# Life Insurance Insights Report 2018

August 2018

KPMG.com/au/lifeinsuranceinsights

# Foreword

## KPMG's *Life Insurance Insights Report 2018* and dashboards provides analysis and insights on financial results up to 31 March 2018 for the Australian life insurance market.

The report includes KPMG's views on the key challenges and opportunities facing Australian life insurers. Although this sector is currently under considerable regulatory and media scrutiny, life insurance remains an important and growing sector, now accounting for $24.7 billion in gross premiums in the 12 months ending 31 March 2018. This represents 1.4% of Australian Gross Domestic Product. Based on premium volumes, the life insurance industry in Australia is of comparable size to private health insurance and approximately half the size of general insurance.

Significant changes were foreshadowed in the recent Budget on insurance in superannuation and the Royal Commission can be expected to lead to changes in distribution and advice models. We can expect increased regulatory pressure for life insurers, along with other financial service institutions, to demonstrate that their products represent value and transparency for customers through the service lifecycle.

Life insurers face many challenges in 2018, which we have detailed in this report. However, with premium growth still strong, we believe that this sector is in a sound position to meet them.

We hope you find this study of interest and would be pleased to discuss any of the issues raised.

**David Kells**
Partner
National Sector Leader, Insurance

**Hoa Bui**
Partner in Charge
Actuarial & Financial Risk

# Executive summary

The life insurance industry continues to grow, with gross policy revenue increasing by 6.3% over the past year to $24.7 billion, and reinsurance playing a more prominent role, increasing from 23% to 30% of gross policy revenue in the last 5 years.

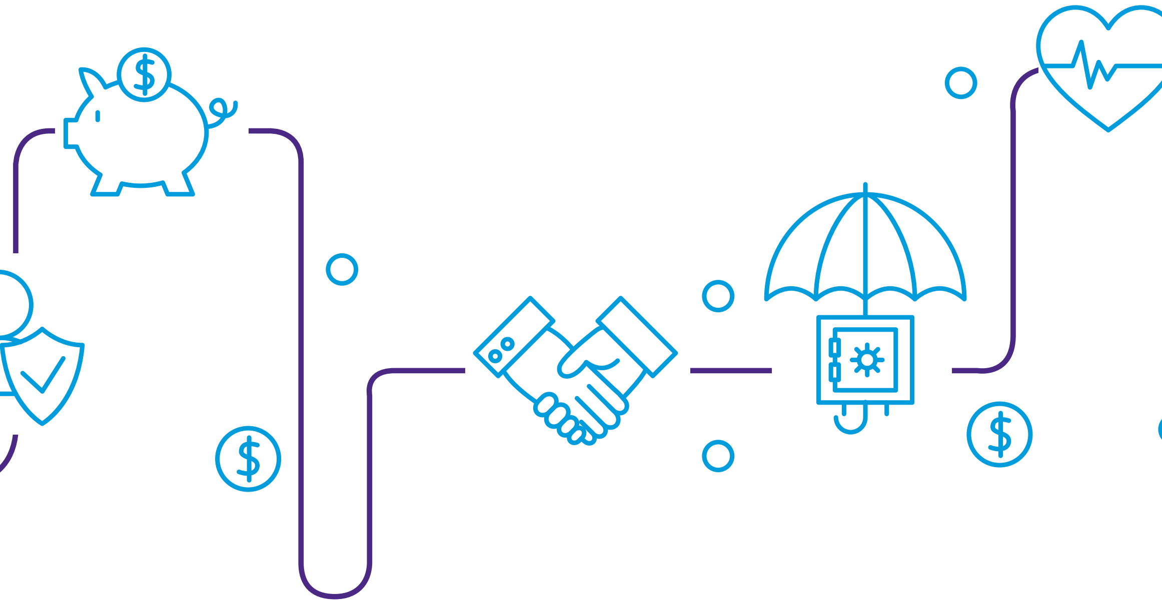
Industry profitability has substantially increased in the last 12 months: net profit after tax from risk products increased by $627 million to $1,307 million. This increase is largely driven by retail business; group business' profitability levels remained comparatively flat after recovering in 2015.

The substantial increase in profitability last year generated $2.2 billion in profits for shareholders and resulted in $14.8 billion of benefit payments for policyholders and super fund members.

Life insurance in Australia is unique amongst global markets because of its dominance of risk products over savings products. Risk products accounted for $22.6 billion in gross premiums, while participating conventional and investment business accounted for $206 million; investment linked accounts had net outflows of $16 million; with the balance of $1.9 billion attributable to annuities and other products.

Eighteen out of 19 direct insurers and 7 out of 8 reinsurers reported a profit for their financial year-end in the 12 months to December 2017.

The recent wave of M&A activity continues to see a shift in ownership from local financial services conglomerates to global life insurance specialists who are looking to diversify their global business models, and are attracted to the strong growth dynamics of the risk market in a mature regulatory setting. The lower cost of capital of some of the new parents, together with a longer term investment horizon, is expected to change the manner in which the sector is invested in for improved operational efficiency and more customer-centric product offerings.



