



Navigating life together

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4 September 2017

Ms Karen Chester

Deputy Chair

Productivity Commission

Locked Bag 2, Collins St East

MELBOURNE Vic 8003

Ms Angela MacRae

Commissioner

Dear Ms Chester and Ms MacRae

Productivity Commission Issues Paper - Superannuation: Competitiveness and Efficiency

We welcome the opportunity to comment on the Productivity Commission's Issues Paper on the third stage of its inquiry regarding the Competitiveness and Efficiency in the Superannuation System (**Issues Paper**).

MetLife Insurance Limited (**MetLife**) values the safety net that insurance in superannuation provides, without which the majority of working Australians would have little to no form of lifestyle protection.

Background

MetLife is a leading provider of life insurance to affinity partners, superannuation trustees and employers in Australia. MetLife has been a specialist provider of life risk insurance products in Australia since 2005. Its parent, MetLife, Inc., is a leading global provider of insurance, annuities and employee benefit programs. MetLife, Inc holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

Our purpose is to ignite and champion the human instinct to protect and provide confidence and hope for the future. MetLife's commitment to insurance in superannuation is demonstrated by the following activities:

- we launched an advertising campaign earlier this year to raise understanding and awareness of group insurance as a valuable safety net for working Australians;

- we have been an active participant in the work of the Insurance in Superannuation Working Group since its inception;
- collaboration with our client funds to help raise awareness and improve knowledge of insurance in superannuation;
- MetLife is a member of the mental health roundtable convened by the Financial Services Council (FSC) which is working with mental health bodies and other stakeholders to improve collaboration and information sharing; and
- We regularly take the time to consider our customers' stories and internally celebrate the difference we make in people's lives.

The Commission has stated that the guiding principle for its assessment and recommendations will be on outcomes for members¹. We support this approach as our priority as a business is on outcomes for our customers.

This submission focuses on three aspects of the Productivity Commission's inquiry:

- Objective #4: Whether the super system provides value for money insurance cover without unduly eroding members' balances;
- Models for default superannuation; and
- Policy settings for insurance in superannuation.

Objective Number 4 – the superannuation system provides value for money insurance cover without unduly eroding members' balances

The Commission has identified five system level objectives for the superannuation system against which the Commission will assess the competitiveness and efficiency of the superannuation system. Objective #4 is that: "The superannuation system provides value for money insurance cover without unduly eroding member balances". This is to be assessed by reference to two assessment criteria:

- Do funds offer value for money insurance products to members?
- Are the costs of insurance being minimised for the level and quality of cover?

The purpose of insurance is to spread the impact of a possible adverse event among a large group of participants who can collectively bear the cost of that event. It is a key risk management tool for members in superannuation funds, and as such provides both tangible and intangible benefits to fund members.

This value of life insurance in superannuation is evidenced by:

- In the 3 year period to 30 June 2016, approximately \$13.8b of claims were paid via insurance in superannuation²;

¹ Productivity Commission Stage 3 Issues Paper p 4

- For every dollar received in premium, approximately 80c is paid out in claims and approximately 5% paid in state or territory government stamp duty, making the loss ratios for group insurance significantly higher than for other forms of insurance³;
- Group insurance is generally recognised as having lower premiums than insurance held outside superannuation⁴;
- There are people working in high-risk occupations, such as miners, emergency services workers, and forestry workers who, without access to group insurance, simply would not be able to obtain affordable cover. People who work part-time or who have broken work patterns can also obtain cover through group insurance that they may not be able to obtain elsewhere; and
- There are also people who suffer health conditions who would not be able to access affordable cover outside superannuation.

Without group insurance arrangements and the benefits paid, the community would bear the brunt of events affecting the lives of members. Rice Warner has estimated that insurance in superannuation reduces the annual costs of social security by about \$403m pa⁵.

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| Case Study |
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| Our customer was a 43 year old worker in a mining service crew. He was severely injured in a motor vehicle accident, resulting in long term injuries to his back and loss of bowel and bladder function. He was paid a total and permanent disability benefit three weeks after lodging his claim with us. It is highly unlikely that he would have been able to obtain disability insurance outside of superannuation. |
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Competition in group life delivers value

The Commission has expressed concern with the level of competition in the superannuation system, pointing to lack of member engagement as a factor. In its draft report *Superannuation: Alternative Default Models*, the Commission noted competition for a market may be promoted using a tender or auction process⁶.

