

# Topical Issues in Group Insurance

## LIWMPC and SPC

**8 September 2016**

This presentation does not constitute Actuarial Advice upon which to base decisions. No liability to any party will be accepted for the consequences of relying on this presentation.

# Agenda: 8 September

- Richard Land – Recent and emerging issues
- Jeff Humphreys – Sustainable insurance benefit design
- Claire Machin – New definitions, terms and conditions: legal challenges and interpretations
- Panel discussion and Q and A

# Recent and Emerging Issues

**RICHARD LAND**

# THE RECENT PAST

## ISSUE

Disability claims costs



Group insurance industry losses nearly \$1bn in 2013



## OUTCOME

PREMIUM INCREASES

TOWARDS

100%

...not uncommon



Shorter rate guarantees



Lack of insurer and reinsurer appetite



## RESPONSE



More restrictive terms including disability definitions



Increased APRA oversight

# RESPONSE



## NEW DISABILITY DEFINITIONS

- Stricter definitions
- Interpretation



## TIGHTER ELIGIBILITY

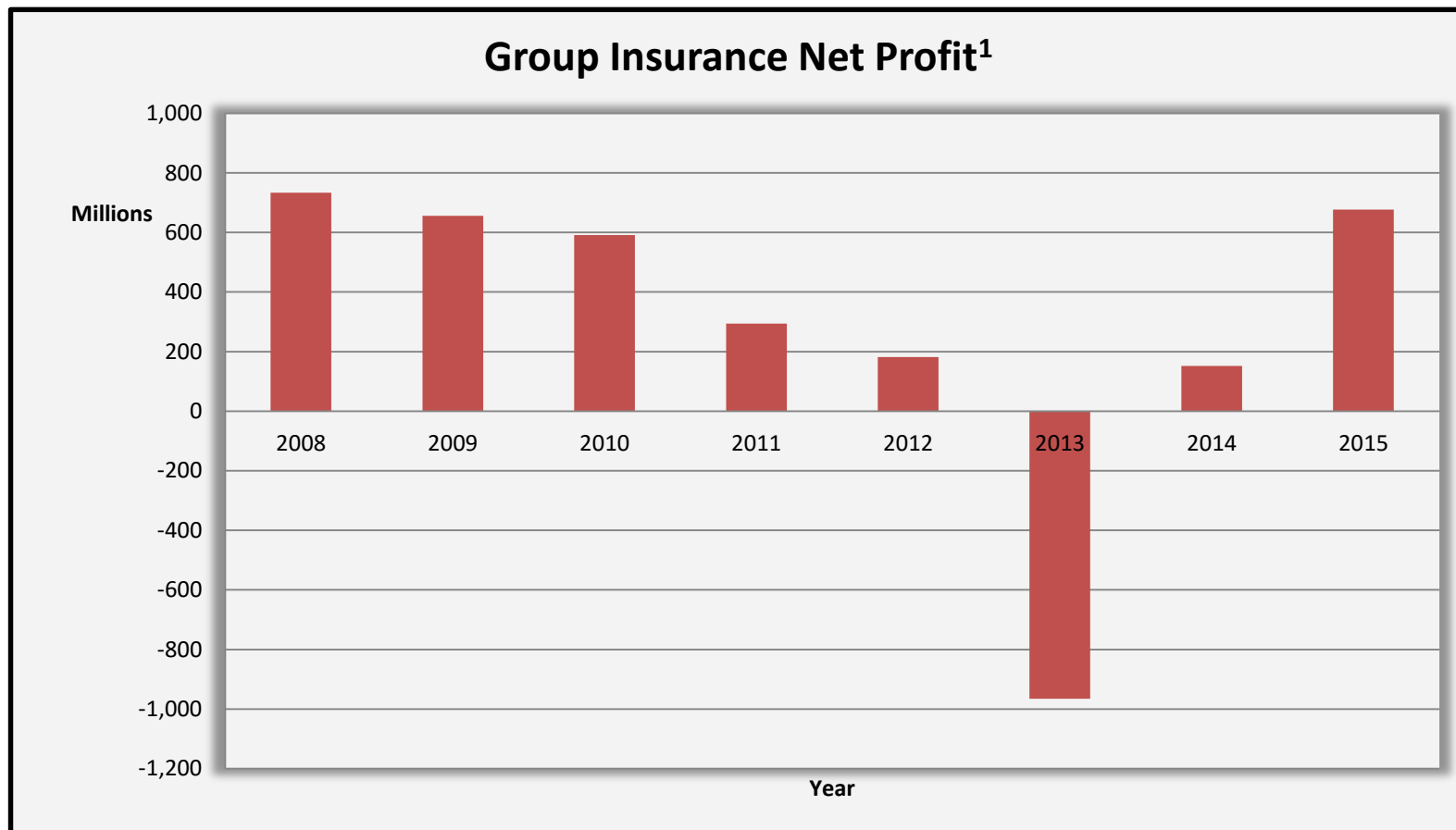


## REHABILITATION

- Facilitated by definitions
- Scope for integration



# OUTCOME 1



<sup>1</sup> APRA Quarterly Life Insurance Performance Database – August 2016. Profits are for Group Disability Income Insurance and Group Lump Sum Risk

# OUTCOME 2

## Devils are in the detail in super life insurance

Adele Ferguson | Ruth Williams

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### REST Industry Super withheld paraplegic woman's disability insurance

May 23, 2016

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## OUTCOME 3



### QSuper launches industry-first insurance company

**Monday, 23 May 2016**

Queensland's largest superannuation fund will soon offer more tailored and flexible insurance cover for its members following a major review and the establishment of a wholly-owned insurance company, QInsure.



# Observations from 4 Corners – Insult to Injury

- Not a great outcome for anyone
- *“Estimated that one in five serving police officers have, or are at risk of developing PTSD”*
- Lump Sum TPD product design covering conditions that are difficult to objectively verified.
- Being out of the police force has *“...left a gaping hole. He misses it.”*



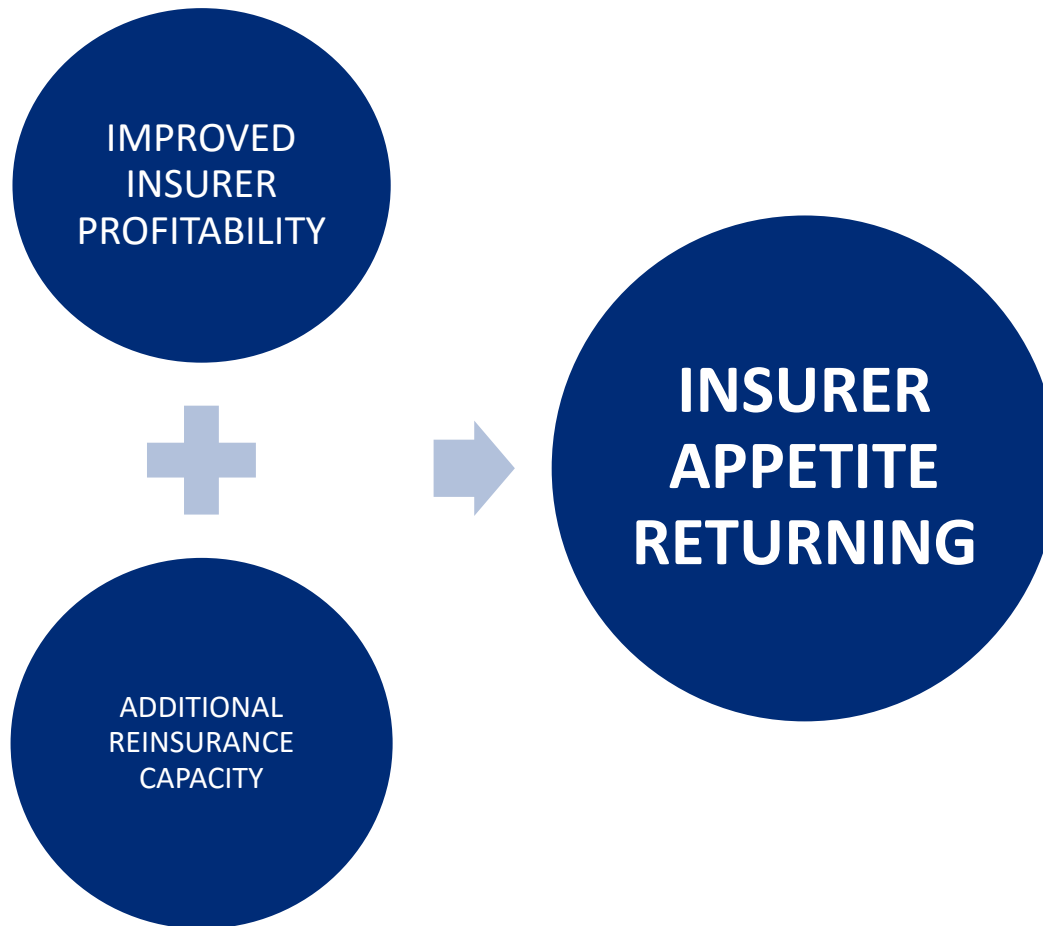
## SO IS THE CRISIS OVER?

- Progress in benefit design, rehabilitation and support
- Intersection of professions
- Significant investment in resources



# MARKET CAPACITY

...but still profitability concerns for some reinsurers<sup>2</sup>:



Profit in year to  
31 December 2015 (\$m):

RGA	-24
Munich	-17
Pacific Life Re	-13
SCOR	-2
Hannover	3

<sup>1</sup> APRA Life Insurance Institution-level Statistics – issued 8 June 2016.