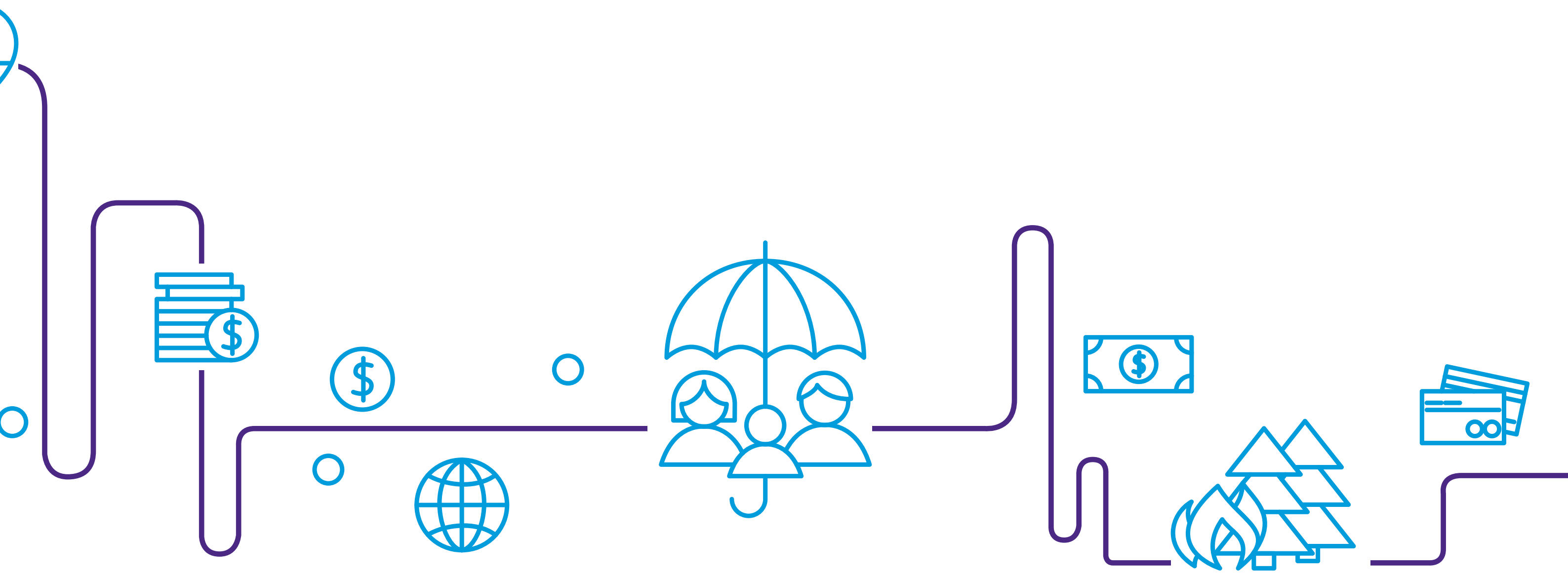
From a channel perspective it remains to be seen whether Australia will finally see an improved performance of the bancassurance channel on the back of recent landmark third party bank-insurer strategic alliances. Critical to the success of these new strategic alliances will be seamless integration of the life insurer's protection offering into the bank's elevated omni-channel customer experience, and leveraging the bank's knowledge of the customer's life-stage needs. Sustainable growth across sectors will only be achieved through customer centric business models – a key implication of the public trust debate across the financial services sector that has been amplified through the Royal Commission.

We can expect increased regulatory pressure for life insurers to demonstrate that their products provide true customer value and a transparent customer experience through the full service life cycle.

Compliance and remediation costs will increase in the shorter term, and companies will be expected to adapt their compliance operating models to manage costs effectively.

Recent changes announced in the Federal Budget that move Insurance in Superannuation from a default to an opt-in arrangement for select customer segments can be expected to mute growth in the group life market. These changes offer new longer term growth opportunities for retail players who have been able to strengthen their quality of advice delivery models and who are able to cost effectively address these customer segments. This will require a response to likely changes to distribution and advice models that will flow from the Royal Commission, in particular advice delivery and remuneration structures and approaches to distributing through direct channels.

With these increased pressures on operating efficiency, compliance, and greater customer centricity in the product and service offerings, Australian life insurers will increasingly look at global capability accelerators in structured and unstructured data management, artificial intelligence (AI), legacy technology management, and machine learning to pursue genuine transformations in their operating models. The focus will be an improved claims customer experience, customer retention, smart underwriting, and regtech to manage compliance to appropriate quality and cost parameters. Global trends in traditional life insurers partnering with best of breed insurtech and mega-platform players (such as Google, Amazon and Facebook) can be expected to hit the Australian market through a new pedigree of global life insurance parents looking for disruptive global solutions to remove old world local market constraints.



# Methodology

Our analysis, as presented in this report and the accompanying *KPMG Life Insurance Insights Dashboard*, is a combination of leading analytics applied to up to 10 years of APRA published statistics, supplemented by additional economic data that has been sourced from published ABS data; and supported by insights gained from our team of life insurance specialists.

Two sets of industry data are utilised in the report, they are both produced by APRA.

One data set provides product level information and is published quarterly (Quarterly Life Insurance Performance Statistics); the other dataset provides company level information and is published half-yearly (Life Insurance Institution-level Statistics). KPMG has relied on these published statistics as the foundation of this report and dashboard and, as such, acknowledges that the data contained within is reliant on the accuracy of the underlying sources. KPMG has included all data contained within the APRA published statistics, including null values.

Analysis of the results by product focuses on risk products, classified by APRA under four groups Individual Lump Sum Risk, Individual Disability Income Insurance, Group Lump Sum Risk and Group Disability Income Insurance.

For some aspects of the analysis of the company-level results we have separated the results into three groups – Top 10 Direct; Other Direct; and Reinsurers. The ranking of direct insurers for this purpose was based on their reported capital base, rather than premium revenue, in order to better take into account the variety of products amongst insurers.

## APRA data explanatory notes

The APRA data sets used were:

- Quarterly Life Insurance Performance Statistics March 2018 Database
- Life Insurance Institution-level Statistics December 2017 Database.

To maintain confidentiality, some product-level data is masked by APRA. In most circumstances these instances relate to annuities and other products. The impact on the report and dashboard reporting is that we have had to combine the results of products other than risk products when presenting industry level premiums and profits.

Product-related data is for years ending 31 March: 2018 refers to the 12 months ending 31 March 2018; 2017 refers to the 12 months ending 31 March 2017.

Company-level data relates to a company's financial year end in the calendar year: 2017 refers to a company's financial year ending in 2017.

Industry figures for revenue and claims represent the sum of the direct insurers, and the reinsurers' registered in Australia, but excludes amounts which have been retroceded overseas. The 'total' industry figures therefore represent the amount retained in Australia, which is less than the gross figures.

