

9 May 2019

Mr Robert Jeremenko  
Division Head Retirement Income Policy Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Via email [superannuation@treasury.gov.au](mailto:superannuation@treasury.gov.au)

Dear Mr Jeremenko

### **Universal terms for insurance within MySuper**

Thank you for the opportunity to respond to the Treasury Issues Paper (**Paper**) regarding Universal Terms for Insurance within MySuper.

MetLife Insurance Limited (**MetLife**) is a specialist provider of life insurance to affinity partners, superannuation trustees and employers in Australia. MetLife has expertise in designing and executing insurance programs for partners' customers and insurance solutions to meet the needs of specific member groups. MetLife is currently the third largest insurer in group life insurance and protects 2.6 million Australians and has been a provider of life risk insurance products in Australia since 2005.

The primary focus of our business is group life through superannuation funds.

This submission covers:

- The value of life insurance in superannuation;
- The importance of consumer research;
- The drivers of claims outcomes;
- Our views on standardisation of terms;
- Consideration on how standard terms could be implemented;
- Responses to Treasury's questions.

## **The value of life insurance in superannuation for members**

Life insurance fulfils an important purpose in our society, assisting those who are experiencing debilitating health conditions or bereavement. We believe that insurance in superannuation provides value for superannuation members. Recent data published by the Australian Prudential Regulation Authority (APRA) demonstrates that<sup>1</sup>:

- On average, 92% of finalised claims across the life insurance industry were paid in the first instance in the year to 30 June 2018;
- Group life in superannuation had slightly higher claims acceptance rates than claims outside of superannuation in the same period;
- On average, 78% of claims were finalised within 2 months and 92% were finalised within 6 months;
- Across the industry, approximately \$10 billion was paid for death, TPD, trauma and income protection claims; and
- the claims ratio, meaning the proportion of claims to premium paid, for insurance in superannuation, was over 80%<sup>2</sup>.

## **The importance of consumer research**

While the results highlighted above show that insurance in super represents good value for members, there is a lot more work to be done to improve members' awareness and understanding of insurance in super.

In 2017, MetLife conducted consumer research into members' understanding of engagement with insurance in super. This research involved quantitative surveys of more than 1500 members and qualitative in-depth interviews with consumers.

The key findings of this research were<sup>3</sup>:

- over 74% of Australians were aware of insurance in super;
- there are however significant segments of the population who do not know they have insurance within their super, know little about the cost or benefits it can bring, and are unaware if the insurance they hold is adequate for their needs;
- about 71% of people review their insurance only when they review their super.

This research shows that there needs to be greater efforts by both industry and government to improve financial literacy and members' engagement with superannuation and insurance within it.

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<sup>1</sup> APRA, *Statistics: Life Insurance Claims and Disputes*, June 18, issued March 2019

<sup>2</sup> APRA Quarterly Life Insurance Statistics, December 18, issued February 2019

<sup>3</sup> MetLife 2017 Insurance in Super Research Report

If terms are to be standardised in insurance in super, this should have the primary purpose of improving consumer understanding. Reforms in relation to standardisation of terms should therefore be based on clear evidence from well-designed consumer research on what terms a member may have challenges in understanding and how standardisation could address those challenges.

Recommendation: MetLife recommends that consumer research be undertaken to better understand the challenges that consumers have in understanding current insurance terms.

### **Drivers of claims outcomes for consumers**

In the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Sector (**Hayne Report**), Commissioner Hayne commented that:

“Key definitions, terms and exclusion clauses are central to the rights of an insured under a policy of insurance. They are the machinery that, when triggered, will require payment to be made by an insurer to an insured.<sup>4</sup>”

The Hayne Report therefore emphasises the importance of key definitions and other clauses in determining claims outcomes. As noted above, across the industry, approximately 92% of claims are paid. While there is variation based on the benefit type, for example, acceptance rates for death claims are higher than for TPD claims<sup>5</sup>, the outcomes are fairly consistent across time periods and companies.

We therefore query the assumption in the Hayne Report that subtle differences in the drafting of definitions and other terms is the predominant factor in determining claims outcomes.

In our view, while definitions are an important factor, there are other drivers of claims outcomes for consumers, which include:

- the claims philosophy of the insurer – the claims philosophy of the insurer will guide the approach of claims assessors in relation to fairness and due process;
- the quality of the claims systems and processes – this encompasses policies and procedures, quality assurance of claims decisions, recruitment and performance management practices, training and development, reporting and incident escalation, and review processes for denied and disputed claims. The quality and robustness of these systems is a significant contributor to consistent and fair consumer outcomes; and
- culture and leadership – the type of culture fostered by the company’s leadership, particularly its culture in relation to prioritising the interests of customers, is arguably the most significant factor in driving consumer outcomes. This factor was also highlighted by the Hayne Report.