# APRA'S THEMATIC REVIEW AND FUND VISITS

## Benefit Design

- Changes to eligibility conditions and definitions of disability
- How insurance cover is focussed on meeting members' needs; use of member demographics
- Alignment of interests in benefit design between insurer, reinsurer and trustee



## Pricing

- Establishing confidence in the insurer pricing
- 'Experience profit' sharing
- Steps taken to meet data requirements of SPS250

## Claims Management

- Process for reviewing declined claims
- 12 Any changes in claims management practices / strategies

# **Sustainable Insurance Benefit Designs**

**JEFF HUMPHREYS**

# Topical Issues - Sustainable Designs

- Sustainable – able to be supported
- Sustainable covers all aspects of death and disability benefits not just designs
  - Claims management
  - Relationships of the participants
  - Structures
  - Efficient
  - Fair
  - Data quality and access

# Sustainable Designs

- The Design Package
  - Price
  - Cover type and level
  - Terms and Conditions

# Sustainability - Price

“The recent industry Group Risk crisis showed us how underpricing can create dislocation with dramatic impacts on affordability and continuity of cover. Overpricing is equally, if not more, **disruptive** and **inequitable**.”

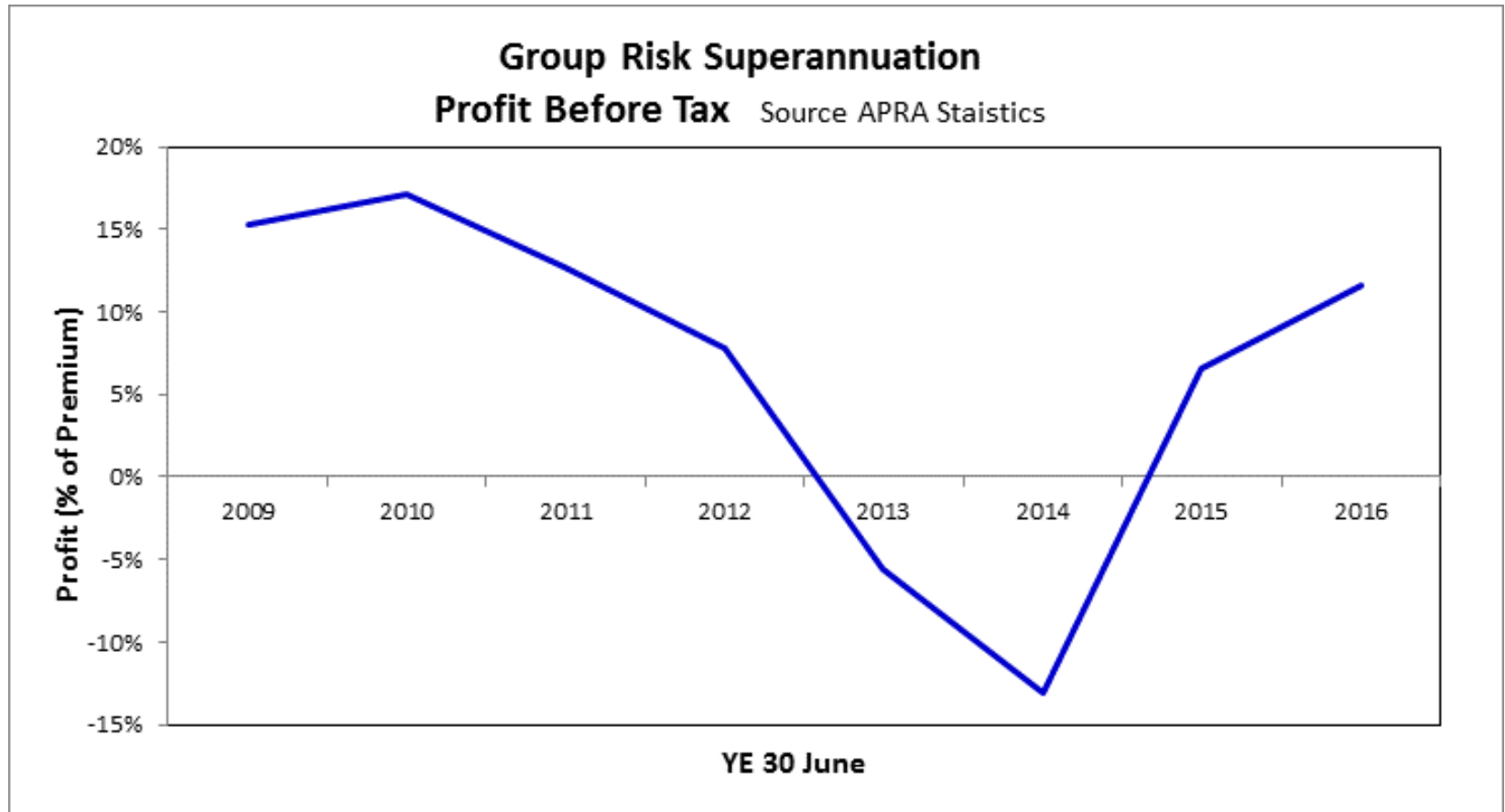
*Swiss Re*



# Sustainability - Price

- Underpricing
  - Not all funds
  - Some common characteristics
    - » TPD as only default disability benefit
    - » Very competitive tender
    - » Fixed premium design
- Underpricing extremes have come and gone
  - CareSuper
- Overpricing
  - Not all funds
  - Common characteristics
    - » TPD as only default
    - » Very uncompetitive tender
    - » Fixed premium design
- Overpricing extremes have not gone

# Profitability



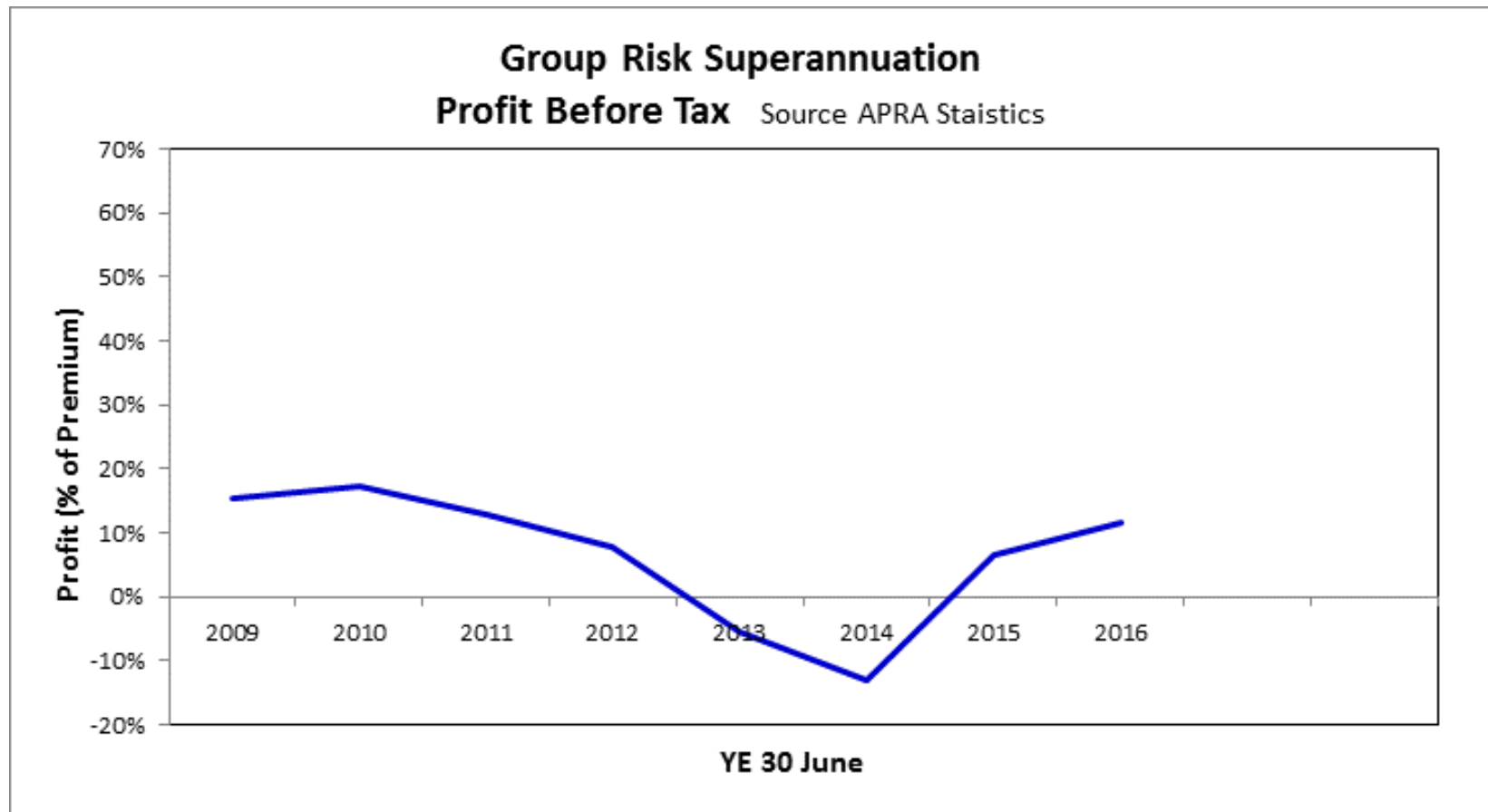
# Sustainability - Price

- Overpricing occurs through
  - Premium rates
  - Terms and conditions – receiving less for the same price
    - » Risk controls that become standard benefits
    - » Watered down definitions
    - » Limited cover
    - » Indiscriminate discrimination
      - Casuals
      - New members