In this publication 'profit' means profit after tax and after reinsurance.

The *KPMG Life Insurance Insights Dashboard* which accompanies this report contains interactive versions of charts and graphs included in this report, as well as additional information. The dashboard enables you to filter the data based on your own preferences, and to view industry and product segment metrics. It also enables you to view metrics for an individual company in comparison to a peer group.


The dashboard can be accessed via our website at **KPMG.com/au/lifeinsuranceinsights**

**Additional analysis or information**

For any companies seeking additional information or further analysis of the data contained within the *KPMG Life Insurance Insights Dashboard*, KPMG's Actuarial, data analytics and insights team would be more than happy to discuss your requirements. This can include analysis of the performance of your company against competitors. Feel free to get in touch with one of the KPMG contacts in this report.

# Industry outlook

2017/18 has been a year of significant disruption for the life insurance industry, and this is set to continue. Industry consolidation is progressing: aside from the three transactions that have already been announced, AMP, Bank of Queensland and Suncorp have signalled a review or sale of their life insurance business; government mandated reform (the proposed budget changes to insurance in superannuation; the Parliamentary Joint Committee report and the Royal Commission into banking and superannuation); industry-led initiatives such as customer centric approaches to life insurance and innovation (insurtech, fintech, blockchain); and the life and superannuation code of practice. Further changes to the industry can be expected out of the Royal Commission recommendations.

Although over the last 5 years, the proportion of life insurance written inside superannuation has been increasing, this trend could reverse in the next 5 years if the changes to default insurance in superannuation announced in the 2018/19 budget are implemented.

The profitability of certain products, such as Total and Permanent Disablement, trauma and disability income, continue to be an issue. Claims management initiatives alone are unlikely to be sufficient to restore these products to stable, long-term profitability. A fundamental rethink of the key product design features is needed. At the time of writing, APRA has signalled its intention to launch a targeted review of disability income products given the continued profitability issues.

While industry consolidation will bring disruption; it also brings opportunities to evolve facilitated by the continued introduction of global insurance specialists. For example, business transformation brings opportunities to change IT platforms, especially in the core administration area. With ownership moving away from the banks, distribution models will also be transformed.

In order to continue to be relevant, insurers will need to embed the customer perspective in all areas of their business. By incorporating AI-based applications life insurers can improve both underwriting and claims processes, and some have already commenced this journey. Customer centric product terms and conditions will be necessary to overcome the trust and social licence issues that have put the life insurance industry in the spotlight recently. The challenge will be implementing these changes while defining a sustainable, profitable product.

In 2017 and 2018, life reinsurers have been a key feature of the market dynamics. Reinsurers will continue to play an important role in the market, with new entrants and established players alike. More players in the market – including life brokers and overseas reinsurers – will mean reinsurance continues to be a cost effective way of mitigating risks and freeing up capital.

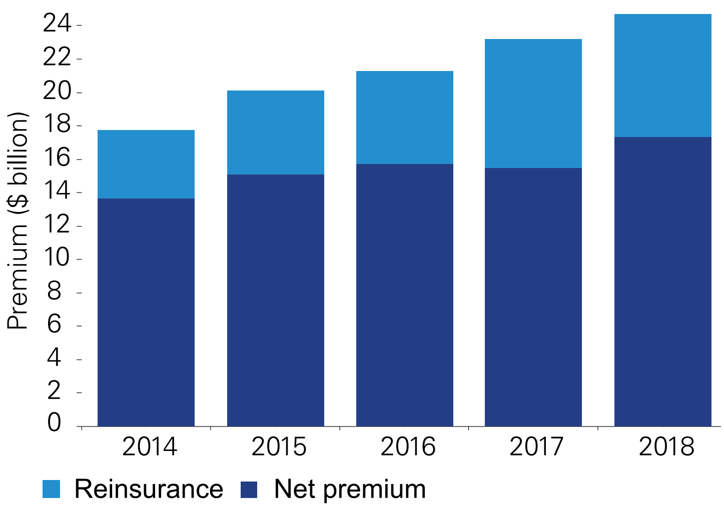
# Life insurance results analysis

The *KPMG Life Insurance Insights Dashboard* which accompanies this report presents a number of analyses. The key insights from our dashboard, which are shown below, cover the 12-month period to March 2018. The company-level results presented relate to each company's balance date in the 12 months ending 31 December 2017, being the latest available APRA statistics.

## Industry results

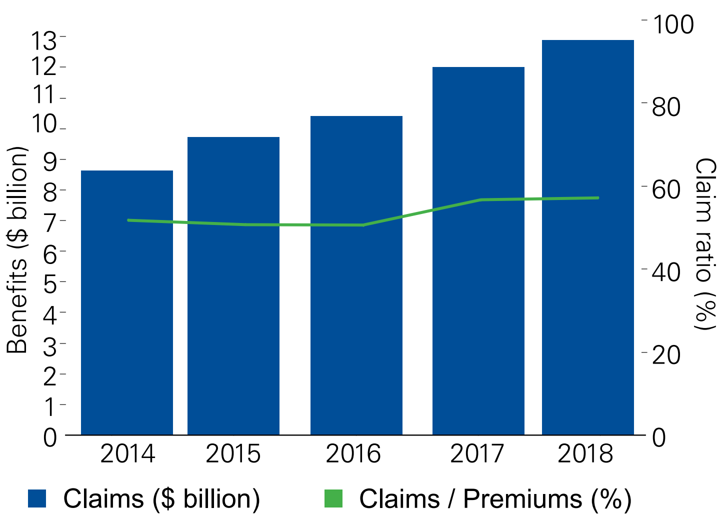
1. Revenue continues to grow with gross policy revenue increasing by 6.3% over the year to $24.7 billion. Over the last 5 years, the level of reinsurance has increased from 23% to 30% of gross policy revenue. The increase in reinsurance is particularly high for retail disability income with reinsurance revenue increasing from 21% of gross revenue in 2014 to 38% in 2018.