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<sup>4</sup> Hayne Report p 322

<sup>5</sup> Some of the reasons for this are discussed below

While the claims philosophy needs to emphasise that all legitimate claims must be paid, it is also important to bear in mind that some claims have to be denied where a member is not entitled to a benefit in order to manage claims experience risks and keep costs down for the pool of insureds.

### **Standardisation of insurance terms**

In MetLife's view, superannuation trustees should have flexibility to adapt insurance benefit design to suit the demographics and insurance needs of their membership. Flexibility in benefit design also encourages competition and innovation. Trustees are expected to, and need to be allowed to, consider the membership profile of the fund and design an insurance strategy and product that is suitable for their membership. They should also have the flexibility to consider differences in profile between different cohorts of members, based on age, gender and occupational profile, and design insurance tailored to those cohorts.

While there may be benefit in standardising some of the key definitions in insurance terms to aid consumer understanding, trustees should continue to have the discretion to determine the types and amounts of benefits offered to aid the ability to enhance insurance terms and truly tailor insurance offerings. Reducing the ability to innovate and offer improved or innovative terms to members will result in increasingly price-driven selection processes, which can impact on the sustainability of the insurance market over time.

Recent commentary has focused on the cost of insurance and the effect that premiums can have on retirement balances. Overly standardised definitions would remove a key lever that trustees can use to reduce the cost of premiums and the potential for account erosion.

Recommendation: While standardisation of the main elements of definitions should be considered, based on credible consumer research, trustees should have flexibility to determine insurance product design.

### **Implementation of standard terms**

If key insurance terms are standardised, there is a range of implementation options that could be used. These include:

- amending the *Superannuation Industry (Supervision) Act 1993 (SIS)*, or the regulations supporting the SIS Act, to include prescribed terms;
- amending the *Insurance Contracts Act 1984 (ICA)* or the regulations supporting the ICA to include standard terms. This has been used in relation to general insurance contracts and the standard definition of 'flood';
- prescription of standard terms in prudential standards issued by APRA; or
- allowing industry to develop standard terms and include them in industry codes.

In MetLife's view, an industry-led approach is preferable, as superannuation trustees and their insurers are best-placed to determine what the content of standard terms should be. We note that a separate Treasury consultation is underway in relation to Enforceable Code Provisions and making financial services industry codes mandatory. Standard definitions could be included in industry

codes. This is illustrated by standard medical definitions included in the Financial Services Council's Life Insurance Code of Practice.

Recommendation: That Treasury consider a wide range of implementation options including the use of industry codes and enforceable code provisions

## Treasury questions

This section responds to the queries raised by Treasury in the Issues Paper.

1. *What are the costs and benefits of standardisation of terms and definitions for default MySuper group life policies?*

As outlined above, the main purpose of standardisation of terms and definitions should be to improve consumer understanding of insurance in superannuation and as such, should be based on credible consumer research.

Other actions, including member education to improve awareness of insurance in superannuation should also be considered.

It is not possible to estimate the costs of standardisation without an understanding of the detail of the proposed changes. Potential disadvantages of standardisation of key terms are:

- Increased claims risk leading to increased premiums;
- reduced competition in relation to benefit design; and
- reduced ability for trustees to tailor benefit design to suit the insurance needs of their membership;
- locking-in definitions would reduce the ability to update definitions to deal with health and social trends. This could potentially lead to pricing and sustainability challenges.

2. *What terms and definitions would benefit from standardisation? Are there particular terms/definitions where the case for standardisation is stronger or should be prioritised?*

Some reports and commentators have noted that the case for standardisation is stronger in relation to definitions in TPD benefits. The claims acceptance rates for TPD benefits are on average lower than for death benefits and income protection benefits. According to recent APRA data, claims acceptance rates in group superannuation are as follows:

- 86% for TPD benefits;
- 96% for income protection benefits;
- 99% for death benefits<sup>6</sup>.

While some reports and commentators have identified variations in TPD definitions as driving lower acceptance rates, other contributing factors are:

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<sup>6</sup> APRA, *Statistics: Life Insurance Claims and Disputes*, June 18, issued March 2019

- considering a TPD claim necessarily involves speculation about whether the member will be able to return to the workforce at some point in the future. This speculative element is not present in considering other types of claims, especially death claims;
- the evidence required to support acceptance of a TPD claim is more complex than for death or income protection claims;
- as outlined above, education of members and their understanding of TPD benefits need to be improved.

