

# **Fund Experiences and Issues for Insured Benefits in Superannuation Funds**

**Superannuation Practice Committee**

**30 March 2015**

# AustralianSuper Perspective

- The future of TPD
  - Low insurer appetite for many current TPD definitions
  - Lump sum v income benefits
  - Alignment with needs
- Flexibility of the reinsurance market
  - Small number of reinsurers
  - Insurers acting as reinsurers
  - Relationship between insurer and reinsurer

# AustralianSuper Perspective

- Competitive tenders
  - ❑ Challenges for large funds
  - ❑ Alternatives
- Is it a capital capacity issue or a human capacity issue?
  - ❑ Pricing
  - ❑ Claims management
- Trustee considerations
  - ❑ Implications for Insurance Management Framework
  - ❑ How to satisfy fiduciary duty to members and SPS250 requirements

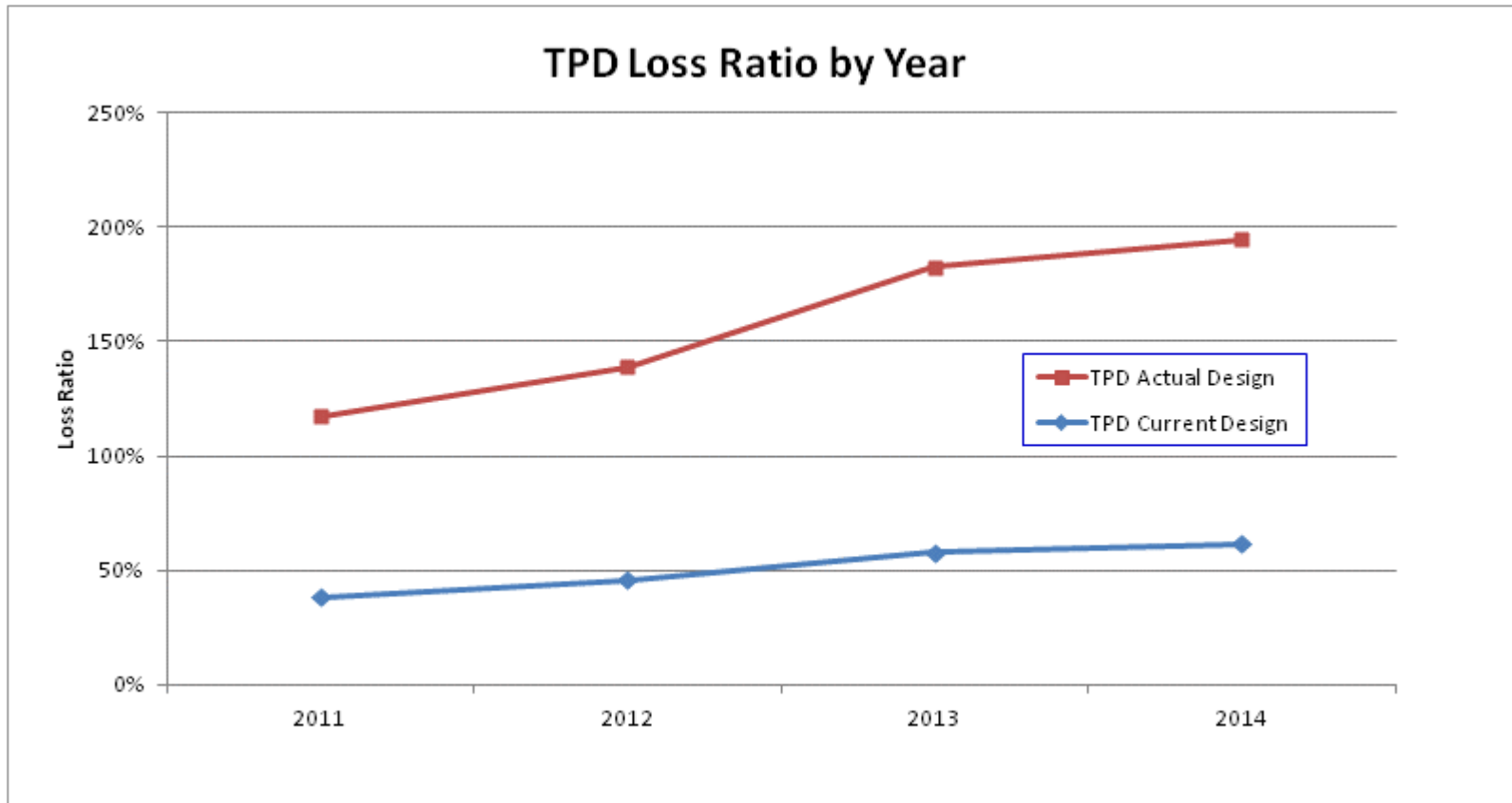
# NESS Super Perspective

- Pricing issues
  - ❑ Large shifts in pricing methodology over the last 2 years;
  - ❑ Influence on pricing by industry wide experience rather than Fund experience;
  - ❑ Pricing models being used – role of actual claims experience?
  - ❑ Role of conservatism in insurer's pricing models?
- Competitive tenders - Insurers capacity to tender in the annual rerating cycle;
- Greater concentration of insurance risk - smaller number of funds and larger levels of total sums insured.