**Gross premium for Life Insurance**




2. Benefit payments for risk products to policyholders have continued to increase over time both in amount and as a percentage of premium. In the latest year, benefit payments increased by $0.9 billion to $12.9 billion or from 56.7% to 57.2% of premiums.

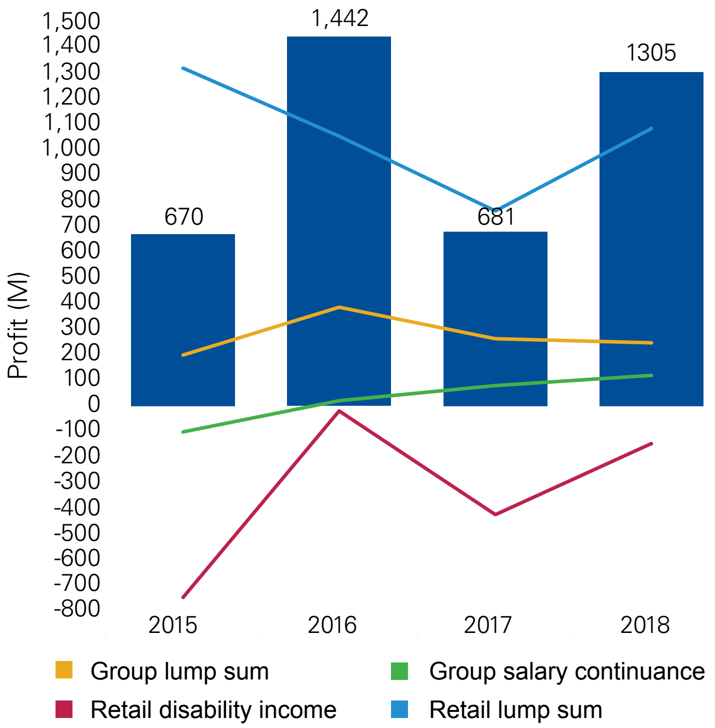
**Benefits as a proportion of premiums**



3. Net profit after tax from risk products recovered in the last 12 months, increased by $627 million to $1,307 million, largely driven by retail business. Retail disability income had the largest profit increase relative to premium ($278 million or 7.3% of gross policy revenue), although it still recorded a loss for the year. For retail lump sum business, the increase was $323 million (3.1% of gross policy revenue).

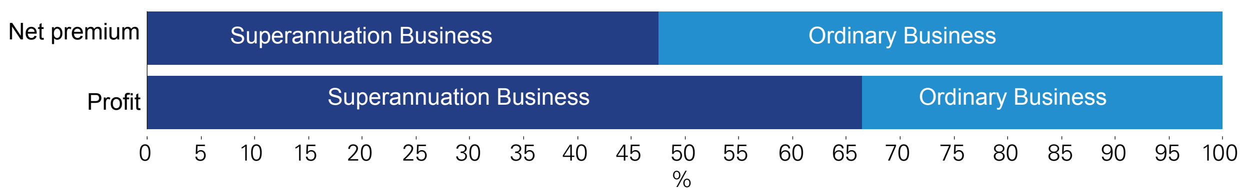
   The increased profitability for retail disability income comes from a combination of premium increases and reserves released. Group business profitability levels remained comparatively flat after recovering profitability in 2015.

**Profit by Risk products**

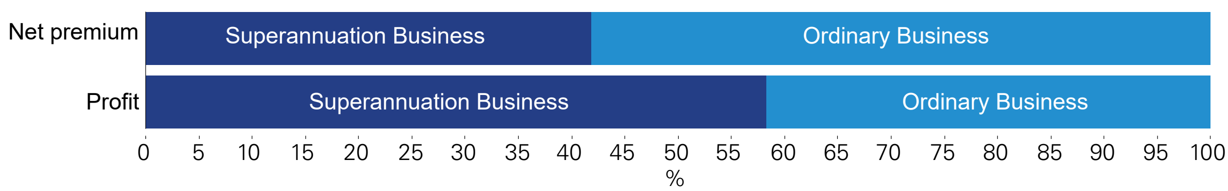



4. Life insurance is increasingly provided through superannuation. This trend continues in 2018. In addition, superannuation continues to be more profitable than non-superannuation business. This is illustrated by the charts below which compare the proportions of superannuation and ordinary premiums and profit in 2018 with 2009.

**Proportion of premium and profit inside and outside of superannuation – 2018**

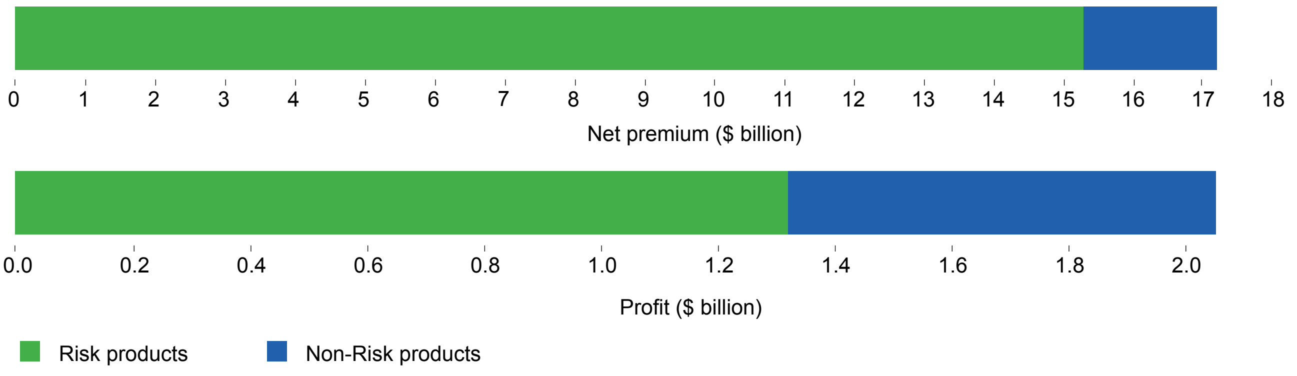



**Proportion of premium and profit inside and outside of superannuation – 2009**



5. Risk products continue to dominate the Australian market; they account for $15.3 billion or 88.4% of premium after reinsurance and $1.3 billion of profit or 62% of the total profit. The profit from non-risk products includes profits from retained earnings in statutory funds but excludes shareholder fund profits.