MetLife is of the view that some elements within TPD definitions that apply to the general working population and which are not specific to an individual's occupation could be standardised. These elements include:

- the element describing the member's education, training and experience;
- the elements describing the member's education, training and experience including a reasonable degree of retraining.

However, flexibility in benefit design should be retained to allow customisation to cater for specific fund demographics, for example cohorts working in hazardous occupations.

3. *Should trustees be permitted to offer TPD insurances that differs from the definition of 'permanent incapacity' in the SIS Act? Is the current legislated definition of 'permanent incapacity' an appropriate standard definition of TPD?*

Trustees should be permitted to offer definitions that differ from the definition of 'permanent incapacity' in the SIS Act, provided that such definitions do not cause benefits to be trapped in the fund.

The SIS conditions of release are concerned with whether it is appropriate to continue preserving a member's superannuation benefits within the superannuation environment. The 'permanent incapacity' definition was designed for this purpose. It was not designed to deal with the management of insurance matters such as anti-selection risk, claims experience and insurance costs.

Additionally, it does not include many of the requirements for an insurance definition, such as an insuring clause, eligibility criteria, what medical evidence is required and how long the member needs to be off work to qualify. It also does not include circumstances in which waiting periods may be waived, such as loss of limb definitions. For these reasons, the 'permanent incapacity' definition is not an appropriate standard definition of TPD.

Some definitions of TPD have a higher degree of severity than in the SIS definition. These include definitions based on not being able to meet a certain number of the 'activities of daily living' (**ADL**) or 'activities of daily working' (**ADW**).

The nature of life insurance within MySuper means that trustees and life insurers usually lack information about the members being provided with cover who could effectively be uninsurable, given the nature of their risk. As a result, insurers design cover with a range of definitions that have the effect of increasing the scope of situations when people are eligible to make a claim, as opposed to narrowing the options for making a claim.

The inclusion of definitions such as ADL and ADW alongside other definitions is an example where insurers have recognised that some people could be ineligible to claim in the absence of this expanded set of circumstances. The inclusion of ADL and ADW definitions in parallel with other definitions can therefore be of benefit to customers as opposed to reducing the exposure of insurers to claims.

ADL or ADW definitions can also be applied to increase benefit amounts when a person meets a higher threshold definition, recognising that those who face serious injuries or illnesses are more in need. For example, one of MetLife's fund clients provides a TPD benefit under which members are paid a 25% higher benefit amount if the member satisfies the ADW definition as well as the traditional TPD definition.

#### Case study – ADW

The insured member was a young man in his twenties. During an outing with friends on a boat, he dived into the water to help a young woman who was close to drowning. He unfortunately struck a sand bank and became quadriplegic. He satisfied the usual TPD definition (unlikely ever to work again in an occupation for which he was reasonably suited by way of education, training and experience) and also met the ADW definition.

He therefore received a 25% higher benefit amount, which assisted him to make modifications to his family's house to allow him to continue living at home.

At the time of the accident, the member was unaware that he had insurance in super. He was extremely grateful when he was informed he had insurance and was ultimately paid a benefit.

4. *Should the definition of TPD allow for rehabilitation or return to work initiatives? Why/Why not? Explain why with reference to case studies.*

In MetLife's view, TPD definitions should be able to take into account opportunities for rehabilitation or return to work initiatives. Being engaged in the workforce is beneficial for individuals' health and is ultimately likely to be more financially rewarding than payment of a TPD benefit.

Such provisions should not be used to coerce customers to undertake rehabilitation or retraining which is not appropriate for them or that they do not wish to take. These options should be undertaken in consultation with the customer's own medical team and with willing participation by the customer.

Two case studies demonstrating the benefits of rehabilitation are set out below.

### Case study 1

Our customer was in a senior management role and left her position due to severe depression and anxiety. Through our Nourish program, which provides rehabilitation support to customers where appropriate, we were able to provide:

- psychoeducation with the goal to assist her to better understand her condition;
- coaching to assist her with implementing coping techniques/management strategies to improve her daily functioning and ability to manage her condition at work; and
- coaching to assist her with increasing her self-esteem and confidence in her workplace.

Our customer was able to return to full-time work and has reported positive changes in her ability to cope and manage her condition.

### Case study 2

Our customer was diagnosed with cervical cancer and underwent chemotherapy and radiotherapy over a period of about 8 months. After her treatment, she experienced fatigue, back pain and reduced cardiovascular fitness. She reported that she was attempting to exercise on the advice of her specialist but was struggling due to her symptoms and needed some guidance.

Our specialised Health and Recovery team referred the customer to an exercise program. As a result of the program, the customer gradually increased her tolerance for standing and walking and improved her overall fitness.

