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By email: ISWG-PMO@kpmg.com.au

Submission to Project Management Office on Draft Insurance in Superannuation Code of Practice

The Executive Summary to the draft Consultation Paper comments that “The ISWG is aware that many Australians do not realise that they hold insurance cover automatically”. We are in broad support with measures that address design, communication and impact on retirement benefits for such members. However we do not support the position of these same measures being applied to groups where it is clear the members have “chosen” (possibly with the assistance of an adviser) to take out insurance through superannuation.

Our submission on the draft code is mindful of this and focuses on five points in particular:

- Scope of code
- The role of employers
- Claims Handling
- Premium Cap
- Timeframes for Implementation

Scope of Code

The Aon Master Trust consists of three divisions that have significant membership with insurance benefits:

- A personal division which consists largely of members that have made a specific decision to join and a separate decision on whether to have insurance related benefits;
- A retail division where the primary benefits provided are insurance related benefits – members in this division have all made a conscious decision on their insurance related benefits;
- A corporate division which consists predominantly of members who have joined under default arrangements which include default insurance arrangements.

Recognising that many of our corporate division members have not made a conscious choice to join or to take out insurance cover, we have administrative processes in place to monitor contribution activity and follow up with employers where contributions have not been received for a period of time. These processes have been strengthened since the onset of Stronger Super and originate from similar concerns held by the ISWG on the erosion of retirement balances. We will work with our administrator on specific ideas in the draft code that may assist, however an important element will be to balance the practicalities and cost of measures against the perceived value for our members.

As members of our personal and retail divisions have made a conscious choice to take out insurance cover, these same processes are not carried out in these divisions. Instead we have processes geared towards the needs of members in these divisions to monitor balances. In this scenario where the member is likely to have inconsistent contribution patterns, but they have chosen to take our insurance cover, the emphasis should be to test that approaching premium

can be met so cover remains in place. We question the value to the consumer of introducing processes to monitor contribution activity for these groups of members who have chosen to take out insurance cover and by their nature may have inconsistent contribution patterns.

Employers

The consultation paper refers to the possibility of a greater role for employers both at the point of a new member joining and where there is a break in contributions.

MySuper legislation embraces insurance as part of default superannuation arrangements. SuperStream has been introduced at great cost to the superannuation industry to support the administration of employer superannuation contributions. We feel the existing data standards infrastructure should be leveraged to assist with delivering mandatory pertinent information from employers with regard to the administration of insurance through superannuation:

- Occupation on joining
- Start date of first contribution
- Employment status on an ongoing basis (eg extended sick leave may assist with early intervention and earlier income protection claims and payments)
- Changes in employment status (eg full-time to part-time)
- Date of termination of employment
- Reason for cessation of contributions (if an employer makes a default contribution to an alternate fund chosen by the member, they also have a responsibility to advise cessation)

This additional information would assist Trustee's in applying a circumstance-based approach to cessation of cover rather than a prescriptive 13 month approach. In some circumstances it may be appropriate to cease cover earlier, for example if it is known that a member is having contributions paid to another superannuation fund. In other circumstances, such as unpaid or maternity leave it may not be appropriate to cease cover at all.

We note that the SuperStream Data Standards generally allow for the provision of this information by the employer. However not all required information that may impact levels and eligibility for default insurance cover are currently mandatory. It is our view that this should be reviewed.

Handling of declined claims

The Aon Master Trust has a long standing "procedural fairness" process for the corporate division where Total and Permanent Disablement (TPD) claims requiring a subjective opinion are initially declined by our insurer. This is similar to the proposed Section 6.28 of the draft code, which we broadly support.

However, Clause 6.28 © as drafted requires the members to be given "all documents obtained during the assessment". In many cases this will require pages and pages of documents to be provided, most of which would not have influenced the decision made. This could be detrimental to enabling members to review the case and we feel a better approach would be to provide members:

- All documents that were relied on in making the assessment;
- A list of all documents obtained, and
- A commitment to provide a copy of other documents on request.

This is similar to our current “procedural fairness” process. This process works well giving members the information they need to review the decision and respond if they wish to. In some instances the decision on claims has been changed as a result of this. Providing a list of all documents is an addition to this process that we support (as does our insurer) which will improve transparency to members.

The proposed clause 6.28 appears to be required for all declines though the terms of the clause itself seem directed to claims that have reached the stage of insurer assessment of medical evidence. We would recommend an abbreviated approach to this where a claim is rejected for factual reasons eg a waiting period not being satisfied – this would recognise that members still need to be told the reasons for the decline and given a fair avenue to contest this or correct any misinterpretation of facts. In this respect, we think Trustee’s should differentiate between claims denied for subjective reasons and those denied for factual reasons.

Premium Cap on Default Cover

We feel the proposed premium caps of 1% and 0.5% for younger members are arbitrary, not necessarily in the best interests of members and have the potential to adversely impact the acknowledged impact that group insurance through superannuation has had in “addressing Australia’s underinsurance gap and relieving fiscal pressures on our social security system”.

In addition the need for the caps may diminish given other measures in the draft code to address greater awareness of default insurance through enhanced communications and measures to combat duplicate insurance. To further enhance awareness and transparency we would also support a change to annual reporting rules for a specific insurance statement showing expected premiums for the coming year with advice of what members need to do to opt-out.

Perhaps a broad approach for consideration is to defer introduction of the design related measures in the code pending a review of the success of other measures in achieving outcomes required.

Timeframes for delivering changes in default cover

The ISWG has invited feedback on the question of “the practical implications of the transition arrangements”.

The nature of the changes in default cover being proposed, in particular the setting of specific caps on premiums will require greater time for implementation than the draft code is allowing. Trustee’s will need to consider many things, including:

- What is a reasonable design moving forward that addresses needs of members, appropriateness and affordability requirements of the code? In our own case, there will be some pockets of members that will not satisfy the affordability requirements. Our goal will be to review default cover across our whole corporate division
- What differences are necessary for different segments, particularly higher risk occupation groups, younger members / members approaching retirement, different contribution patterns and members whose employer meets the cost of insurance premiums
- How will changes be communicated to existing members? Will members have the option of maintaining existing arrangements? Where cover is reducing, what is the effect of members opting to maintain existing arrangements? Will there be selection issues that adversely impact premium rates?

The group insurance market is extremely concentrated around a small number of providers and administrators. Most funds have shorter than historical rate guarantee periods, and therefore a policy renewal (the trigger for change) comes up sooner. The draft code refers to a 12 month transitional period for non-design and premium related aspects of the code, and the policy renewal following the commencement of the code for the design and premium related parts.

We think this transition period should be at least 2 years and 4 years for non-design and premium and premium related aspects to enable effective and considered responses from Trustees; with annual reporting of progress.

We understand the ISWG is looking for specific comments on the practicalities of the timeline. The emphasis on this should be to innovate and deliver value to our members. The indicative timeframes may prejudice these ideals by creating a "rush to comply". We are working on a timeline with our insurer for a review and implementation of changes to our default insurance arrangements, which we can share with the ISWG on completion. This is including an assessment of data which is a process we understand to be underway with other funds. This indicates a longer consultation period may be needed or the deferral of design aspects of the code as suggested above.

We are happy to answer any questions the ISWG may have.

Yours sincerely,



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