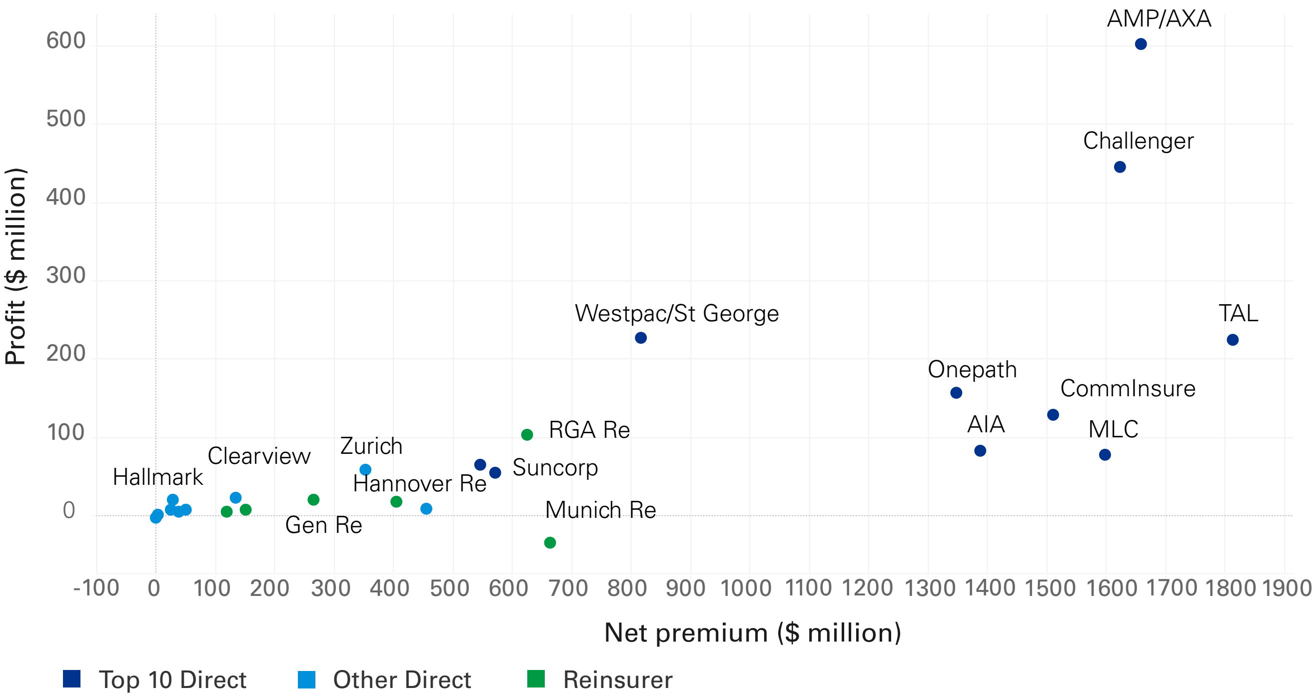
**Net premium and Profit by All Products in 2018**




## Company specific results

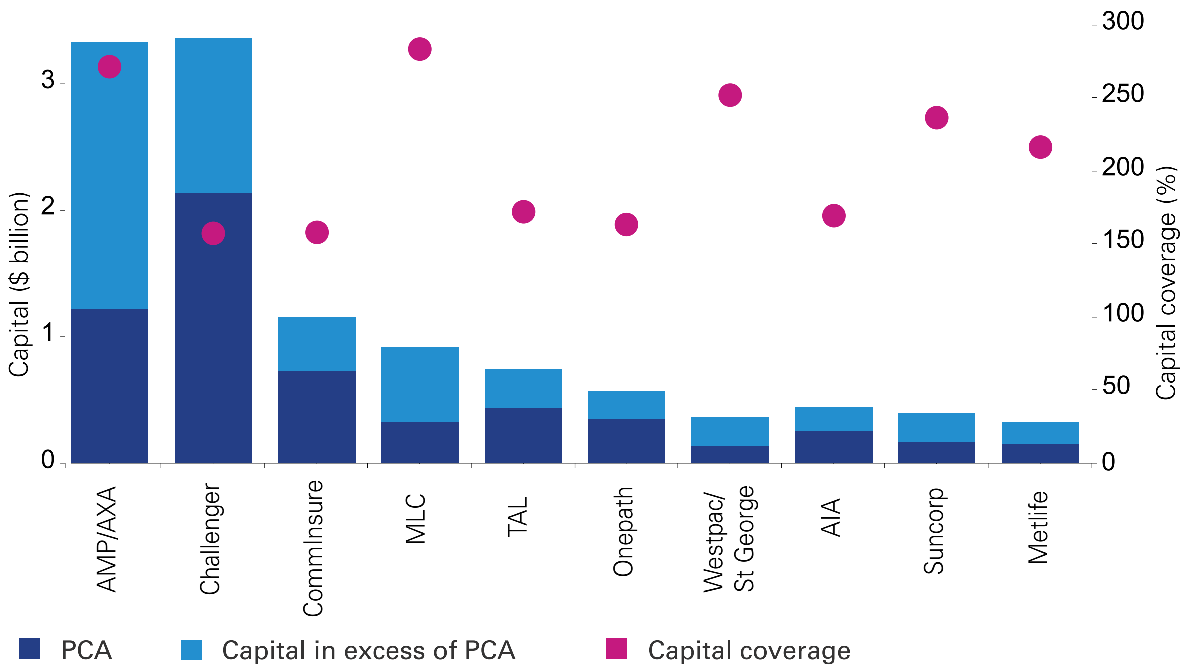
6. Eighteen out of 19 direct insurers and seven out of eight reinsurers reported a profit for their financial year-end in the 12 months to December 2017. Reported results vary for each company from year to year, sometimes significantly, and the *Life Insurance Insights Dashboard* highlights the movements in companies' profitability over time.