She re-commenced working on a part-time basis and has recently returned to full-time work. The customer reported she was extremely happy with the assistance MetLife had provided to allow her to return to health after her cancer treatment.

5. *Is there a need for universal insurance exclusions in MySuper products? Why/Why not? If yes, should exclusions be standardised across all types of insurance provided within MySuper products? What standardised exclusions would deliver the greatest benefit to consumers?*

It would be difficult to achieve an exclusion which could be used for all MySuper products. Any exclusion, to be universally applied, would need to strike the right balance between being narrow enough to ensure that all legitimate claims are accepted, but also broad enough to manage the risk of anti-selective claims. This would be extremely difficult to achieve in practice.



Exclusions can also be used as levers by trustees to calibrate the level of risk undertaken and therefore manage the cost of insurance and the competing interest of erosion of retirement balances.

6. *What lead time would be required for the industry to implement standardised terms, definitions and exclusions if this reform was implemented?*

As group life policies are generally re-priced every two or three years, a similar period would be needed for implementation.

7. *To what extent would standardising terms, definitions and exclusions across MySuper products impact the price of premiums?*

Without knowing the detail of the proposed changes, it is not possible estimate the impact on price of premiums. However, if standard terms are more generous than those which are used in the current market, this would naturally place upward pressure on the price of premiums.

8. *Would the impact on premiums outweigh the benefits of standardising the definition of TPD, or other definitions, terms and exclusions?*

It is not possible to estimate the impact on premiums of standardisation of TPD definitions or other terms without the detail of the proposed changes. As explained in the introduction of this submission, we believe that insurance in MySuper offers good value for money, and we would therefore caution against measures that would place upward pressure on premiums and potentially lead to erosion of retirement savings.

9. *How could the impact on the price of premiums be mitigated, without incentivising the creation of 'junk insurance policies'?*

There are several levers available to the trustee to influence the price of premiums, including adding appropriate terms and exclusions to manage claims experience, providing early intervention to prevent and reduce the impact of illnesses, and providing rehabilitation or assistance with returning to work.

If standard definitions are introduced, they should be clear and objective. TPD definitions should be based on capacity to work.

10. *If terms, definitions and exclusions for MySuper products were standardised, how long would repricing of premiums take to flow through to members?*

As insurers are required to reserve for future claims, pricing would need to be adjusted when the changes to the policy terms are made. Trustees may choose to absorb some of the price change using insurance reserves, but assuming that trustees pass on the full impact of repricing, this would flow through to members almost immediately.

11. *To what extent would standardised terms, definitions and exclusions for MySuper products improve consumer understanding of insurance in superannuation? What particular changes would deliver the greatest benefits to consumer outcomes?*

As explained above, MetLife believes that consumer research needs to be undertaken to better understand the challenges that consumers have in understanding existing policy terms in insurance in superannuation.

We note that in other markets, for example, compulsory third-party motor vehicle insurance, standardisation has led to a high degree of consumer understanding, while also leading to competition based almost wholly on price.

12. *Are there other ways to improve consumer understanding of insurance in superannuation without standardising terms/definitions/exclusions?*

There are a number of other ways that improving consumer understanding could be achieved, which include:

- Making definitions less complex;
- Expressing insurance terms in plain English;
- Undertaking consumer testing of disclosure documents;
- Investment in consumer education and literacy;
- Use of standardised templates for disclosure such as that proposed by the Insurance in Superannuation Working Group or the templates used in health insurance.

13. *Should maximum, minimum or set levels of cover be prescribed for MySuper products? Why/Why not? Should these apply to all types of insurance provided within MySuper products?*

MetLife does not support prescribing minimum or maximum levels of cover. In our view, trustees should have flexibility to tailor insurance product design to their demographics and insurance needs of their membership.

14. *What factors should be taken into account if a minimum, maximum or set level of cover were to be prescribed?*

The key factors to take into account are the impacts on competition, innovation and flexibility of benefit design.

If maximum levels were set, they would need to be relatively high to allow sufficient flexibility regarding a wide variety of demographics and cohorts.

15. *Are there any unintended consequences of mandating a minimum, maximum or set level of cover for MySuper products?*

Please refer to our responses above.

In addition to the issues discussed in the above responses, the Government should be mindful of the potential stamp duty costs which may be borne by members if policy terms are required to change due to implementation of standardisation, or if minimum levels are increased.

We would be pleased to answer any queries that Treasury has on this submission or discuss the contents with you. If you have any queries, please contact our Head of Public Policy, Cathy Duloy, whose contact details have been provided separately.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Richard Nunn', with a long horizontal flourish extending to the right.

Richard Nunn  
**Chief Executive Officer**  
**MetLife Insurance Limited**