

19 October 2017

Superannuation Productivity Commission  
Locked Bag 2,  
Collins St  
East Melbourne VIC 8003

<http://www.pc.gov.au/inquiries/current/superannuation/make-submission#lodge>

Dear Commissioners,

**EFFICIENCY AND COMPETITIVENESS OF THE SUPERANNUATION SYSTEM**  
**Productivity Commission Stage 3 Issues Paper**

This submission focuses on insurance in superannuation.

I am an Actuary with 30 years' experience providing actuarial advice to superannuation funds and specialising in the group insurance sector.

The substantive component of my submission is the attached paper presented at the Actuaries Summit in May 2017 – “Group Insurance – Structures of the Future”. The paper, as it turns out, is focused very much on the Scope of the Productivity Commission’s inquiry:

- The Commission is to assess the efficiency and competitiveness of Australia’s superannuation system and make recommendations to improve outcomes for members and system stability.
- The Commission is to also identify, and make recommendations to reduce, barriers to the efficiency and competitiveness of the superannuation system.

The paper won the Melville Prize which is awarded to the paper considered sufficiently meritorious and that:

- effected a significant advance in the profession’s understanding or knowledge of a specific subject or sphere of knowledge; or
- collected or presented existing material in such a way as to raise the awareness of the profession regarding an important contemporary issue.

**Summary**

The group superannuation insurance sector of the Australian economy is gifted by the community with compulsion, both from the Superannuation Guarantee contribution which helps finance premiums and from the compulsory Opt Out provisions for members in relation to death and Total and Permanent Disablement (TPD) cover.

Over the last 20 years the industry has moved from insuring thousands of small funds whose premium was determined from general industry experience to predominantly a few large and very large funds whose premium is determined by their own experience.

Group death and disability cover provided through superannuation funds, particularly default cover, is one of the most valuable benefits derived by Australians from our superannuation system.

However, the industry in its current form is fundamentally unstable because of the large mismatch risk that the trustees of superannuation funds carry, the very thin, oligopolistic market of suitable alternative insurers and the barriers to entry to the industry and barriers imposed on insurers wanting to compete with incumbent insurers.

Further, the industry has been unable to deliver economies of scale and has a Benefit Efficiency that is low (compared to where it should be although not when compared with insurance outside superannuation) and stagnant. A large component of the premium of large funds is predictably recycled and the friction involved in this process is costly to members.

These factors produce suboptimal outcomes for members of superannuation funds with large swings in premiums, terms and conditions and value for money at levels lower than it should be.

Arguably death and disability benefits are more valuable to members than voluntary retirement benefits as they provide financial support in unexpected circumstances and at a time when members are younger, have lower account balances (and assets generally) and are more likely to have financial dependants. It is also a time of life when social support is less generous particularly in relation to death.

The industry is currently in the process of limiting default premiums by winding back these benefits as the way it envisages addressing the issue of inappropriate erosion of account balances, the assumption being that current structures and approaches are the best available. Better structures could also be used to address this issue for members, retaining benefit levels where appropriate.

Yours sincerely,

Jeffrey Humphreys

Attachment: *Group Insurance – Structures of the Future*, Actuaries Summit, May 2017