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**ISWG Consultation Paper (September 2017): Insurance in Superannuation Code of Practice**

Please find enclosed our submission in relation to the Insurance in Superannuation Code of Practice.

Should you require further information in relation to our submission, please do not hesitate to contact me on (02) 4948 3691 or [adam.shultz@mine.com.au](mailto:adam.shultz@mine.com.au)

Kind regards,

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# ISWG Consultation Paper

## Insurance in Superannuation Code of Practice

Mine Wealth + Wellbeing Submission

October 2017



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## 1.0 About Mine

Mine Wealth + Wellbeing Superannuation Fund (**Mine Super**) is a profit to members, public offer superannuation fund dedicated to serving the retirement needs of all Australians. Mine Super (formerly known as the AUSCOAL Superannuation Fund) has been delivering exceptional retirement outcomes for 75 years. Mine Super offers its members a comprehensive range of superannuation and pension products in addition to insurance and access to financial advice. Mine Super was awarded a Platinum rating by SuperRatings along with Chant West's Five Apples, for both super and pension products in 2017. Mine Super employs over 175 staff and manages over \$10 billion in assets for more than 65,000 members.

## 2.0 Executive Summary

Mine Super welcomes the opportunity to provide a submission to the Insurance in Superannuation Working Group (**ISWG**) on the Insurance in Superannuation Code of Practice (**Code**). We hope that this submission is afforded adequate consideration and assists the ISWG in its approach.

The following is an outline of the key points contained within this submission:

- the Code should be voluntary (we are seeking an assurance that funds will be provided an opportunity to sign up to the Code and that it will not be imposed);
- in its current form, Mine Super is unlikely to subscribe to the Code;
- a significant amount of content (approximately 30 pages) within the Code will prohibit users from reading and understanding it;
- we have some concerns in relation to the role of the Code Administrator (who will control it, what sanctions and enforceability will they be able to impose and how it will interact with the various complaint bodies already in operation);
- we do not believe that the arbitrary use of percentage of salary as a basis for premiums rates solves benefit erosion issues (the proposed fixed premiums of 0.5% for members under 25 years of age and 1.0% for all other members is unrealistic and not appropriate for members within a number of industries);
- applying premium limits to funds that offer both default group life and income protection insurance places them at a competitive disadvantage (when compared to funds who offer default group life only);
- certain members are only able to obtain adequate insurance through group insurance arrangements (retail offerings are often inadequate);
- many of the proposals in the Code adversely impact member experience and potentially undermine the integrity of affordable insurance within superannuation (timelines and communication obligations within the Code are impractical while an over-focus on premium reductions would increase exclusions);
- the length of time over which refunds can be retrieved by funds on behalf of members could be problematic if an insurance provider no longer provides group insurance to the fund; and
- we do not support the timeframes proposed in relation to enquiries and complaints.



## 3.0 Scope of the Code

Mine Super is of the view that:

- the Code should be voluntary or (alternatively) some sections of the Code should be replaced with good practice guidelines;
- a number of concerns within the Code are required to be addressed prior to implementation (which are set out in further detail below);
- proposed premium limits standards are of particular concern;
- the existing obligations imposed on funds through the Superannuation Complaints Tribunal (SCT), Financial Ombudsman Service (FOS) and the future Australian Financial Complaints Authority (AFCA) ensure that disputes are currently addressed appropriately; and
- Code enforceability through an independent Code Administrator creates potential duplication in the external complaints process.

## 4.0 Appropriate and affordable cover

### 4.1 Benefit design

One of the key Code objectives is to ensure that insurance offered on an automatic basis is appropriate and affordable for all members and that premiums must not inappropriately erode retirement income. We would suggest that the Code should outline in greater detail how automatic cover is designed (what factors are taken into consideration when designing ‘automatic cover’).

Mine Super agrees with the concept of ensuring that insurance benefits do not unnecessarily erode member retirement balances. We do, however, contend that definitions of ‘affordability’ and ‘adequacy of insurance cover’ significantly vary between funds. Our ISWG premium limits survey highlights the complexity in trying to determine what is (and what is not) affordable for a member.

By way of example, Mine Super members are predominantly employed in the mining industry. As a result of this our members have significantly higher superannuation balances at retirement. On that basis, it is incredibly difficult to make comparisons in terms of insurance affordability and an appropriate level of insurance cover across industries.

Section 4.5 of the Code provides that funds will be required to assess the appropriateness of benefit design and the types and levels of automatic cover for fund members. Broadly speaking, Mine is supportive of this requirement. We are concerned, however, that specific member segments (younger members, those with low or infrequent contributions and those nearing retirement) are defined separately to the whole membership. While these segments might currently require additional consideration, member segmentation could lead to other members (regionally based, or single income parents) becoming segments of concern in the future.

