



**Actuaries  
Institute**

# Group Insurance Insight Session

31 October 2013

# Welcome

Colin Yellowlees – RGA

Young Goh – TAL

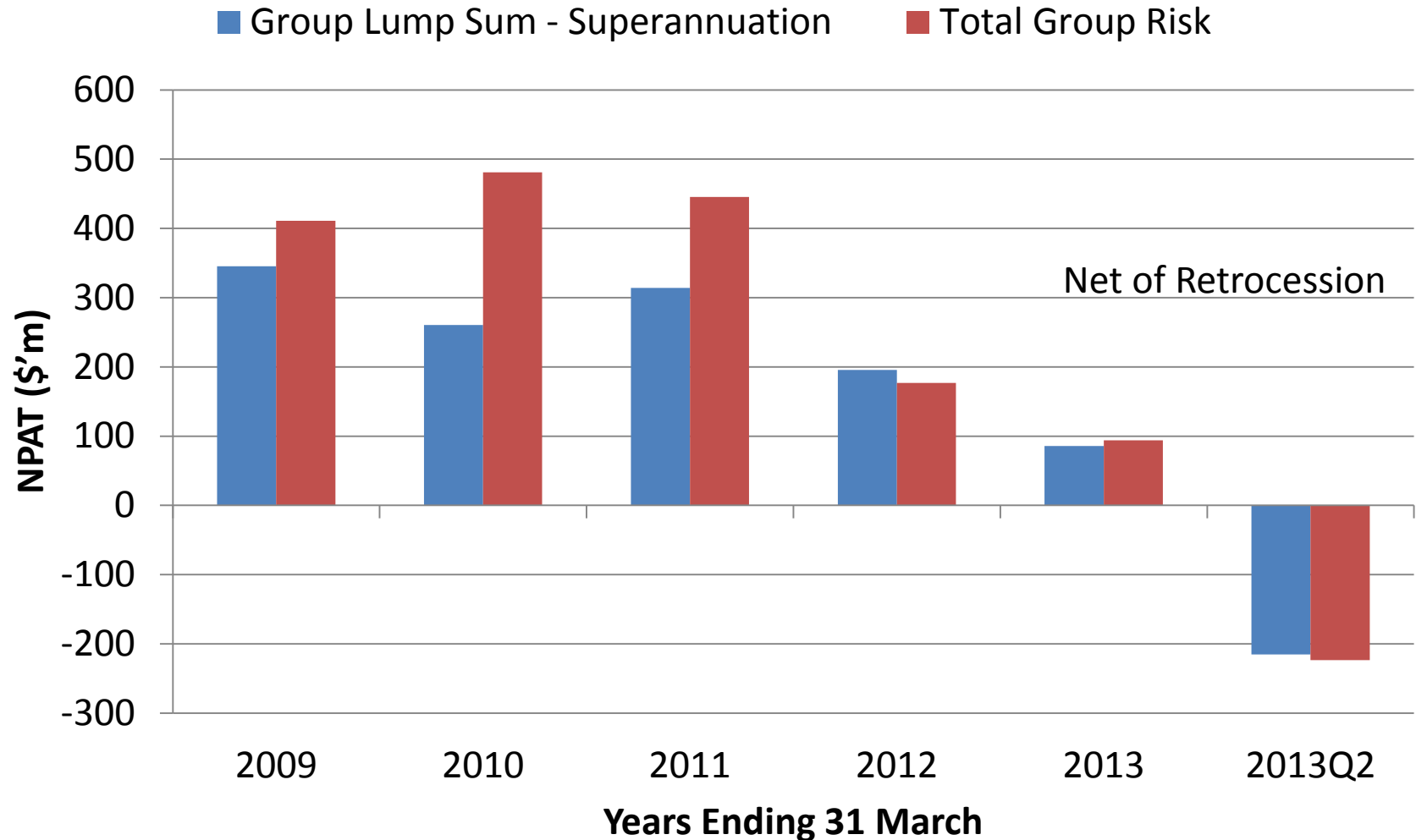
Jenny Gibson – AIA

Richard Weatherhead – Rice Warner

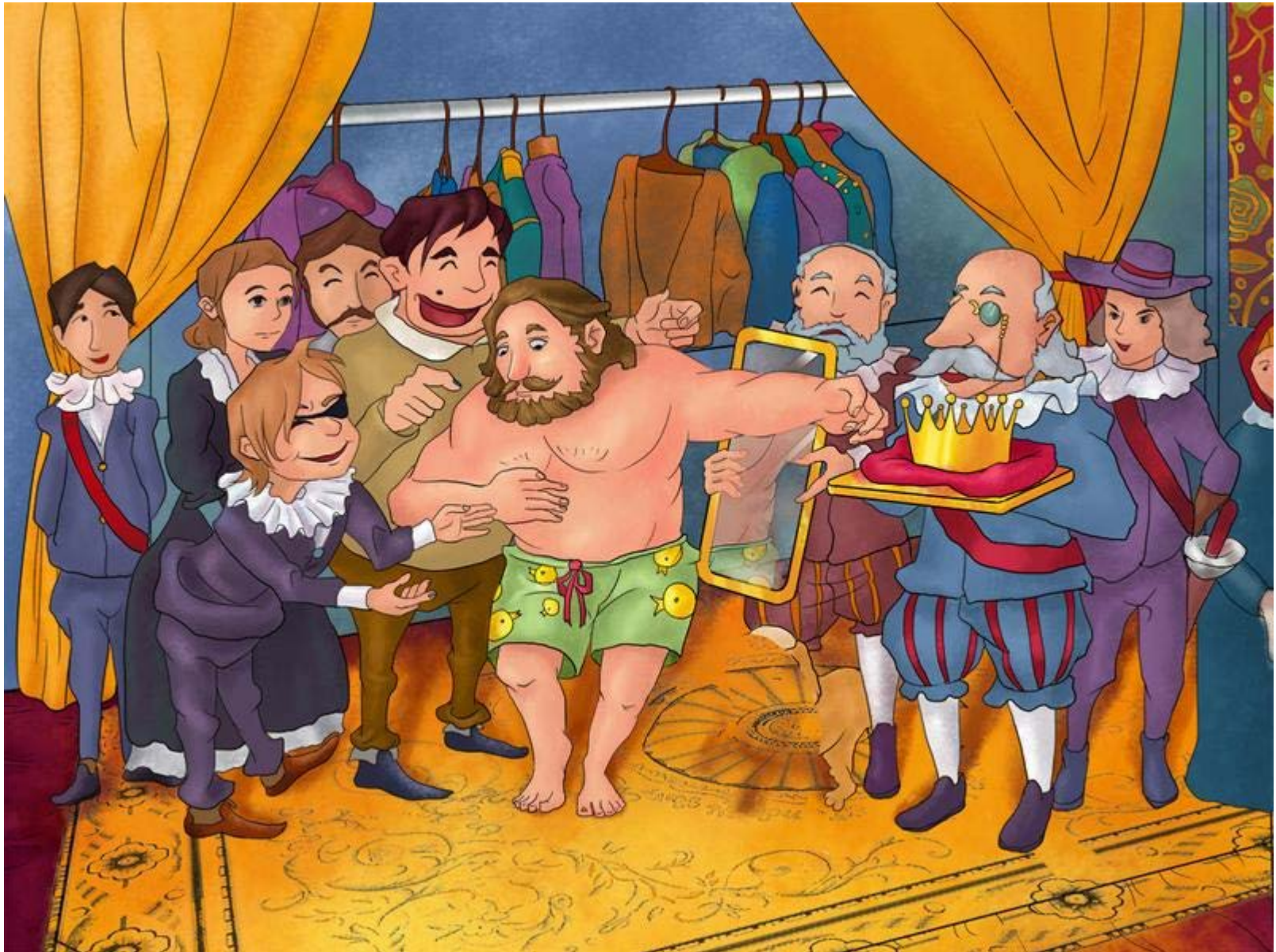
# Agenda

- Current Issues
- Data
- Pricing
- Product Design
- Questions

# Industry Performance – Profit Before Tax



Source: APRA Quarterly Performance Statistics



## My short list

- Product – Weak definitions, eligibility and opt-ups
- Member awareness
- Increased Benefits
- Lawyer involvement
- Economic environment

