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Division Head  
Retirement Income Policy Division  
The Treasury

## **SUBMISSION – UNIVERSAL TERMS FOR INSURANCE WITHIN MYSUPER**

The Australian Prudential Regulation Authority (APRA) welcomes the opportunity to provide a submission to The Treasury consultation on universal terms for insurance within MySuper group policies. The consultation responds to Recommendation 4.13 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry that The Treasury determine, in consultation with industry, the practicability and likely pricing effects of legislating key definitions, terms and exclusions for default MySuper group life policies.

APRA's views are expressed in this letter, which sets out at a high level the principle considerations and APRA's position. In making this submission, APRA has sought to balance consideration of what would likely result in the best outcomes for superannuation members as a whole with the importance of maintaining the long-term sustainability of the life insurance industry and its ability, in turn, to deliver cost-effective insurance products to superannuation members. Ultimately, the ability of the life insurance industry to provide an appropriate level of cover, at an affordable price, over the medium-long term, is in the best interests of all MySuper members.

APRA's comments in this letter are in respect of default group life insurance policies (default policies/cover), which include cover for death and permanent incapacity (generally bundled) and temporary incapacity (referred to as income protection cover). Default policies are usually held by MySuper members, although some Choice members will maintain default cover through their MySuper product. MySuper members are generally defaulted into the insurance product at the time of joining the fund and the vast majority do not elect to increase their level of cover, and are not therefore individually underwritten. In many cases they are disengaged members who are unaware that they hold insurance cover through their superannuation.

Under the superannuation law, and subject to recently enacted amendments to the SIS Act (Protecting Your Super legislation), trustees must offer death and permanent incapacity insurance cover to MySuper members on an opt-out/default basis, and trustees may offer temporary incapacity/income protection cover on the same basis (i.e. by default). Overlaying this requirement is a specific trustee covenant – to only offer or acquire insurance of a particular kind, or at a particular level, if the cost of the insurance does not inappropriately erode the retirement income of members. Trustees must maintain an insurance strategy - a written document – which details the trustee's consideration of the type and level of insurance cover that will be provided on a default basis.

However, the superannuation law is silent on the broad objectives of default cover within superannuation and this may have contributed to the significant variation in policies across the industry. In APRA's view, insurance cover for MySuper members should be **simple, comparable and affordable**, consistent with the original objective of MySuper products.

As a result, APRA supports some degree of standardisation of key terms and conditions for default insurance, and in particular the definition of permanent incapacity. The introduction of a reasonable floor and ceiling cap on the benefit level of cover for default policies would also provide more predictable outcomes for members.

A more standardised definition of permanent incapacity would result in more consistent outcomes for claimants and easier comparability of the insurance provided under different MySuper products. Where MySuper members are engaged in their superannuation, the ability to better compare default cover may increase the likelihood that members will vary their insurance cover or seek out more suitable insurance for their needs, including potentially moving between superannuation funds to achieve this. Standardisation of the definition of permanent incapacity is also expected to have a stabilising impact on the cost of policies across the industry.

To provide flexibility, a small set of standard definitions of permanent incapacity, from which trustees could select on the basis of the needs of the particular fund's membership could be considered. Under this approach, the trustee would retain some ability to exercise a degree of control over the price of the policy, and the ultimate cost to all the members of the fund.

The mechanism for setting out the standard definitions and other parameters would require further consideration and consultation. Options would include by Regulations, APRA's prudential standards or guidance, or by inclusion in an industry code. Hard coding terms and conditions in legislation would limit the flexibility to evolve these as medical and other insurance industry features and practices, and also members needs, evolve.

Any optional definitions could not be inconsistent with the relevant condition of release contained in the SIS Regulations, but in APRA's view, it is not necessary or desirable to permit only one definition that is the same as the condition of release. The condition of release is applied to determine whether and when a member should have early access to their superannuation savings, irrespective of whether those savings include an insurance benefit payout or not. Whether the current condition of release definition is appropriate for that purpose is a matter for Government.

Placing both a floor and ceiling cap on the level of cover that can be provided under default policies would also provide for increased consistency of outcome for individual claimants, while still facilitating competition between insurers, within an appropriate range, and not purely on the basis of price.

Although there are a number of benefits of standardisation, APRA notes there are also some risks associated with too great a degree of standardisation. There are broadly three ways in which an insurer can compete and/or respond to exogenous shocks/unexpected spikes in claims. These include differentiation of the terms and conditions of policies, of the level of cover, and of the price of cover. Where the terms and conditions and level of cover is rigidly set, as is the case with compulsory third party vehicle insurance, the primary mechanism to compete generally, or to respond to an unexpected adverse claims incidence, is via price.

In the case of default (life insurance) cover, this may inhibit the trustee's ability to secure insurance cover that meets the needs of its members, based on the fund's unique demographics. Further, significant premium increases in response to adverse market conditions may not be in the best interests of the members of the fund as a whole, and may negatively impact on the trustee's ability to provide insurance cover that does not inappropriately erode the retirement income of members.

In closing, APRA notes that there will always be instances where an individual member would benefit from more tailored insurance cover than that which might be able to be provided under a typical default scheme. Those members should continue to be able to obtain individually underwritten cover at a level, and to a standard, of their choosing, while continuing to hold that cover within the superannuation savings system.

APRA would be happy to have a more detailed discussion with Treasury officials on this submission and any of the specific questions in the consultation paper. Please contact Eve Brown on (02) 9210 3374 or [eve.brown@apra.gov.au](mailto:eve.brown@apra.gov.au).

Yours sincerely,

  
Helen Rowell  
Deputy Chairman