



2nd Quarter 2007

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Up Coming Events

AFA QLD Chapter with Jim Taggart

Date: Friday 25th May

Time: 2.30 pm to 5.00 pm

Venue: PIS HO, Level 14, Corporate Centre, Cnr Bundall Rd and Slatyer Avenue, Bundall

Brisbane Chapter Luncheon

Date: Monday 28th May

Time: 12.00 pm to 2.00 pm

Venue: QLD Rugby Club, Ballymore Park (Main building, top floor, Northern end) Cnr Clyde Rd & Butterfield St Herston, QLD 4066

Save the Date

Risk Specialist Focus Club

Friday 3rd August venue Head Office

Friday 2nd November, venue Head Office

AFA 2007 National Forum

W.A Tuesday 17th July

VIC: Wednesday 18th July

S.A: Thursday 19th July

TAS: Tuesday 24th July

QLD: Wednesday 25th July

NSW: Thursday 26th July



Choosing the Right Software

There's no doubt rating an insurance product is a complex process. Risk research providers work full time analysing product features and dealership research teams must interview companies before they can be placed on recommended lists. Software companies have whole businesses dedicated to providing advisers with the right tools to help them and their clients choose what they see as 'appropriate' insurance. Yet importantly, each risk research provider uses different methodologies, recommendations, and scoring processes. As a result, the rating awarded to an insurance company can vary from one research provider to another – creating an often confusing scenario for advisers to interpret.

Getting to the core of insurance product ratings

The process of researching and rating an insurance product can be quite subjective, as some research providers value certain features and product definitions over others. In addition, not all parts of an insurance product offering are easily measurable. Important data which may need to be considered are often not available to research providers, such as:

- premium pricing and rate history;
- sustainability (eg lapse rates, new sales); and
- claim paying ability.

Interpreting the ratings

Most software (in their scoring process) do not analyse an insurance company's sustainability. This means that a company's ability to pay claims in the future and sustain their premium rates and product features is not being assessed. If an insurance company does not run a sustainable book of business, it is possible that clients may be forced out of the insurance cover you have recommended by significant increases in their premiums at a time when their age and health may have deteriorated and limited their insurability elsewhere.

When determining the 'best' insurance solution for your clients, it is still important to add a 'human' factor to the results from your risk research software. Software can present data in a neat package, but it often won't take into account everything you need to know in order to recommend a product with the certainty that it is the best for your client. Software also may not take into account the varying individual needs and budgets of your

different clients.

Using Research Provider ratings – a caution under FSRA

Using research provider software is becoming increasingly popular post FSRA. It is often the case that advisers rely heavily on these software ratings, both to make their recommendations, and as protection against litigation initiated by their clients in the future. There is a perception that this blame can be passed on to the research providers. This is certainly not true and advisers are not 'protected' by research provider recommendations.

"...advisers... need to rely on more than just the word of a researcher when picking risk products, particularly under FSRA, which puts the legal liability on advisers for providing consumers with appropriate advice".¹

To prevent such liability, research providers publish disclaimers cautioning against using their research as the sole basis for adviser recommendations, specifically they:

- Do not make guarantees of accuracy;
- Do not portray results as being recommendations to sell; and
- Do not accept responsibility for damages that may arise.

Importantly, the Financial Services Reforms Act confirms that advisers must consider appropriate advice for their clients, not necessarily the 'best' or most highly rated product.

"Personal advice must be 'appropriate' for the client...Advice is appropriate if it is fit for its purpose (i.e. if it satisfies the client's relevant personal circumstances). Personal Advice does not need to be ideal, perfect or best to comply with the Corporations Act".²

Responsibility for recommending insurance products still sits squarely on the adviser's shoulders. Most risk research software does not consider all aspects of an insurance offering in delivering their scores, so you should be fully aware of why a recommended product is the 'best' for your client which may mean building separate sustainability measures into your advice process.



getting you from **a** to **b**

It's not such a bad thing that even in this information age, where we have access to all kinds of research and data, there's still no replacement for the personalised advice from financial advisers who know and understand their clients' needs, budgets and goals.

¹Liam Egan, Money Management, September 2, 2004

²ASIC Policy Statement, Licensing: Financial Product Advisers – Conduct and Disclosure, page 36 May 2005.

Source: *Cannex*

Running in the Family

In medical circles, family history has long been regarded as an important factor for helping identify an individual's susceptibility to developing certain diseases or disorders that could impact their life expectancy. Indeed, certain serious medical conditions, such as heart disease and bowel cancer, are known to run in some families.

