and Pool arrangements and real experience in leveraging data to deliver fact based insights.



John Trowbridge

John has been working with SuperChoice in an advisory capacity since the beginning of 2017. He has brought to bear his extensive industry and regulatory experience in guiding the project as he has a belief in the value to the industry, individual insurers and the public of the LIDEx facility.

He also has extensive project management experience and was instrumental in the design and establishment of ISA (Insurance Statistics Australia) which is a general insurance industry data collection service introduced in the early 1990s and still operating today.

Ian Gibson

Ian leads the Consulting group within SuperChoice and led the technology team that redeveloped SuperChoice's platform to support SuperStream. He has a detailed understanding of SuperChoice's technology and how to leverage it to quickly support the FSC's data collection initiative.

Ian understands the issues in setting up and running a shared industry utility. Prior to joining SuperChoice, Ian worked with NAB where he led their involvement in establishing the cheque processing utility between CBA, NAB and Westpac responsible for virtually all cheque processing in Australia. Ian has also been involved in establishing a shared industry utility for the Victorian electricity industry for processing real-time meter reading data.

Ian has insurance industry experience having worked for Adaptra, leading their Consulting & Guidewire practice. His insurance clients included AMP, CGU, IAG, Guild Ins, QBE and Suncorp.

Timeline and Implementation Plan

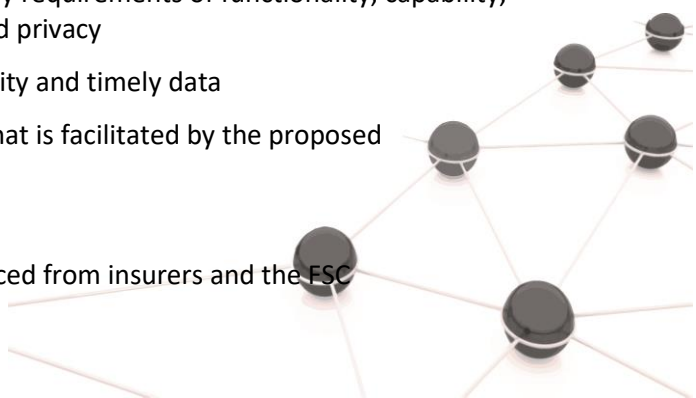
SuperChoice expects to complete design and commence developing LIDEx before the end of 2017. We expect to complete development and begin operations by 30 June 2018. Subject to insurer constraints, data for 2017 and potentially also for 2016 for all insurers could be collected during the second half of 2018 so as to have the system running on a current basis during the second half of 2018.

We note that APRA intends to continue with Phase 1 until the end of 2017. LIDEx can enable the APRA Phase 2 collection, if specified in time, to operate by 2018 and supply data during the second half of 2018.

Initiation and Build

Our proposal embraces:

- a proven systems platform that meets all the key requirements of functionality, capability, flexibility, reliability, security, confidentiality and privacy
- a data collection service that provides high quality and timely data
- insurer cooperation and regulator interaction that is facilitated by the proposed governance and management approach:
  - project management by SuperChoice
  - business and design requirements sourced from insurers and the FSC



Success depends on both the approach adopted and the ability of SuperChoice to effectively manage the relationships involved as well as all project management and technical requirements.

SuperChoice's management, experience and capabilities and the proposed approach (which puts the strategic direction in the hands of the industry) offers both APRA and the industry through the FSC a high capability and low risk solution.

Roadmap for improvements to data collection regime over three years

It is not yet clear how much improvement might be needed to the data collection system once it is established, beyond the normal range of enhancements that inevitably come up for consideration in an evolving industry, market place and regulatory environment.

SuperChoice expects LIDEx to be fully operational by the end of 2018. LIDEx is extensible according to the needs, plans and wishes of insurers and the FSC. Extensions can relate simply to additional data collection and reporting or can comprise enhanced functionality.

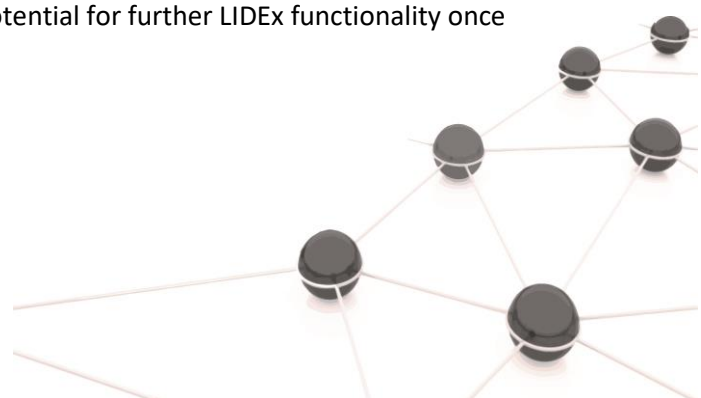
Areas where LIDEx might be extended, as already discussed with several insurers, includes access by advisers and licensees to policies and claims of their own clients. For example, once the policy and claims registers are established, SuperChoice is able to extend the functionality to include:

- updating policyholder personal details as received from insurers or from advisers in order to provide a definitive policy and policyholder data repository
- making a portal available to nominated customer facing staff and advisers to make policy or policyholder changes that update the data exchange in real time and also facilitate the monitoring of claims and their progress
- enabling adviser and dealer groups to have a consolidated view of all policies and claims associated with their advisers

LIDEx could then be used to:

- transfer relevant policy information between insurers eg. Exclusions, health conditions
- identify duplicate insurance policies for customers
- prove cancellation of a policy to a new insurer
- provide replacement cover information including details of new insurer, dealer / adviser, and new policy details
- validate claims histories
- provide a single point of access for the adviser on policy cancellation
- assist with fraud prevention

These points demonstrate that there is considerable potential for further LIDEx functionality once the regulatory reporting functionality is proven.



Costing and Commercial Arrangements

Structuring an agreement

SuperChoice proposes to establish the LIDEx data collection service via an initial contract for implementation and the first three years of operations with the FSC, acting on behalf of all life insurers and reinsurers.

The service can be established either as an internal operating entity of SuperChoice or alternatively via a trading company that will contract all required resources and capability from SuperChoice. We are open to either arrangement and propose a dialogue to assess the most suitable structure for accommodating the FSC's and the industry's needs and to accommodate any future extensions of the LIDEx service.

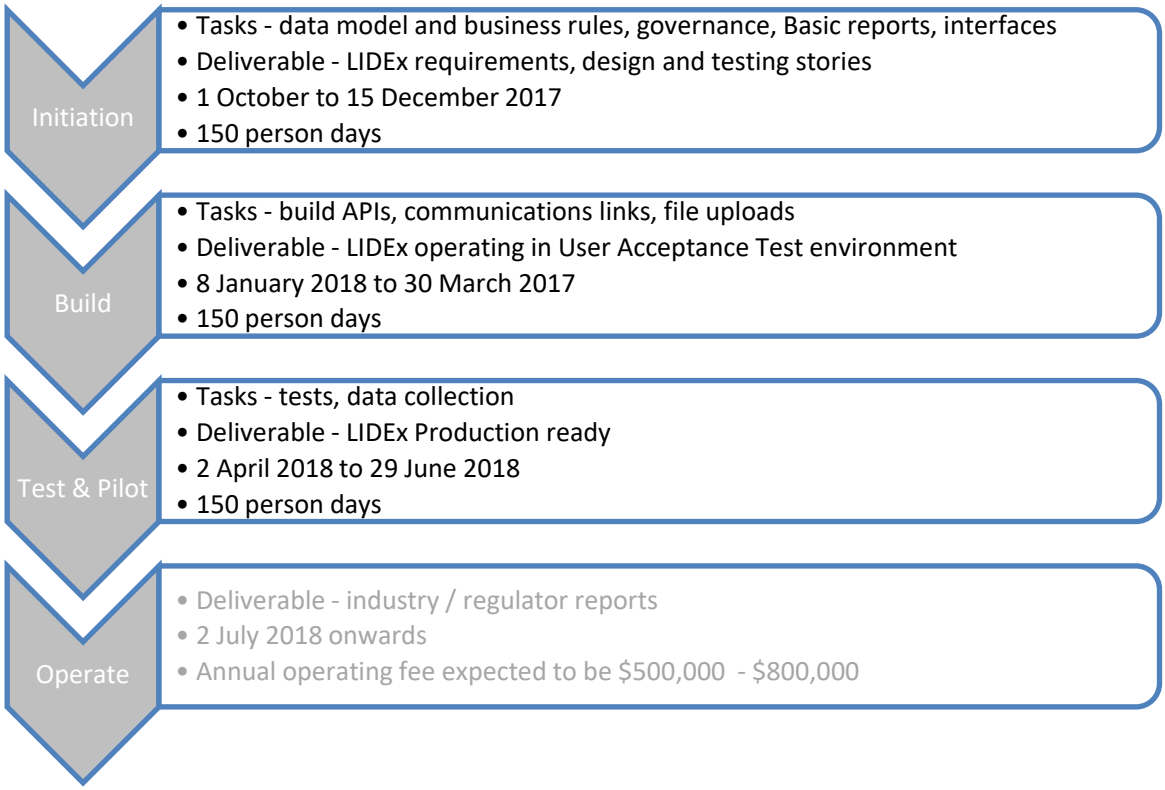
Resources and costs

We understand FSC's desire for pricing options and are prepared to discuss alternative arrangements that make mutual commercial sense. We have not included these alternatives here as we believe they are best discussed following further confirmation of the project's overall scope.

Establishing LIDEx

Based on the nature and scope of the project, including the expected staffing requirements and anticipated project duration, we estimate that the professional time required for conducting this work is more than 450 man-days over a 9 month period. This level of resources reflects the extensive nature of the project and in particular, the need to liaise with a large number of insurers for "onetime only" setup tasks. We are happy to discuss in further detail the assumptions underpinning this level of resources.

Based on the level of effort indicated, SuperChoice's professional fees for its assistance and setup costs are estimated to be 450 person days or $450,000 at an average daily rate of $1,000 per day across three phases (refer to diagram below). We've chosen to discount our usual fees by 33% to reflect our commitment to the initiative.



We expect to undertake the work in three components which we believe are approximately equal in resource requirements and duration (as indicated in the above diagram).

SuperChoice can undertake this setup work on a fixed price basis subject to confirmation of the scope and requirements following confirmation of scope.

The quoted fee and expense figures do not include any goods and services tax ("GST").

SuperChoice proposes to invoice the FSC in equal amounts at regular monthly intervals including any out-of-pocket expenses.

As a matter of course, events may occur that warrant adjustments to our scope, resources, fees and timing. These events may relate to access to FSC or insurer staff, access to critical business data, or other unforeseen events (refer to Key Assumptions below) that impact the pace of development, quality and direction of the project. If we become aware of any situation that warrants such adjustments, we will promptly discuss with you the nature and rationale for the change needed. Based on these discussions, we will seek your approval for any required change and if necessary, any impact on our fee arrangements, timing and outcomes of the project.

Operating LIDEx

The following chart provides a summary of the types of operating activities we expect to incur to provide the service once LIDEx is fully functional. Based on our current understanding, we estimate the annual operating fees and costs will be in the range $500,000 to $800,000. This will be reviewed and confirmed once the Initiation phase is complete. Across the FSC's membership of over 25 life insurers and reinsurers, these total annual costs are equivalent to an average of about $20,000 to $30,000 per member or something less than $2,500 a month.

Human Resources	Software licences / maintenance	Infrastructure	Business Support Services
• Governance and management • Insurer / FSC engagement • Data analysis • Production support • Customer support services	• Platform software • Database • Reporting / Analytics	• Private cloud compute and storage costs • Network	• Contract administration • Security • Risk management

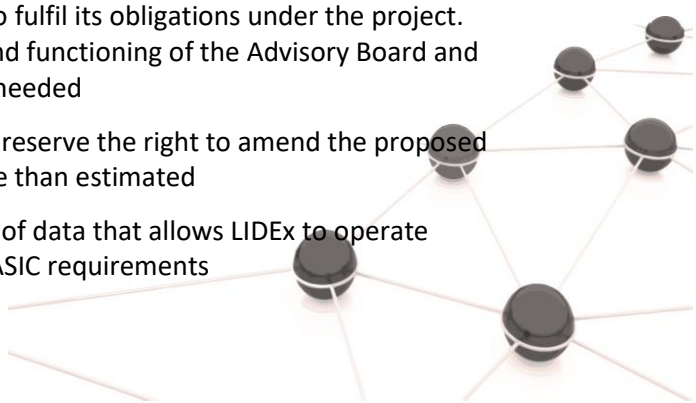
We would expect to review fees and costs with the Advisory Board each year to clarify the full scope of services to be offered for the year to support the needs of the FSC, APRA and ASIC.

As with the establishment phase, we are willing to supply the services on a fixed price basis each year if the scope of services can be specified at the beginning of the year.

Key Assumptions

The following key assumptions have been used to develop this proposal. Any deviation from these assumptions may cause changes to the project schedule, fees and expenses, deliverables, and level of effort required to perform the services covered by this arrangement:

- FSC will procure the endorsement of the Life Board Committee to the establishment of a centralised FSC data collection model
- FSC will commit the necessary resources and management involvement to support SuperChoice's work in a timely manner and in accordance with the project timelines
- SuperChoice is investing in the supply of hardware, software and infrastructure under the assumption that a positive outcome from the initial phases will lead to LIDEx's expansion
- FSC will make decisions promptly and without delay during the planning and set-up phase. If decisions are not promptly made or we don't reach agreement on issues, then SuperChoice will proceed to take decisions that it deems necessary to maintain momentum, to limit scope and to support the operating goals of timeliness, accuracy and reliability of the data service
- FSC and Insurers will contribute subject matter experts during the Initiation phase to provide requirements and guide the key deliverables. SuperChoice will provide the remaining resources including project management
- FSC will play a proactive role in stakeholder management and will provide sufficient access to FSC personnel or representatives for SuperChoice to fulfil its obligations under the project. This role includes ensuring effective membership and functioning of the Advisory Board and Technical Group, including the FSC participating as needed
- Data storage costs are provisionally estimated. We reserve the right to amend the proposed fee if storage costs ultimately prove materially more than estimated
- FSC and insurers agree a position on the ownership of data that allows LIDEx to operate efficiently and satisfies the FSC, insurer, APRA and ASIC requirements



- FSC will obtain all consents necessary from insurers, reinsurers and any third parties required for SuperChoice to perform its obligations under the project
- Given the nature of the project, SuperChoice does not warrant the outcomes
- Project scope will be as documented in this proposal or as subsequently agreed but otherwise remain unchanged, except as the parties may mutually agree in writing
- All establishment work and subsequent operations will be undertaken in Sydney. No work will be offshored and all data will reside in Australia

Terms and Conditions

The services described in this proposal, as with all services from SuperChoice Services Pty Limited to the FSC, will be provided on the basis of SuperChoice's Services Agreement. A copy of this agreement is available upon request.

