Financial Group

20 October 2017

Insurance in Superannuation Working Group
ISWG Project Management Office
Email: ISWG-PMO@kpmg.com.au

RE: Submission on draft Insurance in Superannuation Code of Practice (September 2017)

BT Financial Group (BTFG) welcomes the opportunity to provide feedback on the draft Insurance in Superannuation Code of Practice released for public consultation by the Insurance in Superannuation Working Group (ISWG) on 20 September 2017.

Overall comments

BTFG is supportive of the overarching objectives of the Code of Practice, which has been developed to improve the outcomes for members who are provided with insurance cover through their superannuation fund, as well as the manner in which trustees provide this insurance cover to members.

As one of the original members of the ISWG and sponsors of this project, BTFG has been heavily involved in the development of the draft Code, through our involvement in many of the working groups responsible for developing the proposed requirements/obligations, the Code Drafting Committee, Technical Committee and the overarching Governance Board.

We strongly believe that the Code will play an important role in lifting trustee obligations to meet changing consumer needs and expectations. We support many of the requirements in the draft Code, however we also have some comments in relation to some of proposals, which are discussed in the Attachment to this submission.

Support for insurance in superannuation and the current opt-out model

BTFG strongly supports the continued provision of insurance as a key element of the benefits provided to members of a superannuation fund. These benefits protect members against the risk of not being able to accumulate sufficient retirement savings, for themselves or their dependents, where they have ceased work as a result of injury or illness or as a result of death.

It is important that Australia has an efficient and effective life insurance industry from an individual, social and government perspective. The current level of underinsurance across the community negatively impacts individuals and families, as well as being a drain on government expenditure. Underinsurance for disability represents the greatest cost to government – estimated to be $1,258 million per year[1] for total and permanent disablement (TPD) cover alone.

The impact of under insurance is felt both socially and economically. Individuals and families that are unable to meet their basic needs in a time of personal crisis can suffer in many ways, amplifying the overall cost to society well beyond the initial underinsurance gap, expressed in dollar terms. Such costs can spill over into mental health and family breakdown.

[1] Rice Warner – Underinsurance Report 2015

Superannuation plays a critical role in addressing this problem, and has helped to close the gap in recent years through the opt-out model for default members. For the year ended 30 June 2016, at least $8.2 billion in net policy payments were made by life insurers[2].

Group Insurance in superannuation also relieves pressure on the government purse, reducing the annual cost to social security by about $403 million a year.[3]

We therefore support the continued provision of insurance cover through superannuation, and in particular, the retention of the current opt-out model, as its replacement with an opt-in model would lead to a significant increase in the number of Australians either underinsured or holding no cover.

In addition, under a pure opt-in model, individuals that present a greater risk of claim (for example, through poor health) would be more likely to take up cover. This in turn would be likely to lead to an increase in premium expense, or additional exclusions, which would be an undesirable outcome.

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We have provided feedback and recommendations on the various sections of the draft Code in the Attachment to this submission.

We would be pleased to discuss any element of our submission with the ISWG.

Yours sincerely

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BT Financial Group

[2] ASIC Report 498 – Life insurance claims: An industry review
[3] Rice Warner – Majority of Insurance in super, August 2014

Attachment – BTFG comments on various sections of the draft Code

1. Appropriate and affordable cover

BTFG supports the requirement in the draft Code that trustees design their insurance benefits for automatic insurance members (AIMs) to ensure cover is affordable and does not inappropriately erode members' balances. This includes giving consideration to the particular characteristics of their fund's membership (e.g. age distribution, gender, industry and occupation, work status, earnings, employer contribution levels, claims history etc.) in order to determine members' insurance needs.

One of the major drawbacks of the proposed benefit design methodology is the fact that an overall fund level test, even segmented into different cohorts, does not address concerns at the individual level of specific members (particularly younger members) being charged too much for insurance and therefore having their retirement balances inappropriately eroded. Only a member-specific limit would truly address this issue.

That said, we recognise the difficulties and significant costs that would result from implementing a member-specific cap and acknowledge that the ISWG has tried to come up with a simpler and more cost-effective solution to this problem within the current time constraints and system capabilities.

For this reason, we recommend the ISWG considers reference to an aspirational future model that will consider the impact of premiums paid at an individual level, a task that we believe will become more feasible over time.

