



Investment & Financial Services Association Ltd

ACN 080 744 163

5 September 2007

Mr John Price
Acting Executive Director Regulation Directorate
Australian Securities & Investment Commission

By Email: Insurance_arrangers@asic.gov.au

Dear John

GROUP INSURANCE ARRANGEMENTS – INTERNATIONAL POOLING

Further to our meeting with Geoff McCarthy, Technical Leader Financial Services ASIC on Monday 13th August we request that ASIC consider the following points in relation to the impact that proposed relief may have on group multi-national pooling arrangements as outlined in our previous submission dated 30 July 2007.

Group multi-national pooling arrangements

Group multi-national pooling arrangements (“MPAs”) have been established for many years and provide low cost group insurance for a significant number of Australian employees, approximately, 100,000. Under these arrangements a multi-national company is able to provide life insurance cover to all employees of each nationally based company employer, by engaging a local life insurer to provide insurance to the national company via a reinsurer. The liabilities under the insurance contract are reinsured, and ultimately the premiums collected under these arrangements are pooled by the multi-national company and fund the liabilities of the multi-national pool. As with most pooled insurance arrangements, premiums are reserved to fund future liabilities, and where the pool claims experience is favourable, some portion of the premiums may be passed back to the national company participants.

As noted in our 30 July submission, under group insurance life insurance arrangements the coverage is paid for by the national company, although in some cases the costs are passed in part or full to the employee. This is also the case with MPAs.

Benefits

More generous underwriting terms, reduced premium rates, and enhanced terms and conditions compared to standard group insurance policies are available to an insured person under an MPA. This is due to the overall size of the pool and the homogenous nature of the insured group.

By way of comparison, we consider that if a MPA were to move into a standard group policy, the premium rates would increase, and the automatic acceptance limits would decrease, by around 20%.

Impact of the proposed conditions of AFS licensing relief

It is submitted that participating MPA group purchasing bodies meet the requirements outlined by ASIC for a group deserving relief. However, MPA's may be excluded under the proposed conditions of relief as remuneration can be paid to the group purchasing body by the multi-national company.

Proposed condition 3.3

(a) Independence of the group purchasing body

We note that under point (iii) a group purchasing body may not rely upon the proposed relief where it receives any payments related to the purchase of the group policy not passed on to the persons who pay for cover.

Under an MPA, remuneration does not pass from the insurer to the group purchasing body, however under some arrangements remuneration may be received from the multi-national company. These amounts may be returned to members, or retained by the national company. Due to the nature of the pooling arrangement, we submit that these amounts are not directly attributable to any individual person who pays for cover, but rather relate to the overall experience of the worldwide claims pool.

Submission

In order to preserve MPAs we request, subject to the disclosure and participation submissions outlined below, that either:

- (i) Remuneration paid to the group purchaser be allowable within condition 3.3(a); OR
- (ii) Remuneration amounts for the purpose of distributing the profits from pooling arrangements be allowed within condition 3.3(a); OR
- (iii) MPAs be distinguished as a separate type of group purchasing body that is a body expressly allowed to receive remuneration amounts or remuneration amounts paid for the specific purpose of distributed MPA pool profits.

(b) Basic information about the product

Point (iii) of the proposed condition appears to be intended to require disclosure of amounts that are payable to persons covered. This is problematic for participants of MPAs since rebates are at the discretion of the multi-national pool and timing difficulties may arise as the amounts of the rebate are not known before a person is covered.

Submission

We propose the following:

- (i) Condition 3.3(b)(iii) be amended to require the body to disclose the existence of the rebate, and to state that the rebate amount will be disclosed to the group purchasing body upon distribution of the rebate.

- (ii) Condition 3.3(b) also note that it is a general feature of MPAs and group insurance policies that a person who does not wish to participate is able to opt out of the insurance.

(f) *Cancellation or non-renewal of cover*

The requirement that the insurer would need to notify each insured life under a group policy of the cancellation of that policy is a major disincentive for all group insurance arrangements including MPAs. As noted in our earlier submission, under group insurance arrangements, insurers are able to offer consumers lower premiums and reduced or nil underwriting requirements for the following reasons:

- The risk is spread over large groups;
- Premiums are pooled to fund liabilities;
- Automatic coverage for all group members reduces anti-selection as well as underwriting costs; and
- The insurer incurs significantly lower administrative costs by dealing with the group purchaser rather than the individual insured persons.

Presently, insurers are unable to comply with any requirement that they notify each insured person of cancellation or non-renewal as they do not have sufficient contact details to provide them with such notice.

This condition will significantly impact the administrative costs and in turn the premium rates available to consumers under the group insurance arrangements and MPAs, as such a requirements would require alteration of administrative systems as well as increased resources to adequately fulfil these obligations.

Submission

We submit that condition 3.3(f) is unworkable in its current form, as it undermines a fundamental premise of low cost group insurance arrangements – administrative cost savings being passed on the consumer. We recognise the need to adequately inform insured persons of cancellations or non-renewals, and we propose the following:

- (i) Up-front disclosure via the requirement to provide basic information about the product (condition 3.3(b)) of the consequences of cancellation or non-renewal by the group purchaser;
- (ii) Up-front disclosure via the requirement to provide basic information about the product (condition 3.3(b)) of any group insurance policy provisions that provide insured persons with the right to request individual insurance cover (continuation options) after termination of the group policy.

Concluding comments

Thank you for this opportunity to provide further clarification on the impact of the propose relief upon this important segment of the Group Risk market.

We have concerns that the proposal in its current form will have a detrimental effect on MPAs and the group insurance market, creating immediate compliance costs if the current policies are wound up, as well as having overall impacts upon the consumer by reducing market choice, increasing the overall cost of group insurance

and decreasing competition between the 5 or so MPAs available to Australian employers and their Australian insurers.

Should you have any questions in relation to this submission, please do not hesitate to contact me or David Micó on (02) 9299 3022.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richard Gilbert', is positioned to the left of a vertical red line.

Richard Gilbert
Chief Executive Officer