Appendix A: FSC Invitation Document

FSC Data Collection Project

Introduction

The life Insurance currently has to provide various reports, industry experience studies and investigations on both a regular and ad hoc basis to various stakeholders including the FSC and regulators.

At this point in time, the FSC is unable to provide commentary on basic industry information that spans all distribution groups and benefit types. This has recently been highlighted when trying to compile industry statistics for the Mental Health Working Group (MHWG) around number and dollar value of mental health claims paid. Triggered by an early commitment to publication of this data to external mental health advocacy groups, notably Beyondblue and Mental Health Australia, the FSC has looked to review the overall data collection requirements for the industry in an attempt to find a consolidated solution that may ease the strain on multiple data collection points that the industry currently experiences.

APRA have noted in their Discussion Paper: Towards a transparent public reporting regime for life insurance claims information that '*there is a need for better quality, more consistent and more transparent data about insurance claims*' - the FSC believes that if insurers take ownership of this as well as a more broader data set, that better outcomes beyond pure regulatory requirements can be achieved.

A consolidated industry data set could provide many opportunities including:

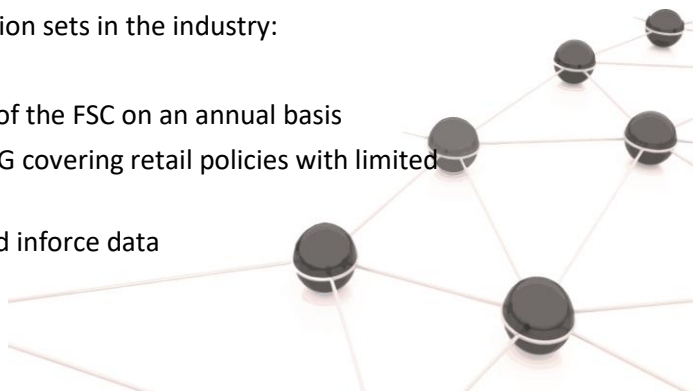
- Satisfying basic regulatory reporting requirements
- Improving wider community trust by being able to publish industry statistics that showcases the good work, in both claims and underwriting outcomes, that the industry performs
- Provide both high level and more granular data insights guided by what the industry requires beyond just experience and regulatory data reporting
- Move towards a consistent and possibly real time data collection standards across the industry
- Improved insights into relative portfolio experience and performance

There are multiple challenges in trying to achieve this model, which will be highlighted with in this paper.

Current state

There are currently two main industry wide data collection sets in the industry:

1. FSC data collection
    - KPMG collects and analyses data on behalf of the FSC on an annual basis
    - Insurers and reinsurers submit data to KPMG covering retail policies with limited coverage of direct and Master trust policies
    - KPMG checks and collates annual claims and inforce data



- Industry claims rates and company specific claims rates by channel and cause are available
- For inforce data, there is a detailed analysis of 'standard' lives as well as impaired life data collection

2. APRA and ASIC data collection - currently in Phase 1:
   - Life insurance claims data at an insurer level
   - 3 rounds in Phase 1 covering periods of data from January 2016 to December 2017 (3 tranches of data submission)
   - Phase 1 data to include Individual and Group policies and Death, terminal illness, TPD, trauma and income protection/GSC benefits. Both advised and non-advised policies are included
   - The output metrics include claims admittance and decline rates, claims disputes and processing durations and well as dispute ratios

Due to the both the FSC/KPMG and APRA/ASIC data requirements being dissimilar in timing, outputs, terminology and field requirements, insurers have duplicated costs and resource inputs into industry data provision and analysis.

Proposed solution

The FSC is looking to implement a coordinated and proactive approach to data collection to minimise the impact and burden of this to the industry. The view is for the FSC to own the data provided by individual companies, (similar to what is done in other regions around the globe), which is then aggregated by the consultant.

This will ensure a consistent methodology in reporting across the industry. The FSC will own the data and then provide the required data sets to both the industry and regulators as required on behalf of the various providers. Data would be aggregated across all distribution groups, policy types and benefits and include underwriting, inforce and claims data.

The models proposed by the consultant would need to be:

1. One source of truth for life insurance claims across retail, group and direct
2. An Industry access to claims industry decline and dispute rates by company

Over time the model could also then be extended to include application and in force (policy) data, which can provide up to date reporting and analysis of claims and impairment data on an almost real time basis.

Potential implications

Before considering a FSC collated data solution, multiple implications would need to be considered including:

- ownership of data
- privacy
- commercial interests
- alignment of field collection to regulatory requirements
- frequency of data collection and reporting
- availability of data to industry, public and regulatory authorities
- security of data

Next steps

The data requirements and quality would be expected to improve over several reporting iterations, with a target data reporting state to be achieved in three years and to achieve this. Potentially three companies, with business in all three channels, could be used to pilot the data collection and reporting model. To include initial retail claims data up until the end of 2016, the current data requirements from APRA, due by September 2017 will need to be included and analysed for distribution in late 2017.

Agreement for a centralised FSC data collection model would need to be agreed to by the LBC in the first instance. A focused working group would then need to be set up to explore and assess all the potential implications, solutions and ramifications of this model. Only then could a pilot commence with a roadmap set for phasing and transition to a centralised data model.

Of note, the MHWG has committed to collecting base mental health claims specific data to the Beyondblue and Mental Health Australia within the next 18 months.

Consultants are to provide the FSC by 5 August 2017 with:

1. a model for the proposed industry data collection
2. costings
3. clear timeline for initial data collection implementation
4. roadmap for improvements to data collection regime (short term (September 17 - September 18), medium (September 18 - September 19) term and long term (September 19 - September 20))

Appendix B: Introduction to the ACORD Data Standard

ACORD, the Association for Cooperative Operations Research and Development, is a non-profit organization that provides the global insurance industry with data standards and implementation solutions. ACORD is widely known across the industry for the publication and maintenance of an extensive archive of standardised forms. ACORD has also developed a comprehensive library of electronic data standards with more than 1200 standardized transaction types to support exchange of insurance data between trading partners.

Today, many of the forms and electronic data standards utilised by the insurance industries – both in the United States and in several countries across the globe – were developed by ACORD. The Lloyd's of London insurance market uses ACORD standards for messaging between counterparties.

ACORD has also worked with the Centre for Study of Insurance Operations on numerous initiatives including the development of North American XML data standards and the creation of a telematics data standard.

ACORD is headquartered in Pearl River, NY and maintains an office in London, U.K.

History

Established in 1970 as a non-profit organization, ACORD was formed by insurance carriers and agents focused on building efficiencies in the United States Property Casualty Insurance Market. Originally termed the Agent Company Operations Research and Development (ACORD) organization, its initial goal was to standardize the many proprietary forms being used by carriers for new business and claims submission. In the late 1970s, ACORD began developing electronic standards to complement its form standards. ACORD subsequently expanded both its forms and electronic data standards beyond Property and Casualty Insurance to encompass Life and Annuity, Surety, and Reinsurance markets.

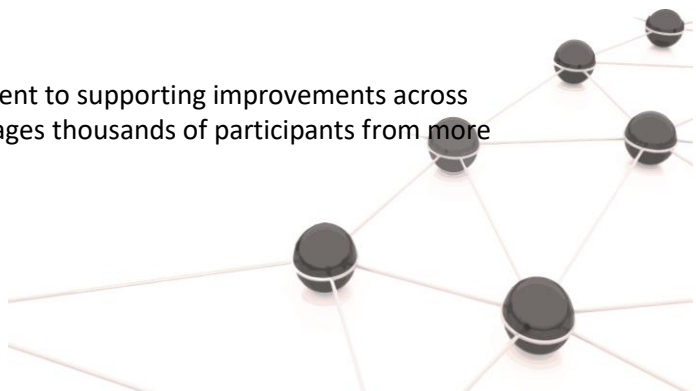
Vision

ACORD envisages an insurance industry that embraces a global and enterprise view of information, in which relevant business solutions all include or provide for ACORD Standards. ACORD wants all trading partners to be able to easily exchange information.

ACORD's vision includes implementation of best practices for enterprise architecture, including systems made up of interchangeable components based on ACORD Standards that provide a 360-degree view of people, organisations, and risks. Products and services built upon these components will be highly configurable and will enable a wide range of consistent transactions and processes across the entire insurance value chain.

Impact on the Insurance Industry

Since its inception, ACORD has maintained its commitment to supporting improvements across the insurance value chain. Today, ACORD currently engages thousands of participants from more than 900 organisations in 20 countries.



Source: Public information prepared by ACORD

Appendix C: SuperChoice's Experience and Capabilities

SuperChoice's credentials to establish LIDEx include:

- A leader in industry "middle-ware" solutions
- Superannuation Contribution Management – Sends over 30mn contributions and $20bn per annum on behalf of 2.3mn employees
- Superannuation Rollover Management – Sends and receives over 500,000 rollovers worth $4.5bn annually
- Established infrastructure that can be leveraged:
  - Existing interfaces to all super fund administrators in Australia
  - Sophisticated data validation, enrichment and transformation services
  - A variety of API and GUI solutions for users to automate processes and provide straight-through-processing
  - Extensive payment models with associated gateways, privacy policies and agreements
  - Flexible reconciliation, refund, netting and clearing account processes
  - Mission-critical infrastructure that can cope with tens of millions of transactions and billions of dollars of payment traffic
  - Established team of IT professionals coupled with a framework for operations, compliance and security
- SuperChoice is independent of life insurers, dealers and advisers and exists only as a platform to facilitate business
- Awarded 2 Architecture awards for Excellence for its distributed micro services architecture (2016 and 2017)

Appendix D: SuperChoice Background Information

SuperChoice is part of CPS Group which was established in 1969 and is Australia's oldest software company. SuperChoice was the first company in Australia to offer a superannuation e-commerce solution in 1998.

Architected as true multi-tenant, Software-as-a-Service, the payment and message exchange platform was at the forefront of technology design and was progressively adopted by superannuation funds who offered a white-label version to their registered employers to enable them to enrol and pay super.

SuperChoice's business model was founded on the following principles:

- ✓ Commitment to industry best practice, operational excellence, regulatory compliance and delivering ease of use
- ✓ SaaS, multi-tenant design to deliver lower, shared customer development costs
- ✓ Platform flexibility to allow for the underlying capabilities to be easily used to offer different, tailored solutions
- ✓ Flexible pricing models (transactional, membership, license)

The introduction of Choice of Fund legislation in 2005/6 resulted in further platform innovation with the consequent establishment of a clearing house and becoming ASIC licensed to intermediate payments.

In 2009/10 SuperChoice began enhancing its platform to support government legislated SuperStream superannuation messaging requirements.

Over the past 17 years, SuperChoice's client base has continually grown making SuperChoice's platform now the market leader by contribution volume in enabling employers to pay their superannuation. SuperChoice is the market leader in providing Superannuation clearing house and gateway solutions to the Australian marketplace. Over **50,000** businesses regularly use SuperChoice to clear over **40 million** contribution **transactions** representing nearly **$26 billion** on behalf of **2 million Australians** annually.

Its clients also include many of the major life insurance providers including AIA, AMP, ANZ/OnePath, MLC, QSuper, Suncorp/Asteron, TAL and Zurich.

Timeline

1994 National Electronic Interchange Services (NEIS) established to build an electronic contribution service for UniSuper

1998 SuperChoice is established to acquire NEIS from State Bank of NSW

1998-2000 SuperChoice commences with formative customers – ANZ, ING

1998 SuperChoice commences delivery of software to support Commonwealth Bank superannuation clearing house

1998-2005 SuperChoice acquires major new fund customers including Mercer, AMP, AXA, Asgard and IOOF

2005 SuperChoice launches software supporting superannuation clearing houses for AMP, AXA, Mercer, Asgard, IOOF, ANZ and ING

2007 PayClear formed and granted Australian Financial Services License

2007-2010 Large group of industry fund customers join, e.g. 25 AAS administered funds, Catholic Super, MIESF where SuperChoice (PayClear) operates as the Australian Financial Services (AFS) Licensee

2010 MLC and Suncorp commence services

2011-2015 SuperChoice licenses clearing house services to payroll software, payroll bureau & accounting software customers including MYOB, Sage Micropay (Wage Easy), Sybiz, TechnologyOne, Sky Systems, PayPac, Grant Thornton (Rivor) – now totaling approx. twenty payroll customers in addition to large super funds including QSuper and Telstra Super

2012 SuperChoice launches UK based AutoEnrol pension service for Aegon Life as a result of pension reform

2013 SuperChoice launches SuperStream Rollover Gateway service supporting over 25 Super Fund customers' covering money and data between super funds

2014 - 2015 SuperChoice launches Contribution SuperStream Gateway July-November 2014 supporting 35 Fund/Administrator customers and 20 Payroll customers including pass-through gateway service

2015 - 2016 SuperChoice wins McMillan Shakespeare, CBA Institutional Bank, LGIA accounts resulting in now operating more than 30 different message exchanges using communications technologies such as Web Services (SOAP and Restful), IBM MQ Series, ebMS3.0 and sFTP

2017 SuperChoice integrates its platform with Xero to provide its 500,000+ business clients with superannuation clearinghouse services

KPMG

FSC FINANCIAL SERVICES COUNCIL

Financial Services Council

Proposal for the Provision of Industry Claims Data Collection & Analysis

5 August 2017

KPMG has a long standing relationship with the FSC and the Australian Life insurance industry as the provider of industry claims experience investigations since 2008. To perform this role KPMG has made significant investments to streamline the data collection and analysis process for industry participants and to develop an interactive reporting platform, enabling all participants to interrogate and drill down into the investigation results.

We propose to build on this capability to deliver comprehensive and consistent industry wide claims reporting, providing detailed analysis of consumer claims outcome across all product types and distribution channels. The analysis will not only be designed to meet regulatory requirements, but more importantly to allow the FSC to actively demonstrate and promote the benefits of life insurance to the Australian public.

The KPMG Actuarial, Insurance and Superannuation team are without peer in this space, being the clear market leader in life actuarial consulting services and with a demonstrated track record in providing experience analysis services to the Australian life insurance industry.

We would be delighted to support the FSC in the expansion of the existing data collection and analysis to provide the FSC with the tools vital to its mission to represent the interests of its members and their customers.

Thank you for this opportunity.

Martin Blake
KPMG Head of Insurance

NSW Chairman

KPMG Actuarial Pty Ltd
Australian Financial Services Licence No. 392050
International Towers 3 Sydney
300 Barangaroo Ave
Sydney NSW 2000

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DX: 1056 Sydney
www.kpmg.com.au

5 August 2017

Sally Loane
Chief executive Officer
Financial Services Council
Level 24, 44 market street
Sydney, NSW 2000

Dear Sally

Proposal for FSC Claims Data Collection Scope Extension

We are delighted to have the opportunity to present our proposal to expand the scope of our current industry experience investigations to include reporting of impairment data, including mental health conditions, declined and disputed claims and coverage across all distribution channels.