When such hereditary risk factors come to light during the underwriting process, the applicant is likely to incur sub-standard rates. If the risk is deemed to be high enough, some insurers will impose an exclusion for that medical condition or defined event, while still providing risk cover for related diseases and disorders.

Advances in genetic testing

The mapping of the human genome in 2003 brought scientists one step closer in being able to predict with greater accuracy a person's health future and their predisposition to various diseases. The project, which identified and located the draft sequence for all the genes that make up human DNA, made it possible to begin identifying those genes associated with various diseases.

More than 30 such genes have already been identified and linked to conditions such as deafness, breast cancer and muscle disease. Meanwhile, certain DNA sequences have been linked to the formation of various other cancers, arthritic conditions, cardiovascular heart disease and diabetes.

While genetic testing is still in its infancy, there are around 1000 tests people can already undertake to determine the predisposition to developing certain diseases². Having said that, it's important to remember that most genetic tests are only predictive (i.e. will confirm whether or not you possess the gene for the condition in your genetic make-up). With a few notable exceptions, just because you test positive for a certain gene does not necessarily mean you'll develop the associated condition. The influence of environmental factors, which play a pivotal role in the onset of many diseases, shouldn't be underestimated. From a medical viewpoint, genetic information is very useful as it aids in the

development of new diagnostic tests and treatments. But from an underwriting perspective, these developments have only had a minor impact on the way Australian life insurance industry assesses an applicant's risk factors.

The Genetic Testing Policy, which is an Investment and Financial Services Association (IFSA) Standard followed by member companies, does not permit insurers to request that applicants undergo genetic testing as part of the underwriting process. However, should your client undergo any voluntary genetic tests elsewhere, he/she is legally obliged to disclose the results to the insurer in their application - something they should be mindful of.

Mapping your medical family tree

An individual's medical family history can provide important clues as to how hereditary/genetic and environmental influences are likely to shape their future health. First-degree relatives include parents, siblings and children.

By compiling a medical family tree, your client will be able to more readily identify specific disorders and diseases that may be prevalent in their gene pool or they may be otherwise susceptible to. In turn, their medical practitioner will be able to put this information to good use to:

- help diagnose a dormant medical condition;
- take preventative action to lower the risk of a specific disease; and
- decide what ongoing medical test should be taken.



The information is also likely to come in handy during the Life Risk application process, during which clients are expected to display reasonable knowledge of their family's medical history, including details such as age of disease onset and cause of death of immediate family members. They are also required to disclose any material information on their application form.

Diseases to watch out for

Inheritance of certain conditions and diseases is determined by your genes at the moment of conception, whereas environmental and external factors may be to blame for any other familial disorders. (An example of the latter is where family members develop similar symptoms following exposure to the same toxin.

Numerous disorders with significant familial involvement have a hereditary link,

though in many cases doctors still don't know the biological basis for these conditions. Genetically linked disorders, which can impact the underwriting process, include mental illness and certain cancers (eg breast, colorectal and ovarian).

An underwriter's perspective

Insurers take family history into consideration when underwriting all Life Risk products, whether the product applied for is Term Life, Income Protection, Total and Permanent Disability (TDP) or Trauma.

When does someone's family history place them in a moderate to high risk category for underwriting purposes? Usually, when one or more of the diseases mentioned earlier affects at least one first-degree relative (the applicant included). To assess the risk, underwriters consider the following issues:

- the nature of the disease/condition;
- the client's age/sex;
- whether the client is under 60;
- the onset age of the disease in family members;
- number of family members affected; and
- other client risk factors.

The underwriter then rates the application on the basis of their information (i.e. how many family members are affected by a specific condition, their ages and relationship to the applicant and the type of cover). Usually, underwriters will look more favourably upon an applicant who has few family members affected by a familial condition and where the onset of the relative's disease was at a later stage in life. For example, if your dad died or was diagnosed with heart disease in his 50s, that's likely to set off alarm bells, whereas having your grandmother die of the same condition is unlikely to affect your premium.

Another thing to bear in mind is that underwriters may assess certain diseases/disorders in tandem. For example, research has shown that the risk of breast and ovarian cancer in women may be linked as a result of specific gene mutations. Where a woman has a family history of breast cancer and also has the BRCA1 and BRCA2 gene mutations, she has an elevated risk of developing ovarian cancer, which is why underwriters will usually look at these two conditions hand-in-hand³. In these circumstances, ongoing monitoring and management for both breast and ovarian cancer is recommended, and the benefits of genetic testing become self evident.

¹ www.biotechnologyonline.gov.au/human/whatdowith.cfm

² www.recgp.org.au/afp/200611/12513

³ www.recgp.org.au/afp/200611/12513

Source: *Swiss Re*