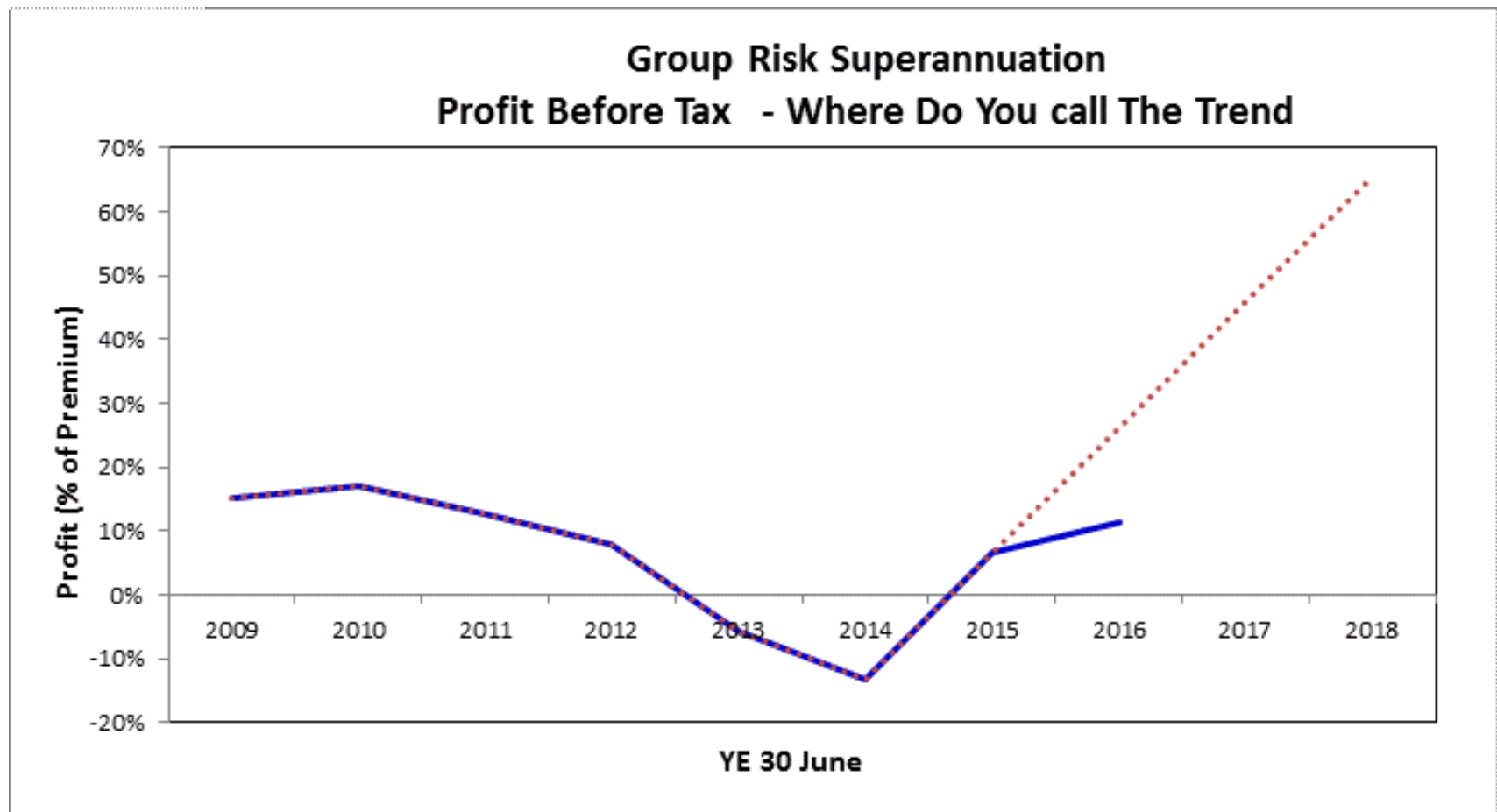
# Sustainability - Price

- “Overpricing is equally, if not more, **disruptive** and **inequitable**”
- **Disruptive** (Supply) – an open invitation to direct and indirect competitors and the development of alternative long term structures
- **Inequitable** (Demand) – consumer
  - buys less of your stuff
  - goes to other (existing) suppliers
  - looks for alternative structures and ways of delivering the outcome
  - may never come back
- Deliberate overpricing reduces the long term value of the business from that which it might have been
- The cycle of underpricing and overpricing has driven change