We believe our proposal to provide a one stop service for insurance claims and experience data will provide the FSC and its members with comprehensive, accurate and timely industry claims reporting. This capability will bring significant benefits to the FSC, its members and many other stakeholders including:

- clearly signalling that we are a mature industry who take seriously and self-regulate our responsibility to policyholders;
- clearly demonstrating that the FSC and its members are determined to take a leading role on the important issue of mental health in the community;
- providing greater transparency of the scale of claims outcomes delivered to the community to address current community concerns and interest in claims management within the insurance sector;
- delivering efficiency to the industry through a single reporting solution that meets the needs of all stakeholders including the FSC, insurers, regulators and consumer groups; and
- enhancing the role of the FSC as the peak industry body while at the same time providing the FSC with an ongoing source of revenue to fund further research.

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We believe KPMG is the ideal choice for this engagement:

- we are the leading and largest Australian life insurance and actuarial consultancy with a highly regarded team of market leaders in every specialist field;
- we can leverage our existing platforms developed for the industry claims experience analysis to provide a high quality service at a competitive price;
- we can ensure that the data submission process leverages processes which have already been built by life insurance companies minimising the burden of data submission; and
- we have a proven track record of delivering data collection and analysis services to the industry.

Further details of our specific capabilities and experience are set out in the main body of the proposal, along with CV's and supporting information in relevant areas on fees and approach.

We look forward to the opportunity to work with you and we would be pleased to discuss any aspect of this proposal.

Yours sincerely

Hoa Bui
Partner
Actuarial & Financial Services

Martin Blake
Partner
KPMG Head of insurance
KPMG NSW Chairman

Contents

Appendices

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1. Your Requirements

1.1 Background

Life insurance companies currently perform experience investigations for internal purposes as well as contributing data to industry experience studies and a range of regular and ad hoc reporting requirements to external stakeholders including the FSC and regulators.

The FSC's Board Charter states: "*The FSC, as the industry association for the managed investment, superannuation and life industries has as its prime role the advancement of the efficiency and integrity of the financial system and the promotion through government and regulatory channels and public communications the interests of its members.*"

The FSC is currently unable to respond in a timely manner to questions or concerns raised through the media, regulators, public interest groups and others because the data currently collected via the data collection does not cover all distribution channels, products and benefit types. The community, the media and regulators expect the industry to be able to respond within hours to basic queries rather than the weeks it currently takes to compile data across the industry.

This information gap has recently been highlighted through the efforts of the Mental Health Working Group (MHWG) to compile aggregate statistics on the number and dollar value of mental health claims paid across the industry. The FSC's early commitment to publication of this data to external mental health advocacy groups, notably Beyond Blue and Mental Health Australia has triggered within the FSC the need to review the overall data collection requirements for the industry. This review must find a consolidated solution to provide more comprehensive data while also reducing the strain and inefficiency of the multiple data collection points that the industry currently manages.

APRA and ASIC are expecting industry action having highlighted the difficulty of collating consistent and reliable industry wide data through their claims review programs undertaken in 2016. APRA noted in their Discussion Paper: Towards a transparent public reporting regime for life insurance claims information that '*there is a need for better quality, more consistent and more transparent data about insurance claims'*. By taking ownership of this issue and developing a broader data reporting framework applied consistently across the industry, the FSC believes that outcomes beyond meeting the pure regulatory requirements can be achieved.

The FSC is proposing to develop a consolidated industry data set and reporting framework that could serve the industry in many ways including:

- enabling the FSC to take on a stronger advocacy role for the life insurance industry ;
- satisfying regulatory reporting requirements at both an entity and aggregate industry level;

- improving wider community trust by being able to publish industry statistics that showcase the clear community benefits, in both claims and underwriting outcomes, that the industry delivers;
- providing both high level and more granular data insights guided by what the industry requires beyond experience and regulatory data reporting;
- moving towards consistent and possibly real time data collection standards across the industry;
- improving insights for life insurance companies into their relative portfolio experience and performance; and
- providing industry data to improve the underwriting, risk assessment and client outcomes relating to many conditions including those related to mental health.

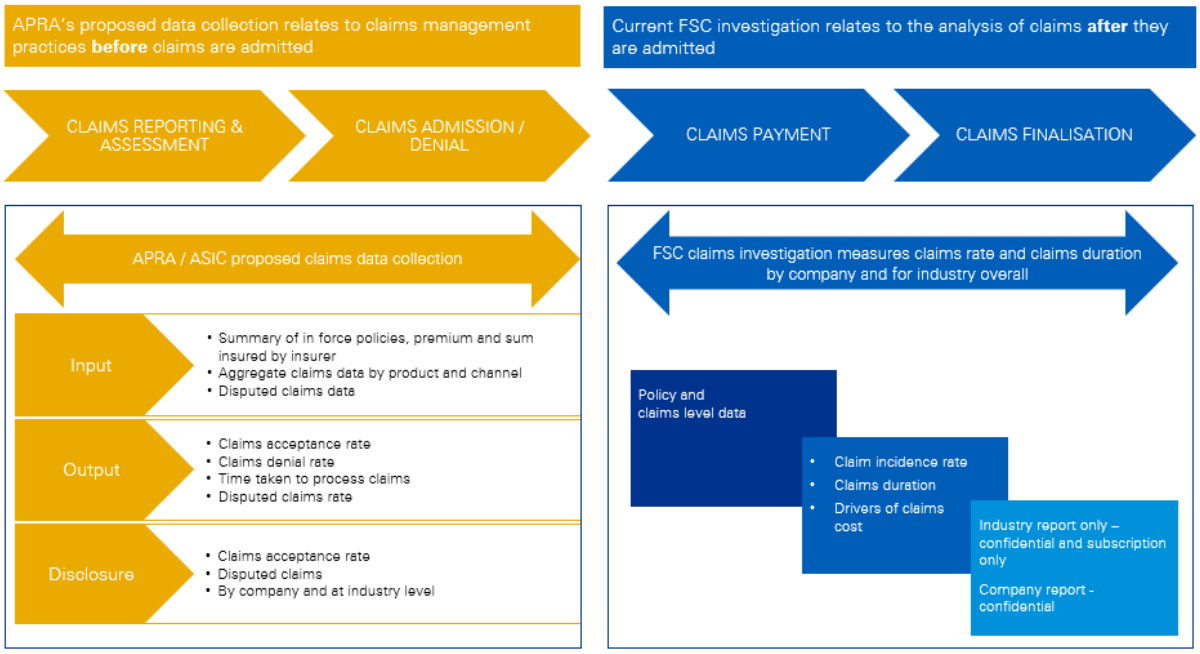
As noted above, an immediate priority isto facilitate the collection of claims data by cause of claims in order to identify the number and dollar value of claims paid relating to 5 major impairments which will include mental health conditions, heart conditions, cancer, neurological conditions and musculoskeletal conditions.

1.2 The current state

There are currently two main industry wide data collection sets:

- the FSC industry experience investigation undertaken by KPMG; and
- APRA's industry claims data collection.

The broad scope of these two data collection is illustrated below.



1.2.1 FSC Industry Experience Investigation

The FSC data collection covers retail insurance, some master trust insurance and some direct products. KPMG collects and analyses data on behalf of the FSC on an annual basis for death,

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terminal illness, Total and Permanent Disablement (TPD), trauma and income protection benefits. Participant companies comprise 95% of the Australian market measured by net risk policy revenue (excluding unit linked).

Data is submitted to KPMG through an online portal that includes automated checking and validation of the submission.

The results of the analysis detailing claim incidence and termination rates are presented at an aggregate industry level (available to all participants and subscribers). All data contributors also obtain their own portfolio experience results compared to industry. The results are made available in the Tableau reporting tool enabling each company to drill down into their own results.

Results are currently presented for 'standard' lives only. While impaired life data is included in the data collection, an impaired lives analysis is currently not in the scope of the investigation.

In addition to the FSC experience investigation KPMG also undertakes an annual group life experience investigation covering corporate plans. This investigation has been ongoing since 1991, and the results are published half yearly.

1.2.2 APRA and ASIC data collection (Currently in Phase 1)

APRA has prescribed a data template for the collection of claims data from all Australian life insurers. Phase 1 of this project comprises 3 rounds of data submission covering periods from January 2016 to December 2017.

The data collected in Phase 1 includes individual and group policies covering death, terminal illness, TPD, trauma and income protection/GSC benefits. Both advised and non-advised policies are included.

The APRA reporting metrics include claims admittance and decline rates, claims dispute numbers, dispute ratios and processing durations.

As the FSC/KPMG and APRA/ASIC data requirements are different in timing, outputs, terminology and data field requirements, there is significant inefficiency with insurers duplicating cost and effort to provide the required inputs to the two data collection processes.

2. How We Can Help

2.1 Introduction

We have a very clear vision of how we can help the FSC achieve its objective building on the proven processes and tools we already have in place for the retail industry experience investigations. We envisage three core streams to establish a comprehensive data collection and reporting framework comprising:

Stream 1 Extend the current claims data collection across additional channels and include (where we do not currently collect it) claims decline and dispute data, and more granular impairment data;

Stream 2 Extend the current exposure data collection across all distribution channels;

Stream 3 Build and maintain dashboard reporting to enable the FSC and insurers to query and drill down into the aggregate industry data to take a proactive and informed role in industry advocacy.

Delivery of all three streams of this framework will require extending and enhancing our existing data collection analysis and reporting tools developed for the FSC industry experience investigations. The follow diagrams illustrate the current coverage and highlight the new and enhanced components required.

2.1.1 Current State

The existing KPMG experience investigation process is focused on the retail channel reporting back to participating insurers and reinsurers.

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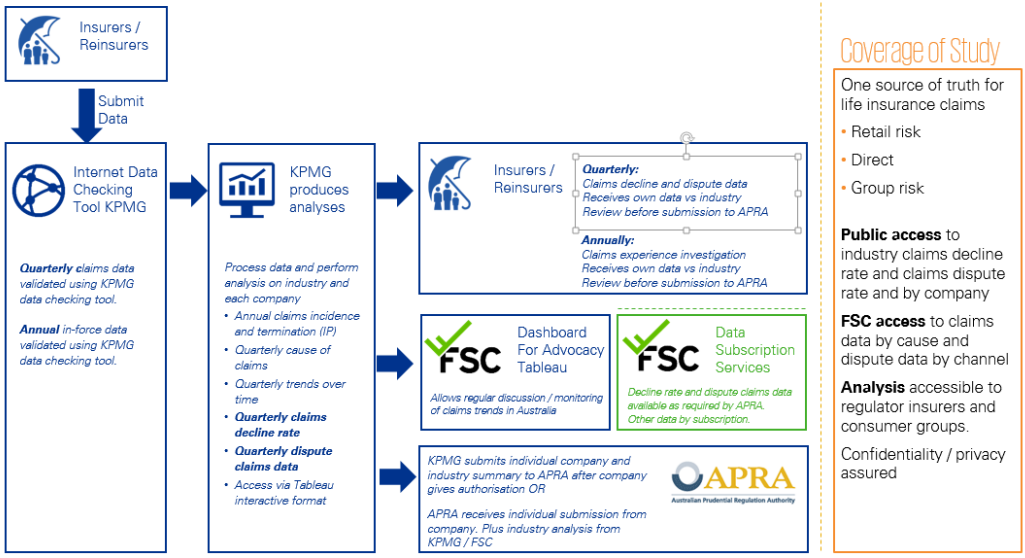
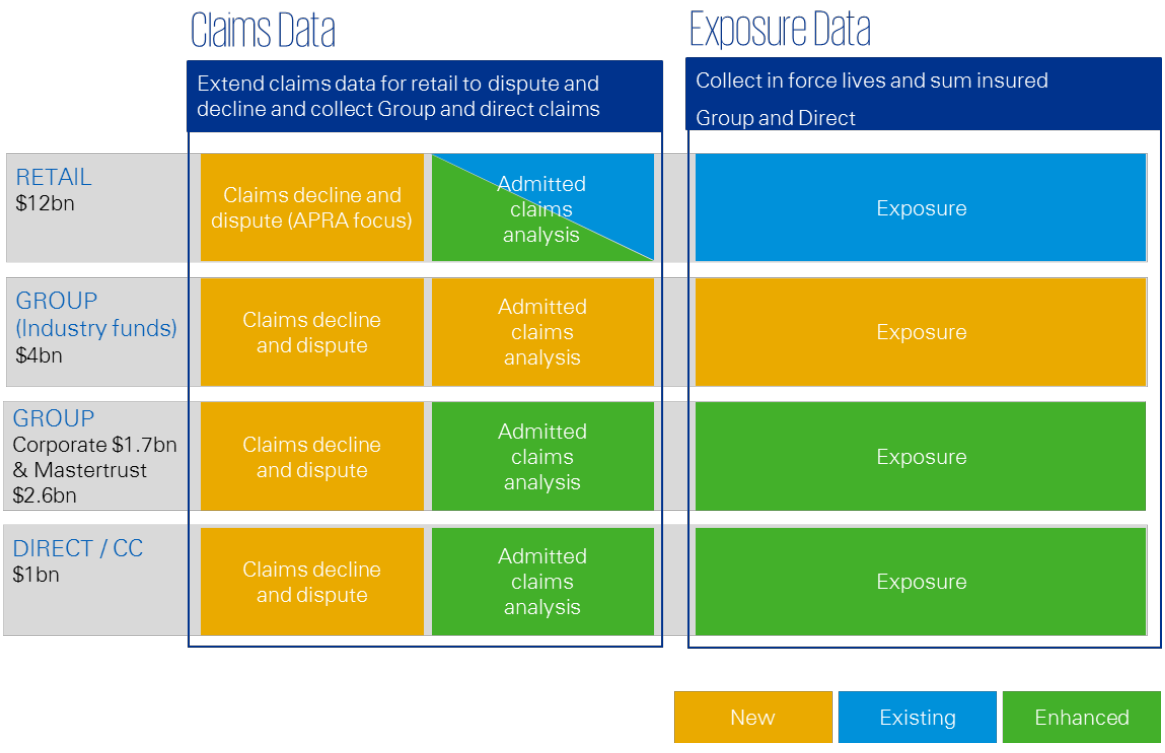
2.1.2 Future State

Key areas for expansion include expansion of channel coverage, enhancing data requirements and additional reporting layers for the FSC, and regulators.



2.2 Gap Analysis

The following diagram shows a high level analysis of the expansion and enhancements required to our current experience investigation process.



Key enhancements and additions to the existing the existing capabilities are described in more detail in the following table.

New Item or Enhancement	Description
Claims decline & dispute data collection and reporting for all channels	Additional data added to current reporting tools aligned to requirements of APRA templates.
Cause of claim information consistent with requirements of MHWG for all channels	Add cause of claim to the data collection to meet requirements of Mental Health Working Group. Develop data protocols to map existing company classifications to the MHWG specification.
Group exposure data for industry funds	Add group industry funds to the experience investigation process and enhance the experience investigation engine to analyse this data

Our immediate priority will be to enhance the claims data collection to include cause of claim information, addressing the requirements of the Mental Health Working Group and enable the FSC to respond to the concerns of mental health advocacy groups, notably Beyond Blue and Mental Health Australia. In parallel, the data collection tools will be expanded to include data relating to declined and disputed claims.