BTFG recommendation 1.1

BTFG supports the current proposed premiums caps, recognising that this is the most pragmatic solution to a complex problem in the short-term.

BTFG recommends that the ISWG consider including an accompanying statement to the code which sets out intentions for future developments of the code, including the application of premium caps at an individual level.

2. Cessation and reinstatement of cover

2.1 Cessation of cover due to lack of contributions

BTFG supports the measures introduced in the draft Code to cease an individual's insurance cover where no eligible contributions have been received by the fund for 13 months, subject to the pre-cessation communication requirements outlined in clauses 5.23 to 5.26, unless the individual advises the fund that they want to retain their cover.

We believe this is an important measure to ensure that members' account balances are not inappropriately eroded, particularly in circumstances where the individual moves from one job to another and whose employers set up a new superannuation fund account for them each time. This is a particular issue for younger individuals who often have a greater disposition to changing jobs early in their careers. In some cases, they may not even be aware that they have insurance cover through their (multiple) superannuation accounts.

It is therefore important to ensure adequate protections are established to ensure members' superannuation accounts are not inappropriately eroded by insurance premiums.

However, the risk of extinguishment of their insurance cover (without their explicit consent), leaving affected members and their families without insurance cover to protect them from financial hardship as a result of injury, illness or premature death, needs to be contrasted with the risk presented by duplicate insurance policies of paying more in premiums.

To achieve the right balance, the timeframe for ceasing insurance cover is critically important. BTFG strongly supports the 13-month timeframe proposed in clause 4.25 of the draft Code, on the basis that it takes into account situations where individuals take long term leave (such as maternity or paternal leave) or those who take a 12-month career break. In our view, these individuals are unlikely to read and/or action communications received from their super fund while on leave. As such, they would be at great risk of losing their insurance cover as a result of the fund not receiving contributions for them during their extended leave. Leaving such individuals inappropriately exposed to losing their insurance cover is, in our view, unacceptable. For this reason, we would strongly oppose any shorter timeframe for ceasing cover due to lack of contributions than the 13 months proposed in the draft Code.

BTFG recommendation 2.1

BTFG recommends that the 13-month timeframe for cessation of insurance cover due to lack of contributions, as outlined in clause 4.25 of the draft Code, should be retained.

2.2 Reinstatement and recommencement of cover

Where an individual's cover has ceased due to lack of contributions (in accordance with clause 4.25), the Code proposes to allow the cover to be reinstated without any health assessment or break in cover if the individual advises the fund that they want to reinstate their cover within 60 calendar days of the cessation date or if sufficient eligible contributions are made within the 60 days [clause 4.28].

BTFG supports the automatic recommencement of cover, however we believe the member's cover should be automatically reinstated (without any health assessment or break in cover) as soon as eligible contributions into the fund recommence (i.e. regardless of how long after the cover ceased these contributions recommence). This aligns with the fact the member could obtain automatic cover by simply joining another fund.

BTFG recommendation 2.2

BTFG recommends that clause 4.28 of the draft Code be amended such that, where a member's insurance cover has ceased due to lack of contributions (in accordance with clause 4.25), cover should be automatically reinstated when eligible contributions recommence and where the member meets the equivalent of the new member eligibility requirements of the scheme – e.g. being at work and in active employment.

3. Measures to address duplicate cover

3.1 Authorisation to search for multiple accounts

BTFG acknowledges the need for the industry to introduce measures to address the issue of duplicate cover, particularly as there is a risk that members will be unable to claim on more than one policy.

For this reason, we support the proposed requirement in clause 4.31 of the draft Code for trustees to seek authorisation from new members to do a search for multiple superannuation accounts and, where they identify that the member has multiple insurance covers, let them know in order to ensure they are aware of the cover and are not paying unnecessary premiums for multiple covers they are not aware of (and possibly cannot claim against).

BTFG recommendation 3.1

BTFG supports the proposed requirement for trustees to seek authorisation from new members to do a search for multiple superannuation accounts on their behalf and advise them if these accounts have insurance cover attached to them, in accordance with clause 4.31 of the draft Code.