# Profitability – Where is it Heading?

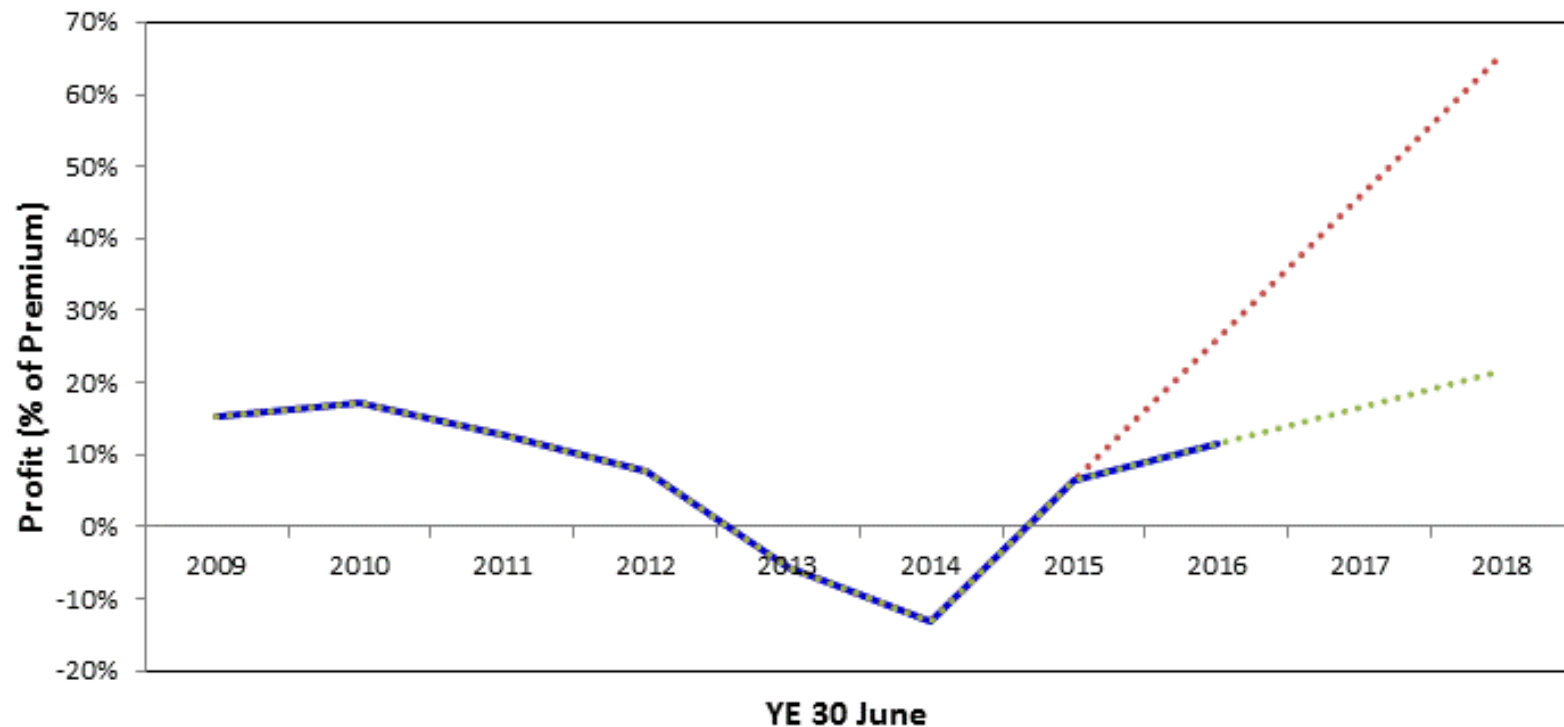


# Life Insurer Profitability



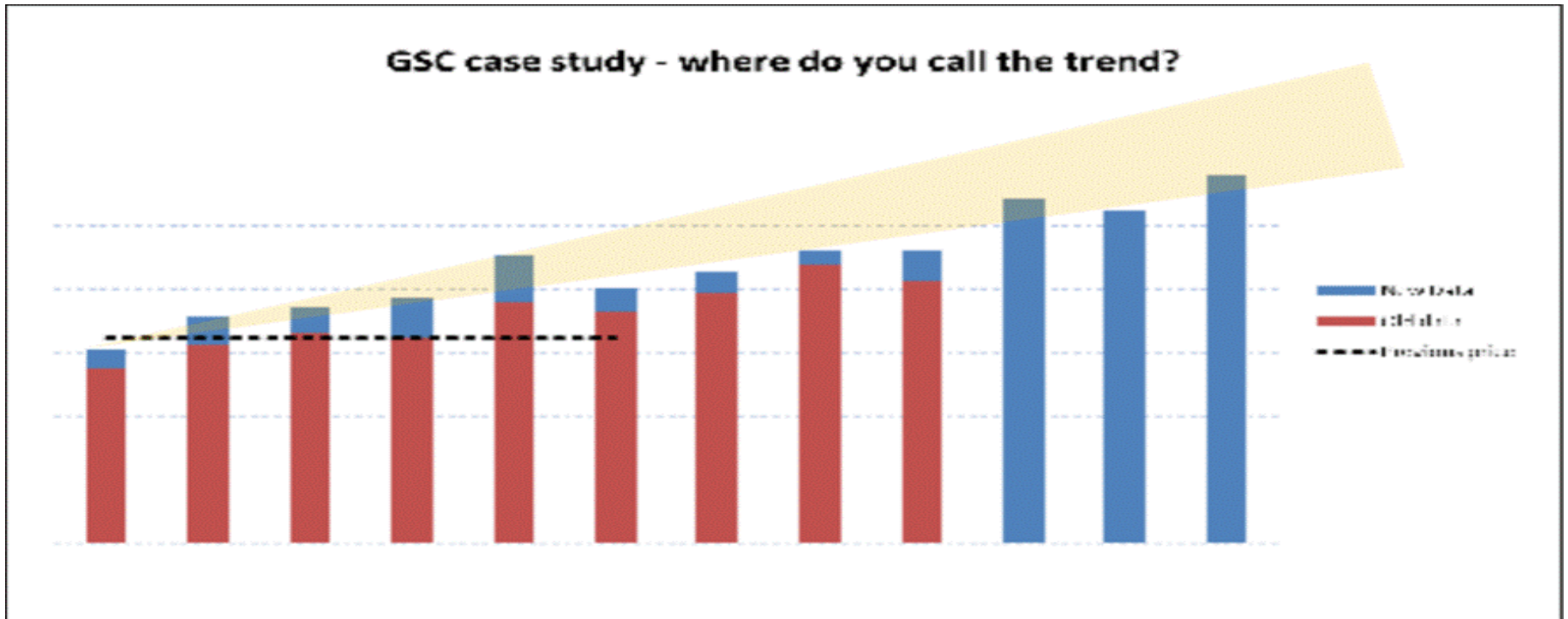
# Life Insurer Profitability

**Group Risk Superannuation**  
**Profit Before Tax - Where Do You call The Trend**



# Sustainable Pricing – The TREND

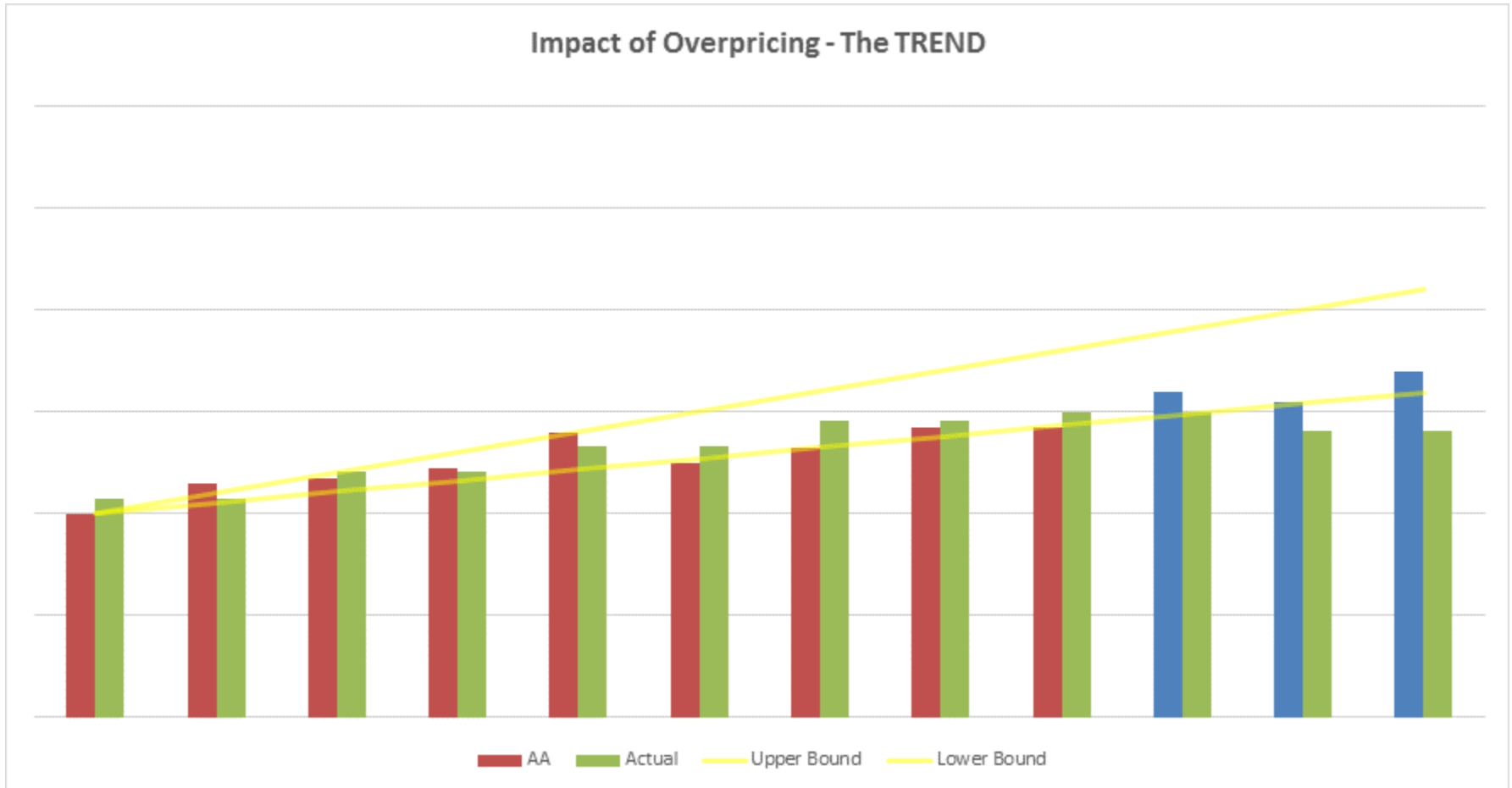
## Estimated Loss Ratios





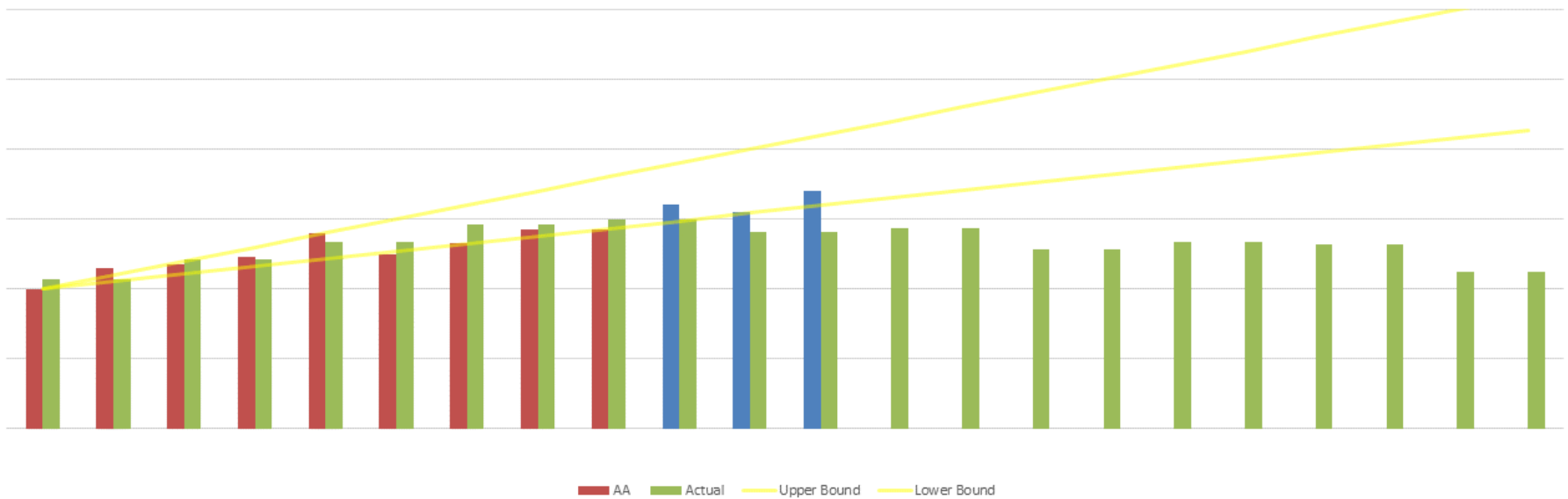
# Sustainable Pricing – the TREND

Impact of Overpricing - The TREND



# Sustainable Pricing – the TREND and Overpricing

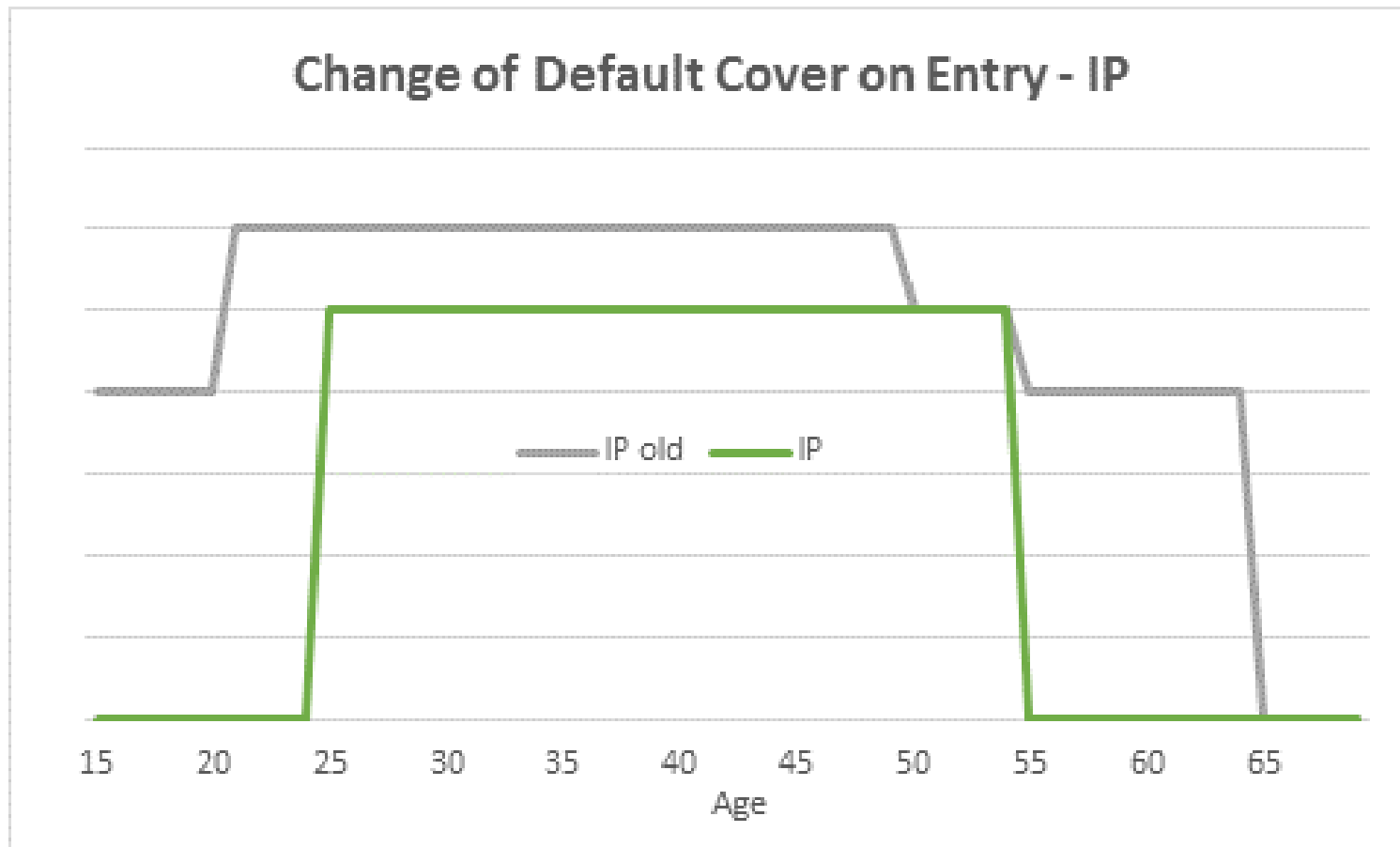
Impact of Overpricing - The TREND