2.3 How FSC objective can be achieved

KPMG proposes a model whereby individual company contributions will be submitted to KPMG to process with aggregate data and results reported back to the FSC. The FSC will own the aggregate data and will use this data to support its advocacy efforts and to meet any external reporting requirements (e.g. claim decline and dispute rates).

The industry level data may potentially be made available to third parties via a subscription service on a similar basis to that offered by the Association of British Insurers (https://www.abi.org.uk/data-and-resources/industry-data/industry-data-and-subscriptions/).

Individual contributing companies will receive reporting on their own portfolios along with the aggregate industry analysis[1]. Company level results will also be submitted to regulators to comply with their prescribed reporting requirements.

This approach will ensure that there is consistent methodology and reporting across the industry, provide a single source of truth and eliminate the duplication and inefficiency involved in reporting through multiple channels. Data collected will be comprehensive, covering all distribution channels, policy types and benefits and include underwriting, in-force and claims information.

[1] A fee for access tableau may be payable by insurers

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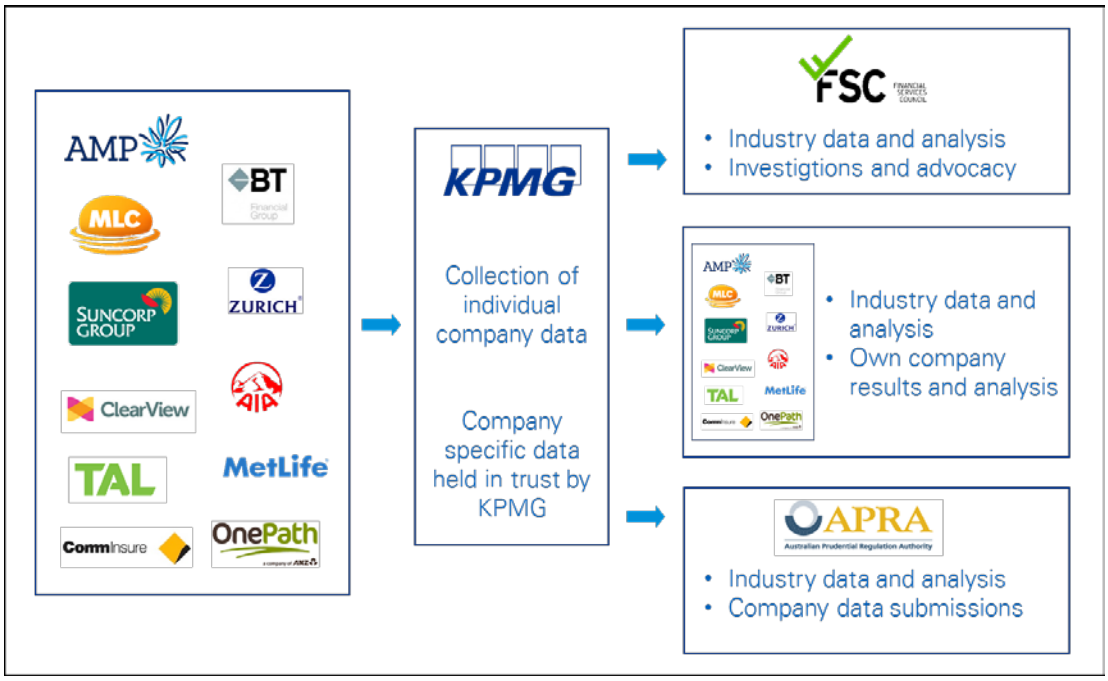

2.4 Industry consultation and addressing issues

As part of this engagement we anticipate consulting with industry on a number of aspects including:

- Data collection and validation: In particular we are committed to working with participants to further enhance and streamline the data submission process to reduce the effort required and wherever possible move manual data manipulation by companies to automated data manipulation by KPMG.
- Cause of claim data: We understand that this data is not collected consistently across the industry and we will work with participants to develop frameworks to map their existing definitions to the common industry definitions agreed with the FSC. This process may also include data mining of free text fields to identify claims cause where this is not coded to a fixed list (e.g. as is common for death claim records).
- Design and scope of the group claims experience investigation including agreeing a methodology and approach to access relevant exposure data. We note that exposure data for group insurance may represent a challenge for the industry, nevertheless, given our experience with the group life survey, and our experience in group risk pricing and reserving, we are confident KPMG is best placed to work with major group risk writers on practical solutions. In particular, we will consult to ensure the data collection and reporting does not risk making commercially sensitive information available to competitors or the broader industry.

2.5 Allowance for future systems mergers and migration

The life insurance industry is currently going through many changes; mergers and acquisitions, as well as systems migration are all potential future events that could have a profound impact on data collection

As the incumbent data partner with the FSC since 2008, KPMG has given this issue a lot of thoughts. Our data processing engine is currently enabled to allow unique record identifiers and/or company numbers to change without triggering data anomalies. This enables companies, with system migrations, to process the data through the full checking process without receiving a large number of errors due to changes in unique record identifiers. This functionality is currently present for policy data and we propose to extend it to claims data to ensure that upgrades of claims management systems can occur with limited impact upon data submissions.

2.6 Maintaining confidentiality of data submitted to KPMG

- Company confidentiality is considered to be of utmost importance in an industry's experience investigation. All data is submitted with unique company numeric identifiers and only the core engagement team knows which identifier maps to which company.
- Industry and companies' data is maintained securely on KPMG's file servers with locked folders preventing people from outside the team scrutinising company level data. Analysis is commonly conducted on aggregated data and the analysis is only considered at a company level for the purpose of determining the reasonableness of the company's data submission and the investigation results. If requested, KPMG can present the investigation findings to the company together with insights for their company.

2.7 Governance

- A robust and effective governance structure is the key to a successful and lasting industry data collection and analysis. KPMG would welcome any governance structure that enables the industry to be closely involved, the FSC to provide input and guidance, and KPMG as the data partner to maintain independence, confidentiality and efficiency of the process.

  It is our strong belief that the involvement of the participating companies at an executive level and the management level goes hand-in-hand with support for the investigations and commitment to timely data submissions. Given our experience, we believe a two-tier committee structure may be effective:

- Steering committee: Senior company representatives (C-suite) and the FSC, who would make strategic decisions regarding the survey, the level of data collected and the analysis performed. This committee ensures that the data collection and investigation continue to meet the insurers' and the community's need and secure the highest level of support for the data collection.
- Executive committee: Hands-on company representatives and the FSC, who would agree technical decisions such as the design of the data specification and the extent of data controls.

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This said, we are willing to work within any governance structure proposed by the FSC and its member companies, for example, a board of governors can also fulfil the same role, with the FSC as a key board member or the chair. The composition of the board and the chair will depend on what the FSC and its members would like to achieve with the data collection.

2.8 Timeline

We propose delivering the future state model over a number of phases with a target timeline as described below.

2.9 Potential Future Developments

Beyond the scope outlined above, the project will look to future enhancements to the quality and scope of the reporting required. These will be driven by stakeholder needs and preferences, coordinated by the FSC, but for example could potentially include:

- Data subscription service making the aggregate industry data available for third parties to interrogate. This is potentially a source of revenue for the FSC, but would at the same time enhance the transparency of the insurance market;
- Real time claims data submissions;
- Analysis linking underwriting decisions and claims outcomes using additional data from automated underwriting engines; and

- Development of lapse data and analysis, which may seek to further streamline data submission by removing the duplication with the ASIC data submission.

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3. Our Experience

3.1 About KPMG

KPMG Actuarial is the leading and largest Australian life insurance and actuarial consultancy with market leaders in every speciality field (Ref: Actuaries Institute website):

Company	Life Insurance Actuarial Team
KPMG	55
EY	27
Deloitte	11
PWC	5
Rice Warner	6
Towers Watson	5

We are unique in the Australian market in having a dedicated team of 17 claims professionals giving unrivalled experience and insight into claims management issues and practices across the industry. This is particularly important when declined and disputed claims data is being added to the data collection. We have grown through our commitment to clients to develop deeper subject matter expert (SME) knowledge, research and being a "one stop shop" for all our clients' needs. This brings economies of scale in our fee structure.

Our size also provides us an important advantage over our competitors in being able to flex to provide capacity to our client's needs.

3.2 Working with the FSC

KPMG has a long standing track record of being the FSC data management and analysis partner since 2008. During this time we have completed the following:

Lump Sum	**Disability Income**
• FSC KPMG LS2004-2006 (published)	• FSC KPMG DI 2009 (published)
• FSC KPMG LS2005-2007 (published)	• FSC KPMG DI 2007-2009 (published)
• FSC KPMG LS2006-2008 (published)	• FSC KPMG DI 2007-2009 (published)
• FSC KPMG LS2007-2009 (published)	• ADI 2007-2011 Table (graduated and published)
• FSC KPMG LS2008-2010 (published)	• FSC KPMG DI 2007-2011 (published)
• FSC KPMG LS2009-2011 (published)	• FSC KPMG DI 2009-2013 (published)
• FSC KPMG LS2009-2012 (published)	• FSC KPMG DI 2011-2015 (data collection)

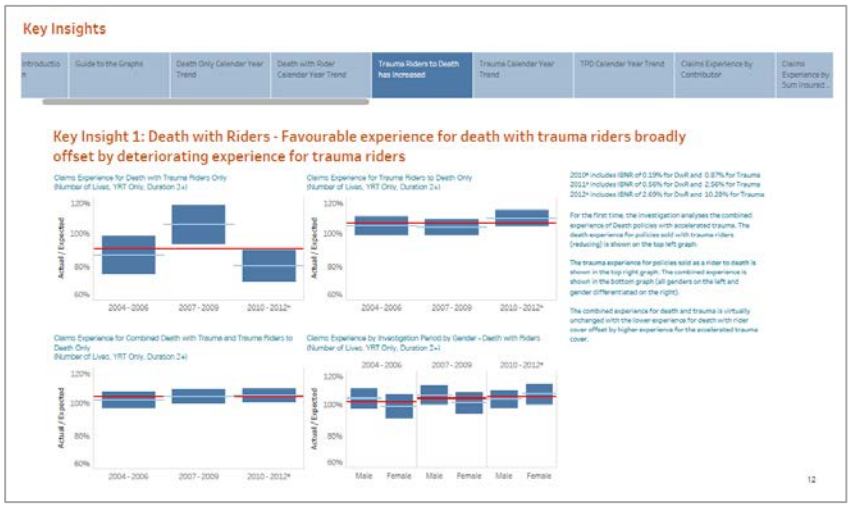
In addition to the above KPMG also peer reviewed the AL 2007-2011 table for the actuaries institute.

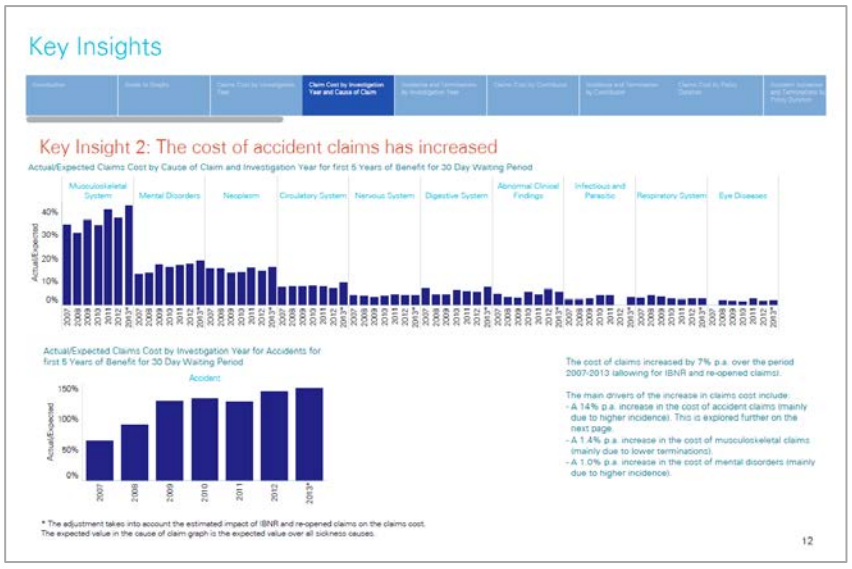
Enhancing and expanding the current data collection process will have the benefit of enabling the industry experience investigations to run annually, as originally intended, ensuring the industry is better informed of developing trends in claims experience and therefore better placed to react in a timely manner.

3.3 Initiatives by KPMG for continuous improvement for the data collection

Since commencing the industry experience investigations KPMG has made ongoing improvements to the process for collection and validation of data, analysis process to improve the efficiency and reliability. For example, in 2009, we introduced an internet based data checking tool to enable industry to efficiently validate data, with minimal intervention from KPMG. Some participants also uses this tool for their internal data checking, which is a bonus feature for our participants.

In 2015, we implemented a new reporting tool in Tableau to enable provide much greater flexibility for participants to query and drill down into their own results and the industry data.





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The following table summarises our relevant experience to meet your needs.

	FSC / Industry Requirements	KPMG Experience
Large scale data collection experience	Efficient and reliable data collection across the industry	Established tools and process to collate industry data and validate on submission. Running industry experience investigations for the FSC for over 10 years.
	Experience dealing with data provided by multiple organisations with different internal systems and data structures	
Interactive reporting dashboards	Interactive tools for the FSC, its members and third parties to query the data and drill down into areas of interest	Flexible and interactive reporting tool developed in Tableau for the industry experience investigations
Credibility with regulators (APRA and ASIC)	Reliable and timely reporting to regulators on behalf of the FSC and individual insurers.	KPMG present industry results regularly to APRA on request APRA knows our capability and is comfortable with KPMG as the guardian of the industry's data collection
Confidentiality	Appropriate controls to protect the security and confidentiality of data submitted by participating insurers.	Processes and controls already in place for the existing experience analysis work.
Innovation	A partner committed to continuous improvement and innovation to benefit the industry, consumers and other stakeholders	Proven record of improvement in the existing processes. Deep industry expertise to identify future improvements and opportunities.

Based on our understanding of your requirements, we believe KPMG is extremely well positioned to assist the FSC with this project.

3.4 Proposed team

We propose an outstanding team of actuaries and insurance experts to deliver for the industry led by Hoa Bui and Briallen Cummings, who have jointly led the current investigations since 2008 and are well known to the industry and the regulators.

Hoa Bui

Hoa is a senior insurance partner with over 30 years' experience in financial services, specialising in insurance. She is responsible for introducing the claims management capability into the Actuarial practice at KPMG. Prior to joining KPMG, Hoa has 19 years of experience in senior actuarial roles at National Mutual, AXA and TAL. Hoa was the actuary in charge of the No 1 and No 2 Group and Retail risk portfolio in Australia between 1988 and 1998. Hoa has acted as in house senior actuary, Appointed actuaries for 3 different companies, independent expert and actuarial auditor for major life insurers and reinsurers in Australia. She co-leads the FSC investigation with Briallen Cummings since the beginning of the investigation.

Briallen Cummings

Briallen has spent much of her career on understanding, analysing and benchmarking the fundamental drivers of the insurers' value, such as claims, lapses, capital and distribution.

