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Financial Services Forum

21-22 May 2018 • Hilton Sydney



**Actuaries
Institute**



Insurance in Superannuation Code of Practice

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Insurance in Superannuation Working Group

- Formed in November 2016
- Responding to criticisms from the media, the Government, regulators, law firms and others
- Key criticisms:
 - Members often don't know they have cover and don't understand the cover they do have
 - The cost of insurance inappropriately erodes retirement balances
 - Members paying for multiple insurances that they don't need
 - Cover ceases when the member is not working, without the member being aware
 - Cover continues when a member is not working and erodes account balances (note the inconsistency between this and the previous point)
 - The claim process is too complex, takes too long and is unfair
 - Premium Adjustment Model (PAM) type structures are detrimental to members and are used to finance non insurance activities
 - TPD definitions are too tight and designed to avoid paying claims – “junk insurance”.



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Objective

- The objective of the ISWG is to develop an Insurance in Super Code of Practice that delivers industry reforms addressing each of the criticisms and is capable of being registered by ASIC.
- The Code will apply to trustees of superannuation funds, including retail funds.



Political backdrop

- Government / regulatory reviews:
 - The Joint Parliamentary Committee on Corporations and Financial Services Inquiry into the life insurance industry (published on 27 March 2018)
 - The Productivity Commission review of the competitiveness and efficiency of the Australian superannuation system (draft report late May 2018, final report TBA)
 - Various reviews by ASIC, e.g. claim decline rates and service standards
 - Various reviews by APRA, e.g. claim decline rates and service standards and drive to improve members' experience of superannuation
- 2018 Budget:
 - Adopted many of the Code provisions but with some additional challenges for the industry



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Key dates

- Start date: 1 July 2018
- Transition to full compliance by: 30 June 2021
- Funds to state their intention to adopt the Code by: 31 March 2018
- Funds to publish on their websites of transition plan for how they will become compliant: 31 December 2018
- Proposed budget changes phased in from 1 July 2019



Administration

- Code owners – ASFA, AIST, FSC
- Code Transition Committee – Sarah Phillips
 - Q&As
 - Standard KFS template
- Future schedule of work
 - Including review of TPD and Income Protection definitions



Key Provisions of the Code

- Preventing inappropriate account erosion
 - Benefit design principles
 - Maximum premium limits
 - Common cessation of cover rules
 - Annual communication to members who have received less than \$1,800 in SG contributions in the past 12 months
- Avoiding multiple accounts/insurance when a member joins:
 - Super search for each new member
- Standard form Key Facts Sheet (KFS)
- Explaining the intention and application of TPD and Income Protection definitions
- Service standards for the claim and underwriting processes
- Governance of Premium Adjustment Mechanisms



Automatic insurance provided to members

- Definition of Automatic Insurance Member and purpose
- Appropriate and affordable cover – no inappropriate erosion of account balances
- Premium cap – 1% of estimated level of earnings for the membership / segments



Cancellation of cover

- Easy cancellation process
- Online, by phone, by email, by post
- No lengthy forms
- Government and APRA concerns



Cover cessation

- Current market practice
- Challenges of automatic cessation due to superannuation guarantee contribution process and poor data
- Death and TPD cover: automatic cessation 13 month after the last contribution received, provided the account balance is less than \$6,000 [Budget proposal would remove the \$6,000 criterion]
- Income Protection: automatic cessation 13 month after the last contribution received



Cover cessation

Time from last eligible contribution	Trustee action for automatic insurance members
6 months	Letter to member warning about the impact of premiums on account balance and that cover will cease after 13 months except, for death and TPD cover, if the member has \$6,000 in their account at that time.
9 months	Letter to member warning about the impact of premiums on account balance and that cover will cease after 13 months except, for death and TPD cover, if the member has \$6,000 in their account at that time.
13 months	Confirmation that cover has ceased except for death and TPD cover where the member has \$6,000 in their account at that time.
15 months	At any time during the 60 days after automatic cessation of cover, the member may elect to reinstate it, subject to the fund's normal requirements for automatic insurance to be granted.



Duplicate insurances

- Permission to assist new members in determining whether they have superannuation in another fund
- Premium refund option in the event that income protection benefits are fully “offset” or a TPD benefit could never have been paid



Code compliance reporting

- Funds must publish:
 - The basis they have adopted for determining the levels of automatic insurance provided within the 1% of salary cap, including the measure of “salary” used and the timeframe over which the cost cap is tested
 - The rationale for any automatic insurance where the 1% cap is exceeded
 - Annual Compliance Report which shows:
 - Instances where it has failed to comply with the Code
 - Steps to be taken to improve compliance with the Code, where necessary
 - Where the fund has determined that complying with the Code is not in the best interests of members



Key 2018 Budget proposals

- No automatic insurance until account balance reaches \$6,000 [Not in Code]
- Cover turned off for existing accounts with less than \$6,000 at 30 June 2019 [Not in Code]
- Cover to cease after 13 months inactivity (i.e. no contributions) [In line with Code but includes large as well as small account and included voluntary insurance]
- No automatic cover for new members joining under the age of 25 [Not specific in Code]



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QUESTIONS

ISWG Constitution

- **Governance Board**
 - Jim Minto (Chair) - Director of Dai-ichi Life and ex Chief Executive Office of TAL
 - Sandy Grant (Deputy Chair) – Former director of Care Super and representing Industry Funds Forum
 - Representatives from each of the key industry associations:
 - ASFA – Martin Fahy
 - AIST – Catherine Bolger
 - ISA – David Whiteley
 - FSC – Sally Loane
 - Representatives from two life insurers – Damian Mu (AIA) and Deanne Stewart (MetLife)
 - Representatives from three industry funds – Andrew Howard (REST), Sandy Grant (Care Super) and Richard Weatherhead (AustralianSuper)
 - A representative from a retail superannuation fund – Melinda Howes (BT)
 - A representative from consumer groups - Xaviar O'Halleren (Choice)
- **Technical Committee** (Chaired by Richard Weatherhead)
- **Code Committee** (Chaired by Andrew Howard, Chief Operating Office, REST).



Impact of Code provisions

- Systems changes and new data fields required
- Definition of Automatic Insurance Members
- Auto-cessation and reinstatement rules
- Identification of vulnerable consumers

- Application of Code requirements to third party service providers
- Training on Code requirements
- Review of service level agreements
- Monitoring of service providers, including regular reporting and data analysis
- Complaints handling regarding service providers

- Transition period
- Code commencement date 1 July 2018
- Code adoption by 30 June 2019
- All policies and agreements to be updated by 30 June 2021