Wednesday 12 April 2017

To the Project Managers Office
The Insurance in Superannuation Working Group

By e-mail: ISWG-PMO@kpmg.com.au

Dear Sir/Madam

ANZ response to Discussion Paper: Account balance erosion due to insurance premiums

ANZ welcomes the Discussion Paper in relation to "Account balance erosion due to insurance premiums". We support industry initiative to address inappropriate erosion of account balance due to insurance premiums and appreciate the opportunity to provide comments.

Attached are our answers to the questions raised in the Discussion Paper. Our views on account erosion may be summarised as follows:

- We would caution against 'hard limits' such as a percentage of account balance or contributions as this could have unintended consequences for some members. In many cases the trustee will not have enough information to know whether the member has taken an active decision in relation to their insurance. In addition, these could be complex to administer and could give rise to unintended consequences for some members.

- We agree that trustees need to actively consider and assess how they match the level of automatic insurance to member demographics / cohorts, and should not just provide the same level of cover to all members. ANZ has developed a life stage approach to levels of insurance cover, which provides members with higher levels of cover at times in their life when they are likely to have higher financial commitments.

- We support better disclosure to members to support them in making informed decisions.

- We believe there is a need to clarify the boundaries in relation to personal vs general advice so that trustees are better able to assist members in making informed choices.

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We note that a number of the proposals could have significant implementation implications for trustees, and would request that appropriate transition time be provided to allow trustees and their insurers to implement the new requirements.

Please do not hesitate to contact myself or Li Chang at 02 8937 7738 if you require any further assistance.

Yours sincerely

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Insurance in Superannuation Working Group

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	Questions	Answers
	Establish design principle to be adhered to when determining automatic cover and affordable premium levels.	
1	Do you support the development of guidance on the determination of appropriate cover levels? If not, why not?	Yes, ANZ supports the development of guidance that takes into account customers' individual circumstances and preferences.
2	a. What should be the trade-off between prescription and flexibility in this guidance? b. Should the guidance be tailored to certain cohorts (particularly age)? c. What flexibility is needed to cater for different demographics e.g. members who have employment patterns?	a. Our preference is for flexibility that adopts a principles based approach with Trustees retaining responsibility for determining the level and types of cover that best meet the needs of their membership. b. Yes. We are happy for guidance to be tailored. c. Guidance has to be flexible to cater for different demographics.
3	What would be the consequences of just applying to new members as opposed to existing members?	Applying to new members only could require significant additional operational capacity from a fund perspective to keep track of all the new and existing customers and their policy variations. However, it may be less disruptive to existing members. Were cover levels to be mandated for existing fund members, significant issues would arise (potentially catastrophic) as insurers have set premium rates based on the membership data that was provided for pricing purposes. In many cases, there is a level of cross-subsidisation in the premium rates where older member's premiums are subsidised by younger members (for example), so where younger members were to have significant cover reductions, premiums would be inadequate to cover the actual claims costs of older members. This would result in significant financial implications for insurers and in the short term significant increases in costs for older members as claims costs would remain static for members in the

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		older cohort whereas in the younger cohorts, less premiums would be payable meaning that there were less funds available to cover the claims costs of older members.
4	What would be the impact in terms of cost for funds/insurers in using principle-based guidance?	Principles based guidance is more flexible and could allow for a less disruptive outcome for members compared to a prescriptive approach. Principles can assist trustees when considering members' best interest. Principles should address what trustees should consider as well as issues that trustees should not consider in their deliberations in terms of setting an appropriate design in respect of their members.
5	If there was a focus on individual cohorts – are young and older Australians the appropriate grouping?	It depends on the member demographics of the superannuation fund. There could be other more relevant cohorts such as "occupations" or change in employment status in particular where there is corresponding cessation of contributions. However, ANZ believes that age is an appropriate starting point.
6	Are the age banding correct? Alternatively, should Young =<21 and Older=> 60?	ANZ believes that instead of looking at two age groups only Life-stage insurance structure could be a better solution. For example, 10-year band model or cohorts based on year of birth would be more appropriate.
7	Are there any other considerations that should be called out?	We would suggest 2 additional cohorts: 1. Occupational segments cohort 2. High risk cohort
	Define 'inappropriately erode'.	
8	Do you have a view as to what the definition should be or should reference?	ANZ believes that premiums that "inappropriately erode" should be defined to mean premiums deducted that relate to an insurance