Briallen is best known in the market as the joint-engagement partner for the FSC-KPMG claims experience investigation, which analyses industry-wide death, TPD and Disability Income since 2008. This investigation is the most up to date in the world, set the benchmark for the analysis of insurance statistics, and led to 2 new standard tables, the ADI 2007-2011 and the 2004-2008 standard tables. These tables are used by the industry to price and set provisions for life insurance products.

Briallen is the Appointed Actuary of 2 Friendly Societies and the lead actuarial audit partner on numerous audits including OnePath Life.

Hoa and Briallen will be supported by the existing team which delivers the Lump sum and Disability Income experience investigations, which include

- Natalie Tan Associate Director and technical specialist
- Charl Van Rensburg: Associate director and project manager
- Louise Devey: Manager
- William Zheng: Senior Consultant

backed by the 70-people strong actuarial practice at KPMG.

In addition, the project is supported by Subject Matter Experts such as Jane Dorter, who will provide claims, underwriting and medical knowledge and perspective, Daniel Longden who will provide Retail, Direct distribution perspective and James Collier who is well versed in Group Insurance and leads the KPMG long standing Group Life Survey since 1991.

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Jane Dorter

Jane is KPMG Australia Head of Insurance Claims Solutions and leads KPMG's insurance claims and underwriting practice. Jane is also a Board member of the Sunsuper Claims Committee Board.

Jane's previous role was with General Reinsurance Australia (Gen Re) where she was Head of Client Accounts, responsible for driving client insurance solutions, as well as managing the direction of Research and Development Claims projects.

Jane is a frequent speaker at industry forums and additionally, represents numerous industry and other health care sector representative groups on Workplace Health, Mental Health, Insurance and Compensation and Claims.

Daniel Longden

Daniel joined KPMG in 2017 and has over 20 years' experience in insurance and wealth management across a range of corporate and consulting roles. Daniel has held roles including Appointed Actuary, CFO and Director for a number of life insurance companies and reinsurers and has a deep understanding of the insurance industry covering insurance product design, pricing and distribution channels.

Daniel was member of the executive team of Macquarie Life Limited from the inception the business in 2007 through to the sale to Zurich in September 2016.

James Collier

James is the National Managing Partner of KPMG's actuarial and financial risk practice and has 25+ years' experience in insurance and superannuation. With 15 years as a Partner at KPMG and direct industry roles at AMP and Swiss Re, the latter where he was the Chief Pricing Actuary for Australia and New Zealand, James is one of the most respected actuaries in the Australian market. James leads KPMG's Group Life Survey and is recognised as one of the leading experts on the group life market including product design, pricing, valuation and data interpretation.

4. Fees

4.1.1 Fee Schedule

Given the efficiencies achieved by combining the additional data collection, analysis and reporting scope with the existing services provided by KPMG to deliver the industry experience investigations we have determined the incremental fees in addition to the current fees charged to participating life insurers.

Service	Fee schedule	Notes
Lump Sum Retail Experience Investigation	$ 23,467 per participant Indexed annually	No change to existing fees assuming annual investigation program
Disability Income Experience Investigation	$ 28,792 per participant Indexed annually	No change to existing fees assuming annual investigation program
APRA Claims Decline & Dispute Analysis	$ 20,000 per participant Indexed annually	Incremental annual fee
Add Direct & Group Life & GSC Analysis	No additional fee. Provided that other components of the proposal are also accepted	Use existing data collection, analysis and reporting tools.
Build & Maintain FSC Dashboard	No additional fee. KPMG will work collaboratively with the FSC to build and maintain an industry dashboard.	Use existing data reporting tools.
Third party access to aggregate data	50% of access fees charged Fees to be agreed with FSC.	Assuming FSC makes available a subscription service for query access to aggregate industry data.

By leveraging the existing experience investigation processes and platforms, and assuming that these investigations are performed annually based on the more frequent data collection required for APRA reporting, we are proposing a modest additional annual fee to participants of $20,000 per annum (indexed annually). Existing licencing arrangements for Tableau will continue to apply.

We understand the FSC is considering making aggregate industry data available to third parties available a reporting tool similar to the model adopted by the Association of British Insurers. We propose to develop and maintain this facility for no upfront charge, in exchange for 50% of the access fee collected.

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A Detailed CVs

Hoa Bui
Practice leader – Actuarial & Financial Services
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Role on Engagement

Hoa will act as the engagement lead.

Professional and Industry Experience

Hoa is KPMG Actuarial's practice leader for actuarial in financial services with 30 years experience in Superannuation, insurance and financial services. Before joining KPMG, Hoa held senior actuarial roles at National Mutual, AXA and TAL. Between 1988 and 1998, Hoa was the actuary in charge of the No 1 and No 2 Group and Retail risk portfolio in Australia, and acted as senior actuary, Appointed Actuaries for 3 different insurers, independent expert and actuarial auditor for 3 major life insurers and reinsurers in Australia.

Relevant Experience

Hoa has led a number engagements to assist insurers and superannuation funds to benchmark and manage life and health claims, through analytics, risk management and claims practice improvement.

Industry claims experience investigation

- 2008-current: led the current FSC – KPMG industry investigations for DI and lump sum risk since 2008.
- 2015: Led KPMG's production of the latest standard table ADI 2007-2011 for retail disability income business
- 2012: Peer reviewed the Actuaries Institute standard table for mortality, TPD and Trauma for retail business.
- 2011- 2013: Led the KPMG expense survey for life insurance

Independent review roles

- 2016: Performed two independent reviews of claims decline, dispute and product design in 2016
- 2014: Reviewed the effectiveness of an outsourced claims management provider for a super fund

Insurer / reinsurer experience investigation

- 2014: Led a major external review of group risk insurance claims analysis for an international reinsurer.
- 2013- 2014: Led an independent review of claims analysis and reserve for an international major reinsurer (TPD).

Appointed Actuary / lead actuarial auditor experience

- 2013 – 2016: External appointed actuary for Westpac Life and St-George Life.
- 2007-2012: Actuarial audit partner for Munich Re Australia, Suncorp Life and ING Life.
- 2005-2006: External Appointed Actuary for PrefSure Life

Professional experience

Hoa is a member of Council, the governing body of the Institute of Actuaries of Australia; a member of the IFRS 17 Implementation Task Force and the Nomination Task Force. Hoa presents regularly to the Institute's and other industry events, for example in 2014, Hoa presented on the Sustainability of the life insurance industry with Ian Laughlin and Geoff Summerhayes at the FSC Life Insurance Conference.

Briallen Cummings
Partner – Actuarial & Financial Services
P: (02) 9335 8900
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Role on Engagement

Briallen will be the day to day delivery lead.

Experience

Briallen has 18 years of experience in life insurance across corporate and consulting roles, having worked both in Australia and the UK and provided consulting services to New Zealand.

Briallen has spent much of her career on understanding, analysing and benchmarking the fundamental drivers of the insurers' value, such as claims, lapses, capital and distribution.

Briallen is best known in the market as the joint-engagement partner for the FSC-KPMG claims experience investigation, which analyses industry-wide death, TPD and Disability Income since 2008. This investigation is the most up to date in the world, set the benchmark for the analysis of insurance statistics, and led to 2 new standard tables, the ADI 2007-2011 and the 2004-2008 standard tables. These tables are used by the industry to price and set provisions for life insurance products.

Prior to the FSC-KPMG claims experience investigations, Briallen managed the KPMG Group Life Experience Study and was instrumental in modernising the investigation. Briallen also creates benchmark surveys for life insurance capital assumptions and methodologies.

Briallen is the Appointed Actuary of 2 Friendly Societies and the lead actuarial audit partner on numerous audits including OnePath Life.

Representative Experience

The most recent and relevant experience to this engagement are:

- Joint engagement lead for the FSC-KPMG Retail Risk Claims Experience Investigations;
- Has managed, overseen or contributed to a number of product developments and experience analyses for retail products of various sized clients who are major risk writers or niche risk writers;
- Reviewed experience studies for 7 different audit clients;
- Member of The Life Risk Insurance Committee (Actuaries Institute) for its final 3 years, which produced the 1997-2001 Report on the Disability Income Experience Investigation.

Insurer / reinsurer experience investigation.

- 2017: led an investigation into the disability income claim experience for a major risk writer
- 2014: led the experience investigation and assumption setting for a major international reinsurer for a major deal to insure the in-force retail risk book of a large insurance company.
- 2010: led the repricing of disability income insurance for a major life insurer drawing significant insights from experience investigations to assist in understanding the profitability of different market segments.

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Jane Dorter
Director – Claims & Underwriting
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Role on Engagement & Experience

Jane is KPMG Australia Head of Insurance Claims Solutions and leads KPMG's insurance claims management offering. Jane's previous role was with General Reinsurance Australia (Gen Re) where she was Head of Client Accounts, responsible for driving client insurance solutions, as well as managing the direction of Research and Development Claims projects.

Between 2003 and 2011, Jane was responsible for all service delivery to Key Account clients at Gen Re across Claims, Underwriting, Case Management, Financial Analysis and Client Development Services.

Prior to joining the insurance industry, Jane was Deputy Director for Psychology and Social Work Services at Westmead Hospital.

Experience

At KPMG, Jane is supporting Insurers and Audit teams with broad Claims and insurance risk management strategies, process reviews (scope/approach/deliverables/ & implementation support).

- Lead the ASIC instigated Independent Claims Reviews of 6 major Insurers.
- Advisor to Health Insurance providers on Claims process improvement and Loyalty Program development.
- Lead KPMG's engagements on Claims Transformation projects.
- Provides Insurers with Reviews on Claims Management better practice and operating process models.

As Head of Claims & Client Accounts at General Reinsurance Australia(Gen Re) for 17 years, Jane:

- Established the Gen Re Claims Management Service, where she introduced and implemented for insurance clients a customised claims management model, developed the specialised Case Management service and built the COMET Education and Development Program.
- Co-ordinated internal Client Claims and Specialist support teams and tracked strategic plans and budgets to progress.
- Built and led the multi-disciplinary service model, philosophy and regional teams for claims and service delivery management.
- Managed direction of Research and Development including medical, claims and underwriting education, consulting services and medical services, adding significant value add to Insurance clients.

As Deputy Director, Psychology & Social Work Services, Westmead Hospital and Team Leader Brain Injury Rehabilitation Unit, Westmead Hospital, Jane

- Led the supervision of 75 medical professionals providing psychological support services to all areas of the hospital.
- Managed a startup medical team for Psychological Services.

Natalie Tan
Associate Director – Actuarial & Financial Services
P: (02) 9335 7340
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Role on Engagement & Experience

Natalie is the technical lead for the investigation. She has performed this role since 2008 and has expert knowledge of KPMG's platforms for the investigations.

Experience

Before KPMG Natalie spent six years working as a financial modeller in Tillinghast Software Solutions. Natalie is an actuary with a unique combination of life insurance, financial and systems design.

- Financial modelling and project management – Extensive experience in building financial models including specification, design, implementation, testing and maintenance for life insurers, banks and investment banks. The models range from Microsoft Excel spreadsheets, Prophet, MoSes Access, C/C++ and VB.net.
- Model validation and reviews of financial models for life insurers, banks and investment banks.
- Actuarial support – Provided support for Appointed Actuary work and audits including model reviews and assumption setting.
- Natalie has been involved with the FSC investigation since 2008, leading the development of the Data Checking Internet tool, the claims investigation calculation engine and the conversion to Tableau.

Representative Experience

Prophet

- Modified an existing Traditional product model and test calculations and projection in Prophet.
- Reviewed testing of Prophet output of lump sum and disability income for a modelling insurer

Natalie worked on a variety of Asset-Liability Models built on the MoSes platform for UK and Asian clients. Her experience on MoSes includes:

- Managing a team of seven to build a Monte-Carlo economic scenario generator in C++ which consists of interest rate model evolved under the HJM framework which is calibrated and prices market traded equity options and swaptions.
- Modelling immunising a portfolio of bonds in an ALM model.
- Optimising the performance of ALM model on MoSes.

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Charl Van Rensburg
Associate Director – Actuarial & Financial Services
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Role on Engagement

Charl will perform the client liaison and project management role, a role he currently performs for the FSC Disability Income investigation.

Professional and Industry Experience

Charl is a qualified actuary with more than 11 years' experience, of which 9 years are post-qualifying experience in the Life Insurance and Superannuation industries in Australia and South Africa, working with both Investment products (including unit-linked) and Risk products. Before joining KPMG, Charl was a senior actuary at a large insurer where he held senior valuation and specialist roles. He also spent 2 years in Superannuation.

Client Experience

As an associate director at KPMG Australia, Charl's experience includes:

- Overseeing FSC/KPMG Industry Disability Insurance experience Investigation
- Perform analysis for a large reinsurance transaction at a major Australian life insurer
- Capital calculations and Dynamic Solvency testing
- Due Diligence work in relation to mergers and acquisitions

At Momentum, a large insurer, whose portfolio includes a significant book of investment business:

- Review, perform and report experience investigations and set actuarial assumptions for liability calculations
- Report and present results and provide actuarial insight to senior management
- Manage valuation process performed by a team of 20 + people for Retail business including Investment products, Unit-linked Insurance and Investment products, Annuities and Risk products.
- Report and review results including Statutory and IFRS earnings, Embedded Value (EV), Analysis of EV, Value of New Business (VNB), Sensitivity and Scenario Analyses, Risk reporting, Capital, strategic forecasting and budgeting
- Review and sign-off of model developments implemented (Prophet "gatekeeper").
- Model (Prophet) developments including Solvency II, Tax regulation changes, analysis of EV capability

William Zheng
Senior Consultant – Actuarial & Financial Services
P: (03) 9288 6494
E: wzheng1@kpmg.com.au

Engagement Role

William will perform the aggregation and analyses, the role he performs for the FSC Disability Income experience investigations currently.

Pricing Experience:

- In-house pricing work for the variable annuity product of an Australian life insurer. This includes:
    - Expanding pricing model to incorporate additional customer behavior assumptions
    - Generating comparison reports on the pricing of competitor products

Experience in Industry and Internal Experience Investigations:

- FSC-KPMG Industry Retail Disability Income Experience Investigation:
    - Performing various industry-level analyses including incidence, termination, duration, claims cost and IBNR
    - Implementing and moving analysis from traditional report format to dynamic and interactive Tableau format
    - Implementing changes to data engine to incorporate contributor feedback and allow collection of additional data fields

Data analytics experience and skills:

- In-house data analytics for an Australian life insurer. This includes:
    - Performing customer segment analysis to assess the impact and penetration of product campaigns
    - Generating ad-hoc analysis and reports to assist management in the monitoring of various business lines
- Remediation work for an Australian life insurer to generate a liability estimate of unpaid reinsurance premiums using R
- Statistical analysis of mortality rates to determine risk margins for an Asian life insurer
- Software skills including SQL (MS Access and SQL Server), VBA, VB.NET and R

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Louise Devey
Manager – Actuarial & Financial Services
P: (03) 9288 5240
E: ldevey@kpmg.com.au

Engagement Role

Louise will perform the analysis for the investigation. This is the role she performs for the Lump sum claims investigation currently.