#### 4.2 Premium limits

Mine Super does not agree with maximum premium limits (with supporting rationale set out below):

- the proposed 1.0% and 0.5% thresholds as a maximum are not appropriate for all funds. Many Mine Super members would be classified as higher risk due to their occupation and would find it difficult to obtain affordable appropriate cover outside of superannuation (in particular those miners who handle explosives);
- we are concerned that applying limits to funds who offer both default group life and income protection insurance will put them at a comparative disadvantage (when compared against funds who offer default group life insurance only);
- it is important that the ISWG take into consideration the fact that funds determine the appropriate levels of cover based on their member's needs and requirements (they do not set premium levels);
- premium limits are not appropriate in circumstances where a significant event has occurred, such as:
  - industry specific disease or accident (for example, coal workers pneumoconiosis (CWP) in the coal industry); or
  - a geographic-based issue (for example, a flood or cyclone);
- the ISWG makes no reference to the fact that (practically) many members hold multiple superannuation accounts as a way of topping up their insurance affordably (many members deliberately have a low balance with a specific focus on retaining their insurance).

Mine Super believes that rate reviews should be considered annually within targeted thresholds as an alternative to having significant rate changes imposed every three years. Accordingly, we seek guidance in relation to the proposed assessment of Automatic Insurance Members at each policy renewal and whether this will be conducted on those who have already reported to the Code Administrator as not meeting the proposed 1.0% premium threshold.

#### 4.3 Cancellation and cessation of cover

Mine Super is concerned about the proposed obligations on funds that are outlined in sections 4.22, 4.23, 4.28 and 4.29 of the Code. If implemented, these requirements put fund employees in circumstances where they could be giving financial advice (and require greater consideration). We also question the need to provide confirmation in writing of cancelled policies (considering the significant number of other ways that are available to communicate with members). Further to this, the proposals in relation to reinstatement and recommencement of cover need to be considered in the context of potential contribution cap breaches.

#### 4.4 Duplicate insurance cover

Mine Super seeks further information in relation to the ISWG's proposal contained in section 4.31 (in particular, how searches will be conducted and how privacy concerns would be addressed). It is our view that comparing insurance products and their features and exclusions (to ensure certain occupations and activities are captured) could be considered to be financial advice.

## 5.0 Helping members to make informed decisions

Mine Super agrees with the use of plain language in insurance communications. Further to this, we are of the view that:

- 30 pages of content will prohibit users (other than industry participants) from reading and understanding the Code itself (the Code requires simplification);
- section 5.4 is not required if section 5.3 is adhered to (funds communicating with their members);
- age, gender, occupation category, salary, smoking status and any other data used to calculate premiums should be included as part of the insurance welcome pack; and
- using a fixed dollar amount in relation to sections 5.27 and 5.28 will result in future amendments being required to be made to the Code.

## 6.0 Claims handling

While we support the objectives of section 6 of the Code, we are of the view that they are impractical and may lead to unintended adverse outcomes for members. Implementation of the key elements of this section (in particular those relating to timelines) would require a fund to allocate significant additional resources to insurance administration. Renegotiations between funds and their insurance providers and considerable system changes would also need to occur. Together, these changes could make group insurance unaffordable. Further to this:

- section 6.4 imposes potential obligations on funds that are impractical and would raise considerable concern in the event a fund is in dispute with their insurance provider;
- the proposed wording in section 6.33 is unclear and potentially confers significant responsibilities on funds in relation to the rehabilitation of members (we seek clarity from the ISWG in relation to this section);
- sections 6.36 and 6.37 impose obligations on funds which may result in their staff providing financial advice (we are particularly concerned about the requirement of funds to 'determine the best financial outcome from your multiple policies'); and
- there is a significant issue with the proposed timing of a fund having to conduct a review of the insurer's decision.

## 7.0 Refunds

If Section 11 is imposed retrospectively, the length of time over which refunds could be calculated and paid would be problematic. Issues may arise where funds have changed insurance providers (in an effort to enhance their insurance offering for members). For example, if an insurance provider is no longer managing group insurance arrangements, it could prove difficult to calculate a refund for the member (the cost of providing and administering refunds could also see premiums increased).



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## 8.0 Enquiries and complaints

The timeframes that the ISWG have proposed in relation to enquiry and complaint management are misaligned with current SCT and FOS requirements. It is impractical to resolve and provide a full response to a member's insurance claim within ten days (negotiation and the time taken to obtain legal advice are key considerations). Further to this, there is a significant workload imposed on funds when responding to complaints about their own decisions or conduct, those of their insurance provider or those of their independent service providers. We believe a longer timeframe is appropriate, one which affords adequate consideration of a complaint.

