



20 October 2017

Via email
The Insurance in Superannuation Working Group

Email: ISWG-PMO@kpmg.com.au

Dear Sir/Madam,

Re: AIST submission in response to the Insurance in Superannuation Code of Practice and associated Consultation Paper – October 2017

In brief:

AIST supports the draft Code of Practice. AIST makes eleven recommendations as part of this submission, based upon key themes that have emerged from consultation with AIST members. AIST notes the low awareness of group insurance in superannuation and recommends that the importance of this be better communicated.

Thank you for the opportunity to comment on the draft code and consultation paper. In this submission, AIST makes the following recommendations:

1. AIST recommend that a further summary infographic of the benefits of insurance in super be produced and distributed to super funds for their benefit.
2. Rather than allowing only an exemption to the limit for members classified as higher risk due to the members' occupation, AIST proposes that an exemption also be allowed on an "if not, why not" basis.
3. AIST proposes that the draft Good Practice Guide be reviewed and tested to ensure that industry participants beyond the ISWG processes clearly understood and had detailed guidance about the premium limit.
4. AIST supports the proposal for the cessation of insurance cover after 13 months without eligible contributions.
5. AIST suggests that the ISWG give this longer period for recommencement serious consideration, while also putting in place specific mechanisms to monitor the impact of reinstatement.
6. AIST recommend that the Key Fact Statement be reworded to support the primary view that claimants will make and manage their own claims.
7. AIST submit that trustees be given 30 business days to review an insurer's decision not to pay a claim.
8. AIST seek that each one business day requirement be amended to be by the end of the next business day after the requirement was triggered.

9. AIST strongly supports the code being endorsed by ASIC pursuant to RG 183, and for confirmation of ASIC's preparedness to do this to be pursued as matter of priority.
10. AIST recommends that all overlapping income protection premiums be refunded to the member.
11. AIST supports the widely expressed view that minor changes to policies should not precipitate a requirement to bring the whole of an existing policy into code-compliance.

AIST has undertaken widespread consultation on the draft code. This consultation has included well-attended meetings with super funds in every state and territory in Australia. In total, participants from 36 funds were involved in this process. AIST also held an Insurance Ideas Exchange conference during the consultation period, at which there was extensive discussion about the draft code and the overall ISWG process.

In addition, numerous funds responded to communications from AIST inviting their contribution to this discussion. In the consultations and in our communications, we also encouraged funds to respond directly by making their own submissions to the ISWG.

The AIST consultation is particularly noteworthy as it was focused on the response of super funds' trustee directors and their staff to the code. Other than at the conference, the participants to our consultation did not include insurers or other service providers. Given that the code is intended to bind super fund trustees that offer insurance within an APRA-regulated super fund, our consultation is highly aligned with the scope of the code.

AIST has been closely involved with the ISWG, as a sponsoring body, member of the governing body and technical committee, and through participation in most of the work streams. We have supported and continue to support the development of the code to this point.

The purpose of this submission is to identify key themes that have emerged in our consultations, and to argue that the governing body and code stream need to seriously consider if these require any change to the code. Where AIST is itself suggesting a change to the code this is clearly identified in the text.

In the consultations, AIST also noticed that there was a greater appreciation of the problem issues addressed in the code, and of lower awareness of the benefits of default group risk insurance as identified in the KPMG report commissioned by the ISWG. *AIST recommends that a further summary infographic of the benefits of insurance in super be produced and distributed to super funds for their benefit.*

Premium limits

In the consultations, participants recognised that a multi-pronged approach to the issue of account erosion was required and that premium limits could be a relevant part of such an

approach. While noting that these limits could be applied in a number of ways, it was generally accepted that it was more appropriate to tie the limit to a measure of earnings rather than SG contribution.

Some participants however suggested that an account based test should apply for members over 50 years and who may have higher account balances.

AIST encountered a range of responses on the impact of a level of 1% of OTE being set. While the majority expressed the view their existing premiums fitted, a significant minority expressed the view that their fund would exceed the cap. All of the funds in this latter category indicated that they would most likely respond to this by either reducing levels of cover or by seeking an exemption.

Rather than allowing only an exemption to the limit for members classified as higher risk due to the members' occupation, AIST proposes that an exemption also be allowed on an "if not, why not" basis. A fund seeking to use this provision must be able to demonstrate to the code administrator that premiums exceeding the 1% earnings cap are both appropriate and affordable, and provide a demonstrated benefit to the affected cohort of members.

Some feedback was also received that Income Protection should be considered separately from the overall cap, although it unclear how this could work and how it would be structured so as to minimise impact on account erosion.