# Sustainability

## IP Premiums Up, Inefficient Market

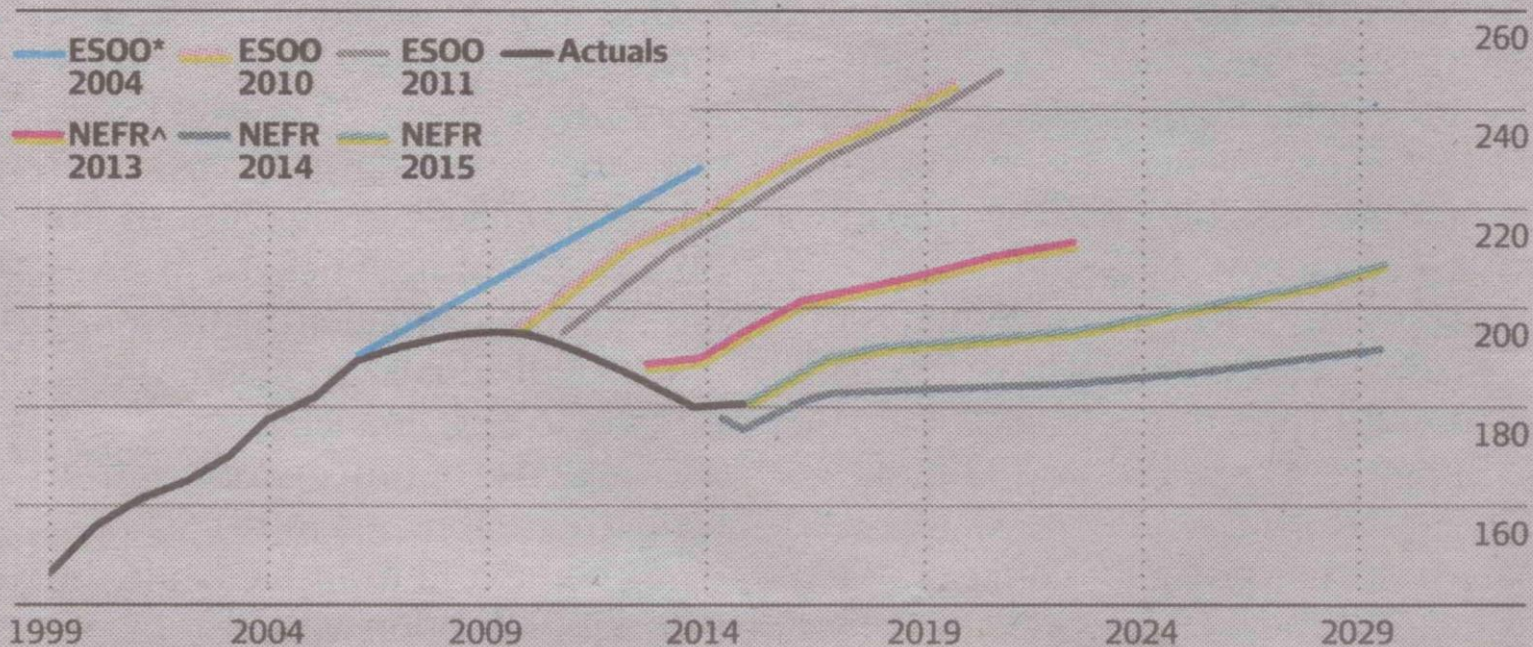
### People want less, Lapsed Cover Up



# Sustainable Pricing – The TREND

## Overpowering problem

Forecast and actual demand on National Electricity Market (TWh)



\*Australian Energy Market Operator's: Electricity statement of opportunity

^Australian Energy Market Operator's: National electricity forecasting report

SOURCE: AEMC

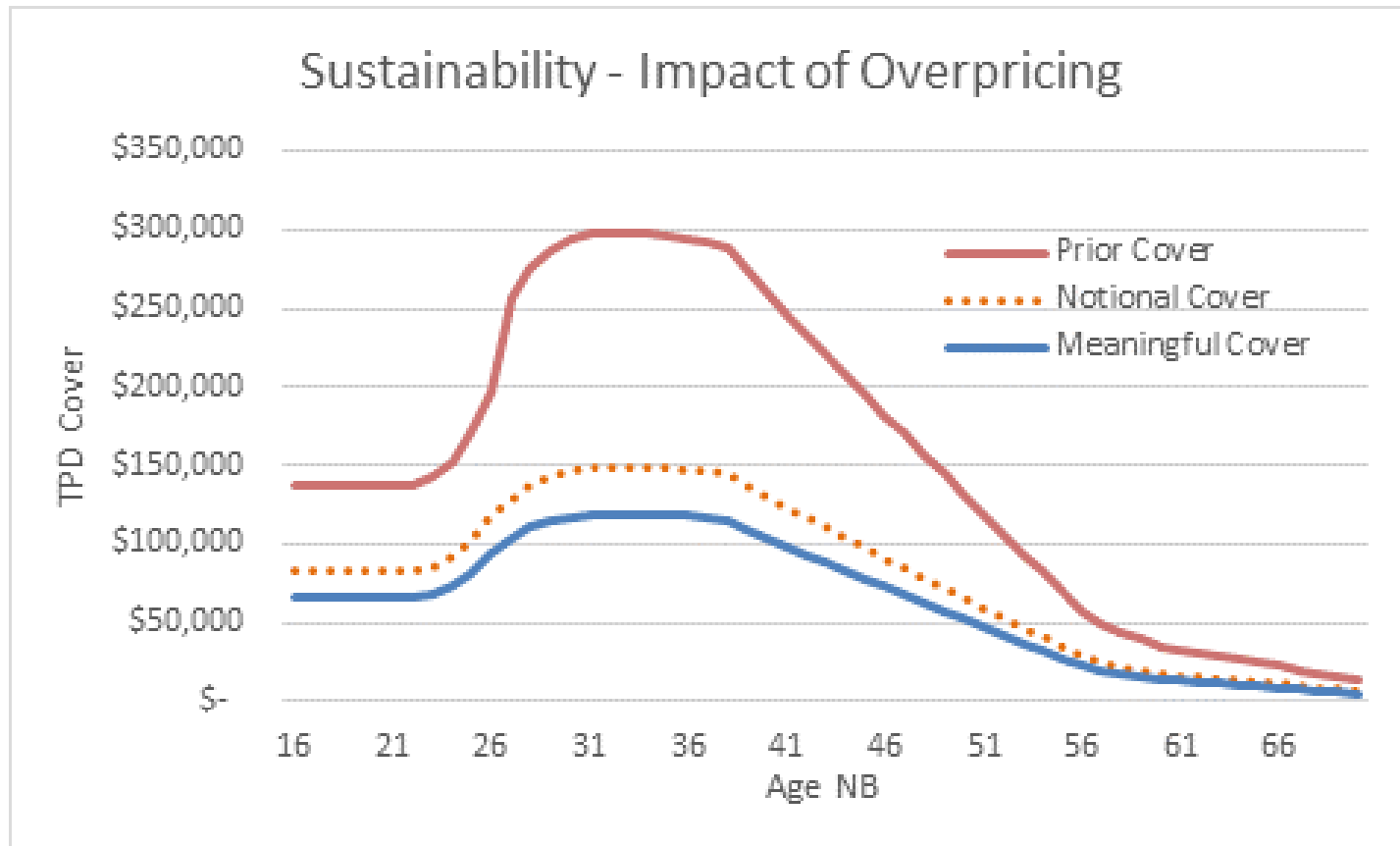
# Sustainable Pricing – The TREND

- The TREND
  - As the rocket launcher
  - Has damaged the actuarial profession's credibility