² APRA Annual Superannuation Bulletin June 2016 Table 14c

³ APRA – Quarterly Life Insurance Performance data base – Dec 2016 (issued Feb 2017)

⁴ For example, Rice Warner submission to Productivity Commission Review of Superannuation Efficiency and Competitiveness, Sep 2016

⁵ Rice Warner Insurance Administration Expenses 2014

⁶ Productivity Commission Superannuation Alternative Default Models Draft Report 2017

In relation to insurance in superannuation, superannuation trustees are required under the Superannuation Industry (Supervision) Act 1993 to formulate, review regularly and give effect to an insurance strategy for the benefit of members that includes the method by which the insurer is to be determined. Trustees are also specifically required to consider the cost to all members of acquiring the insurance and only acquire the insurance if the cost does not inappropriately erode the retirement income of members.⁷

In addition, superannuation trustees are obliged by Superannuation Prudential Standard SPS 250 Insurance in Superannuation to develop and implement a process for selecting an insurer that includes consideration of the terms of the cover, the reasonableness of the premiums, the insurer's claims philosophy and the terms of any delegations. The process of engaging an insurer must be conducted at arm's length and in the best interests of beneficiaries. The trustee must also be able to demonstrate to APRA the appropriateness of this selection process.

In practice, the selection process for insurers is typically conducted via a tender usually on a triennial basis. It is not unusual for 5-6 insurers to participate in a tender. Insurance tenders are rigorous and highly competitive processes that help to minimise the costs of insurance for superannuation trustees. Trustees and insurers are however considering insurance offerings in a more holistic fashion and not merely focussing on cost.

While price is an important factor in tenders, other benefits are that they provide opportunities to:

- Focus on the benefit design that is appropriate for the funds' members using data about the demographics of the fund, its claims experience and member preferences;
- Develop innovative product design;
- Continuously improve the delivery of insurance services to members for example, the development of digital solutions or more efficiency in claims management;
- Analyse the risk management and governance arrangements of insurers; and
- Align the claims philosophy of the trustee and insurer.

The tender is often managed by an independent third party, and may also involve a probity manager to ensure fairness to the participating parties. The healthy level of competition in this market is one of the factors leading to group insurance being good 'value for money'.

Group insurance pricing

Insurance in superannuation is generally regarded as being cheaper than insurance obtained outside of superannuation. As mentioned above, loss ratios for group insurance are generally higher than in other forms of insurance. This means that the proportion of

⁷ Superannuation Industry (Supervision) Act 1993 section 52(7)

premium paid back to insureds in the form of claims is more favourable for group insurance than for other types of insurance. On average, 80% of the premium is paid back to members in the forms of claims while 5% is paid in state or territory stamp duty. The remaining 15% consists of the insurer's costs, including administration, and the insurer's profit margin.

This demonstrates the value of group insurance when compared with retail insurance where approximately 50% of the premium is paid in claims⁸.

While there has been criticism that younger members sometimes pay too much for life insurance that they do not need, many trustees have sought to address this by reducing cover and insurance costs for members under the age of 25 years⁹. The Insurance in Superannuation Working Group, of which MetLife is a participant, is also considering proposals that would reduce insurance costs for younger members.

Claims processes

A further indication of the value of life insurance in superannuation is the high rate of claims acceptances. *ASIC Report 498 Life insurance: an overview of claims* showed that 9 out of 10 life insurance claims were paid in the claims data reviewed by ASIC for the three years from 2013-2015. Despite commentary in the media regarding claims processes, ASIC did not find evidence of cross-industry misconduct.

Nevertheless, we are aware that the industry needs to make improvements to claims processes.

These include making claims processes easier to navigate and making the overall time to determine claims quicker. We are supportive of the FSC's Life Insurance Code of Practice which sets out timeframes for claims handling. Timeframes for claims handling will also be included in the Insurance in Super Working Group code of practice for trustees.

MetLife has developed and implemented digital processes to improve the customer's experience of claims. For example, our Claims Tracker portal allows members to provide documents online via their computer or phone.

Other benefits

In addition there are a number of intangible benefits in relation to insurance in superannuation.

These include:

⁸ APRA – Quarterly Life Insurance Performance data base – Dec 2016 (issued Feb 2017)

⁹ Australian Financial Review - Superannuation funds reduce default cover for younger members 14 August 2017

- The assurance provided to members that they have cover that they may not be able to obtain elsewhere or obtain affordably;
- Return to work support and rehabilitation tools now provided by most large insurers;
- The convenience and ease of obtaining insurance on an automatic basis. This is particularly true for vulnerable members of society who may not have the confidence or financial literacy to apply for insurance directly or via a financial adviser; and
- The value provided to the economy via financial support of people who would otherwise be impoverished and/or reliant on social security.

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| Case Study |
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| Our customer had underlying health difficulties, including obesity, high cholesterol and anxiety, which would have made it difficult for him to obtain insurance outside of super. He was unable to work due to pain caused by osteoarthritis. As part of his rehabilitation, MetLife assisted him with funding to join a weight loss program. He lost a large amount of weight, improving his confidence and his hope of returning to work. Having access to group insurance and the support of our Claims team made a significant difference in this customer's life. |
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Ease of opting out, amending cover or making claims

The Commission will be assessing the 'ease of opting out, amending cover or making claims' as one of the indicators of whether insurance in superannuation provides value. MetLife has championed the use of online and digital methodologies to allow members to access or change their insurance. It has developed an online portal (eApply) for its superannuation fund clients to provide to their members to assist them with ceasing or changing their cover. About half of MetLife's multi-employer funds use this facility to provide online access to their members to change their cover and we have plans to roll this out to the remainder of our clients over the course of 2017-2018.