Relevant Engagements

Louise has over 6 years' experience in the insurance industry and is a qualified Actuary. She started her career in Dublin, Ireland spending three years as a capital modelling and reserving analyst for a large European insurer selling creditor insurance. Prior to joining KPMG Australia she worked as a senior consultant specialising in data analytics and predictive modelling with PwC.

Representative Experience

- Analysing the Australian Life Insurance industry experience to identify trends in claims rates for Death, Trauma and TPD covers.
- Assessing the impact of adopting new Lump Sum and Disability standard table for a major Australian Insurer.
- Claims experience analysis to identify unusual claims behaviour and high risk claimant segments allowing the client to create a more rigorous claims review strategy and reduce false claims.
- Undertaking portfolio experience studies to calculate and monitor the movements in mortality rates, morbidity incidence rates and continuance rates and loss ratios for a Major European Insurer.
- Calculating unemployment rates for European portfolios and monitoring emerging experience in during the GFC.
- Developing debtor segmentation models using logistical modelling and k-means clustering techniques in SAS to allow the implementation of tailored and effective collection strategies.
- Risk factor and incident driver analysis for a range of industries using SQL and Self Organising Map techniques.
- Performance analytics for the banking, IT and health industries such as identifying pain points, analysing trends and developing KPIs to drive change in the business.
- Developing capital models using Prophet to project all future expected liability cash flows and calculating future technical results and solvency capital requirements. Developing tools to enable the back testing of capital model outputs.
- Conducting model reviews which cover data collection and preparation as well as model development, change management and back testing.

B Supplier Details

Business Name	KPMG
Legal Status	KPMG is a partnership formed under the laws of New South Wales.
Australian Business Number (ABN)	51 194 660 183
Registered Business Address	KPMG, Level 38, Tower Three 300 Barangaroo Avenue, Sydney, NSW 2000
Key Personnel	Details of key personnel are provided in Appendix A.
Confirmation of Personnel Integrity	KPMG confirms that no key personnel have been convicted of a criminal offence or been declared bankrupt in the last 5 years. KPMG undertakes employee screening activities for all new employees, and has a code of conduct with which all KPMG personnel are required to comply and must confirm annually that they have complied.
Supplier Profile	KPMG began in its present form in 1987 when several member firms merged to form one partnership. Its headquarters are in Sydney, Australia. The partnership comprises over 450 partners and 5,800 employees, with offices in 13 locations around Australia.
Details of Insurances	KPMG holds the following insurances: Workers compensation insurance, with the coverage mandated by the relevant Act; General public and products liability insurance, with coverage up to $5 million; and Professional indemnity insurance, for which KPMG cannot disclose its coverage level.
Conflict of Interest	KPMG has a policy framework and process in place to ensure the avoidance of any potential conflicts of interest in conducting advisory engagements. We have not identified any potential conflicts of interest in relation to Allianz in respect of team members proposed for this engagement.
Anti-Corruption	KPMG has an extensive global anti-bribery and corruption program, including detailed policies applying to all member firms and personnel. These also include training, compliance procedures, and a whistleblowing hotline. KPMG's Fundamental Ethical Principles and Code of Conduct (Policy 5.7 – Bribery and Gifts/Entertainment) prohibit bribery and facilitation payments, and place tight restrictions on the gifts and entertainment that can be accepted from clients or other parties. Details of KPMG's position on corruption and bribery can be found on the following webpage: https://home.kpmg.com/xx/en/home/about/citizenship/anti-bribery-corruption.html
Interaction with Government Officials	KPMG will not be in direct contact with a Government Official as part of the performance of the upcoming contract.

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Real-time Life Insurance Data Collection

to be read in conjunction with 5 August proposal

15 August 2017

Hoa Bui

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Sally Sloane
Chief Executive Officer
Financial Services Council
Level 24, 44 Market Street
Sydney NSW 2000

Private & Confidential

15 August 2017

Dear Sally,

FSC Claims Data Collection - Real Time

Supplementary proposal - to be read in conjunction with KPMG's 5 August proposal

In our 5 August proposal, we proposed to extend the FSC data collection to quarterly and to include declined and disputed claims, and claims from all distribution channels.

We are now delighted to extend that proposal to real time data collection.

We propose to start with what the industry needs to provide today, a quarterly data collection; as and when the FSC and the industry decide to have a real time data collection, KPMG stands ready to be your ideal partner:

- Our offer is to deliver a quarterly data collection, which will be over time upgraded to real time.
- We offer, in one partner, the combination of deep insurance insights and world class Data Analytics capability. This is recognised by Forrester and Gartner in 2017;
- We are committed to provide, free of charge a series of research projects, Innovation Research in Insurance worth $300,000 as part of the package.

KPMG is delighted to continue to be your data partner. We have put together a proposal that we believe is innovative, achievable, and has the potential to be revenue generating for the FSC, with KPMG maintaining "skin the game" by sharing the maintenance of the subscription services with the FSC.

Yours sincerely

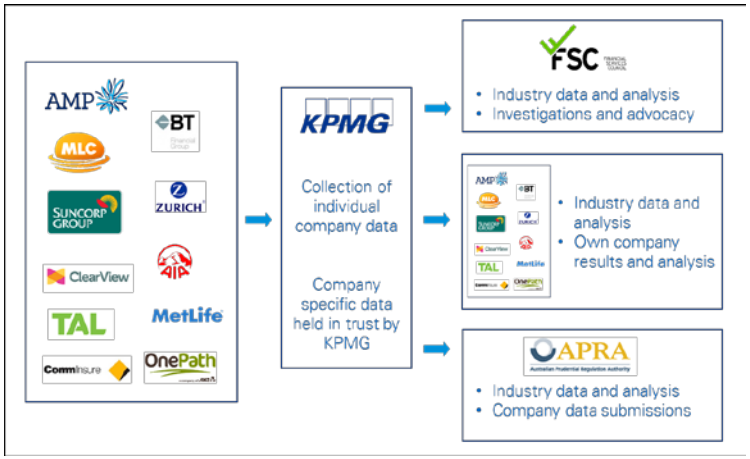
Hoa Bui

Partner

Actuarial & Financial Services

cc: Allan Hansell
Jesse Krncevic

Overview of Proposal



KPMG has submitted a proposal to the FSC to expand the current industry experience investigation data collection and analysis process to:

- Cover all benefit types and distribution channels
- Include additional information on declined an disputed claims
- Include data on cause of claim, including mental heath conditions
- Increase the frequency of data collection to at least quarterly
- Provide industry reporting to APRA

The proposed reporting framework would give the FSC access to aggregate industry data to enable it to fulfil its advocacy role for the life insurance industry on behalf of the FSC members.

We outline in this document our proposal for a two phase program to build out this reporting capability to an end state of "Real time" data processing and collection.

Phase 1

Expansion of the current reporting framework to cover the aspects listed above and enable the following:

- Reporting to participating life insurers and reinsurers
- Public reporting of aggregate metrics through the FSC
- FSC access to detailed industry data for advocacy purposes
- Third party access to more granular industry data through an FSC subscription service.

Phase 2

Development of the Phase 1 framework would provided the FSC and industry with a mechanism to explore further options for industry wide data collection on claims and exposure at a policyholder level. Examples of similar models exist in for life insurance and general insurance in overseas markets.

Industry-wide cooperation would be required to facilitate this reporting to ensure appropriate controls and governance frameworks are in place to protect data privacy.

Innovation in Insurance series of research paper: In addition, we are committed to provide a series of research paper designed to guide the industry towards more contemporary practices in Life Insurance Claims and Underwriting, free of charge.

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Vision of the New Data Collection

Per page 10 of proposal 5 Aug 2017, Section 2.1.2

Insurers / Reinsurers

Submit Data

Internet Data Checking Tool KPMG

***Quarterly c**laims data validated using KPMG data checking tool.*

***Annual** in-force data validated using KPMG data checking tool.*

KPMG produces analyses

Process data and perform analysis on industry and each company

- *Annual claims incidence and termination (IP)*
- *Quarterly cause of claims*
- *Quarterly trends over time*
- ***Quarterly claims decline rate***
- ***Quarterly dispute claims data***
- *Access via Tableau interactive format*

Initially the collection can be quarterly, but over time , KPMG can work with the FSC and its members to turn this collection into a real time data collection.

Technically this conversion is possible, but the real challenges are data availability, common purpose, and governance to ensure privacy is protected.

Insurers / Reinsurers

Quarterly:
Claims decline and dispute data
Receives own data vs industry
Review before submission to APRA

Annually:
Claims experience investigation
Receives own data vs industry
Review before submission to APRA

FSC Dashboard For Advocacy Tableau

Allows regular discussion / monitoring of claims trends in Australia

FSC Data Subscription Services

Decline rate and dispute claims data available as required by APRA. Other data by subscription.

KPMG submits individual company and industry summary to APRA after company gives authorisation OR

APRA receives individual submission from company. Plus industry analysis from KPMG / FSC

APRA Australian Prudential Regulation Authority

The following pages describes how the transition to real time may occur & potential uses of real time data .

Real time data upgrade

Coverage of Study

One source of truth for life insurance claims

- Retail risk
- Direct
- Group risk

Public access to industry claims decline rate and claims dispute rate and by company

FSC access to claims data by cause and dispute data by channel

Analysis accessible to regulator insurers and consumer groups.

Confidentiality / privacy assured

Real time data collection upgrade.

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Phase 1 - FSC Data & Subscription Services

Public Data

Current key industry data available on FSC website covering:

- Most recent quarter
- 12 months to current quarter end
- Last 2 calendar years

Industry claims paid:

- number of claims and claim amounts
- split by benefit type and channel

Admitted/Declined Rate:

- Industry admitted/declined claim ratios
- Split by benefit type and channel

Disputed Claim Rate:

- Industry disputed claims ratios
- Split by benefit type and channel

Timing:

- 2017 Q4 first publication
- Quarterly updates, **intending to move to real time as company reporting permits**

Dashboard For Advocacy

FSC Tableau Dashboard providing full interactive access to industry level FSC experience investigation data to assist with advocacy on behalf of the life insurance industry.

Exposure data

- number of insured lives and policies held
- aggregate sums insured data
- Insured population profiles by age, gender, occupation, sum insured

Claims data

- claims incidence rates by benefit type
- claims by cause
- Claimant profiles by cause of claims, age, gender, occupation
- Admitted and disputed claims data

Timing:

- 2017 Q4 first publication
- Quarterly updates, **move to real time key metrics where company data is available**

Data Subscription Services

FSC Tableau dashboard made available to external subscribers providing access to more granular industry data analysis including for example:

- Insured population profiles by gender, age band, sum insured
- Claimant profiles
- Aggregate claims numbers and amounts by benefit type

Timing:

- 2018 H2 first publication
- Quarterly updates, **move to real time key metrics where company data is available**

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Phase 2 - KPMG's Vision of real time data collection

KPMG has the Data Analytics capability and the delivery capacity to develop this for the FSC and the Australian life insurance industry.
This is illustrated on slides 7 to 14 via 5 selected case studies. The team proposed for this engagement will be augmented with 2 directors, William Howe and Andrew Cohen to enhance our real time data management capability for phase 2.
In addition, KPMG has a "lighthouse" structure to ensures that KPMG bring the most advanced Data Analytics to all our engagements. Lighthouse is a structure where our core data scientist and DA personnel are pooled in one central areas, but can be utilized by all areas of KPMG including actuaries.

The move to the goal of real time data collection will be dependent on the ability of the life insurers to expand their reporting capabilities to provide data to the investigation. It is anticipated that the frequency of data collection will increase over time as these systems are developed.

Potential future developments to include industry level claims and policy registers would require further expansion of the datasets to include personal details of policyholders. While examples of such databases exist in other markets, the examples given below would required careful considerations of the privacy requirements of such data and establishment of appropriate governance frameworks.

Submitted claims register

Industry wide database of submitted claims. This database could be used to

- assist underwriting to identify non-disclosure in respect of prior paid or declined claims
- assist in claims management to identify policyholders who have submitted prior similar claims

Duplicate covers register

Industry wide database of exposure data to identify multiple covers for single lives, this database could be used to:

- assist underwriting to validate disclosures of existing insurance cover or identify cases where multiple existing covers are not disclosed
- Identify duplicate cover held through group default arrangements to help address superannuation benefit erosion concerns

William and Andrew will be added to the team in Phase 2 to enhance real time capability

William Howe

KPMG Data Analytics Lead for Financial Services

William has hands on experience leading major insurance data projects overseas, see slide 11.

Andrew Cohen

Director

Insurance DA

Andrew leads the Insurance Data Analytics team at KPMG. A sample of his work is on slide 10, NSW government transport.

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KPMG Capability & case studies

KPMG capability in Data analytics and insurance

Our Scale for Data and Analytics

2.16**bn USD**	> 10K	$252M	600+	> 3
Total Global D&A revenue for FY15	Global D&A resources across 7 broad capability groups	Planned global organic investment in D&A for FY16	D&A enabled client-ready services and solutions	Regional Insights Centers to bring D&A to life for clients

We are #1 - Globally

KPMG leads the pack with Forrester analysts: "KPMG cracked the code for balancing business and technology expertise." - The Forrester WaveTM: Insights Service Providers, Q1 2017.

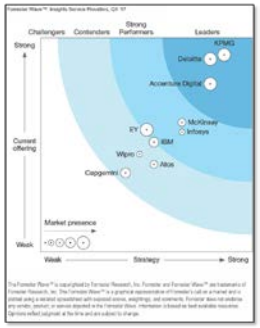
KPMG positioned as a Leader in Gartner Magic Quadrant: "KPMG has a created a strong vision for data and analytics that is embedded in its core practices…" - Gartner Magic Quadrant for Business Analytics Services, Worldwide – 2017

Our Value Proposition for FSC

Our Approach addresses all aspects of your requirements

Our approach has been carefully planned to address all your key requirements through 3 well thought delivery stages.

Through these stages, our Analytics and Information Management team (AIM) will work with FSC to focus on the key objectives injecting a trusted analytics approach in every element of delivery.



The Forrester Wave™: Insights Service Providers, Q1 2017

We will deliver a practical and actionable framework, build customer lifetime value model

We are focused to support the industry and the FSC with a framework to run analytical models as well as design and build the analytical models to support the FSC desire to be proactive and transparent about data and customer outcome .

We understand your business landscape

Life insurance typically has been 'low touch' when it comes to members' engagements. By engaging with the insurers, the public and the consumers groups, the FSC can provide leadership and create consumer confidence, develop communications to improve perception of the value of life insurance.

We have done it before - We bring in directly relevant experience

Our team brings extensive D&A expertise with recent experience of defining and executing data and analytics for large Australian and overseas clients. Our core team is supported by a global team that help drive international expertise and support on every project.

We understand the life insurance industry, the environment it operates in, its core challenges and opportunities

We advise nearly all life insurers in the country, and has registered all of the new players into the market in the last 10 years. We are thought leaders and publish regular insights for the life insurance industry and are proud to bring these insights into our projects.

