Big banks are trying life insurance again

By **MICHAEL PILLEMER**

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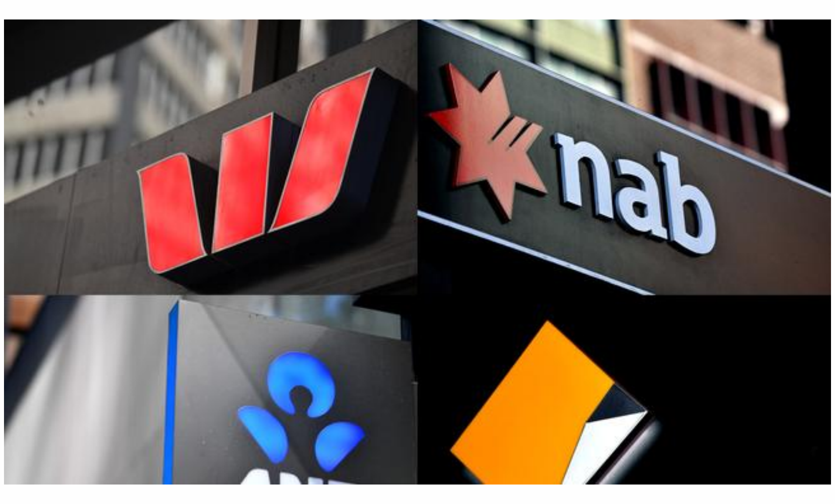

Could conflicts of interest re-emerge as big banks sign deals with the new owners of their life insurance businesses? (AAP Image/Joel Carrett) NO ARCHIVING

The collapse of bancassurance in Australia has been nothing short of spectacular. In the space of just five years the idea that banks could cross-sell their in-house banking and insurance products collapsed.

In 2016, NAB became the first of the banks to admit defeat, selling 80 per cent of life insurer MLC to Nippon Life for $2.4bn. ANZ followed in late 2017, with the sale of its OnePath life insurance arm to Zurich Insurance for $2.85bn.

CBA sold CommInsure to AIA in a $3.8bn deal in 2018 and most recently came the announcement by Westpac that it had reached a deal to sell its BT Life insurance arm to TAL for $900m.

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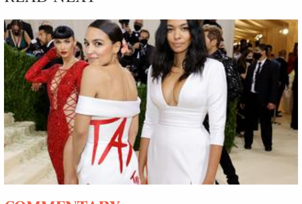
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For a casual observer it looks as if we have now come full circle with the ill-conceived model.

But what have we got? Banks are still selling life insurance - and while CBA, ANZ and Westpac have divested their life insurance assets, they have not fully separated themselves from their conflicts of interest, by leaving in place agreements that are akin to the anti-choice tied distribution model of yesteryear.

While these alliances may deliver a more affordable advice model for consumers, the misalignment of interests could continue to deliver poor customer outcomes.

The so-called bancassurance model failed for several reasons.

Banks have different relationship dynamics with their customers compared to most businesses, due to their status as an essential service.

Consequently, the banks lacked a true understanding of their life insurance customers and became complacent towards them.

The need to separate life insurance and banking businesses was flagged by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in 2019, but mandating such a separation was ultimately classified as too hard. In his final report, Commissioner Kenneth Hayne said it would "involve significant disruption to the industry".

Disruption happened anyway, largely due to the reputational damage inflicted on the banks as inherent conflicts of interest in the vertically integrated model were laid bare during the royal commission hearings.

But insurance, operating under a completely different business model to banking, placed a strain on the capital and return on equity requirements of banks.

This financial strain was further exacerbated by challenging times in the life insurance industry in recent years due to a perfect storm of low interest rates, a sharp increase in mental health claims, losses in individual income disability insurance, high levels of regulatory intervention, excessive red tape and financial advisers leaving the industry in droves.

Put simply, bancassurance ultimately failed due to the prioritisation of shareholder interests over the interests of customers.

In a race to the bottom the banks focused on short-term growth and market share in their life businesses.

New customers were prioritised ahead of loyal ones through strategies such as front-loaded discounts, special deals for advisers, soft underwriting, discounted loadings, and price matching.

In some of the worst instances, staff were incentivised for denying claims and selling products whether appropriate to needs or not.

In short, it was this misalignment of shareholder and customer interests that proved to be the final failing of the bancassurance model.

In the aftermath of the great bancassurance failure, the life industry should reflect on a renewal of its purpose aligned around the best interest of the consumer.

Let's hope that the major banks reverting to their traditional banking roots and business models represents something of a positive 'back to the future' model and invites a new horizon for the provision of high-quality financial products and services to Australians.

Michael Pillemer is the chief executive at insurance group PPS Mutual

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