	Questions	Answers
		cover that is no longer needed or appropriate for the member.
9	What definition or interpretation are you currently employing in your fund(s)?	ANZ believes that 'inappropriately erode' definition is a subject to individual circumstances. When determining the premium we use the following method of assessment in our due diligent process: 1. The premium guarantee period offered by the insurer is considered acceptable by the Trustee. 2. The premiums are considered reasonable for the kind and type of insurance requested by the Trustee, with consideration to the appropriateness of cover levels and ages, sustainability and account balance thresholds.
10	Are there specific cohorts of members that need to be considered in a definition? Why?	Yes. Cohorts of members should be a matter for the superfund trustee to consider. These may be based on age, gender, and occupational categorisation. Setting a dollar cap on premiums would place many members at a disadvantaged as the cover available for $X per week varies markedly between, for example, occupational segments. A fund comprising mainly of underground miners may be able to purchase less death and TPD cover for a dollar than a fund comprising mainly of white collar workers. Our view is that guidance as to appropriate cover levels based on age be provided to trustees. The guidance would likely provide lower levels of cover for younger/older members and higher cover for members in the middle age group where debt is likely to be highest. It may also be appropriate to provide more TPD cover than death cover for the youn
	Establish overarching prescribed maximum premium levels for automatic insurance coverage.	
11	Should maximum threshold be prescribed?	No. We do not support a prescriptive approach. It should be a matter for the trustee and applying any appropriate guidance or

	Questions	Answers
		principles.
12	How frequently should the assessment of maximum thresholds by a fund be made? Annually? Upon the expiry of premium guarantee periods? Every three years? Whenever prices or automatic insurance levels are changed?	The frequency should be a matter for the trustees acting in members' best interest. However, guidance could suggest for trustee to determine a policy for frequency under the super fund's insurance strategy.
13	Should there be one set of maximums or should they differ between different occupational/ age groups?	Guidance could establish suggested maximums between different cohorts. But ultimately, appropriate premium levels should be a matter for the trustee and should be based on fund data.
	Establish an industry standard for cessation of automatic cover to low contributions, contributions inactivity and low account balances.	
14	Should a Code prescribe cover cessation thresholds?	ANZ does not support prescribing a dollar amount for the cessation of insurance. The availability of insurance to members should not be dependent upon how rich or poor a member is, nor should it be contingent upon a point in time in their membership lifecycle (i.e. new members to the system will always start with low balances). Younger members can be afflicted by illness, injury, or death and so require insurance cover in the same manner as older members (albeit at lesser amounts)
15	Do you have a view as to what the thresholds should be?	Insurance cessation should occur: • when there is insufficient funds in an account to deduct a premium; • when a balance falls below a low level (say $1500 – the older member protection threshold); or • when there have been no contributions for a considerable period, such as 13 months.

	Questions	Answers
16	Should there be one set of thresholds or should there be a small number allowing for different occupational/ age groups?	Insurance cessation should be a matter for the individual member where they wish to cancel it. Better ATO data could be used to enhance member decision and allow members to exercise discretion to remove cover as appropriate.
17	What maximum period of inactivity is most suitable to commence communicating with inactive members – 3 months, 6 months or 12 months, other?	We suggest 12 to 13 months, because it aligns with super funds' annual statement requirement plus a small margin for error. 'Inactivity' must be clearly defined so members are clear as to when cover stops and so that funds are clear when to turn it off.
18	Unless members have elected to retain their cover, should all policies include a mandatory cessation clause if there is an extended period of contribution inactivity? Why?	It is difficult to ascertain at a fund level which members have opted to retain cover and which have not unless funds are required to flag in a member record that a positive action on the part of the member has occurred whereby they have advised the fund that they wish to retain their cover. Many members choose their superannuation fund as the preferred vehicle for holding their life cover and in a lot of cases, members have chosen to hold insurance within super on advice from a financial adviser which they have paid for.
19	What maximum period of inactivity is most suitable to stop cover if they do not respond to earlier communication – 6 months, 12 months or 2 years, other?	We propose 13 months where there have been no employer contributions received by the fund.
20	Should a mandatory cessation clause only apply to income protection cover, to mitigate against the impact of income offsets?	No, see also answer to item 15 above..
21	What flexibility is needed to cater to different demographics e.g. members who have casual employment patterns?	The guidance could provide factors to consider when designing insurance cover of funds that operate in industries with a large number of casual workers. As per previous comments, it is the Trustees who best know their own members and as such, we are