**The issues are not independent!!!**

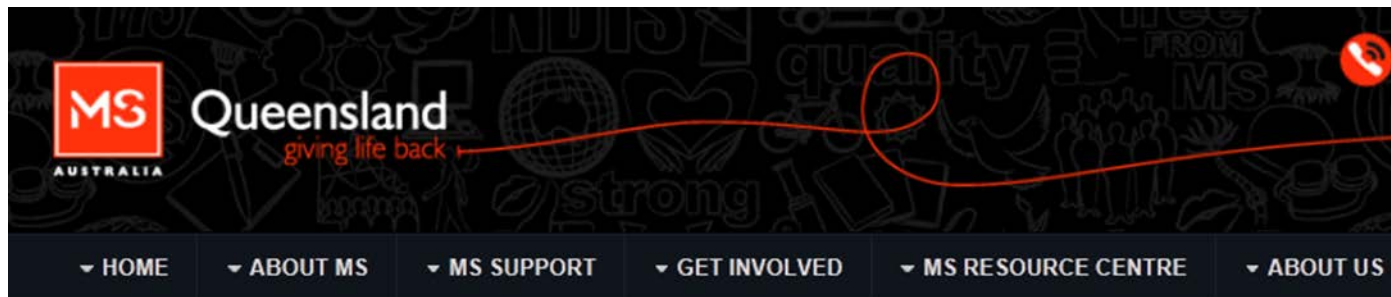
**Easier to get cover. Higher awareness.  
More attractive to claim. Easier to claim.**





## Lawyers

- Internal referrals e.g. workers' comp claims
- Advertising (incl. foreign language newspapers)
- Through associations
  - MS Society
  - Parkinson's Australia
  - Alzheimer's Australia
  - Arthritis Australia
  - Lupus Association
  - Leukemia Foundation
  - Cancer Council
  - Crohn's and Colitis Australia



## Maurice Blackburn Disability Helpline

Maurice Blackburn Lawyers have recently launched a free Disability Helpline. Their Disability Helpline **1800 196 050** provides advice regarding Employment, Superannuation and Insurance for people with a disability.

There are many issues faced by people with a disability:

- When and how do I stop work?
- How do I keep my job if I can't do what I used to?
- What do I do if I can't work anymore?
- How am I going to pay the bills?

It's very important for people with a disability to be aware of their rights at work. Where work is no longer possible, superannuation or insurance benefits can remove some of the financial burden.

[Click here](#) to view their brochure.

For more information, please visit the Maurice Blackburn website on [www.mauriceblackburn.com.au](http://www.mauriceblackburn.com.au).



# Employment and MS

## Your questions answered

- **Maurice Blackburn Lawyers'** disability help line provides free legal advice for people with MS, their family and friends. Call 1800 196 050.

### Am I covered for a disability lump sum?

Most employment super funds include lump sums for total and permanent disability (TPD). Some workers are also covered for insurance lump sums paid for by their employer.

To be eligible for the TPD lump sum you will usually have to be permanently unfit to do your normal job or any other suitable work (given your education, training or experience) because of your MS symptoms and any other health problems.

You don't have to be unfit for any work or part-time work, only suitable work that you have the skills to do.

If you have reached the point of having to stop work because of your MS symptoms, you may be a candidate. Get legal advice.



## Performance

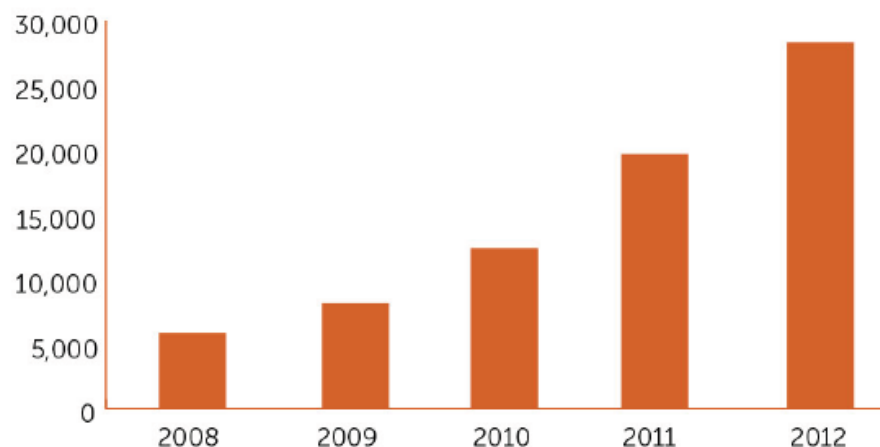
It is especially pleasing to report that, for the year to 30 June 2013 (FY 2013), the company met its prospectus forecasts in terms of revenue, profitability and cash flow.