**Profit and Net premium by company for 2017**




7. The life insurance industry in Australia continues to be well capitalised. For the financial years ended in the 12 months to December 2017, capital coverage[1] ranged between 1.3 and 3.0 for 20 companies; six companies had ratios above 3.0.

**Capital coverage for Top 10 Direct Insurers**




1 Capital coverage means the ratio of capital base to the prescribed capital amount (PCA)

# Key challenges and opportunities

## 1 Changing industry structure

The changing structure of the insurance industry, following a wave of M&A activity, has seen increased ownership of Australian insurers by foreign-controlled companies and a reduction in market share held by the largest insurers in the Australian market. The continued introduction of global insurance specialists in Australia is expected to drive greater innovation and efficiency in the sector, applying increased pressure to long-standing domestic players.

In 2017, 47.8% of market share[2] is from foreign-controlled companies, up from 41.4% in 2014. This is driven largely by the sale of 80% of MLC Life Insurance to Nippon Life Japan. Once CommInsure and OnePath are considered foreign-controlled companies, then the total market share owned by foreign-controlled companies will rise to 66%.

In 2017, the top 3 insurers (AMP/AXA, TAL and Challenger) held 32.4% of total market share, down from 35.1% in 2014 (AMP/AXA, MLC and CommInsure). As M&A activity continues in this space, this trend is likely to reverse as insurance companies converge into larger entities. Challenger and TAL have seen the most significant growth in the three years to 2017 increasing their net premiums at a CAGR of 38% and 16% respectively.

Challenger, TAL, Metlife, Swiss Re and AIA have led the growth in insurance premiums over the past 4 years, with Challenger being the only domestically-owned insurer amongst this list, and positioned successfully as the retirement income specialist. This contrasts to the leading, domestically owned life insurers – AMP/AXA, CommInsure, OnePath and Westpac/St George who have lost market share relative to their international competitors over the same period.

From an operating model perspective, the current wave of M&A activity is expected to change the distribution channel mix. The dismantling of vertically integrated models, with less product delivery through aligned dealerships, will result in greater distribution being provided by independent advisory groups. Strategic long term bancassurance alliances are aimed at improving the performance of the bancassurance channel. Having struggled to deliver benefits as part of vertically integrated business models, success will depend on the buy-in and incentives for both banks and life insurers.

2 Market share is based on net premiums, as gross premiums are not reported by APRA for specific companies

As global competitors become entrenched in the Australian insurance market, new international products are expected to be released to Australian customers. There will likely be increased pressure on domestic operators in product innovation and the speed-to-market of new products. As global insurance specialists invest more heavily in technology and subsequently introduce more innovative product offerings, domestic operators will be forced to innovate in order to optimise their current service offerings and systems, and maintain market share.

New and innovative digital channels and product lines can be expected to address new customer segments, driving longer term growth in the market.

It is possible that the global insurance specialists entering the Australian market can deliver greater operational efficiency, with more efficient underwriting processes, claims processes and reduced unit cost. By overcoming legacy systems with digital application programming interface (API) layers there is now the opportunity to deliver more efficient operating models supported by global insurance management expertise and focus.

# 2
# Insurance in super

Insurance in superannuation has been the growth engine of the life insurance industry over the last decade. However, this trend may reverse in the next 3 years if the measures in the 2018/2019 Federal Budget are adopted. The proposed measures involved moving insurance from a default framework to an opt-in arrangement for:

- members with low balances of less than $6,000;
- members under the age of 25 years; and
- members whose accounts have not received a contribution in 13 months and are inactive.

KPMG has separately published a report that assessed the potential impact on super funds and insurers of the Federal Budget changes, leveraging the modelling performed by KPMG for the Insurance in Superannuation Working Group (ISWG) in September 2017. The following overall impacts can be expected:

- **Reduction in group life insurance cover and insurance premiums collected.** We anticipate a 50% reduction in the levels of group life insurance cover and a 42% reduction in insurance premiums collected. In addition, an increase in the level of anti-selection customarily associated with opt-in cover and an increase in average age can be expected for the members with cover. We estimate that this could lead to as much as a 26% premium increase.
- **Erosion impact on retirement income.** If insurance premium rates remain at the current level, then the introduction of the three budget measures would reduce the erosion of retirement benefits from 6.2% to 5.8% on average. However, if, as we anticipate, insurance premiums increase by 26%, the average level of erosion of projected retirement benefits would increase from 6.2% to 7.3%.
- **Disproportionate impact on females and low income earners.** Females and low income earners[1] are currently disproportionately affected by default insurance in super. Our analysis shows that these categories are likely to be worse off under the proposed changes. For example, considering an increase in insurance premiums of 26%, we estimate the average erosion of account balances for females will increase from 7.6% to 9% of their retirement benefits and low income earners to increase from 15.8% to 17.6%.

While in principle, the proposed measures are well intended, in practice, they may have unintended consequences to the members they try to protect.

The impacts above are overall impacts. The actual impact on individual funds can be expected to vary significantly from fund to fund, depending on the current level of cross subsidisation, the premium rate structure, the level of member engagement, and other demographic factors.

Notwithstanding this potential step change, insurance in superannuation can be expected to continue to be a central part of life insurance.

