

From: [Anthony Rodwell-Ball](#)
To: [AU-FMISwg-PMO](#)
Cc: [Angie Matrippolito](#)
Subject: Submission to ISWG
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[NGS Super - Submission to Insurance Working Group 20 October 2017.pdf](#)

Dear Insurance in Superannuation Working Group

Please find attached our submission on the discussion paper in relation to the proposed Insurance in Superannuation Code of Practice.

In relation to claims handling, while this is outside the scope of the code of conduct, we would recommend that a statute of limitations on claims of say 7 years be proposed to government as this would greatly assist in the administration of claims in a timely manner.

We look forward to contributing further to the consultation process, and appreciate the opportunity to do so.

Kind regards

Anthony

*Anthony
Rodwell-Ball⁺*

ANTHONY RODWELL-BALL

Chief Executive Officer

Level 16, 99 Bathurst Street, Sydney NSW 2000

T 02 9273 7900 F 02 9283 8783

arodwell-ball@ngssuper.com.au

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Submission to ISWG - Draft Insurance in Superannuation Code of Practice

Thank you for the opportunity to provide a submission to the ISWG in relation to the draft Insurance in Superannuation Code of Practice. NGS Super is the leading industry super fund for people working in non-government education, mutual finance and community focussed organisations with a membership of over 98,000 members.

We acknowledge that the work of the ISWG has been to gain consensus with the Industry for a solution to the issue of insurance premiums for automatic default cover eroding members' account balances particularly in relation to members with low account balances.

Establishment of a Code Administrator

While we accept the need for a code of conduct to address Government and community concerns, we do not accept the need for another body to provide oversight to the superannuation industry. A change to APRA prudential standards to incorporate the code would enable sufficient oversight regarding compliance within the current prudential framework. A separate body would simply increase compliance costs for an industry which is already heavily regulated and supervised. The draft code provides very little detail regarding the appointment process, the funding mechanism or an appeal process where Trustees do not agree with the administrator's determination. Care will need to be taken that legal firms who specialise in claims litigation do not use the threat of the complaints process as a bargaining tool for the settlement of claims.

Practical implementation of the Code of Practice

There is concern that the increased cost of administering insurance will have the effect of decreasing members' retirement benefits and potentially resulting in either lower levels of cover for higher premiums or an increase in administration fees. As a result, any solution should have practical application for superannuation funds, be principle based rather than contain granular detail, not result in another overlay of compliance and administration costs and should be in members' best interests. The remainder of our submission to the ISWG will therefore concentrate on these factors and will be directly referenced to the feedback questions sections in the consultation paper.

Section	NGS Super Comments
Section B.2 Premium Limits	<p>We note that the code proposed a premium limit of 1% of ordinary time earnings (decreasing to 0.5% for members under age 25). As insurance premiums increase significantly for members over age 55, the premium limits will result in a reduction in insurance cover for older members at a time when there is still a considerable need for insurance due to mortgage commitments and a much reduced likelihood of successful underwriting outcomes. Older members will also have much larger account balances which are less likely to be impacted by account balance erosion.</p> <p>Recommendation NGS Super recommends that a higher premium limit of 1.5% of ordinary time earnings be imposed for older members to ensure that insurance continues to be at a level that can safeguard their financial security.</p>

<p>Section B.2 Premium Limits</p>	<p>We note that ordinary time earnings has been proposed as the reference point for the calculation of the premium limit. As this information is not always readily available to superannuation funds, it is proposed that a Practice Guide be available to enable Funds to determine the correct reference point and to determine an appropriate cohort for averaging.</p> <p>Recommendation As the determination of average measure of Ordinary Time Earnings for different cohorts is a critical element of Fund's compliance with the code, the Practice Guide should be open to consultation for at least 3 months before the code is issued.</p>
<p>Section B.2 Cancellation and Cessation of Cover</p>	<p>We note that cover will be cancelled where no eligible contributions have been received for 13 months and that a 60 day period has been proposed for the period during which cover can be reinstated. We also note that a number of communications would be provided to members leading up to the expiration of the 13 month period and each year to members if the annual contribution received is less than \$1,800. While it is noted that this communication may be necessary, we also note that there would be considerable administrative cost to implement this across a membership with significant inactive membership.</p> <p>Recommendation We recommend the following:</p> <ul style="list-style-type: none"> • Due to consequences of cover being unintentionally cancelled, the 60 day period be extended to 90 days to allow for absences for leave; • Consideration should be given to allowing members to actively opt-out rather than have cover automatically cancelled; • Trustees should be protected from legal claims where a member has not been contactable due to change of address or extended leave and cover has ceased; and • Members with account balances over \$50,000 at each annual review date be exempted from this process to assist in controlling the significant initial and on-going administrative costs in the implementation of this aspect of code.
<p>Section B.2 Duplicate Insurance Cover</p>	<p>The comparative value of insurance cover is not only dependent on the dollar amount but also the insurance terms and conditions. As an example, a member may have two amounts of insurance but may only be able to claim on one due to the differing definition of Total and Permanent Disablement.</p> <p>Recommendation We recommend that Single Touch Payroll include alerts to members of the care that will need to be taken in the comparison of insured amounts due to the potential differences in their ability to claim.</p>
<p>Section B.3 Helping members to make informed decisions</p>	<p>The fact sheet example advises in relation to cancelling or changing cover that: 'If you cancel your cover and you decide to apply for cover in the future, you must provide health information that will be assessed by the Insurer'. This statement does not provide sufficient information to members to understand the underwriting process and possible outcomes. This statement does not provide sufficient warning that once cover is cancelled, it may be difficult to reinstate or where a member is ill or incapacitated, not possible to reinstate.</p>

	<p>Recommendation We recommend that members are warned that the Insurer may refuse cover, impose exclusions and limitations or impose premium loadings.</p>
<p>Section B.4 Claims Handling</p>	<p>NGS Super is committed to providing members with member-centric claims handling procedures and service standards. However, the claims handling timetable proposed in the code of conduct stipulates that the Trustee must review a claim that has been denied within 15 business days of the Insurer's decision. This timeframe is not in the best interest of members as it does not allow for the Trustee to conduct its own investigations including the commissioning of additional medical and employability reports. Board oversight would be required every 21 days which is not practical. It would also not allow the Trustee to comply with its prudential obligations under SIS to pursue a claim with an Insurer where there is a reasonable probability of success.</p> <p>Recommendation NGS Super recommends that this timeframe be extended to 25 business days from the receipt of additional reports and that progress updates be provided to the members within 15 business days of the last update.</p>

Thank you for the opportunity to provide feedback to the ISWG on this important issue.

Anthony Rodwell-Ball
CEO - NGS Super