The company maintained its strong growth profile with record revenue generated in our traditional practice areas of personal injury litigation. Additional revenue was generated from our emerging practice areas that include: disability insurance and superannuation, landowners' rights, professional negligence, environmental claims and class actions. Our emerging practice areas represented 12 % of the company's revenue in FY 2013.

## EMERGING PRACTICE AREAS

- > Emerging Practice Areas grew from 7% to 12% of Total Revenue. For example our Disability, Insurance and Superannuation practice has seen significant growth and expanded into New South Wales and Victoria in the last financial year. Since 2012 the team has grown from 7 to 17 staff and has doubled its revenue.

New enquiries

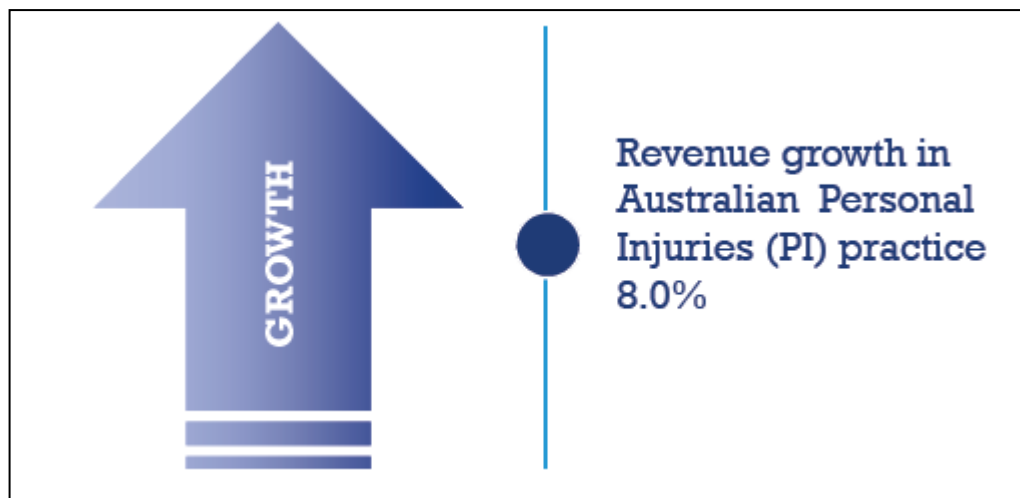




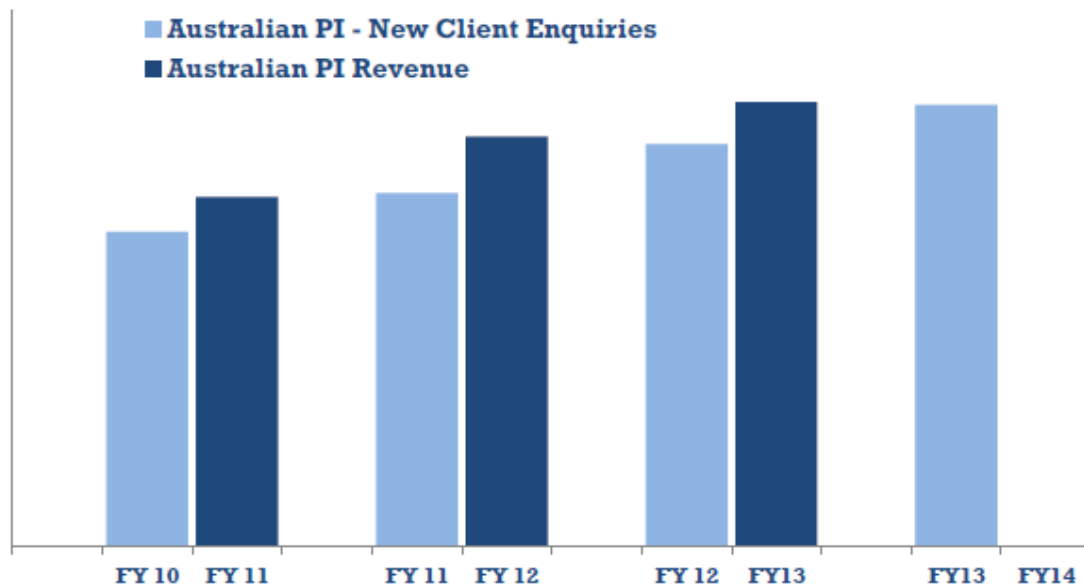
Australian PI Practice  
expected to continue  
to achieve > 5%  
revenue growth