# Sustainability

## TPD Premiums Up, Inefficient Market

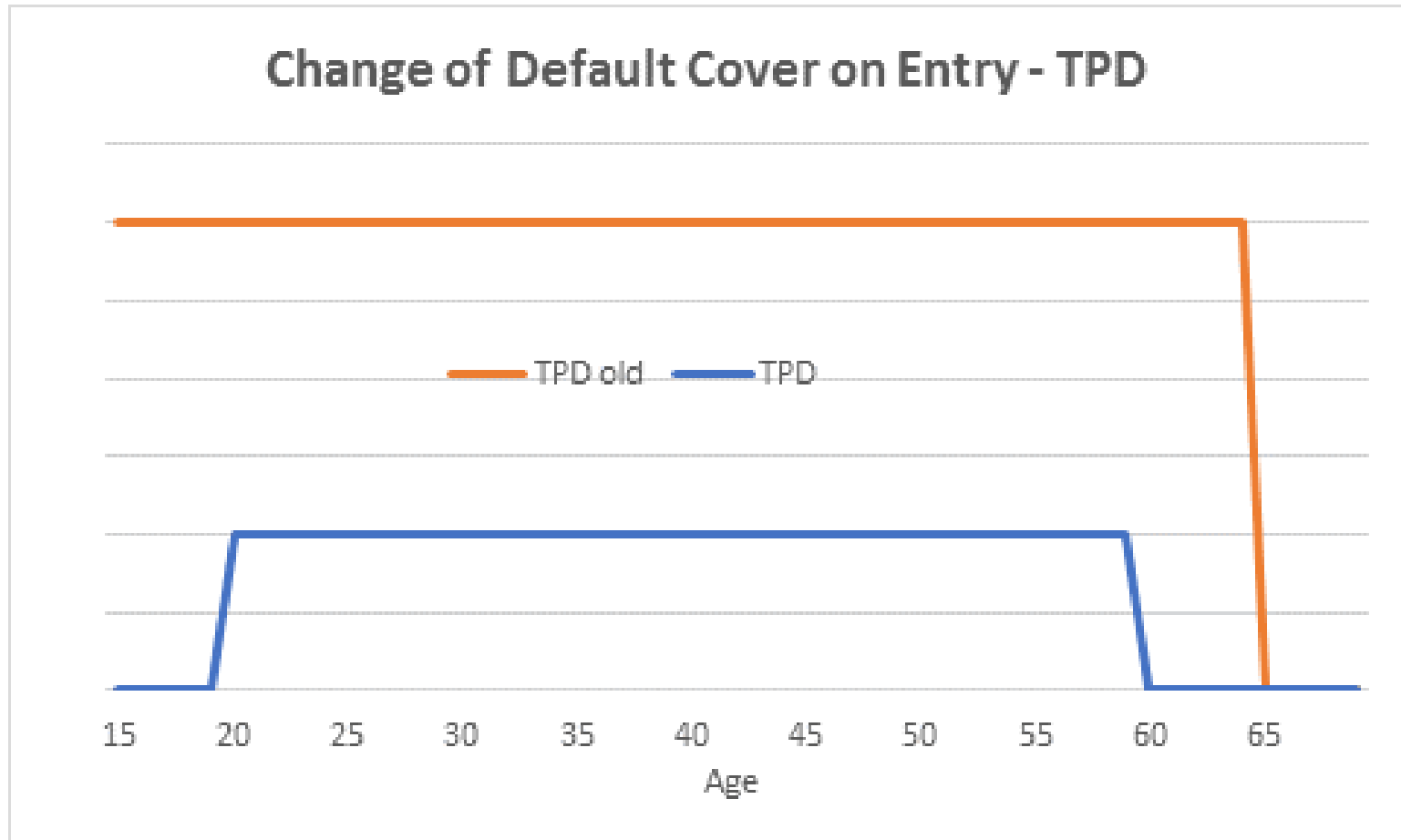
### People want less, Lapsed Cover Up



# Sustainability

## TPD Premiums Up, Inefficient Market

### People want less, Lapsed Cover Up



# **Sustainability – Overpricing Alternative Structures Deliver the Desired Outcome People want None**

- QSuper
  - Plan A – insure
    - Preferred position
    - Insurers provided poor value
    - Insurers provided the financial case for Plan B
  - Plan B – self insure with a captive insurer
    - Reinsurers very supportive
- Regulator imposed inefficiency
- Disruptive impact of overpricing
  - Opportunity cost
  - Created a competitor



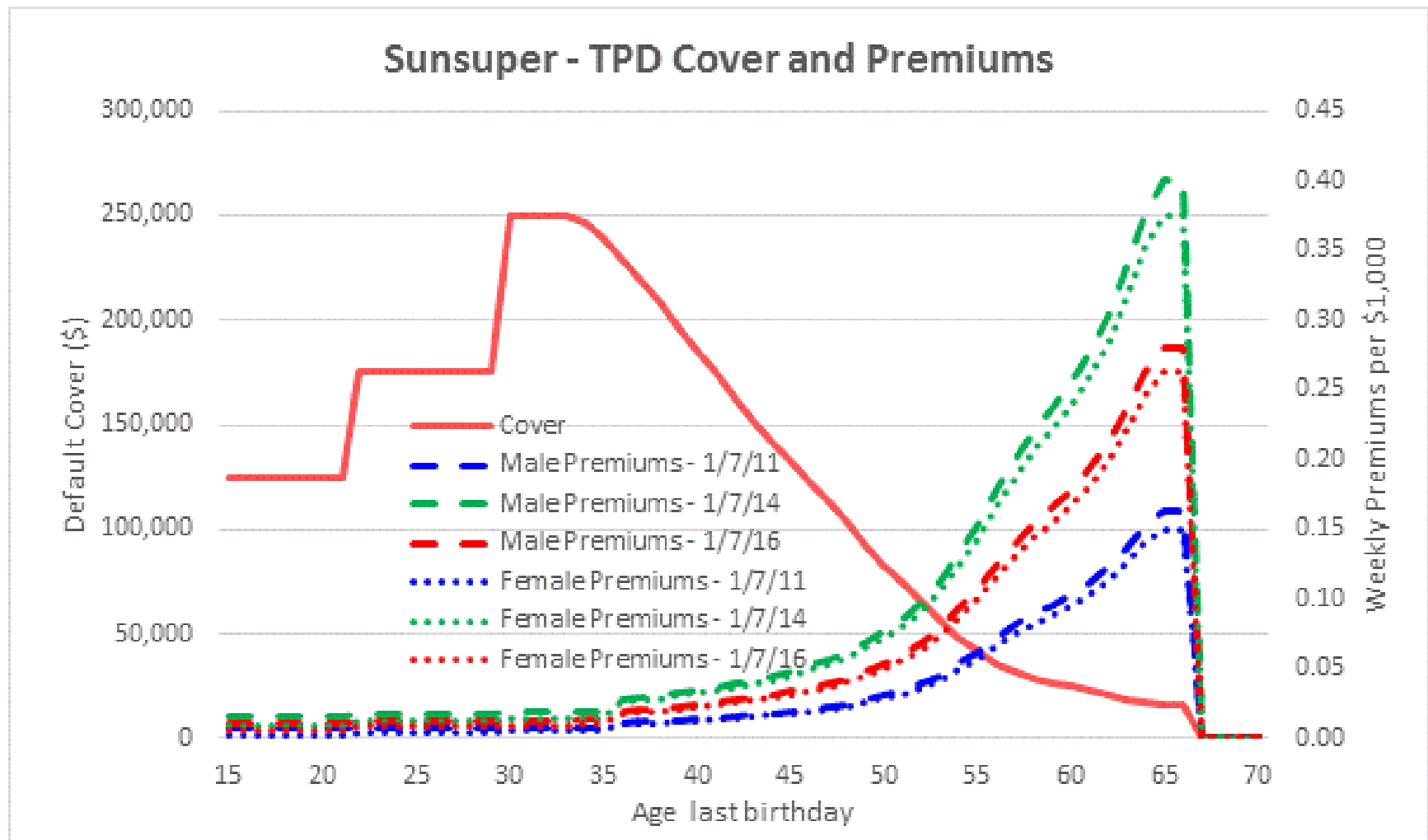
# Sustainable Designs

- How have some funds adjusted their designs – some examples
  - Sunsuper
  - PSSap
  - REST
- For all 3 – a clear focus on the member
  - Needs
  - Affordability
  - Fair value

# Sustainable Default Designs

- Sunsuper – TPD, no IP
- Design – TPD Assist
  - Based around TPD claimant survey
  - TPD definition - Unable
  - 6 equal instalments over 5 years unless very TPD
  - Full TPD assessment for each instalment
  - No waiting period
  - Return to Work and employer engagement
  - Sunset clause - 5 years to report