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		of the view that it is appropriate that Trustees be the ultimate decision maker as to what insurance cover is best for their members (with suitable guidance provided as to what to consider/not consider).
	Establish an industry standard for recommencement of cover.	
22	Are there any other approaches to deal with this issue?	An industry standard should be developed to deal with recommencement of cover. That standard needs to strike a balance between ensuring that members have appropriate cover, but also, that insurers are not subject to anti-selection which could occur if members were able to turn insurance cover on (following a prior cessation event) when they became ill.
23	Is this able to be administered?	Subject to a working group being established to set rules which address the point raised in the previous section, we believe that this would be administrable.
24	What are the risk controls/insurance risk implications of the above?	The risk for members would be periods where cover is not provided, particularly for workers with broken work patterns. The risk for insurers is that members would turn cover back on by (for example) making a contribution when they were diagnosed with a condition that would result in a claimable event. Allowing this would lead to significant premium increases for all members as claims costs would become unsustainable and members who otherwise failed to manage their own insurance, or who chose not to pay premiums for years when they were in good health, would be able to obtain insurance cover when they became sick. The alternatives are to provide New Events Only cover or to require members to be underwritten at the point that they receive a contribution from the same or from a new employer.
25	What administration issues are likely with these proposals?	Industry wide rules would make it easier for Trustees to reinstate

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		cover for members where it had ceased as a result of some trigger event such as no contributions for x months. At present different funds have different rules and where cover recommencement is subject to underwriting, process breakdowns occur.
Formalise protocols between insurers for the treatment of claims against multiple income protection policies.		
26	How will this improve a mem bers experience when making claims?	The end experience would depend on which option is chosen. If member's cover recommences automatically but subject to a new events/PEC clause, members in many cases will not be covered as their claimed condition would likely be subject to the exclusion. If members were underwritten and accepted, all conditions would be covered (except where an insurer applied individual exclusions). If members were automatically reinstated with full cover, they would be able to claim however premiums would increase for all members as the premium pool would be diminished as it would not include significant periods of time where the member held no cover due to a cessation event occurring. A balance needs to be struck between preventing anti-selection and ease of reinstatement of meaningful cover.
27	What else should the protocols consider?	Duplicate cover types held in other funds. For example if Death and Total Permanent Disbility cover is held in another fund the protocols could assume that that cover is the member's default cover and thus no reinstatement applies as the member had failed to act on communications sent by the fund previously. In such cases, the industry standard for reinstatement would not apply. Premium impacts on wider membership base. Potential abuse of the ability to reinstate cover by members,

Questions	Answers
	advisers, or lawyers.
Industry standards for refunding premium if benefits are reduced for claims made against multiple income protection policies.	
28 Should refunds only extend to income protection cover acquired automatically in superannuation or also include income protection cover acquired through member directed action e.g. through an adviser or direct from the insurer, or through industrial agreements? Why?	This is a difficult issue to address as multiple income protection (IP) covers held by a single member will vary greatly and respond in different ways. From a member's perspective, refunds should apply in a way that removes cover without any unintended adverse impacts, and where the member understands the risks, exposures and costs. While this is a good principle to uphold, it is difficult to guarantee in practice and may require refund to apply where the member actively requests one. Moreover, the calculation of the refund that is fair between insurers and fund members can also be difficult to ascertain. We provide a few examples below to illustrate. All contracts generally apply offsets where a member is insured for >75% of their salary, this does not mean that one IP policy is better than the other. For example, if a member has 2 IP covers in 2 funds each covering 75% of salary, but one is a (A) To Age 65 benefit period 90 day waiting period policy with 5% annual escalation and the other is a (B) 2 year accident and sickness policy with a 30 day waiting period and no escalation factor, each policy will respond in a different way depending on what the illness or injury of the member is. If the member is off work for 3 months with a broken leg, then policy B is better as the member would receive 2 months benefit whereas under policy A he or she would receive nothing. If the member had a long term illness such as multiple sclerosis (MS), Policy A is by far the better policy as the member would receive benefits till retirement (or earlier death or return to work) after a 3 month waiting period. The benefits would also keep pace with CPI. In the case of the MS claimant policy B would run out