3.2 Refund of insurance premiums

BTFG supports the inclusion of a provision in the Code requiring trustees to refund premiums to members who are unable to claim their full benefit entitlements as a result of having duplicate insurance cover. Where members have multiple insurance policies through superannuation, some or all of the benefit amounts are reduced to offset provisions when they are on claim.

A mechanism that enables members to recoup the premiums they have paid for multiple covers they are unable to claim against is imperative in ensuring they are treated fairly and equitably and, to the extent possible, seek to return the member to a similar financial position as if the duplicate cover had not been created.

We therefore support the draft Code requirement for a refund of premiums (where the full benefit has not been paid) for the duration of the overlap of covers, up to a maximum of 6 years.

BTFG recommendation 3.2

BTFG supports a refund of premiums (where the benefit has not been paid) for the duration of the overlap of covers, up to a maximum of 6 years. This should apply where the member has been paying for multiple covers and is unable to claim as a result on one or more of these covers.

3.3 Abolishing offset for Death and/or TPD benefits

Although not addressed in the draft Code, BTFG considers that the ability for funds to offset Death and/or TPD benefits, where the member has similar cover elsewhere, should be abolished.

Currently, there are some funds that do not pay out the full insured Death or TPD benefit if the member has similar cover elsewhere that has paid out a benefit (even though the member has paid the premiums to the fund for the cover). For example, if the member has Death/TPD cover in the fund of $500,000 but they also had similar cover in another fund of $200,000 that paid out a benefit, the fund would only pay out the difference (i.e. $300,000).

We believe this type of offsetting arrangement is appropriate in the context of income protection insurance, to ensure that the claimant is not in a better position financially by being on claim and therefore give them a greater incentive to try to return to work.

However, we do not believe this practice should be allowed to continue for Death and/or TPD cover. The funds that offset this type of cover are able to negotiate reduced premiums with their insurer due to the likelihood that a certain proportion of benefits will be held back and not paid out. This creates an uneven playing field across the industry and disadvantages funds that try to do the right thing by members and pay out the full benefit they are covered for (and have paid for).

These arrangements are also detrimental to members and exacerbate Australia's underinsurance problem, as discussed in the cover letter to this submission. Removing the ability for funds to continue offsetting Death/TPD cover would also negate the need to refund premiums for any portion of unpaid Death/TPD benefits.

BTFG recommendation 3.3

BTFG recommends that a provision be incorporated into the Code removing the ability for funds to offset Death and/or TPD benefits where the member has similar cover elsewhere. That is, funds should be required to pay out the full Death/TPD benefit regardless of whether or not the claimant has multiple policies.

4. Helping members make informed decisions

BTFG supports the need for clearer communication (in plain language) being provided by trustees to assist members to understand what insurance benefits are provided by the fund, what cover they hold, the impact of premiums on their retirement savings, and how to change or cancel their cover if they wish to do so.

Where insurance is provided through superannuation, there are currently no consistent plain language or consumer testing principles in place to ensure that insurance disclosures are effective and adequately explained to members. It is left up to each trustee to determine what type of disclosure (format, content etc.) works best for their fund and their members.

For many working Australians the complexity of insurance remains challenging. Low member engagement and awareness appears to increase the risk of a mismatch between some members' insurance needs and the cover provided to them via their superannuation fund. This lack of awareness can lead to under, over or otherwise unsuitable insurance cover for their needs.

In our view, the better informed members are about their insurance cover, the more likely their cover will be adequate and appropriate for their needs.

To this end, we support the introduction of the following communication requirements in the Code:

- 2-page Key Facts Sheet (KFS) – this should be a fund-specific document provided to members who obtain automatic insurance in superannuation, so that they have a user-friendly guide to clearly explain what they are covered for. To promote consistency across the industry (and therefore make it easier for members to make comparisons between funds), the format of the KFS should be standardised across the industry as much as possible.

  That said, it is important that funds have flexibility to provide additional information (within the standard KFS format) to enable trustees to provide complete information regarding the terms and conditions of the cover and to avoid misleading members.

  The Code or good practice guide should make it clear which fields of the KFS must remain unchanged and which are editable to allow trustees to include additional information regarding their specific insurance options and terms.

- Insurance Welcome Pack – we support the Code allowing trustees to provide the insurance-related information to new members as part of the broader superannuation welcome pack. Importantly, it should be left up to each trustee to decide whether to provide the insurance welcome pack to the member at the same time as the superannuation welcome pack, or in a separate communication.