# Sustainable Designs - Sunsuper



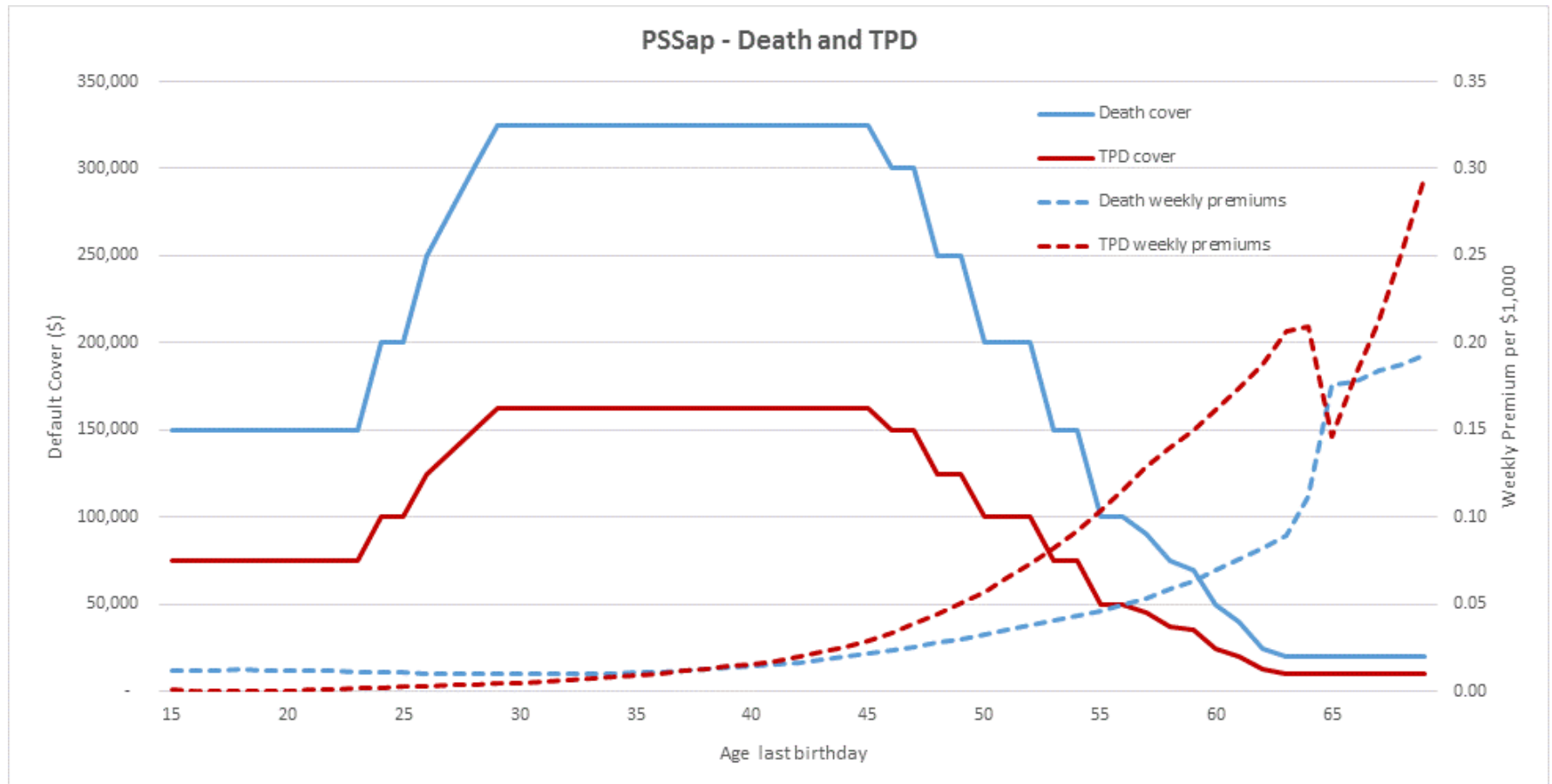
# Sustainable Designs - Sunsuper

- Advantages
  - Easy transition for members, continuity of the scale
  - Cost savings - instalments, annual assessment, return to work, sunset
  - Assist members back to work, engage employers for early reporting
  - Tax free
  - SI not provided generally as a lump sum
  - Experience more certain – sunset
  - Less economical for lawyers
- Issues to watch
  - Under insurance and over insurance
  - Cost of 6 assessments
  - Economies of disputes
  - Speed of TPD assessment, financial pressure on member
  - Sunset condition
  - Compulsory rehab

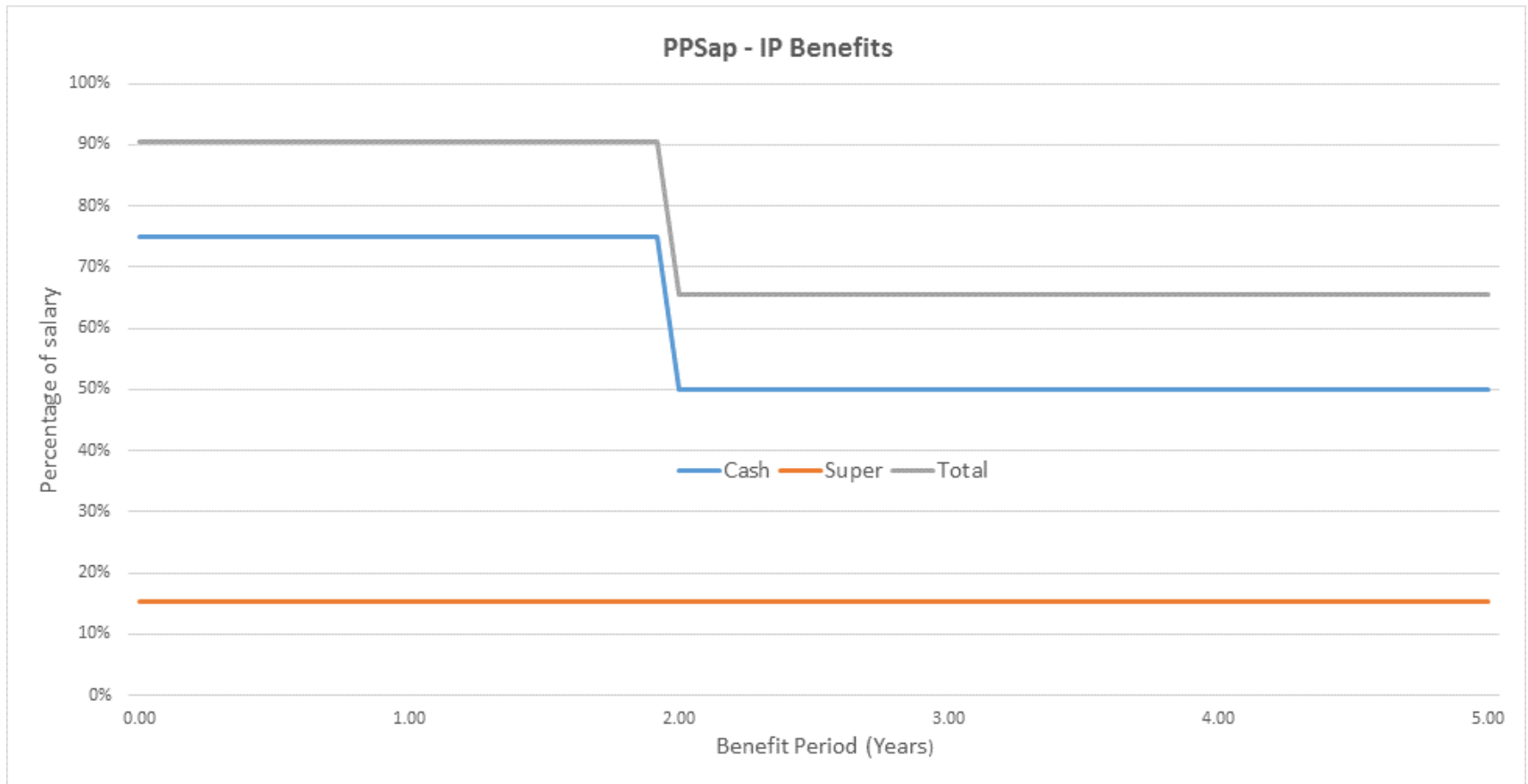
# Sustainable Default Designs - PSSap

- Design – Death
- Design – Disability – integrated TPD and IP
  - Lower TPD
  - TPD definition – SIS/Unlikely
  - IP for 5 years
  - TPD assessed after 2 years
  - IP definition change at 2 years
  - IP cover change at 2 years
  - Superannuation contribution throughout
  - Transfer cover
  - New members - Limited Cover

# Sustainable Designs - PSSap



# Sustainable Designs - PSSap



# Sustainable Designs - PSSap

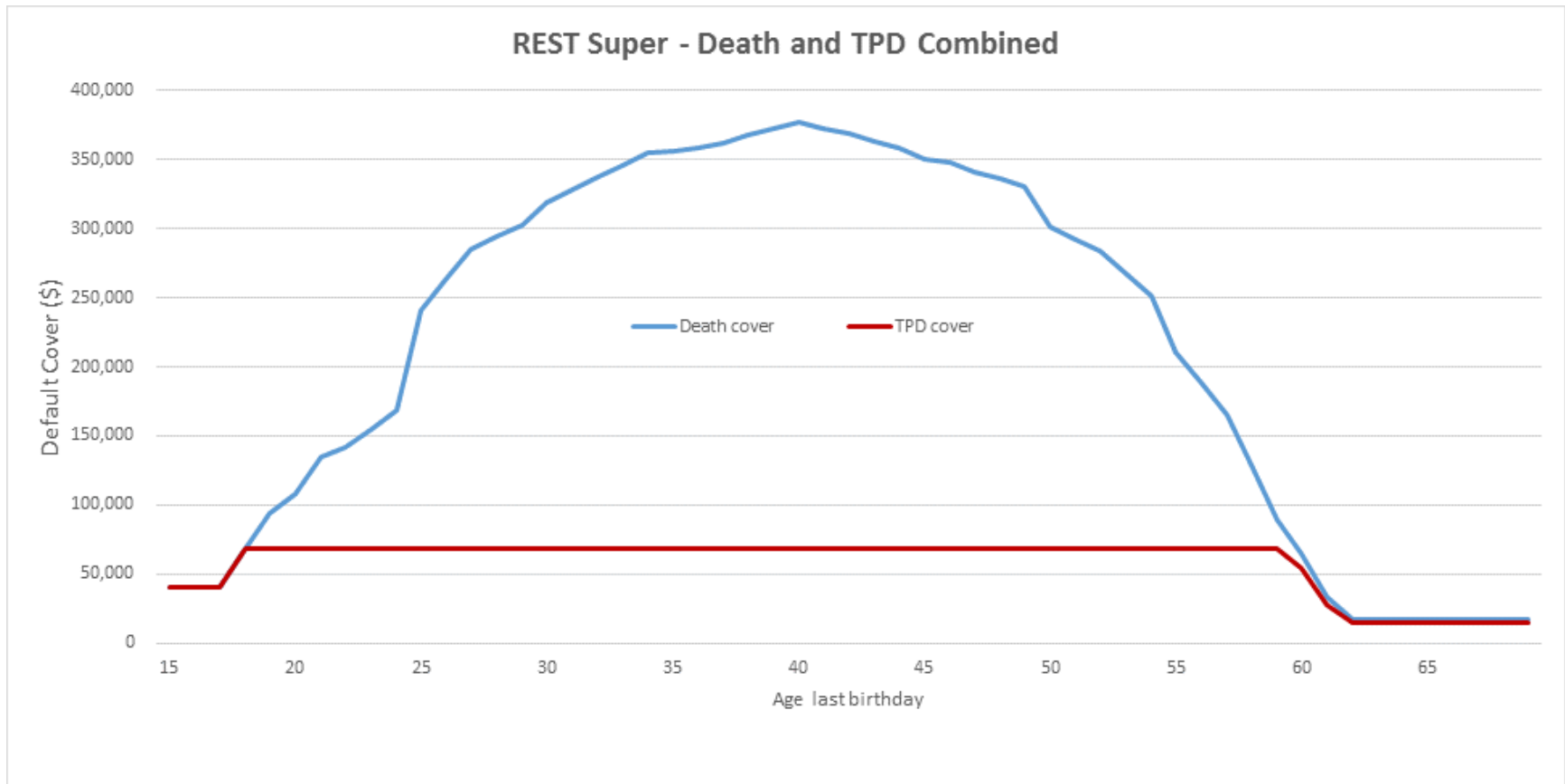
- Advantages
  - Simplicity
  - Needs based
  - Integration of IP and TPD so they complement to form a disability package
  - Superannuation contributions maintained
  - Ability to assess TPD with full knowledge and after return to work strategies
  - Financial pressure taken off the member through IP
  - Assist members back to work
  - Retains SIS TPD definition
- Issues to watch
  - Needs
  - Limited cover