Notwithstanding the premium limits survey, there was widespread confusion about the way in which the limit would apply, and participants called for the Good Practice Guide to include detailed guidance about this. *AIST proposes that the draft Good Practice Guide be reviewed and tested to ensure that industry participants beyond the ISWG processes clearly understood and had detailed guidance about the premium limit.*

Cessation of cover

AIST supports the proposal for the cessation of insurance cover after 13 months without eligible contributions. This position was generally supported in our consultations in recognition of this being a compromise between those who sought a longer period and those who sought a shorter period.

In coming to this position, we do not see the 13 months as being an interim position or as a first step towards a necessarily shorter period. Rather, we acknowledge that the code will be reviewed after three years of operation, including in relation to the cessation of cover. Any change at that time would need to be established on an evidence basis.

A couple of participants also sought that funds be allowed to give members the option of continuing insurance cover at the point of joining notwithstanding any cessation of eligible contributions.

While there were differing views about the appropriate time frame for reinstatement of cover, the largest number of participants suggested that automatic recommencement be permitted within a period of 90 days rather than the 60 days proposed in the draft code. *AIST suggests that the ISWG give this longer period for recommencement serious consideration, while also putting in place specific mechanisms to monitor the impact of reinstatement.*

Multiple insurance cover

There was widespread support for the measures in the draft code, along with a view that there needed to be better capturing of data, and the sharing and analysis of that data. Many participants supported the extension of ATO reporting initiatives to better capture near real-time insurance data.

Member communications

It was widely and strongly felt that the Key Fact Statement should make it clearer that a person can make a claim themselves, and not presume that claimants need a lawyer (e.g. “You may not need a lawyer” comment unhelpful). *AIST recommend that the KFS be reworded to support the primary view that claimants will make and manage their own claims.*

Another common message was that more needs to be said about the implications of cover being cancelled in the proposed communications measures.

Claims handling

Participants in all consultation sessions expressed the view that the 15 business days for the trustee to review an insurer’s decision to not pay a claim. It was noted that trustees often directly reviewed these decisions on a disputed benefits committee, and put themselves ‘in the shoes of the member’. *AIST submit that trustees be given 30 business days to review an insurer’s decision not to pay a claim.*

Concerns were also widely expressed about the various one business day time requirements in the draft code. *AIST seek that each one business day requirement be amended to be by the end of the next business day after the requirement was triggered.*

Many participants also sought that the code or the Good Practice Guide provide more guidance about the alignment between insurance complaints and other complaints. It was noted that insurance complaints are sometimes co-mingled with other complaints and that it is in both the members and fund’s interests to have consistent approach to complaint management.

Vulnerable consumers

A common view expressed in the consultations was that all claimants were vulnerable consumers at the time they made a claim, and that this required the highest standards of care and service.

Notwithstanding this, it was also widely recognised that some groups (e.g. indigenous members) often had higher levels of disadvantage than others, and often suffered compounded disadvantage. This had implications beyond insurance and it was suggested that vulnerable members be flagged on their account.

Governance

There was widespread concern across all the sessions about the administrative impact of an additional level of regulation by a prescriptive code, with many participants suggesting that the code could be handed over to a regulator for them to administer.

AIST recognises and supports the need for there to be a body to administer and support the code, and calls on the membership-based industry associations to design and implement an independent industry-wide structure, including funding and enforcement arrangements, as a priority.

AIST strongly supports the code being endorsed by ASIC pursuant to RG 183, and for confirmation of ASIC's preparedness to do this to be pursued as matter of priority.

Premium refunds

Numerous participants expressed concern about the limitation of refunding only the last six years of overlapping income protection cover and suggested that a longer period would be fairer to members. *AIST recommends that all overlapping income protection premiums be refunded to the member.*

Many participants also pointed to this issue arising as a result of limited data matching, and gave this as another reason for increasing the focus of new ATO reporting initiatives on insurance reporting, including reporting as to the nature of insurance cover held.

Transition

AIST supports the widely expressed view that minor changes to policies should not precipitate a requirement to bring the whole of an existing policy into code-compliance. Trustees should be able to design and implement a careful and considered implementation plan, and not be required to transition in an inadvertent and precipitate manner.

A number of participants also suggested that code arrangements should be subject to a 'regulatory impact review' to assist cost, compliance burden, impact of each element.

For further information regarding our submission, please contact David Haynes Senior Policy Manager at 03 8677 3800 or at dhaynes@aist.asn.au .

Yours sincerely,



Eva Scheerlinck
Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$700 billion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.