Legislative risk in  
NSW & QLD remains.  
No material earnings  
impact expected in  
FY14

Launch of the "Slater & Gordon  
– not a problem" Australian  
advertising campaign delivered  
10.7% increase in total new  
client enquiries



**Enquiries**



Source: Slater & Gordon 2013 annual report and investor presentations



## ★ Work Welfare Wills

■ Centrelink Entitlements

■ Health Privacy

■ Powers of Attorney,  
Guardianship

■ **Superannuation and  
Insurance**

■ Travel Insurance

■ Wills

■ Workplace Discrimination

■ Agency Links

■ About this site

[Home](#) » [Superannuation and Insurance](#) » [WorkWelfareWills](#) » [Super - How can I get new Insurance or Superannuation?](#) »



## How can I get new Insurance or Superannuation?

### (i) Pre-existing Disabilities

- If you already have chronic illness, it can be difficult to get disability or death insurance cover.
- If you try to take out your own insurance or super policy you will usually have to fill in a health questionnaire.
- If you know you have a chronic illness, you might have to tell the insurer and they might refuse to cover you.
- If you knew you had a chronic illness when you joined but didn't tell the insurer, they might refuse to pay you.

### (ii) Group Super/Insurance

- However, it might be possible to get disability and death cover by joining a "group" super or insurance scheme e.g. with your employment super, employer income protection insurance, union or credit union.
- **You might be offered automatic cover up to a certain limit without any health questions.**
- With some schemes you are covered for pre-existing disabilities if you haven't had active medical treatment for say 6 months.
- If you are thinking of leaving work, your employment super might offer to continue your total and permanent disability or total and temporary disability insurance even if you have a disability. You usually have to take up a continuation option within one or two months.
- In some funds your insurance cover will continue if you change jobs as long as you leave enough money in the super fund to cover the insurance premiums.

### (iii) How To Find Out

- If you are starting a new job, check what insurance cover is offered by the super funds you can join.
- If you are considering leaving work, check whether your employment super offers an insurance continuation option or account-based on-going cover BEFORE you leave.
- If you want to take out private insurance, do it through an insurance broker - don't apply direct to insurance companies.



## New insurance policies



### **Total and permanent disability (TPD) insurance**

To be eligible for TPD benefits, you must show that you can't ever return to your usual job or any other work that fits your education, training or expertise.