- We support the proposed communication regarding the lack of contributions:
  - to all members within 6 months of receipt of the last eligible contribution; and
  - to AIMs a further 2 times between 6 and 13 months before their cover is cancelled.

- We also support the proposed annual communication where the SG contributions received for a member in the previous 12 months is less than $1,800.

BTFG recommendation 4.1

BTFG supports the need for clearer communication (in plain language) to assist members to understand what insurance benefits are provided by the fund, what cover they hold, the impact of premiums on their retirement savings and how to change or cancel their cover.

We therefore recommend the following disclosure requirements be implemented in the final Code (subject to the comments provided above):

- Key Facts Sheet (KFS)
- Insurance Welcome Pack
- Communication regarding the lack of contributions:
  - to all members within 6 months of receipt of the last eligible contribution; and
  - to AIMs a further 2 times between 6 and 13 months before their cover is cancelled.
- Annual communication where the SG contributions received for a member in the previous 12 months is less than $1,800.

5. Claims handling

BTFG supports the overall objectives of the draft Code in relation to improving the claims handling journey for claimants.

We are supportive of the proposed measures in the Code to provide claimants with timely communications during the claims process, as well as the introduction of clear timeframes for trustees to undertake the various steps in the claims process, including timeframes for:

- assessing initial eligibility and providing the claimant with information about the claims process;
- providing responses to enquiries;
- reviewing an insurer's decision;
- querying an insurer's decision; and
- paying an accepted claim

However, in recognition of abnormal or extenuating circumstances that can arise, we recommend that trustees be provided with appropriate flexibility when dealing with claims, and for this reason propose a 'unexpected circumstances' clause be included in the Code for situations beyond the control of the Trustee and the Insurer.

BTFG recommendation 5.1
BTFG supports the overall objectives of the draft Code in relation to claims handling, including the measures to provide claimants with timely communications throughout the claims process, as well as the introduction of timeframes for trustees to undertake the various steps in the claims process. We also recommend the inclusion of an 'unexpected circumstances' clause be included in the code.

6. Transition to the new regime

6.1 Transition timeframe

BTFG supports the Code's commencement date of 1 July 2018 and the 12-month transition period which will give trustees until 30 June 2019 to formally adopt the Code. An appropriate transition period is critical, to ensure that funds have sufficient lead time to update their policies and processes, train staff on compliance with the new obligations (including employing additional staff where required) and to update systems.

As such, we support the provisions in clause 3.10 of the draft Code which give trustees two years from the date they adopt the Code to update existing policies to take into account the new benefit design and premium limit standards in Section 4.

Further we propose that trustees be given 12-months from the date they adopt the code to implement the remainder of the Code obligations in recognition of the impact that implementation of the Code will have on the trustee's insurance arrangements and the processes that underpin them.

BTFG recommendation 6.1

BTFG recommends that clause 3.11 be amended such that the majority of the Code obligations (other than the benefit design and premium limit standards in Section 4) should apply from 12 months of the trustee adopting the Code, rather than from the date they adopt the Code.

6.2 Process for adopting the Code

In addition to extending the transition timeframe, we believe trustees should be able to adopt the Code on a fund-by-fund basis. This will enable trustees with multiple RSEs under their trusteeship to implement a phased approach to adopting and implementing all the new Code obligations for their various RSEs without having to do it all at once.

Furthermore, we believe there should be a carve out for funds that are in the process of being closed or wound up. In our view, the costs associated with having to implement the new Code standards for these closing funds is unnecessary and would far outweigh the benefits that would accrue to those members (particularly where they would in most instances be transferred to another APRA-regulated fund that would be subject to the new Code standards).

Allowing trustees to adopt the Code on a fund-by-fund basis will assist in facilitating this exemption, as trustees would then only be required to adopt the Code for the funds that will remain open and continue to operate, not those that are being and or will be wound up.

BTFG recommendation 6.2

BTFG recommends that the Code be amended to allow trustees to adopt the Code on a fund-by-fund basis.

Furthermore, we recommend that an exemption be introduced so that trustees need only adopt the Code for funds that will continue to operate, and not for those funds that are being or will be wound up.