[1] Members with income less than $18,200 a year

# 3 Data & disruption

Data ownership and use of data is becoming a critical strategic asset. Powered by digitalisation and an increasingly connected world, we are witnessing an explosive proliferation in the volume and breadth of data available for analytics consumption. At the same time, the costs of computing and data storage have plummeted, and universities across the world are training up legions of data scientists capable of deploying increasingly easy to use advanced analytics applications. In addition, analytical tools have become cheaper and more accessible including being open sourced.

Social media data and geo-location data have been subject to much interest. However the more risk relevant data is likely to come from the new generation of medical devices such as smart skins and edible monitors, which will provide access to an entirely new set of precise, real time health markers. The opportunities to exploit value in structured and unstructured data are vast and this hasn't gone unnoticed in the life insurance sector. Insurers are gearing up, building data science teams and appointing Chief Data Officers to the leadership team or one level below working alongside marketing, pricing, underwriting, actuarial, claims and finance.

The opportunities to improve business performance lie in many areas. From the perspective of gaining a deeper customer understanding, significant commercial value can be derived through, for example:

- customer and risk segmentation that is aligned to the organisation's risk appetite
- the development of products and services that more closely reflect customer needs
- technology to improve the customer experience and retention rates
- more competitive and profitable pricing.

Data analytics also means better fulfilment, at a lower cost, as automation reduces inefficiencies and increases the speed to serve. Claims and underwriting processes are being overhauled through smart deployment of machine learning techniques on unstructured data, for example, making faster and more consistent decisions for the benefit of the customer. The true value of data and analytics lies in the ability to enable better outcomes, improving business decisions and driving efficiencies in 'human' tasks, business processes and legacy systems across business silos.

**KPMG in the US and Europe have delivered solutions to clients, via KPMG Claims Analytics and KPMG Always On, which have resulted in:**

- a reduction in claims handling time from 35 days to 15 minutes for certain critical illness claims
- estimated 10-15% reduction in protection claims spend due to early intervention.

KPMG Always On is a subscription service providing clients access to thousands of signals to get new and unique predictive insights, without having to set up the infrastructure which would normally be required; for example, open data from sources such as the census, a proprietary data set from KPMG's network of data brokers, and a company's own data.

KPMG Claims Analytics is a set of globally shared data driven solutions for insurance claims. The solution enhances the capability of our existing claims management practice with the use of emerging technologies such as data analytics, machine learning and AI.

# 4 Innovation

The insurance industry continues to face systemic issues in relation to customer experience and retention, underwriting, claims and operating cost efficiency.

Investment in cognitive technologies will be an area of focus for almost 60% of CEOs through to 2020[3], with significant opportunities in the financial sector, specifically in insurtech.

Global platform tech giants, Google and Microsoft, are making significant breakthroughs in machine learning, AI and data mining, focusing on conversation automation, image and video insights, customer analytics and predictions, and industrial automation.

Through utilising machine learning, Google have transformed the claims process in auto physical damage, considerably improving customer experience, and lowering operating costs for insurers. Currently, claims often take a significant length of time to resolve, with substantial costs to the insurer as a result of extended car rentals and scheduling of the limited appraiser pool. There are also challenges faced when data mining, due to paper files and other non-standard data, amplified by variations in historical estimate accuracy. Google Cloud combines machine learning over image recognition, natural language processing, and anomaly detection machine learning to analyse auto damage. Wider applications of this technology are in development for: home inspection, catastrophe, liability and contents insurance.

The method for underwriting risk has not changed significantly over the last several years. Therefore, Microsoft has identified the need to fundamentally transform the risk assessment process.

With the advent of new data sources, underwriters are challenged to collect and combine just the right mix of available data and use it to assess the risk accurately, personalise the customer experience, and issue policies in a day, if not minutes. Microsoft's application and solution is able to gather and aggregate user data from an external database, apply basic cognitive capabilities to enhance or infer from the data, and provide visualisation on interaction between technology components, users and underwriters. By utilising automation and creating a customer centric operating model, Microsoft's application can help develop accurate risk profiles and provide access to a substantially larger number of signals for underwriters.

Emerging insurtech players from Israel have combined data science, machine learning, life insurance and annuity expertise, to optimise the customer experience, extract insights from structured and unstructured data sources, and produce more accurate models for underwriting. Atidot's solution is a life insurance data cloud that is an integrated self-service tool for insurers. By leveraging internal and external data, Atidot can help to improve strategic decision making and profitability, whilst enabling a more personalised customer experience. Planck Re is an AI-based data platform for commercial insurance. By leveraging AI and open-web data mining, Planck Re empowers insurers to instantly and accurately underwrite any policy. These businesses are very interested to bring their disruptive technologies to the Australian market.

3 2017 CEO Outlook Survey, KPMG LLP (June 2017)

# 5 Public trust & life insurance

Life insurance has historically enjoyed a privileged position in the Australian community on the basis that it has the purpose of helping individuals in their time of need; retirement, death or disability to the benefit of society. Consistent with this position is life insurance's exemption from the anti-discrimination legislation which stated that discrimination on the basis of age or gender may be acceptable provided that it is based on credible and current actuarial and statistical data.

This paradigm may be shifting for life insurers.

In recent years, we have seen the level of public trust eroded, with poor customer experience being reported through the media resulting in the industry claims review in 2016 by ASIC, and concerns being expressed over the potential erosion of retirement benefits due to default insurance provided through superannuation funds.

Although the review found that 90% of life insurance claims are admitted, the industry has responded by taking further steps to self-regulate. In 2017, the Life Insurance Code of Practice came into effect to promote a high standard of service to customers, providing a benchmark for consistency within the industry, and establishing a framework for professional behaviour and responsibilities. Twenty-four life insurers have signed up to the code.

Similarly, the Association of Superannuation Funds of Australia has issued a voluntary Code of Practice, effective from 1 July 2018 for Insurance in Superannuation. To date, 61 superannuation trustees have signed up to the code. The code sets standards that aim to improve communication, quality of insurance offerings, and processes for providing insurance benefits.

Further iteration and improvement to both Codes of Practice can be expected to occur over time.

