ABN 75 004 274 882 AFSL No 238096
Level 9, 2 Park Street
GPO Box 4528
Sydney NSW 2001
1300 555 625

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Mr Jim Minto
Chair of Governance Board
Insurance in Working Group
Via email ISWG-PMO@kpmg.com.au

Dear Jim

MetLIfe response to ISWG Discussion Paper on Account Balance Erosion due to Insurance Premium

MetLife welcomes the establishment of the Insurance in Superannuation Working Group (ISWG) and the issue of Discussion Paper: Account balance Erosion due to Insurance Premiums.

The attachment to this letter contains MetLife's responses to what we regard as the key issues raised by the Discussion Paper. We have not sought to address every consultation question, however, where our comments do relate to a consultation question we have cross-referenced it.

The principles developed in a code of practice or guidance for trustees should be underpinned by considerations of:

- Fairness – treating insureds with fairness during all parts of the insurance lifecycle and across all sectors of the industry;
- Transparency – providing members with clear and timely communication;
- Efficiency –seeking ways to make insurance processes easier and quicker for members through collaboration between trustees, insurers and administrators; and
- Sustainability – the long term availability of insurance that is appropriately priced.

With these aims in mind, our submission covers three main areas:

- Ensuring that trustees have sufficient flexibility in relation setting maximum cover amounts;
- Modelling cessation rules to suit different benefit types; and
- Expanding the definition of 'automatic insurance member.

We have also suggested two more topics that may be considered for the next stage of work.

We look forward to further dialogue on these significant issues.

Yours sincerely

Deanne Stewart
Chief Executive Officer

Attachment: MetLife Submissions Account balance erosion due to insurance premiums

Establish design principles to be adhered to when determining automatic cover and affordable premium levels

MetLife supports the principle of providing guidance to trustees in relation to determining automatic cover. [1] This guidance should however provide trustees with sufficient flexibility to determine the right level of cover for their members[2] because:

- Trustees need to retain their discretion to set insurance cover at the right levels having regard to the unique characteristics of their fund;
- Overly prescriptive guidance will stifle competition and innovation in the market.

We agree that a key factor to take into account is different cover for different age groups and the suggested aged bands of 21 years and younger and 60 years and older are appropriate[3].

Establish overarching prescribed maximum premium levels for automatic insurance coverage

We agree with the principle that trustees need to balance the need for insurance with the need to save for retirement and that guidance should be provided in relation to premium levels[4]. The guidance should be sufficiently flexible to allow trustees the ability to craft insurance solutions that are appropriate for their membership, and for different cohorts within their membership.

Guidance regarding maximum premium levels should be multi-faceted. For example, a guideline could provide that insurance premiums not exceed 25% of contributions or account balance, but this would need to be flexible in order to cater for people who have been in the workforce for a relatively short period.

We would caution against using percentage of projected retirement income as a measure, as it is overly complex and subject to assumptions that may prove to be incorrect and which are variable from fund to fund (for example projected rate of return).

Establish an industry standard for cessation of automatic over due to low contributions, contributions inactivity or low account balances.

While we recognise that erosion of retirement savings is a key issue, this needs to be balanced against members' insurance needs at different lifestyle periods. We agree with the proposal that there be industry guidance in relation to cessation, but this should be subject to the following principles:

- The guidance should focus on income protection, as multiple income protection accounts are more problematic than multiple lump sum accounts, due to set-off rules; [5];

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[1] Question 1
[2] Question 2
[3] Questions 5 and 6
[4] Question 11
[5] Question 20

- The period of inactivity should be greater than 12 months. We propose a minimum of 13months. This is because some employers do not make timely superannuation guarantee contributions each quarter, and this would also cater for members who are on parental leave or other types of unpaid leave[6];

- Each member (or their family) is entitled to claim multiple lump sum benefits as eligibility is generally not limited by cover though another fund. Lump sum insurance is often for significant amounts, which can have a transforming effect on the lives of people who claim. Cessation of lump sum cover, potentially after years of premium collection, is problematic. Therefore cessation of cover for lump sum benefits should only occur in very limited situations. For example, if the member's account balance has dropped below a certain threshold and there is no contribution activity for 13 months. For administrative simplicity, the threshold could be aligned to the level used for lost members' accounts (currently $6000) however each fund could set the amount based on their own demographics and average account balance.

- As the cessation of insurance cover can have serious consequences, there should be at least three documented attempts to contact the member, preferably across different types of communication channels. Where contact details are clearly incorrect (eg returned mail), there should be a documented attempt to obtain updated details for the member.

Remove legislative minimum cover amounts

The discussion paper recommends that industry seek the removal of the current prescribed minimum levels for MySuper products.

The current minimum levels of insurance are lower than those generally offered by superannuation trustees, so these are not a primary driver of account erosion. In addition, we would caution against removal of the minimum requirements to provide lump sum insurance, as this may lead to certain higher risk cohorts becoming uninsured. However, we would support a proposal that leads to greater flexibility, such as taking into account the needs of different age groups when setting the cover amounts or whether a particular group may have insurance via their employer. This could for be achieved by amending the age ranges that are currently set out in the Schedule to the Superannuation Guarantee Administration Regulations so that death cover commences from age 25 years (rather than 20 years).

The definition of 'automatic insurance member'

The guidance ultimately provided to trustees in relation to erosion of account balances should be designed to capture as many members as possible who receive automatic insurance cover, across different types of fund.

An "automatic insurance member" is currently defined as a member who "when joining a superannuation fund insurance is issued under an automatic acceptance limit". This is subject to some exceptions, including if "they make an application for cover including through choice of fund". We believe that this definition could have the unintended consequence that the proposals outlined in the Discussion Paper would not benefit members who have made no purchasing decision in relation to insurance, but may be technically defined as having exercised choice of fund or not being default members.

[6] Question 19

Members who have chosen or altered their investment options[7], and members who have nominated a fund for payment of their superannuation contributions[8], are treated by the industry as 'choice' members, even though they may have made no purchasing decision in relation to insurance. In some instances, trustees have unilaterally applied insurance cover on an opt-out basis to choice members years after the member has joined the fund.

We recommend that the definition of "automatic insurance member" be changed as follows:

- define "automatic acceptance limit" to include all members who are provided with insurance cover as a condition of them becoming a member of their fund, unless they opt-out;
- Delete the words "through choice of fund", or clarify that these words do not mean that merely selecting a fund without making any insurance selection would exclude the member from being an "automatic insurance member".

Other areas for consideration

There are two other potential areas that the ISWG could consider in developing a code or guidance.

In order to facilitate consolidation of accounts, the industry should consider putting in place standard protocols for the transfer of insurance from one fund to another as this will assist with reducing instances of multiple insurance covers.

The industry should also consider consultation with general insurers who provide income protection benefits to superannuation funds, possible via the Insurance Council of Australia, in relation to participation in the proposed Code of Practice.

[7] See s20B of the Superannuation (Industry) Supervision Act 1993
[8] See s 32C of the Superannuation Guarantee (Administration) Act 1992