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Case Study - Australian Department of Health

Current engagement

Description

KPMG was engaged to develop an Electronic Recording and Reporting of Controlled Drugs (ERRCD) framework to guide the development, implementation and integration of the Real Time Prescription Monitoring (RTPM) component within the national ERRCD system.

Engagement Capabilities

Discovery and analysis of key business capabilities associated with deploying a Real Time / Near RealTime Prescription Monitoring function as part of the Electronic Reporting of Controlled Drugs (ERRCD) System, associated technical considerations in reviewing the current ERRCD architecture against target capabilities and a series of "framework options" for enhanced ERRCD architecture and functionality to deliver against stated prescription monitoring objectives and capabilities.

The framework needs to be capable of ingesting 13.5 – 14.5 million events by the year 2020. The annual figure of 14.5 million dispensing events is equivalent to 6, 957 per hour or 116 per minute at 60% capacity during peak times and 9, 276 per hour or 154 per minute at 80%.

Outcome

KPMG data science engineers produced 2 candidate designs for the client.

- The first option was a federated, highly available, performant system design that is based on vertical partitioning of core data tables across multiple geographical nodes to ensure low latency, distributed processing of transactions.
- The second option was an In-memory stream processing design, built on the basis of the lambda architecture for low latency high frequency analytics processing.

Both options were candidates due to their scalability, volumetrics capabilities, resilience of down time events and proven track record of implementations in similar use case such as High-Fx algorithmic trading and SCADA implementations.

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Case Study - State Government Transport Authority Real Time Data

This is a prime example of the value actuaries can add to a Data Analytics project

Our Role

Our client, a government transport authority, is responsible for the effective planning and efficient management of public passenger transport services in its state. The client supports bus services which are operated by a number of delivery partners.

KPMG Actuaries were mandated to advise on the development of a new performance regime, involving:

- **Data integrity and verification** – analysis of current bus fleet management systems bus fleet management platform, and performance management systems.
- **Empirical and statistical analysis of performance measurements – analysis** of very large historical data sets to ascertain base level performance measurements and their natural variability.

KPMG embedded staff within the client to gain a better understanding of the systems and operational behaviours that generated the data.

Our Achievements

- **Early identification of inconsistent data outputs** from current bus fleet management systems.
- **Implemented an innovative operations research technique** to utilise all available data sources. Previous systems ignored and mishandled available data with no cross-validation between systems.
- **Developed a performance measurement regime which was statistically sound** and relied on a body of robust and consistent data.
- Using a reliable big data approach, we were able to **help the client survey 100% of the network (all routes, trips, stops)** at a similar cost to the previous manual audit approach.
- Informed the design of a performance monitoring regime to **drive effective improvements in service delivery.**
- We worked closely with the Client Project Team. They noted that the measures derived allowed them to quantify the level of performance "**with higher accuracy and an appreciation of the volatility**."

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Case Study - Business Dashboard, Claims Leakage

Led by William Howe

Client Challenge	• Global estimates show that >10% of all insurance claims are fraudulent. In 2013, in the US alone, this accounts for $30m annually • A health insurance company approached KPMG for assistance in claims analytics, particularly around claims leakage from fraud and processing inefficiencies • The client had multiple disparate systems with no single view of their members • They required a **near real-time monitoring** system that would allow their claims management team to quickly get to root-cause of potential issues, to enable quick action and resolution
KPMG Response	• 2 years of member, claims, payment and provider data was combined into a single view of claims • KPMG drew upon their repository of risk rules, and in concert with the client, developed a rule-set around; claim timings, combinations, value, type and duplication • The output of the rules was combined into a composite risk score for each provider, claim and member • A member segmentation functionality was also provided that allowed the client to slice-and-dice through three different views of their members, and compare them to the member base as a whole
Benefits to Client	• The client now had an interactive reporting tool that allowed for simple navigation and data visualisation, that enables them to get to the root cause of risky claims • In the 2 years of data that were analysed, over $1m claim benefit amount was found to have breached the rule set. Additionally, $2.3m in duplicate claims were also discovered and are currently being assessed by the claims team • The tool, shown below, is now embedded within the clients' environment and is refreshed and updated on a quarterly basis, with new rules continually being added

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Case Study - Victorian Ambulance Services

Client challenge

Ambulance Victoria's mission is to deliver outstanding emergency health care every time by getting the right response to the patient in the right time. Actionable data insights available to all staff from the CEO to the junior paramedic are critical to achieving this which is why AV appointed KPMG to help them uplift their analytics capability.

Whilst AV is data rich and undergoing a transition to a new data warehouse, the current model for distributing this information through analytics to and reporting to operational staff is manual and disconnected. Paramedics have a very limited view of their own performance and team management is not easily able to understand the route cause of issues or predict future outcomes.

In addition to the analytics technology and capability uplift, we found it imperative that we effectively manage the people, process and technology change required to uplift the organization to a data driven operating model.

What we did

Analytics uplift

KPMG developed immediate value in phase 1 by developing a suite of critical exception and benchmark reports to provide response time insights at a group, team and paramedic level. As part of this, we have developed new methods to translate detailed GPS polling information into actionable time segment and geospatial reports. Our core principle for this project is analytics uplift, which means working with and leveraging existing technology, teams and processes to avoid adding complexity while ensuring rapid development, integration and user adoptability.

The next stage of the project is to develop a future state analytics strategy and roadmap to sustainably uplift the maturity of the analytics function. To feed into this, we have held a series of business workshops to define a core set of reports and metrics and prioritised them based on business need, complexity and data availability.

Sustainable change

Central to our activities is the development and execution of our change and communications strategy which ensures that all the right people are taken along the journey to ensure they are ready, willing and able, to ensure our changes are embedded to drive the right, sustainable outcomes.

Outcome

Through working shoulder to shoulder with AV, KPMG has delivered actionable reports and insights which focus on critical response times. These reports allow for team leaders, group leaders and paramedics to accurately track performance and are currently being used as a performance uplift tool to improve clinical outcomes. This has been achieved through effective change management throughout the business for the uptake and application of the developed reports.

Future outcomes will include:

Data analytics and insights roadmap to uplift the Data, Reporting and Analytics capability by understanding the current gaps and opportunities.

Analytical 'deep dive' framework and activities to agile root cause analytics which will help AV understand the underlying drivers of performance.

Global hack-a-thon to develop machine learning and artificial intelligence applications to accurately predict ambulance demand by geography and then direct the right patient to the right hospital based on hospital services and wait times.

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Case Study - Life Insurance Data Analytics & Visualisation

Led by the KPMG life insurance actuarial team

ANALYSIS OF CLAIM RATES BY LOCATION

KPMG has produced market-leading analysis of claim rates by location, and presented this visually. We have the capabilities and tools to present information in new and easy-to-digest ways.

Company Incidence Rates for a specific cause of claim, by Statistical Area Level 4 (SA4)

Company Incidence Rates for a specific cause of claim, by Post Code. ***Colour represents intensity, size of circle represents exposure.***

Total Company Incidence Rates by Statistical Area Level 4 (SA4)

Total Company Incidence Rates by Post Code ***Colour represents intensity, size of circle represents exposure.***

Australian Bureau of Statistics

- Unemployment
- Income
- Household Wealth

ADDING INSIGHTS and CREATING VALUE

Insurer Claims Data

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A Data-driven Approach to Churn in the Superannuation Industry

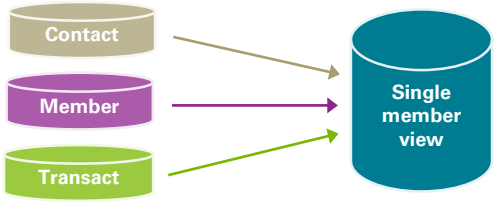
BUSINESS CONTEXT & ISSUE

- Superannuation fund witnessed a substantial increase in member exits post GFC.

- Limited understanding of the drivers behind member exits.
- Could not quantify number of members and FUM at risk of existing in the future.
- No knowledge of the profiles of those members at risk – both demographics and behaviour.
- No targeted, pro-active retention strategies or early warning systems to help decrease churn.

OUR APPROACH

- Multiple data sources were combined to produce a 'single member view'.



- A predictive model was built based on previous member exiting data, and used to identify members most at risk of exiting the fund:

21% **$2.6bn** **$**

- The resulting algorithm was used to score members in terms of likelihood to exit, and deployed for on-going scoring.

$$\text{Probability to exit} = \frac{\exp(X_\beta)}{1+\exp(X_\beta)}$$

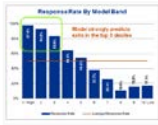
$$X_\beta = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots$$

Figures above are indicative of the quantum

BENEFITS & IMPACT

- The key drivers behind churn were identified and quantified along with 'at risk' member characteristics and behaviours.


- Model correctly predicted that >90% of members in the top 2 risk deciles would exit.



- Dashboard developed for on-going monitoring of key variables and member scores.

- Pro-active retention strategies were devised and implemented.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Fees

Proposed Fee

Service	Fee schedule	Notes
Lump Sum Retail Experience Investigation	$ 23,467 per participant Indexed annually	No change to existing fees assuming annual investigation program
Disability Income Experience Investigation	$ 28,792 per participant Indexed annually	No change to existing fees assuming annual investigation program
APRA Claims Decline & Dispute Analysis	$ 23,000 per participant Indexed annually	Incremental annual fee **With potential upgrade to real time data collection within 2 years***
Add Direct & Group Life & GSC Analysis	No additional fee. Provided that other components of the proposal are also accepted	**Complimentary research** Use existing data collection, analysis and reporting tools.
Build & Maintain FSC Dashboard	No additional fee. KPMG will work collaboratively with the FSC to build and maintain an industry dashboard.	Utilise existing data reporting tools.
Third party access to aggregate data	50% of access fees charged Fees to be agreed with FSC.	Assuming FSC makes available a subscription service for query access to aggregate industry data.

KPMG is prepared to offer

1. Upgrade to real time data collection within the existing fee structure by combining deliverables*

2. A commitment to undertake complementary research in the form of 3 white papers designed to encourage insurers to consider / innovation in claims and underwriting

3. KPMG commits to consult with the industry on the use that it wishes to put the real data collection to and to come up with ideas for consideration.

* To ensure affordability, we will combine deliverables to free up time to implement real time data collection within the existing fee framework.

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* Subject to data availability

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Appendix

Innovative Research in Insurance scope

Innovative Research in Insurance

Background and scope

There has been significant research on the predictors of work absence over the past few decades. Much of this research indiactes that psychosocial factors, and the subsequent impact on wellbeing and mental health, can influence insurance outcomes. Further, clinicians agree that the application of the biopsychosocial model addresses the influence of a range of non-medical factors on people's wellbeing and propensity for future impairment and absence. According to (Gabbe et al, 2007 & Duijits, 2007) the strongest predictors of prolonged absence from the workplace are psychosocial rather than biomedical.

However, current practices in the Australian Life Insurance industry have not formally integrated psychosocial factors as predictors of impairment and employment absence during the underwriting assessment and to integrated claims management models.

The FSC is considering engaging KPMG to produce a white paper based on a collation of international and local evidence that provides the basis for understanding the psychosocial factors leading to prognostic indicators for the propensity of functional and social impairment, specifically in relation to potential mental health impairment or diagnoses.

This white paper will assist the Life Insurance sector to understand the importance of a range of predictive psychosocial factors, for potential use in underwriting assessment and the claims process.

To ensure the white paper covers emerging relevant issues and research, a steering committee will be established, which will include representatives from the Mental Health Sector (e.g. Mental Health Australia, Beyond Blue and Super Friends, plus other academic contributors).

Approach & Estimated Fees

The table below summarises our approach to drafting the white paper, as well as our estimated fees based on our phased approach to the engagement. These fees are estimated using appropriate KPMG resources.

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Innovative Research in Insurance

Approach & Estimated Fees

The table below summarises our approach to drafting the white paper, as well as our estimated fees based on our phased approach to the engagement. These fees are estimated using appropriate KPMG resources.

Phase	Hours	Cost estimate ($)
1. Literature Review A literature review of multidisciplinary academic sources will be undertaken.	84	29K
2. Grey Literature Review and Interviews We will conduct interviews with relevant Life Insurance Sector experts and conduct a Grey literature review.	48	18K
3. Collation and Evaluation Research outcomes sourced from various sources will be collated and evaluated considering its relevance and use within the Life Insurance Sector.	50	19 K
4. Documentation and delivery Commentary on the research outcomes relevant and applicable to the Life Insurance Sector will be formulated and documented.	82	32K
Total	264	98 K

3 year series of Innovation Research in Insurance

KPMG proposes to enhance the ongoing value of our collaboration with the FSC by producing a series of 3 research papers that are pertinent to the industry over a 3 year period. We envisage that the FSC, the FSC Life Board and KPMG will produce content in response to relevant emerging industry issues. This will allow the FSC to deliver relevant, targeted and timely research for industry consideration as Insurers and stakeholders seek to ensure innovation, provide exceptional customer service and support ongoing sector sustainability.

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Additional CVs for phase 2

William Howe, *Director*

WILLIAM DEVIN HOWE
Director

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Function and Specialization

Insurance, banking, wealth, strategy, data analytics, business transformation, fintech, data management, target operating model.

Background

William Howe is a Director at KPMG and is the insurance sector lead for data analytics and information management. He has over 15 years experience using data and technology to solve critical business issues and across a range of industries and sectors including insurance, banking, supply chain, and security intelligence. With experience in both private and public sector organisations, he is an experienced leader of technical and business teams and is a thought leader advising financial services companies on how to use data and technology to drive transformational change in large organisations across risk, performance, and growth.

William is playing a leading role in KPMG's innovation agenda and recently helped integrate a cloud-based fintech firm into business as usual, including delivering the functioning solution with an insurance client. He operates globally and was recently the financial services sector executive for data analytics helping to create KPMG's global insurance and banking analytics strategy.

Selected Recent Experience in the Financial Services Sector

- Led robotics / artificial intelligence programme to transform insurance claims processing time from >30 days to 15 minutes built around machine learning.
- Built the intelligence commercial data analytics strategy and capability for a regulatory authority to counter threats based on data collected and reported by trade chain participants. Also led the business requirements for the architecture of supporting infrastructure.
- Led strategic change initiative data workstream to build and deploy advanced data models and MI across various product lines and multiple business units.
- Led programme to build and roll out a risk management solution in conjunction with a regtech firm to help monitor and manage emerging risks across the business.
- Led group level workstream to create business management information across all business units globally, including retail, credit cards, business banking, and investment banking business units.
- Conducted numerous assessments of data quality and data management practices for senior management.
- Defined organizational KPIs and reporting infrastructure.

