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| **From:** | Christopher Ramsay |
| **To:** | AU-FMIswg-PMO |
| **Subject:** | The Insurance in Superannuation Working Group Discussion Paper "Account balance erosion due to insurance premiums': QSuper submission |
| **Date:** | Friday, 7 April 2017 3:51:56 PM |
| **Attachments:** | image003.png |

Good afternoon,

Thank you for the opportunity to comment on the Insurance in Superannuation Working Group (ISWG) Discussion Paper 'Account balance erosion due to insurance premiums'.

QSuper has more than 550,000 members made up of current and former Queensland public sector employees and their spouses with over $65 billion funds under management. This makes us one of the country's largest superannuation funds. In 2016 QSuper established a wholly-owned life insurance company, QInsure, a first for a profit-for-members' Fund that allows us to provide more personalised insurance options and benefits for members.

QSuper believes insurance should be considered in the context of 'retirement adequacy' which not only includes the money allocated to superannuation for growth, but also insurance against early disability or death. In that sense insurance needs to bridge the gap between a member's retirement value 'now' and their retirement 'estimated future value'.

QSuper is generally supportive of the ISWG in their endeavour to address the issue of account balance erosion. Please find below comments on the five proposed solutions in the discussion paper.

| Proposed Solution Number | Proposed Solution | QSuper Comments |
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| 1 | Establish design principles to be adhered to when determining automatic cover and affordable premium levels including:<br><br>- General considerations applying to all members<br>- Specific consideration of appropriateness and affordability of automatic insurance cover for young members and members close to retirement<br>- Affordability considerations | QSuper agrees with general and specific considerations applying in the establishment of design principles for automatic cover and affordable premiums. QSuper believes that principles should retain the flexibility for funds to tailor cover to their specific membership.<br><br>Age based design principles already apply to QSuper's default products, and casual employees also have a bespoke design. QSuper considers the lower age cohort to be under 21 and for older members, reduction in lump sum cover is phased gradually from age 40. QSuper is concerned that applying new principles to existing members could introduce the risk of a member's cover being reduced, resulting in loss of a benefit on which members rely. Further, the introduction of changes to existing members' cover would need to allow for transitioning arrangements.<br><br>General and specific consideration must mean that affordability considerations are not necessarily consistent for all members given categories of employment and stages of life. |

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| | applying to all members | Note - from an insurer's perspective it is possible that some principles may cause a reduction in premium income without a corresponding expected reduction in claims experience, which would ultimately lead to premium increases for members. Adding a new layer of design validation may also increase fund and insurer product development costs and result in increased premiums to members. |
| 2 | Establish overarching prescribed maximum premium levels for automatic insurance cover | QSuper has a preference for this to be principles based rather than imposing a set maximum prescribed premium limit since different limits could be suited to different funds, based on the needs of their members. QSuper currently assesses the impact of insurance on account balances with reference to the percentage of employer contributions that is used to meet insurance premiums. Imposition of a different maximum premium test could drive changes to the product design potentially increasing costs to the fund and its members. A principles based approach would allow funds currently applying good practice to demonstrate how they are meeting that requirement rather than changing their benchmarking method. |
| 3 | Establish industry standards for ceasing and re-commencing automatic cover | QSuper believes there is merit in requiring all funds to offer a minimum standard for cessation.<br><br>Currently QSuper ceases death and TPD if there have been no contributions for 12 months and there is less than $5,000 in the member's account. Income Protection ceases after 12 months with no contributions. Members can elect to override the cessation, which means that cover may continue until the account balance is depleted. Use of the 12 month period allows for variability in earnings of casual members and provides sufficient time for a member to pay personal contributions or make a proactive decision to retain cover.<br><br>Equally, improved communication has a major role to play in raising awareness of insurance in super to reduce the incidence of insurance cover being held with multiple funds. Funds should encourage members to better understand the cover they have and check that it is suitable for their needs through notification at commencement, ongoing marketing campaigns and personal communications when contributions cease. Any industry wide rules on recommencement would need to minimise |

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| | | the risk of increased anti-selection by individuals. Employment linked recommencement rules require data from the employer and this would be assisted by compulsory provision of data by employers. |
| 4 | Formal protocols between insurers for the treatment of claims against multiple income protection policies | QSuper is supportive of increased insurer collaboration and the best interests of the member should drive the outcome of that collaboration. Improved communication is needed to raise member awareness of the risks of multiple IP covers and encourage members to take action to determine the suitability of their insurance cover.<br><br>It would be difficult for insurers to collaborate without member consent, as it would likely lead to difficulties with privacy issues. |
| 5 | Industry standards for refunding premiums if benefits are reduced for claims made against multiple income protection policies | Refunds should only be considered for automatic cover, as member selected cover and adviser driven cover should consider suitability before the purchase is made. Introduction of refunds may reduce premium income to insurers which could lead to pricing increases for all members if not accompanied by reduced claims experience. |

For further or specific details, please do not hesitate to contact me.

Regards,

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