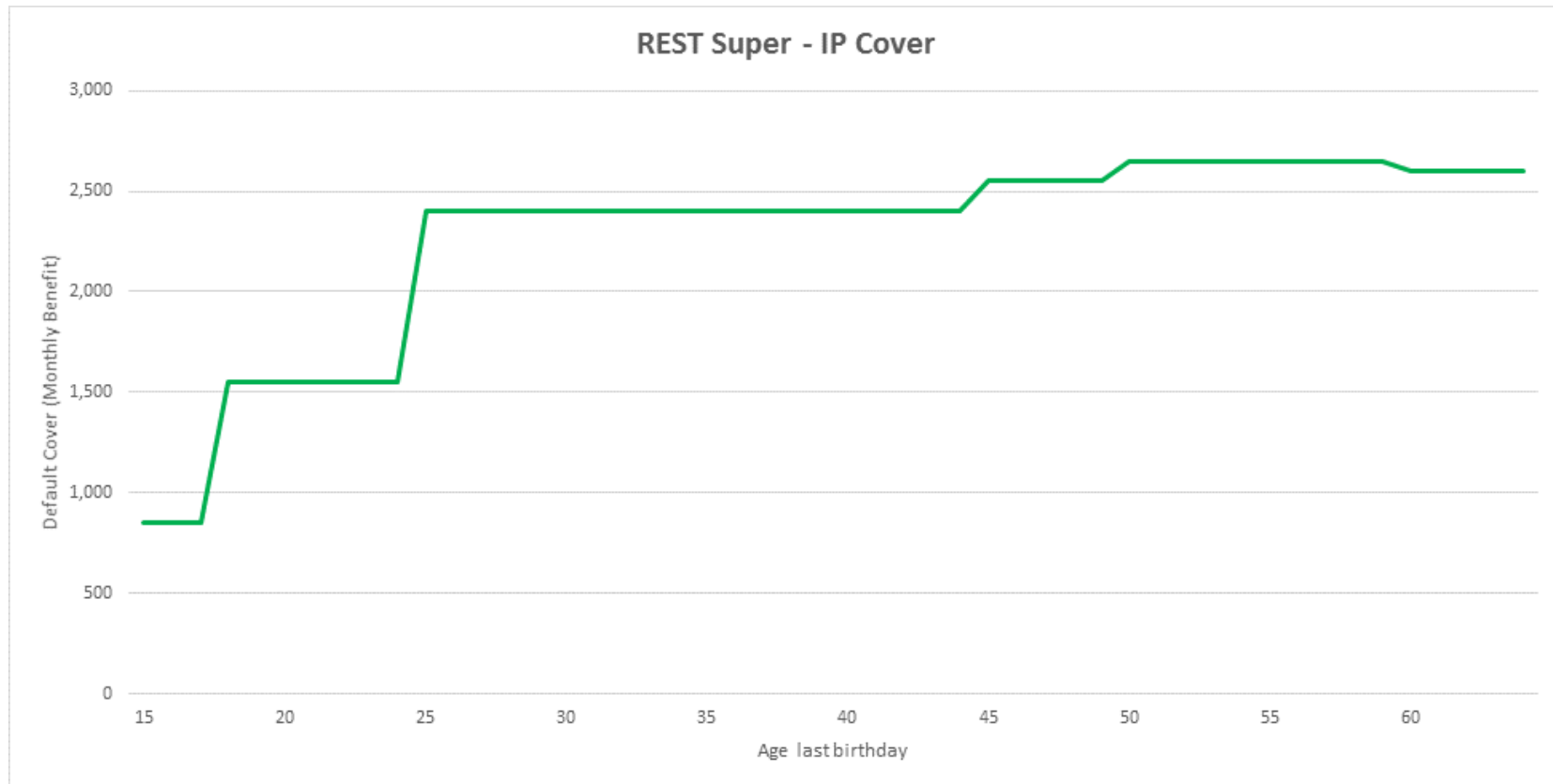
# Sustainable Default Designs – REST

- Design – Death
- Design – Disability – integrated TPD and IP
  - Lower TPD
  - TPD definition – SIS/Unlikely
  - IP to Age 60, indexed to wages (AWOTE)
  - IP definition change at 2 years
  - Superannuation contribution
  - Cover reinstatement
  - Low AAL and AAL options
  - TI as lower of death and TPD SI

# Sustainable Designs - REST



# Sustainable Designs - REST

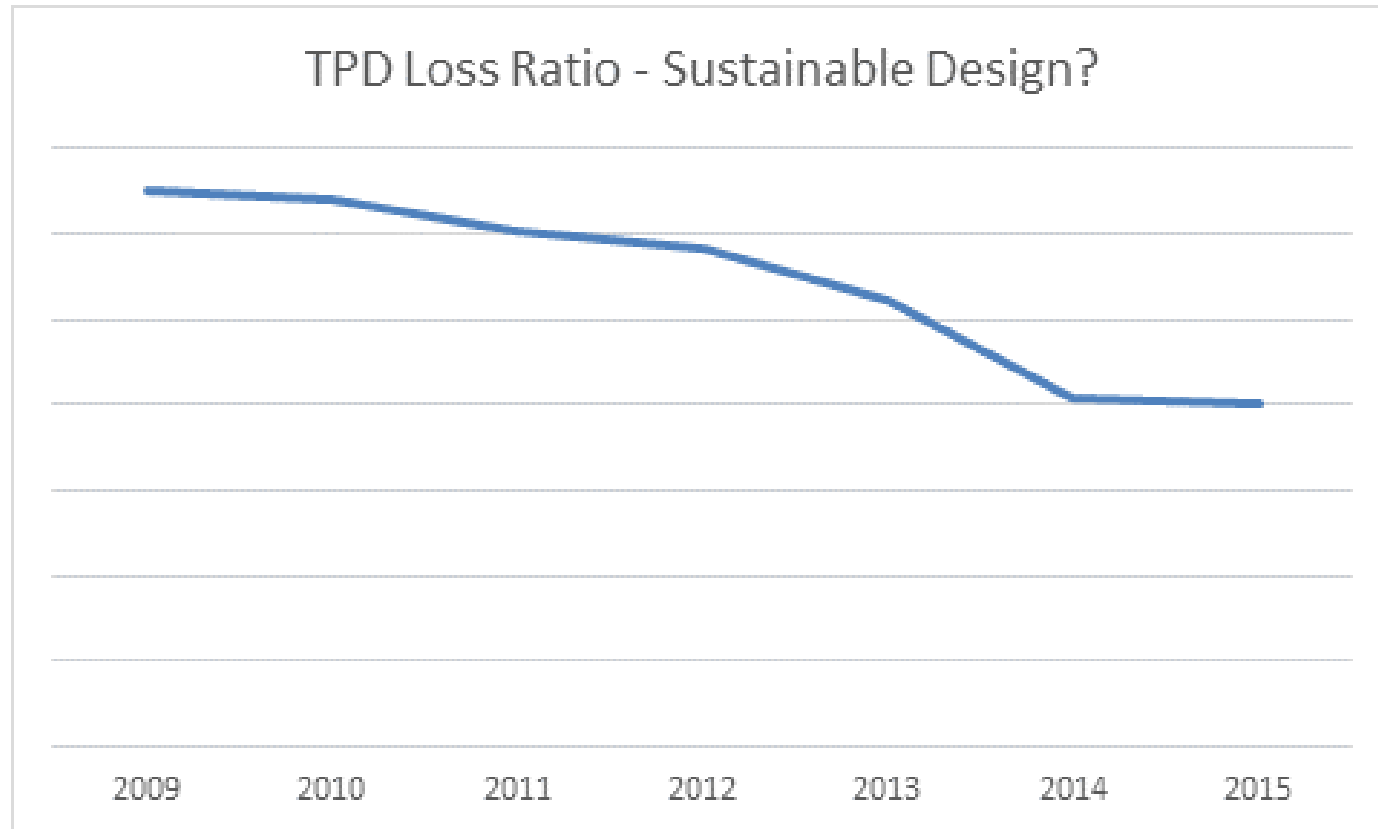


# Sustainable Designs - REST

- Advantages
  - Integration of IP and TPD, each having a clear purpose and objective
  - Needs based, income stream lost and replaced
    - indexed to community standards
    - Superannuation contributions maintained
  - Reinstated cover
  - Financial pressure taken off the member through IP
  - Retains SIS TPD definition
  - TI
  - Automatic annual cover increase, cover remains relevant
  - Return to work assists members, impacts TPD
  - Relatively stable premium changes
  - Unchanged entry conditions over many years
  - Substantial claims history being built
- Issues to watch
  - Long term IP
  - IP claims management

# Sustainable Designs - REST

## Do they make a difference?



# **New definitions, terms and conditions: legal challenges and interpretations**

**CLAIRE MACHIN**

- Evolution or Revolution - the move from **education training** and **experience** to **RRETE**
- **TPD** payments by **instalment** versus **lump sum** implications for the test of permanent incapacity
- **unable ever** and **unlikely ever**
- *TAL Life Limited v Shuetrim* (2016) NSWCA
- **Sunset clauses**
- Regulators focus - **culture** and **claims management**
- **Senate Inquiry** and **media focus 2016**
- Debate about **fairness** and **transparency**

# Panel Discussion and Q & A