

Sean Williamson

T: + 61 408 133 123

E: seanwilliamson73@outlook.com

19 October 2017

To: ISWG Governance Board

RE: CODE OF PRACTICE RESPONSE

I am writing in response to the 'Consultation Paper: Insurance in Superannuation Code of Practice' and wish to make the following points:

BENEFIT DESIGN

Agree with requirement for employers to provide required data to allow effective administration of insurance arrangements.

PREMIUM LIMITS

The 1.0% and 0.5% caps should not be strictly adhered to. If strict caps are adopted they will potentially create additional issues for funds which may impact members and also the limits do not cater for some arrangements that exist in the market. Key points:

- Strict caps may require funds to undertake significant benefit design modifications and cumbersome member engagement activities where the threshold has only been marginally breached:
 - Example. Unit based design. If marginally over the 1% threshold, the fund has the option of reducing the number of units (which will lead to larger falls in cover than actually required), or slightly reduce unit size (this works for new members but not necessarily for existing members who wish to retain cover), or greatly reduce size of units or move away from unit based model (potentially leading to a more complex design for members to understand). A better outcome, if the fund believes the design is suitable for the membership, is to have a clearly documented rationale for the higher percentage level.

- A strict enforcement of the cap may possibly encourage some funds to introduce or widen segment cross-subsidies. An extension of this point is whether the fund is required to not only look at premiums and affordability for each segment but also the underlying claims performance of each segment.

- Any analysis re affordability will be based on broad assumptions, and as the previous point suggests experience will not perfectly align to underlying premium, then it is inappropriate to have strict caps.

- Some funds have tailored insurance arrangements in place at the employer level. For these funds is ISWG expecting the 'premium limit' analysis be conducted for each employer group?
- Some employers have provided generous insurance arrangements, most likely above the threshold, however those employers also contribute in excess of the SG to partially fund the insurance arrangements. Will funds be able to continue to support these arrangements?

The above points highlight the difficulties in administering strict caps. As such a better approach is for the Trustee to document its rationale as to why the caps may be exceeded. This point should be also included SPS 250 and as result will have oversight by APRA.

CANCELLATION OF COVER

Agree in principle with the 13-month suggestion however:

- Member Communication. Agree with approach in 5.25 but suggest a final communication immediately after cessation of cover providing a short window for cover reinstatement.
- Transition. The transition to this requirement needs careful consideration. The key question is how will the 'at least twice' communications apply when individuals are already past the 13-month mark on the effective date of the Code. Recommend 13-month period starts at adoption of the Code.

INFORMED DECISIONS

Agree with approach of explaining key definitions in plain language but disagree with the potential approach of creating standardised definitions. Standardised definitions may potentially stifle innovation around disability products and in particular returning claimants back to wellness or work sooner.

CLAIMS HANDLING

Agree on the importance of protocols for the engagement of legal practitioners. One proposal for ISWG consideration is the introduction of a cooling off period (say 14 or 30 days) for members in respect of the contract they have with their legal representative. The cooling off period starts when the claim is lodged. The rationale for this solution is twofold. Firstly, it is in the best interests of members not only to maximise retirement savings but also to maximise any payments with respect to disability. This may not be the case currently with members paying a proportion of their claim to their legal representative. Secondly, a very high proportion of disability claims are accepted. This solution will ensure alignment around early notification of claims and more importantly provide the member an opportunity to evaluate the need for the legal services.

PREMIUM ADJUSTMENTS

Agree with the approach by ensuring members benefit. These are important mechanisms to ensure premium stability for members.

REFUNDS

This part is more complex than covered by ISWG. Key points:

- The issue is broader than those unable to claim it should also include those unable to claim the full cover amount for which they are paying premiums for.
- The identification of this issue shouldn't be done at claims stage but on a regular basis. Using improved data provided by employers or by using basic data analytics the Trustee should identify individuals at high risk of being unable to claim some or all of their benefit. Then take appropriate steps to communicate to members providing them the opportunity to opt-out or cancel.
- Refunds. For individually identified cases agree with the solution to refund premiums but this should be for a shorter period, say 2-3 years. Generally, I believe a refund for an individual will be borne by the insurer. However, a larger risk exists is that when employers provide better data that assists with eligibility it may result in large groups dropping out and then potentially large payments back to members. The key question is who is responsible for this liability. My view is that the fund may need to take a larger share of any potential liability as they effectively own the benefit design that may not be effectively administered with the current data quality. As such trustees and insurers need to have an agreement on how liability attached to this risk is shared.

If required, I am willing to meet and talk through in further detail any of the points or solutions I have outlined in my response.

Sincerely,

Sean Williamson