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		after 24 months' benefits had been paid and although payments were made earlier due to the shorter waiting period, the limitation of the length of the benefit period is clearly detrimental in this example. The difference in cost between the two policies reflects the insurer's liability. Shorter waiting periods cost more, as do longer benefit periods. Like a car insurance policy, the higher the excess, the lower the premium and the waiting period is akin to an excess in that it removes liability for short term claims with the responsibility for these claims resting with the member.
29	How would insurers of these other policies be covered by industry standards?	The protocol should set out the circumstances where refunds would apply. This should be done on a prospective basis.
30	Should there be a maximum refund period, e.g. last 2 years of premiums? If so, should this period be aligned with any proposed contribution inactivity period before stopping cover?	Yes a maximum backdating period should apply. This should be no more than two years as members are advised at least annually by the funds that they hold multiple covers.
31	What administration impact will this create for superannuation funds and insurers?	Administration of refunds will be time consuming and difficult as each claim for a refund will need to be considered against an agreed matrix. Refunds may also adversely impact premium rates as insurers priced each risk based on the number of members for whom the trustee of each fund asked be covered. Where there are significant reductions in premium and a corresponding significant reduction in claims is not evident, then the overall claims cost will be spread across all members.
32	How would this be applicable to existing automatic IP policies, noting that these may extend back from many years?	The new protocols should apply to members who proactively seek a refund from their fund as funds have no way of knowing which members have multiple covers for IP across funds. The onus of providing all relevant data (to be agreed) should rest with the member and be submitted to the trustee and insurer for

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		assessment and liaison with the other insurers and funds that have provided duplicate cover. Refunds should not be able to be claimed more than two year prior to the date of receipt of an individual claim. Further, there should be a two year transition to the new arrangement. In addition, as premiums have been deducted from member's superannuation accounts, any refund by one fund/insurer should only be able to be credited to the account where the member's preferred cover is held and not taken as cash by the member. Any refunds need to be preserved within the super environment. Taxation and stamp duty issues (already paid by the insurer and unlikely to be refunded by the OSR unless government relief is provided) will also need to be addressed.
33	Is a transaction period needed, and if so, how long?	If this is meant to say 'transition' period, I would recommend 2 years from the date of agreement of the industry protocols.
	Encourage and help members to make informed decision about their insurance cover	
34	What could industry do to better promote and encourage members to consider their insurance?	This question is better considered under the member engagement stream of the ISWG work. However, better disclosure should be a good starting point.
35	What improvements are needed to the ATO's 'check your super' service?	The ATO needs to be proactive and advise members with multiple accounts of the detriment they are suffering from having more than one account or multiple insurance covers. Funds have adequately communicated for many years yet the fact remains that members do not read information sent to them by their super funds. Were letters to be issued by the ATO, we are of the view that many more members would read the correspondence and heed the call to action.

