LIST OF CONSULTATION QUESTIONS – Feedback From Russell Investments

B.1 Feedback questions

SCOPE OF THE CODE

Q1: How should the ISWG ensure that all trustees are bound by the Code?

We believe that the Code should be explicit in limiting the requirements of the Code on trustees to those things that are within their powers. For example, it is not appropriate for a trustee to be deemed to have breached the Code if their employers don't provide information that enable the trustee to comply with the Code.

Q2: What are the practical implications of the transition arrangements?

Section 3.10 of the Code states that "the benefit design and premium limit standards in Section 4 apply to any new or updated policies after the date we adopt this Code". We think the intention of this section of the Code is that the benefit design and the premium limit standards apply when the existing policy is re-rated or a new policy is issued. The current wording in this section of the Code is interpreted as any policy endorsements will trigger the affordability requirement.

B.2 Feedback questions

PREMIUM LIMITS

Q4: Are there alternative proposals for setting maximum premium levels that the ISWG should consider?

The proposed limits of 1% of OTE for people over 25 and 0.5% of OTE for those under 25 could mean significant reduction to the level of cover for certain group of members. The prescriptive nature of this rule is potentially in conflict with the trustee's duty to make sure the level of cover is adequate for members. It's more appropriate the maximum premium levels should be part of the Good Practice Guide instead of being part of the Code.

B.8 Feedback questions

REFUNDS

Q24: What are the practical and administrative implications of the refund requirements provided?

The draft code doesn't specify which fund should pay the claim and which fund should refund the premium if a claim arises. For example, members may have multiple Income Protection policies with different waiting periods, offset provisions, definitions, benefit periods etc... We believe that it would be appropriate for some industry agreement to be reached of the refund mechanism as part of the development of the code for it to be transparent and operational.

Also, we do not understand the choice of a maximum limit of 6 years for the refund of premiums. The administration challenges increase the longer the refund period is. Insurers may have to factor in a reserve for refunds that will occur in future. We believe that a shorter period, say a 2-year limit, would be more appropriate.

The Code does not cover the refund to members with multiple covers who don't claim, which is not surprising given that it is unlikely that those members will be as readily identified as those that claim. However, make the points because those are the members that will be affected by the impact of double premiums on their retirement.

In particular, we note that it seems to be particularly unfair to members if the insurers were to enforce premium increase due to the reduction in insured membership, as results of ceasing cover for inactive members, when they're also going to benefit from lower claims if the double cover for many of those members disappears.