### Genetic testing

Australian life insurers are currently prohibited from requiring applicants to undergo a genetic test for the purpose of obtaining life insurance. However, if the test has already been undertaken the insurer can request access to it.

In March 2018, the Parliamentary Joint Committee (PJC) into the life insurance industry released its report. One of its recommendations is that life insurers are prohibited from using the results of predictive genetic tests, at least in the medium term.

This recommendation is consistent with global trends in this matter where a number of countries have already informally discouraged or legislated for similar prohibitions, including Austria, Belgium, Canada, Denmark, France, Ireland, Poland, Portugal, Singapore, while Germany, the Netherlands, Switzerland, and the UK prohibits such use for policies below a certain size.

If adopted, this prohibition poses real challenges for the industry. On one hand, the insurer wants the individuals to undergo potentially lifesaving genetic tests; on the other hand, as and when polygenic genetic tests become more readily available to the general public, they have the potential to enable individuals to seek out insurance once the results of their own genetic tests indicate the potential for certain illness, while life insurers are prevented from obtaining this knowledge. This could ultimately increase the cost of insurance for all policyholders.

The rate of development of available genetic tests that could have a substantial impact on the life insurance industry has been accelerated in recent years. In a recent paper presented to the Actuaries Institute (May 2018), Vukcevic and Chen reviewed the latest genetic research for the top five diseases that lead to life insurance claims and concluded that in just a single year, *"substantial improvements in the predictive strength of genetic tests have been made for three of the top five diseases that affect life insurance: coronary artery disease, prostate cancer and depression".*[4]

These advances, along with the change in public trust, are likely to change the way risks are accepted and priced.

4 Vukcevic and Chen, "Genetics and life insurance", 2018, Actuaries Institute, Financial Services Forum.

# 6 Legacy system transformation

Legacy systems have been a key element of enabling life insurance businesses in most developed nations for a long time. Reliable and scalable mainframe technology has been suitable for processing a large volume of new business and endorsement transactions, and maintaining policy records for the duration of insurance contracts. Meanwhile, the environment surrounding the life insurance industry is changing faster than ever – more data is being accumulated through every customer touch point, the number of life insurance M&A activities is on the rise, and most importantly customers have higher expectations for services and experience. Legacy systems, while they fulfilled business needs of that time, have become a major roadblock in responding to the rapidly changing environment. As a result, many organisations are seeking to transform legacy IT platforms, especially in the core administration area.

Core legacy platforms are often enhanced and have absorbed many peripheral functions over time. Sometimes functions are shared across multiple distinctive lines of businesses, e.g. life and general insurance. For this reason, migration from legacy to new platforms can become very complex and have significant impact on other parts of the business and organisation outside of IT infrastructure. Based on our experience, a successful legacy core platform transformation is more than a system replacement/package implementation/infrastructure migration project. It addresses strategic, operating model and technological themes through:

- clarifying the objective and opportunities to determine the overall business migration strategy for legacy transformation
- considering rationalising and simplifying products in a manner that will have large positive impacts on downstream operations and legacy platforms
- considering leveraging emerging legacy technologies (e.g. open API, cloud) and determining the direction through a proof of concept process.

In addition to broadening the thought spectrum to include the above themes when considering legacy transformation, success also depends on an organisation's ability to adopt non-traditional approaches and embrace the culture to 'safely fail' through proof of concept to discover an innovative way to solve this problem.

# 7
# EU General Data Protection Regulations

The EU General Data Protection Regulations (GDPR) came into force on 25 May 2018. The GDPR were designed to achieve consistent data privacy laws across Europe. They apply to the European Economic Area, which includes all EU countries plus Iceland, Liechtenstein and Norway.

The primary objectives of the GDPR are to institute citizens' rights in controlling their personal data and to simplify the regulatory business environment by adopting a unified regulation across the EU. Some notable changes in the regulations relate to (a) the application to all companies processing personal data regardless of the company's location; (b) the rights of individuals.

The GDPR will also apply to organisations located outside of the EU if they offer goods or services to, or monitor the behaviour of, EU data subjects. It applies to all companies processing and holding the personal data of data subjects residing in the European Union, regardless of the company's location. A controller is the entity that determines the purposes, conditions and means of the processing of personal data, while the processor is an entity which processes personal data on behalf of the controller.

In addition to reputational damage, failure to comply with the directive may result in fines up to €20 million or 4% of annual global turnover, whichever is greater. Individuals are also empowered to bring private claims against organisations where their data privacy has been infringed.

**Key messages for Australian businesses from OAIC**

The Office of the Australian Information Commissioner (OAIC) has published Privacy business resource 21: Australian businesses and the EU General Data Protection Regulation which lists the key messages as:

- The GDPR contains new data protection requirements that will apply from 25 May 2018.
- Australian businesses of any size may need to comply if they have an establishment in the EU, if they offer goods and services in the EU, or if they monitor the behaviour of individuals in the EU.
- The GDPR and the Australian Privacy Act 1988 share many common requirements, including to:
  - implement a privacy by design approach to compliance
  - be able to demonstrate compliance with privacy principles and obligations
  - adopt transparent information handling practices.
- There are also some notable differences, including certain rights of individuals (such as the 'right to be forgotten') which do not have an equivalent right under the Privacy Act.
- Australian businesses should determine whether they need to comply with the GDPR and if so, take steps now to ensure their personal data handling practices comply with the GDPR.

**Implications for Australian life insurers**

Australian life insurers should consider if they are bound by the GDPR. An insurer may be bound if they have a European parent, or if they collect, use or disclose data that comes from an EU resident. If it does apply, then the regulations are likely to have considerable impact, both locally and in respect of any outsourced providers. A possible non-compliance fine of up to 4% of turnover — in addition to the other powers given to privacy regulators — make the GDPR a daunting prospect. It is therefore essential to gain a good understanding of both local GDPR requirements and the various regulatory authorities across the EU that are responsible for enforcing it.

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