Models for default superannuation

MetLife reiterates the views expressed in its submission to the Commission on its Draft Report on Alternative Models for Superannuation. In particular, we emphasise the key role of insurance in superannuation as part of the default system. We note that a large number of submissions on that report, from a wide range of organisations, also argued for continued recognition of insurance within superannuation.

In the Issues Paper, the Commission says that it will be considering the suggestion that, for the "assisted employee choice" model, where a member fails to make a decision, they will be allocated to a default product on the shortlist on a sequential basis.

We reiterate the views we expressed in our previous submission that allocation of members on a sequential basis would cause considerable disruption in the market and lead to insurance in superannuation becoming more expensive. This would be a consequence of the difficulty of risk assessment of a fund with new entrants to the workforce allocated on a random basis, rather than alongside employees with relatively homogeneous demographic characteristics.

Policy settings for insurance in superannuation

The Commission has asked for comments on the policy or regulatory impediments on the competitiveness and efficiency of the superannuation system. We limit our comments to the policy settings that impact on Objective # 4 relating to insurance in superannuation.

Flexibility for product design

The *Superannuation Industry (Supervision) Act* 1993 requires that the trustee of a MySuper product provide insurance benefits for death and permanent incapacity on an opt-out basis based on reasonable terms¹⁰.

This is reinforced by the provisions of the *Superannuation Guarantee (Administration Act)* 1992 and supporting regulations which provide that an employer must pay superannuation contributions for an employee who has not exercised choice to a MySuper fund which offers a minimum level of death benefits from age twenty¹¹.

MetLife supports the continued provision of insurance cover for superannuation members on an opt-out basis because of the value it delivers to the Australian public, as outlined above.

In order to address issues with account erosion especially for younger members, these requirements should be made more flexible. For example, a trustee should be able to consider whether its younger members should receive default insurance and if so, what combination of death, permanent incapacity or income protection would best suit the needs of that cohort.

Greater flexibility in product design would lead to trustees being able to offer insurance that is more responsive to the needs of its members and assist with issues of account erosion.

Restrictions on paying for medical expenses

The current regulatory regime places constraints on the ability of life insurers to pay for medical expenses or other health services. Health insurance legislation greatly restricts the ways life insurers can fund, by way of insurance, treatment, for example surgery, which could assist the member to return to work at an earlier stage. Creating more flexibility in

¹⁰ Superannuation Industry (Supervision) Act section 68AA

¹¹ Superannuation Guarantee Administration Regulation 9A

these regulatory arrangements would assist life insurers to target interventions to provide improved service to members and provide better value for money insurance.

Improving data for superannuation funds

The Commission has rightly identified members having multiple accounts as being an issue in the superannuation system that needs to be addressed. Having multiple accounts can exacerbate account erosion, especially where there are also multiple insurance policies.

The Government and the Australian Tax Office (**ATO**) have undertaken several initiatives to reduce the number of inactive accounts including:

- The MySuper reforms;
- The requirement for accrued default amounts to be transferred to a MySuper fund;
- Increasing the threshold for lost members and transfer of balances to the ATO;
- Intra-fund consolidation rules.

Improving the data available to members and participants in the industry would help to address the issue of inactive and duplicate accounts.

ASIC's *Report 529 Member Experience of Superannuation* has pointed to risks that can occur when trustees use information from employers that may not be reliable (such as whether the member continues to be employed)¹².

The current SuperStream system has several fields as optional. If these fields were made mandatory it would assist trustees to be aware of:

- When an employee commenced work and their eligibility to receive cover;
- When employment is terminated, triggering a ceasing in cover;
- Their occupation in order to facilitate member-centric product design.

Making Single Touch Payroll mandatory for all employers, including the requirement to pay contributions monthly, would also improve data quality. Under the current regime, employers effectively have up to four months to pay superannuation contributions, meaning that there is a significant lag for superannuation funds in obtaining information about employees who have started or left employment.

Superannuation data should also be available to members via myGov in order to improve their knowledge about their superannuation accounts and what insurance they have.

More information in relation to how improvements to data could improve experience for members can be found in the Discussion Paper on Data Management recently released by the Insurance in Superannuation Working Group.

¹² ASIC *Report 529 Member Experience of Superannuation* June 2017 para 72

Conclusion

One in five Australian families will be impacted by the death of a parent, or a serious accident or illness resulting in that parent being unable to work¹³. Without insurance inside superannuation, the vast majority of working Australians would have little to no form of lifestyle protection.

Please contact me should you wish to discuss any aspect of this submission.

Yours sincerely

Deanne Stewart
Chief Executive Officer

¹³ The Lifewise/ NATSEM *Underinsurance Report* February 2010 Page 2