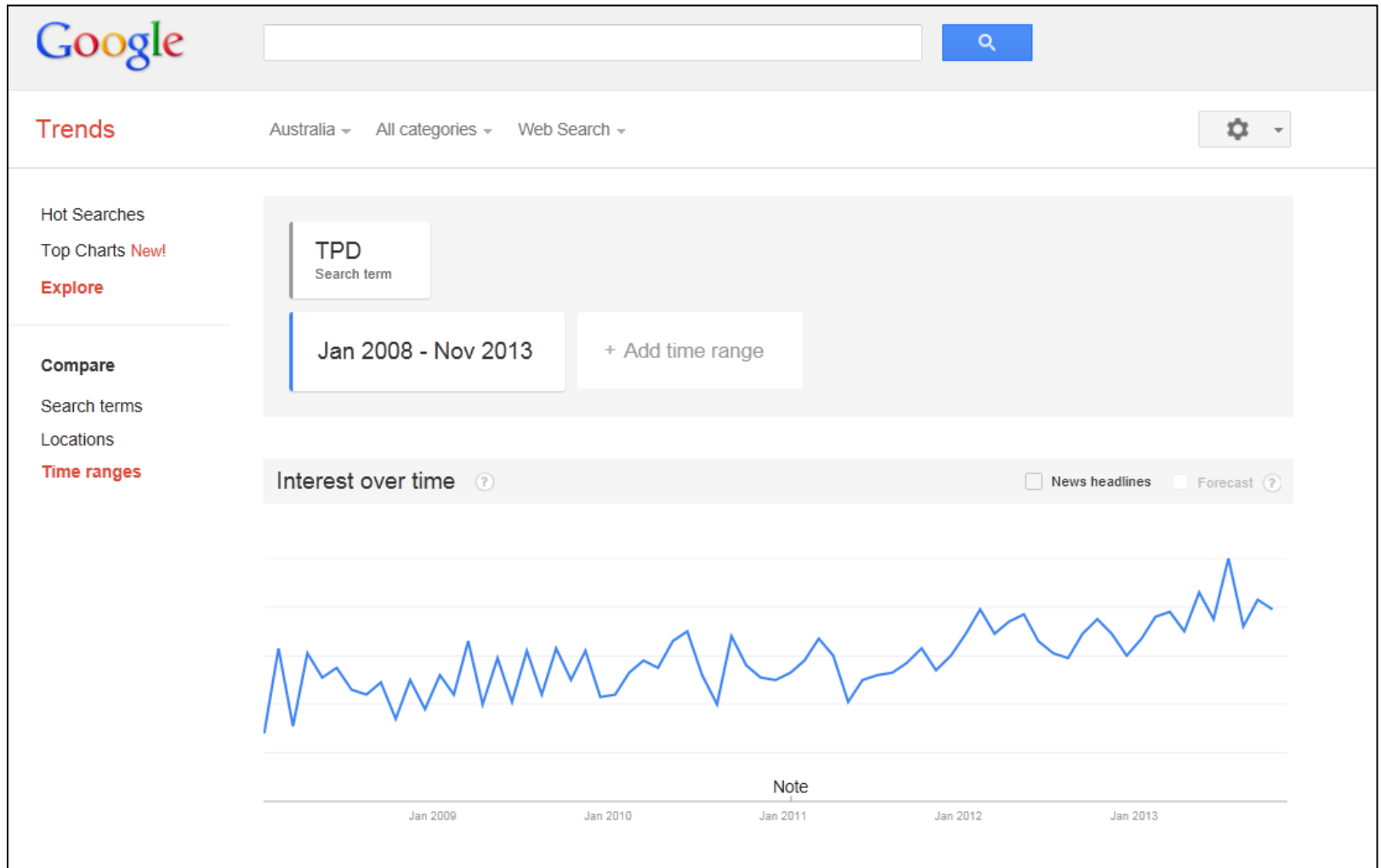
**You don't have to be unfit for any work at all** (for example, if you have only ever done manual work and you can no longer do that, it won't matter if you could possibly do office work).

- Check if you can get insurance through your superannuation fund. Often, if you start a new job and join the employer's default fund, you can get income protection or total and permanent disability cover **without completing any health forms**. You have to join the superannuation fund within three months of starting the job.

## Superannuation and cancer



# Where are we in this shift?





## So what?

- Pricing
  - How or can we price this?
  - What margins should we use?
  - What capital should we use?
- Product
  - Should products change?
- Market Capacity
- Claims Management
- Worse to come?
  - Anti-selection will increase (advisors and member awareness)

**We need to put our clothes back on!!!**





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# Insights Session on Group Life

Data

Young Goh

Pricing Leader, Group Life

TAL Life Limited

## The Challenge

- A large proportion of every pricing exercise has to do with making sense of the data.
- Data is often collected by persons for whom the accuracy of data-keeping is not a key KPI, or a knowledge of what the data is used for (or how vital the data is).
- Unless data is prepared carefully for use, you can use the data to tell whatever story you want.

**“Pricing is easy, just give me a clean set of data.”**

# Common Data Problems

- **Missing data**

Particular claims data fields, or whole rows of claims data

Past detailed membership data

Q: How would you tell if you had missing data?

- **Incorrect data**

Arising from manual data entry, typo's etc. Q: How could you tell if the data was incorrect?

- **Data inconsistencies**

For example, different insurers or administrators recording date of notification differently.