	Questions	Answers
36	What protocols should funds adopt to proactively identify instances where members have accumulated multiple instances of the automatic insurance cover?	The best way to address it is by using ATO data to understand the customer's individual circumstances. They should then write to members as per the previous paragraph. Details of members with multiple accounts and multiple insurance covers is already held by the ATO and the responsibility of alerting members to the detriment of multiple accounts can only rest with that government body as individual funds are unaware of what other funds/insurances are held by individual members.
37	What communication protocol should superannuation funds adopt once they have identified members with multiple instances of insurance cover?	The action should depend on what point the multiple covers are identified. Where this occurs on joining, then members should be given the opportunity to consolidate their insurance and fund balance to the fund. This would occur via a transfer term protocol. Where Trustees ascertain at any other point that a member has multiple insurance accounts, they should alert the member to this fact and issue a call to action. Mandating' of cover removal will expose the Trustee to legal actions for lost cover. Our preference is that the Trustee communicates with members to alert them to any issues and that the decision to do or not do something remains with the member. This would be best supplemented by the proposed ATO communications outlined above.
	Leverage SuperStream, Single Touch Payroll and the ATO's superannuation account database to encourage members to make informed decision about their insurance cover	
38	Is the proposed timeframe in which employers must notify superannuation funds reasonable? Why?	Employers should notify funds of an employee's termination. Many already do. Members would benefit from this arrangement as super funds could communicate any continuation option, which often only apply for 60 days after the termination of employment. The ATO is aware when new accounts are created so perhaps this could also be an ongoing trigger for the ATO to communicate with

	Questions	Answers
		the member about the detriments of multiple accounts.
39	What flexibility is required for irregular work patterns, e.g. casual employment, to avoid unnecessary reporting?	See above.
40	Should superannuation funds be required to communicate with members once they become aware that employment has terminated?	Super funds need to communicate with the member where the termination of employment has implications such as continuation options.
41	Should Single Touch Payroll be extended to provide a real time view of existing accounts and insurance and allow members to consolidate their existing accounts?	Yes. We understand the ATO is already driving this initiative. Member consolidation should be encouraged in an environment of informed decision to prevent inappropriate decision.
42	Are there any other initiatives that could be extended to identify members with multiple instances of automatic insurance cover?	Members should be encouraged to seek appropriate advice.
43	What else can be done to increase visibility and usage of myGov by members?	No further comment.
44	Should the ATO communicate with members or with the member's superannuation funds when it identifies that multiple accounts have been established?	ATO should communicate with both members and super funds to inform members and funds about multiple accounts.
45	How could annual tax related activities, such as myTax and tax assessment notices, be leveraged to raise awareness of a member's multiple accounts?	These activities could draw attention to members about where to access information about their multiple superannuation accounts.
46	What protocols should be established to allow superannuation funds to use SuperMatch without member consent (subject to enabling legislation/regulation) for the purpose of identifying existing insurance cover and communicating with members?	We support funds being able to leverage Super Match information to the extent that this can help the fund to understand the member's broader position and therefore tailor communications to members appropriately.

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	Questions	Answers
	Regulatory guidance on the provision of general advice by superannuation funds help members make informed decision	
47	To what extend does the current regulatory environment support superannuation fund's efforts to help members make informed decision about consolidation?	At present there are limitations on the trustee's ability to understand the member's situation across the industry to tailor communications to members accordingly.
48	What complexity with regulatory guidance prevent superannuation funds from providing general advice because of concerns that it may be deemed personal advice?	The boundaries between personal and general advice remain complex and ambiguous. We believe there is a need for this to be clarified so that trustees are better able to assist members in making informed decisions.
	General questions	
49	How effective will the proposed solutions be?	The policy outcome should be that no members should have inappropriate cover inside superannuation. There should be appropriate benchmarks for any proposed solution to assess a successful policy.
50	Are there any other solutions?	We understand that the Productivity Commission has proposed the solution that new workers who do not yet have a superannuation account should only ever get one default super account. While a good idea in principle, it does raise the question of whether or not a super product at the start of a worker's career journey is necessarily appropriate over the life of the member's work life.
51	What flexibility should be given to existing benefits?	We believe that the current arrangement is appropriate where default benefits may be supplemented by individual tailoring arrangement by the member opting into insurance top up.
52	What timeframe should be given to transition with this new requirement?	A transition timeframe should be appropriate to the complexity of the changes required. A rule of thumb would be that between 12 and 24 months would be appropriate.

	Questions	Answers
53	What challenges would you have with altering your benefit design?	Any alteration of benefit design that is subject to trustee fiduciary duty to ensure that members are better off overall. This could add to the sustainability of the group cover from an insurer perspective and potentially placing upward pressure on premiums for all members over time.
54	What are the potential unintended consequences?	We should avoid any unintended consequences that might result in the inadvertent extinguishment of insurance cover that is appropriate for the member.