

It's more complicated than it should be

By [Tom Garcia](#) | 21/09/2016

The super industry is rightly very concerned about the spate of negative stories about insurance in the media. Trustees are very aware of their obligation to act in the best interest of their members and work tirelessly to ensure the right outcomes are achieved. However, if members are not getting value from their insurance, or worse, not getting pay outs that they are entitled to, this needs to be addressed.



But there are also many thousands of untold stories of workers receiving payouts during their unexpected time of need. Without default insurance in super, these workers might otherwise have no insurance. These payments help take on some of the financial burden of not being able to work through to retirement age due to total and permanent disability, or provide support to members' families in the case of death.

The fundamental challenge is finding the right balance between ensuring the insurance offerings in superannuation are sustainable but also adequate, in terms of both price and cover.

Across the financial services sector there are a number of industry peak bodies, legal groups, consumer complaint organisations and others investigating ways to improve the member claims experience with insurance. This includes a soon-to-be-launched insurance code of practice by the Financial Services Council as well as other industry guidelines and protocols in various stages of development.

This work is critically important but there is also increasing recognition that an over-arching collective approach is what's needed to address some of the big challenges the industry currently faces. As an industry, we must work together to continuously improve our practices, consumer outcomes and overall consistency.

Insurance is a complex product, arguably even more so than superannuation. As one of the fund representatives attending a recent AIST insurance working group noted, there are a lot of moving parts to insurance, not all of them under the control of funds. In the case of many funds, the insurers are service providers to the 'claims experience'.

Educating members

One obvious area ripe for improvement is communication around insurance and managing member expectations through education. Be it from the moment a member joins a fund offering default insurance, through to a time when they may need to make a claim, there is little doubt that outcomes could be improved if members had a better understanding of the claims process and conditions of their insurance policy.

From the industry's point of view, there are also concerns about the sustainability of providing default insurance cover to fund members. This includes issues around sustainable pricing, members holding multiple policies and insurance offerings being gamed by advisers. While they are still very much in the minority, some industry commentators are now suggesting that insurance should be taken out of superannuation altogether, with concerns about rising premiums eroding retirement balances

Questions around the efficiency and sustainability of insurance in superannuation have also been raised by the Productivity Commission, which is currently reviewing the super system. The report asks if funds are offering products that meet members' needs and if the price is good enough for the level and type of cover offered.

Providing millions of Australians with access to affordable group risk insurance – and helping address Australia's under-insurance problem – is something the not-for-profit superannuation sector is rightly very proud of. In the years before compulsory superannuation was a given, many workers in high-risk occupations such as building

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and construction found it difficult, if not impossible, to qualify for life insurance with reasonable terms and conditions. Now when a builder or any other worker in a so-called high-risk occupation joins their MySuper fund, he or she automatically qualifies for the default amount of Death and TPD.

There is a very positive role for default insurance inside superannuation. It would be a great pity to see this become the exception rather than the rule.