Selected Recent Thought Leadership

- "Helping Insurers Compete in the Age of Disruption", William Howe and Gary Richardson, KPMG Trusted Analytics Series, Issue 3, June 2016 [https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/helping-insurers-compete-in-the-age-of-disruption-fs.pdf]

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Andrew Cohen, Director

ANDREW COHEN
Director

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Sydney NSW 2000

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Education, Licenses & Certifications

- Bachelor of Economics (Actuarial Studies), Macquarie University
- Fellow of the Institute of Actuaries of Australia

Professional and Industry Experience

Andrew is a qualified actuary who joined the Actuarial Services team at KPMG in late 2013. He has many years' experience in general insurance including reserving, claims monitoring, pricing and reinsurance broking. Prior to joining KPMG, Andrew was a senior actuary in the Commercial Portfolio at Suncorp for over five years, with actuarial responsibility for business totalling over $600m in gross premium. The classes Andrew covered at Suncorp included public and product liability, property, motor and other covers. Andrew also has reinsurance broking experience from Aon Benfield.

Andrew has brought his pricing expertise to KPMG, and is expanding our processes that examine and comment on pricing review controls and procedures applying KPMG's global model review methodology.

Andrew also leads our operations research team that uses advanced mathematical algorithms to provide clients with solutions for large data analytics projects. The team is proficient at visualisation software such as Tableau and QlikView.

Representative Clients

- Andrew has led large data analytics projects for government clients looking to better utilise substantial volumes of collected data for the purposes of providing improved services to the public. Andrew's team takes a complete approach to the data analytics projects, including data verification to understand the sources of the data, data augmentation to repair and replace data inefficiencies, analysis using advanced techniques, and providing clients with interactive visualisation tools to allow them to understand operational performance at a granular level. Andrew also recommends improvements to data collection processes.
- Andrew managed a project that was delivered to the Department of Treasury. The purpose of the project was to assess the numbers and costs of catastrophic general accidents in respect of a potential National Injury Insurance Scheme. This project involved the analysis of significant volumes of emergency room data provided by the Department of Health.
- Andrew worked on a team that assisted one of the state governments in relation to evaluating and advising on potential options arising from the Royal Commission into Institutional Child Sexual Abuse. Key to this was the provision of commercially-focussed and clear advice, as well as identifying operational complexities that would need resolution before implementation.
- Andrew was a key part of the KPMG team that developed an asbestos valuation model for a client interested in understanding their exposure from buildings with asbestos.

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4. OTHER BUSINESS

4.1 **LBC/APRA Liaison Meeting**

Reporting Officer: Co-Chair

Paper provided: LBC/APRA Agenda

Action required: To read and **NOTE** the Agenda

FSC LIFE BOARD COMMITTEE (LBC)/AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) LIAISON MEETING

Monday 4 September 2017
1.30pm to 3.00pm
FSC Offices Level 24, 44 Market Street Sydney

Attendees: Geoff Summerhayes, Adrian Rees and Peter Kohlhagen

	Welcome
1.	Update on Life Claims Data Collection
2.	Ease of Opt-Out
3.	Social Licence and Community Trust – industry initiatives and feedback on progress
4.	Insurance in Superannuation Working Group – perspectives on progress
5.	APRA/ ASIC Claims Data Work – progress update and industry views
6.	ASIC Review of Direct Life Insurance – industry perspective
7.	APRA work on Disability Income Insurance – update and industry perspective on the issue
8.	Legacy Products and Systems – update
	Close

5. MEETING NOTES

5.1 **Meeting Notes of the Previous Meeting**

Reporting Officer: Co-Chair

Paper provided: Meeting Notes of the previous Life Board Committee meeting held on Thursday 22 June 2017

Action required: To discuss and **APPROVE** the meeting notes.

Financial Services Council

Meeting Notes of the Life Board Committee

Meeting notes of the **FSC Life Board Committee** held on Thursday **22 June 2017,** at **the FSC offices, Level 24, 44 Market Street Sydney,** at **3.00pm.**

In Attendance

Board Committee Member		Meeting Attendance	Attendance record 2017
Brett Clark (Co-Chair)	TAL Life Limited	Attended	4/4
Damien Mu (Co-Chair)	AIA Australia Limited	Apology	3/4
Andres Webersinke	General Reinsurance Life Australia Ltd	Attended	3/4
Andrew Linfoot	Munich Reinsurance Company of Australasia Limited	Attended	3/4
Anna Gladman	Hallmark Life Insurance Company Limited	Attended	2/4
Anthony Brown	NobleOak Life Limited	Attended	1/4
Christopher McHugh	Suncorp Life Limited	Attended	3/4
Chris Plater	Challenger Life Company Holdings Pty Ltd	Apology	1/4
David Hackett	MLC Life Insurance	Apology	3/4
Deanne Stewart	Metlife Insurance Limited	Attended	4/4
Dion Russell	SCOR Global Life Australia Pty Ltd	Attended	4/4
Gerard Kerr	ANZ Wealth Australia Limited	Attended	3/4
Gerd Obertopp	Hannover Life Re of Australasia Ltd	Attended	4/4
Helen Troup	CommInsure	Attended	3/4
Justin Delaney	TAL Life Limited	Apology	0/4
Mark Senkevics	Swiss Re Life and Health Australia Limited	Attended	3/4
Mark Stewart	RGA Reinsurance Company of Australia Limited	Attended	3/4
Matthew Way	St Andrew's Life Insurance Pty Ltd	Attended	3/4
Megan Beer (Jen Wells)	AMP Limited	Attended	4/4
Simon Swanson	ClearView Wealth Limited	Attended	4/4
Sue Houghton	BT Financial Group	Attended	4/4
Tim Bailey	Zurich Financial Services Australia Ltd	Attended	4/4
FSC Secretariat			
Sally Loane	Chief Executive Officer	Attended	
Bianca Richardson	Senior Policy Manager	Attended	
Jesse Krncevic	Policy Manager	Attended	
Nick Kirwan	Policy Consultant	Attended	
Brian Francis		Attended	

1. WELCOME, PRESENT AND APOLOGIES

Co-Chair Brett Clark declared the meeting open at 3.00pm.

1.1 Life Code Compliance Committee (LCCC)

The paper detailing the biographies of the Chair and two (Industry & Consumer) representatives on the LCCC was taken as read and **NOTED.**

DRAFT

CEO Sally Loane briefed the Board Committee on the selection process which had resulted in the appointments of the Chair (David Weisbrot), Industry Representative (David Goodsell) and Consumer Representative (Alexandra Kelly) to the Life Code Compliance Committee (LCCC).

The Co-Chair then welcomed the Committee members plus Sally Davis General Manager Code Compliance and Monitoring at the Financial Ombudsman Service Limited (FOS) to the meeting at 3.05pm

The Co-Chair then invited each of the Committee members to give a brief summary of their expectations for the Committee and how they saw the terms of reference assisting the objectives of the Life Insurance Code of Practice.

Sally Davies then briefed the meeting on both the administrative and reporting processes in support of the LCCC the Board Committee and the FSC Board and the monitoring process which FOS would undertake to monitor compliance of the Life Insurance Code of Practice.

The Board Committee agreed that regular reporting and update briefings from the LCCC Chair would be desirable to ensure open communication between the LCCC and the FSC Life Board Committee.

The Co-Chair thanked the Committee members and Sally Davis for attending the Board Committee meeting. The Committee members and Sally Davis left the meeting at 3.25pm.

2. STANDING ITEMS

2.1 CEO Update

CEO Sally Loane briefed the Board Committee on the following:

Post Budget Canberra Visit where the most encouraging aspect of the work undertaken by FSC Management during their recent visit to Canberra was the interest and engagement from Ministers and Members of the Government, Crossbenches and the Bureaucracy to the FSC's policy agenda relating to Life Insurance including the Life Insurance Code of Practice which is scheduled to comment on 1 July 2017 and the various regulatory issues impacting the Life Insurance sector. Given Kelly O'Dwyer imminent return to the ministry the FSC is hopeful many of these outstanding issues can now be resolved.

Compensation Scheme of Last Resort where the meeting was advised that the Federal Government, Opposition and some Crossbenches were still keen to introduce a national EDR compensation scheme of last resort covering the financial service sector which is a major concern to members.

Bank Executive Accountability Regime was the only area of the Budget which has the potential to impact FSC members following the ABA's push to widen the regime to other areas within the financial services sector including superannuation and the life insurance areas. This proposal will be strenuously opposed by the FSC given it is getting some traction within Government.

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2.2 Life Board Committee Policy Priorities and Working Group update

The Board Committee noted the reports on the Working Group updates

Senior Policy Manager Bianca Richardson highlighted the following matters in the Board Committee report.

ASIC Lapse reporting where the FSC has met with ASIC to address member concerns regarding the regulator's data requests. As a result of that meeting ASIC has invited members to contact them directly to discuss their concerns. The FSC is awaiting further feedback from ASIC regarding changes to the next Lapse reporting notice. The FSC will update the Lapse Reporting Working Group with information of any changes to the Lapse notice once ASIC has made a decision.

APRA and ASIC Life Insurance Claims Reporting where APRA and ASIC released their Phase 1 data collection template to members for completion as part of the testing phase. Concern continues to be expressed that some data sets will contain so few claims that the accuracy of the results may lead to misleading conclusions. It has however been agreed with APRA that there will be no public release of the data report until the FSC gets a chance to comment on the robustness and accuracy of the proposed reporting structure. The APRA Claims Working Group is currently working through the data sets and will provide comment for inclusion in the FSC submission to APRA.

Direct Insurance Review where, following their meeting with ASIC on 22 June, the regulator has advised that there will be three (3) key components to ASIC's proposed "Direct Insurance Review"

1. **Backward Looking** where ASIC will use its database on claims reporting to set the framework for the future reviews.
2. **Forward Looking** where ASIC wants to understand what is new in the market and what is being proposed by insurers.
3. **Consumer Testing** where ASIC wants to meet with Insurers to better understand the market and how consumers are impacted by insurers actions particularly those who use other channels to manage some of their business. This would include sales practices and sales scripts as ASIC is concerned that Insurers are not always totally in control or responsible for the sale and marketing of their products.

RESOLVED The Board Committee **APPROVED** the Update for presentation to the FSC Board.

3. GENERAL BUSINESS

3.1 Minimum Standard Medical Definitions

The Co-Chair welcomed the Katrina Groshinski partner MinterEllison to the meeting at 3.40pm.

The meeting **NOTED** the legal advice from Minters on (a) Disclosure as detailed in Annex 1 and (b) Competition Assessment as distributed under separate cover.

Katrina Groshinski briefed the meeting on Minters legal advice. The Board Committee welcomed the level of comfort given by Minters on any potential ACCC and/or Trade Practices implications arising from competition implications from the introduction of Minimum Standard Medical Definitions in the Life Insurance Code of Practice (Code).

The Co-Chair thanked Katrina Groshinski for her briefing. Ms Groshinski left the meeting at 3.50pm

The meeting then discussed the implications of approving a minimum standard medical definition within the Code. Concern was expressed that a number of member companies may not be in a position to be compliant with the Code from the start date of 1 July 2017 given they will not have enough time to incorporate the new minimum standard medical definitions within their Product Disclosure Statement (PDS) documentation.

Although confirming that the new definitions were "prospective" from 1 July it was noted that most member companies had definitions that were more generous that the minimum standard and as a consequence would not be in breach of the new Code. Those member who may potentially be in breach had (in many cases) the interim option of making attestations through their websites as a prelude to updating and distributing new PDS documents to their policyholders going forward. There were also implications for future Code Compliance audits undertaken by FOS and reviewed by the LCCC.

The Board Committee considered all the implications of the issues involved and agreed to proceed with the introduction of minimum standard medical definition within the Code as requested.

RESOLVED The Board Committee **APPROVED** the minimum standard medical definitions as set out in Annex 2 and the implementation schedule as set out in Option 1 (which mandates the use of the minimum standard definitions with effect from 1 July 2017 through the Code as set out in Annex 2).

The actions arising out of the decision to proceed were as follows:

ACTION FSC was requested to engage with the Chair of the LCCC to seek his views on how the Committee might view such a short term breach of the Code given that the issue of non-compliant PDS documents will be resolved following the next published iteration of the document.

ACTION FSC was requested to prepare potential media releases and advocacy strategies to address any adverse publicity or political consequences which could arise from members being non-compliant with the minimum standard medical definition within the Code from 1 July 2017.

It was noted that the minimum standard medical definitions and the associated implementation schedule will now be submitted to the FSC Board for ratification prior to the 1 July 2017 start date.

3.2 Transitioning to the Code

The meeting discussed the issues involved in transitioning to the code and the potential impact on member companies. It was noted that most companies are well advanced in the preparation of their Life Insurance Code of Practice compliance letters to FOS which are required to be in place by 1 July 2017.

ACTION FSC was requested to write to all member companies who will be subject to the Life Insurance Code of Practice (Code) to request that they confirm to both the FSC and LCCC that they are subscribers to the Code. The FSC to also provide a list on its website of those member companies who have subscribed to the code.

The Board Committee formally recorded it thanks and appreciation to Nick Kirwan for the work that had been undertaken to implement the Life Insurance Code of Practice.

3.3 Life Insurance Inquiry Update

Policy Manager Jesse Krncevic advised the meeting that the FSC has submitted a supplementary submission to the Parliamentary Joint Committee (PJC) which had been accepted. The two main areas of concern from committee members were the use of health data and genetic testing - both of which are sensitive areas.

The Genetic sub –group are currently developing a focused submission on Standards, genetic test underwriting database and ongoing engagement with geneticists. The FSC has also briefed committee members on the submission.

3.4 Group Insurance in Superannuation – Cross Industry Working Group Update

Policy Manager Jesse Krncevic advised the meeting that the Insurance in Superannuation Working Group (ISWG) continues to progress its issues with the FSC contributing to the process.

Sarah Phillips has been engaged to draft the Code whose objectives and structure have been signed off by the Governance Board based on input from the FSC.

A further call on members for funding for the ISWG (Secretariat, Sarah Phillips and Research Projects) will occur in August when current funding has been exhausted. The FSC has established a fortnightly review meeting with the ISWG comprising Superannuation Board Committee members. These fortnightly meeting will provide both focus and strategic direction for the committee.

4. OTHER BUSINESS

4.1 Consumer Credit Insurance (CCI)

The meeting was advised that the CCI Working Group has expressed concern at the direction of ASIC's current review of the product. Other industry associations (ABA and ICA) have made submissions to ASIC which could have a detrimental impact on FSC members. It is the view of the Working Group that the FSC also needs to engage with ASIC to protect the Industry's position. The CCI Working Group have been meeting to determine the Industry's preferred "Scheme" model.

ACTION The Board Committee requested that the FSC engage with both the ABA and ICA so that all three (3) industry groups could present (if possible) a consistent policy position to ASIC. The Committee also requested that FSC produce a briefing note to interested members covering both the issues and potential outcomes from the ASIC review.

DRAFT

5. MEETING NOTES

5.1 Meeting Notes of the Life Board Committee meeting held Wednesday 3 May 2017.

RESOLVED The meeting notes of the FSC Life Board Committee meeting held on Wednesday 3 May 2017 were **APPROVED**.

6. CLOSE

There being no further business, Co-Chair Damien Mu closed the meeting at 4.35pm.

DRAFT