- **Rescaling past claims**

Multiple possible matches – requires human judgement

Is there a way forward?



## Prudential Standard SPS 250

### Insurance in Superannuation

15. An RSE licensee must maintain records of **sufficient detail** for a prospective insurer to properly assess the insured benefits that are made available. These records must include, for at least the previous **five years**, the **claims** experience, **membership**, sum insured and premiums paid in relation to beneficiaries



## **Prudential Standard SPS 250**

### **Insurance in Superannuation**

19 ...the insurance arrangement must address..

(k) the provision of **complete claims** information to the RSE licensee on an

**annual basis** which, at a minimum, includes the information required to be maintained by the RSE licensee under paragraph 15;





# Prudential Practice Guide

## **SPG 250 – Insurance in Superannuation**

July 2013

- Good practice 5 years – “as long a period as possible”, “beyond expiry”
  - Detail as to what constitutes “claims experience information”
  - Prudent practice – “objective” annual review of framework
- Regular review of outsource service provider (accuracy premiums, u/w, claims)

## Opportunity for FSC Standard?



- Non Super (eg Corporates)
- Pre tender Data Audit
  - Standard scope
  - Who pays
- Disclosure / Definitions
- Dealing with errors
- Ongoing data provision





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# Group Insurance Insights

Richard Weatherhead

Principal

Rice Warner

# Product design

## Are current product designs aligned with member needs?

- For a 40 year old, the chance of becoming totally and temporarily disabled (Income Protection) is around **200 times** the chance of becoming totally and permanently disabled (TPD)
- But funds provide default TPD to most members and default income protection to far fewer
- Overlap between IP and TPD

## Typical core TPD definition

*In the opinion of the Insurer, after considering medical and other evidence, you are unlikely ever to be able to engage in any occupation for which you are reasonably suited by education, training or experience.*

- What does “unlikely” mean – 51% chance?
- Do medical practitioners feel qualified to provide an opinion on permanency?
- What does “reasonably suited” mean – are you reasonably suited to a job if you could be trained to do it in half a day?

## Product design (cont ...)

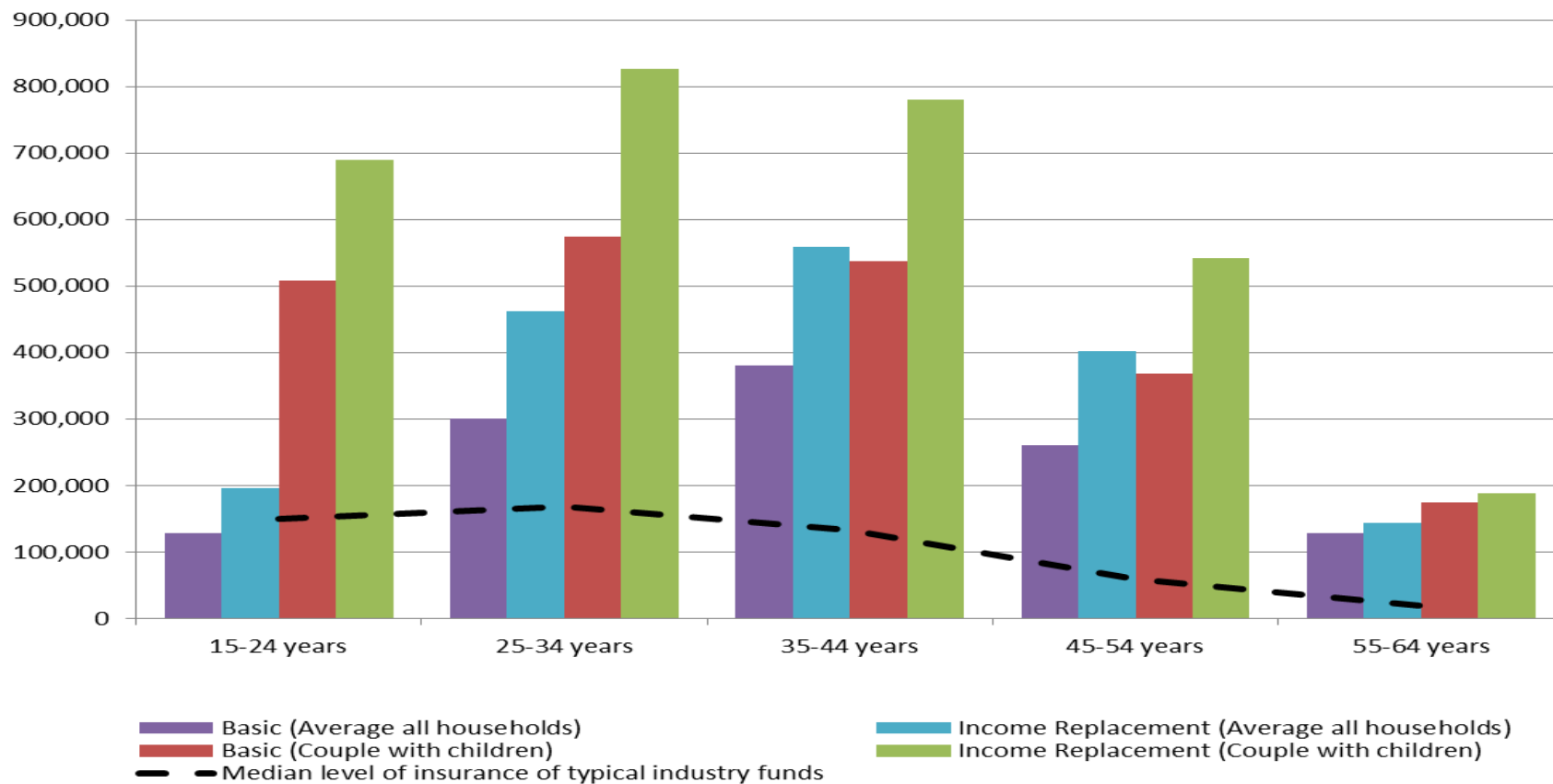
Is cash necessarily the best form of benefit:

- Retraining
- Support services, home modifications

**Are current default insurance scales aligned with typical needs?**

- Most funds have poor knowledge of their members – marital status?, children?
- Take-up of voluntary cover is low:
  - 7% of active members in industry funds
  - 10% of active members in employer master trusts
- To date, low penetration of personal insurance advice.

# Life insurance needs versus default death cover of a typical industry fund





## Product design (cont ...)

### Future trends?

- Focus on early intervention and rehabilitation
- Modified / more restrictive TPD definitions – removal of “unlikely”?
- Severity based TPD cover (MySuper compliance?)
- Remove cross-subsidies by age, gender, occupation
- Pay TPD benefit by instalment
- Reduced AALs
- Increased minimum plan sizes

## Product design (cont ...)

### Future trends? (continued)

- Curtailment / withdrawal of opt-up options on entry
- Restrictions on transfer of cover?
- Lower income protection replacement ratios for highly paid employees – 65%
- Longer term contracts with built in rate reviews
- Profit shares back in fashion
- Holistic disability products?

# Inappropriate erosion of retirement income test

- First consideration insurance needs
- Needs extending to older ages:
  - Families later in life
  - Debts later in life
- Unitised designs with uniform premiums mean benefits gradually fall short of needs
- Stepped (or age banded) premium designs lead to escalating costs at older ages and insurance taking a higher proportion of contributions:
  - But does this matter if insurance takes a lower proportion of contributions at younger ages?
- Rule of thumb:
  - Insurance premiums no more than **1% of salary**, ~10% of default contributions

# Tenders

## **Are some tenders becoming too large?**

- Time and cost for the insurer
- Time and cost for the fund
- Reducing number of insurers / reinsurers willing to tender
- Less competitive tension
- Do large funds need to provide tender funding?

## **Length of tender response times:**

- Increasing (four weeks to eight weeks)
- Depends of data quality

## **Should an independent data review be conducted prior to the tender?**

- Should funds conduct independent insurance data reviews whether or not a tender is occurring?

# Market capacity

- **2011:**
  - five to six insurers participated in tender
- **2013:**
  - For medium or large plans, two to three insurers participating
  - Reduced competition
  - Increased margins
  - Shortage of actuarial resources!
  - Reinsurance capacity reductions and pricing terms causing insurers to withdraw from many tenders
  - Retentions increasing
  - Opportunities for new reinsurance entrants (and Lloyds?)



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