RGA

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Submission on the Protecting Your Super Package Consultation

Thank you for the opportunity to provide feedback on the Protecting Your Super Package (PYSP) announced on 8 May 2018.

RGA Australia (RGAA) is part of Reinsurance Group of America, Incorporated – one of the largest global life and health reinsurance companies. In Australia, RGAA provides life reinsurance services to all of the major life insurers across both retail insurance and group superannuation insurance.

Life insurance within superannuation has been very successful at reducing the level of underinsurance in the Australian working population. For example, $6.4b[1] of death and disability claim payments were paid to superannuation fund members in 2017 alone, significantly reducing the economic strain on thousands of members and also the impost on the public sector services and finances.

It has achieved this at a low cost due to the efficient risk pools created by the default nature of cover and through the comparatively very low administration and distribution costs.

RGAA supports automatic consolidation below a $6,000 account balance threshold.

Account consolidation should be the focus of the PYSP legislative changes as this will have the largest beneficial impact on future retirement savings. Consolidation is the key to addressing the issues related to excess fees and insurance cover. It will lead to a reduction in overall insurance cover (meaning lower insurance premiums and claims for the insurance industry) – but that will reflect the removal of multiple default insurance covers held by individuals, which in some cases are not wanted.

PYSP proposals will greatly reduce the financial support available to working Australians who die or become disabled

The PYSP has had very little consultation and so the industry has not had an opportunity to identify and assess all of the impacts of the package. Nevertheless, the reduction in insurance coverage is likely to be very significant, both at implementation and subsequently.

[1] APRA Annual Superannuation Bulletin June 2017

For example, RGAA has assessed that PYSP proposals[2] will lead to a 40% to 50% reduction in insurance claim payments to members for one major superannuation fund. This is a further decrease over the reduction the industry has already committed to under the recently developed voluntary code of practice.

Such a large reduction in life insurance benefits will cause financial strain for claimants and their families. It will likely lead to additional financial hardship and an increased call upon government support.

PYSP proposals will increase the underinsurance gap and increase costs for remaining insured members

Removing cover from existing insured customers, without their explicit agreement, needs to be treated with great care. It will lead to some members having less insurance than they expected (or even no insurance), which they may only identify at the time they need it most.

Under the draft legislation, the PSYP proposals will automatically remove cover from members who have previously actively requested cover within superannuation. That is unless those members specifically reelect to maintain their insurance cover going forward.

The removal of cover from new members prior to an account balance reaching $6,000 means that many members will remain uninsured for longer. This will particularly impact members who work part-time, are lower paid or take maternity leave. These members benefit most from the lower cost default cover and relatively have the most to lose from the proposals.

At the same time it will likely increase premiums for members who retain insurance cover, due to anti-selection from members who “opt-in” and (in some cases) because of changes to existing premium cross subsidies between different membership categories.

The PYSP proposals for insurance cover, beyond those arising from account consolidation, should not be implemented.

Insurance in Superannuation Code of Practice will address the remaining issues

The Insurance in Superannuation Working Group released the Insurance in Superannuation Voluntary Code of Practice (the Code) in December 2017. This was developed after consultation from a wide variety of stakeholders. A large number of super funds (in excess of 60 as of 25 May 2018) have stated that they intend to comply with the requirements of the Code. These requirements already address the remaining issues in the PYSP, specifically:

- Affordability of insurance cover;
- Cancellation of cover on inactive accounts; and
- Appropriate levels of cover for younger members.

Thus, RGAA believes further legislative changes on these issues are unnecessary and we do not support them.

If the government is concerned with the non-mandatory status of the Code then it should look to legislate the requirements of the Code or remove the legislative barriers superannuation funds believe prevent the Code having mandatory status.

[2] Cancellation of cover for inactive accounts, members below age 25 or with balances below $6,000

Proposals lead to significant operational risk

The PYSP proposals will require nearly all superannuation fund life insurance offerings to be restructured on a very short timeline. This increases the operational risk for insurers and trustees. The industry is not resourced to undertake such pricing simultaneously. The legislative timelines (with planned implementation of 1 July 2019) may mean that trustees and insurers will need to make decisions based upon sub-optimal information which may lead to unintended outcomes.

If the PYSP proposals do proceed, despite the above strong reservations, additional time must be allowed for implementation in order to avoid undesired outcomes.

Ongoing superannuation legislative and regulatory changes reduce retirement savings and cause market inefficiencies

The continuing changes to superannuation raise the cost base for the whole industry. Some superannuation funds have looked to address this through specific regulatory account balance fees and in other cases it leads to reductions in member reserves. The additional costs arising from ongoing changes ultimately reduce member retirement savings.

Further, the PYSP has caused significant uncertainty in the group life insurance market. We are aware of at least one superannuation fund that has already deferred a planned update of its insurance arrangements due to the announcements. Other funds are likely to be forced to follow.

At the same time, life insurers cannot compete for insurance arrangements with confidence given the significant uncertainties for the outlook of this sector. Life insurers are also very likely to delay investment in the sector due to the uncertainty of the final size of each premium pool.

The superannuation and life insurance industries need a long period of legislative stability in order to reduce compliance and disruption costs and to be able to pass these savings on to members.

We are happy to discuss this feedback further.

Regards,

Mark Stewart
Managing Director