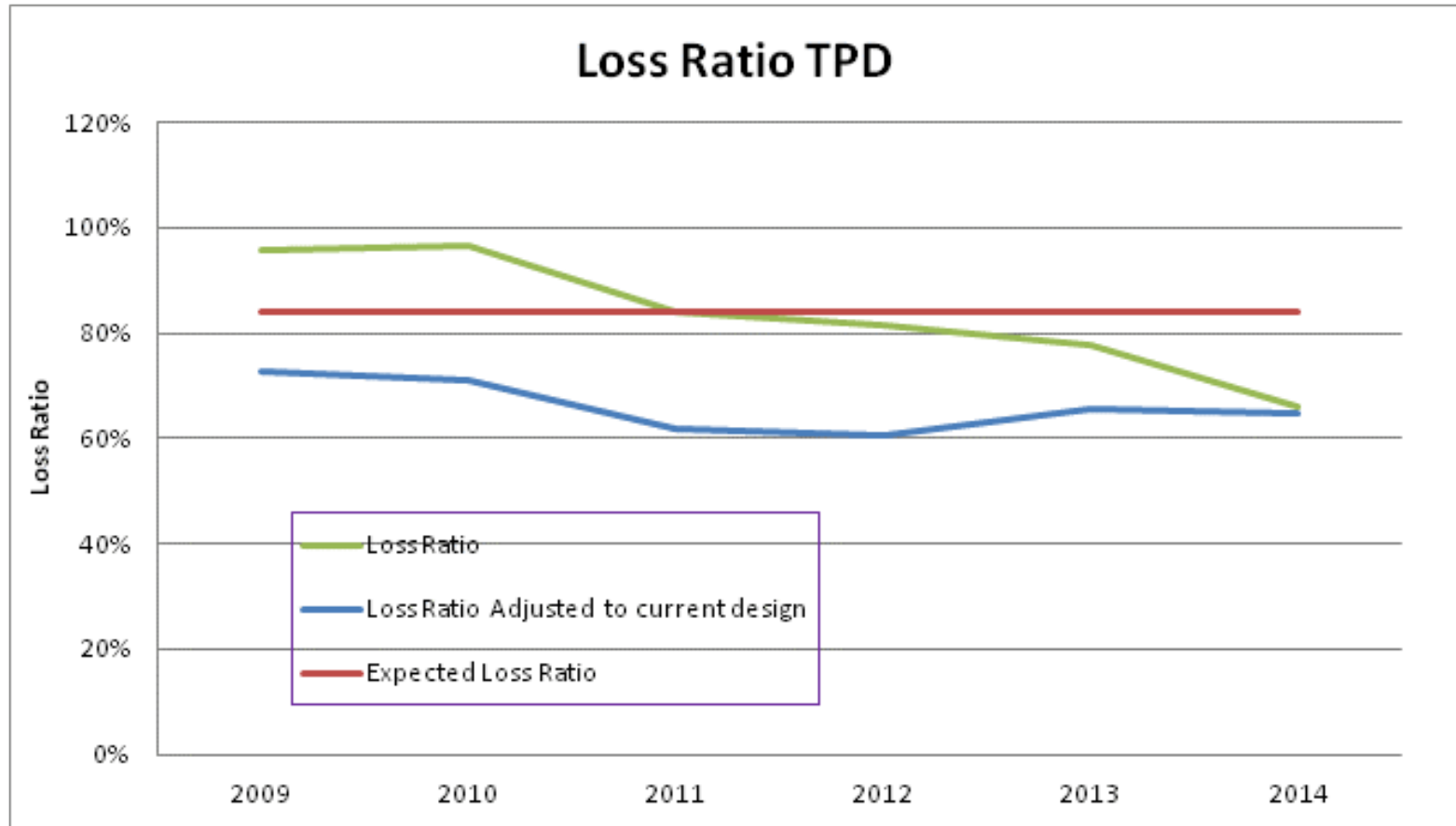
# Consulting Perspective

- Myths
  - Every fund has very poor experience
  - Every fund has received big premium increases
  - Every fund has to have big premium increases
  - Every fund has to wind back their terms and conditions
  - The fact I issued a policy that was unsustainable is the fund's fault
  - The industry has poor practices

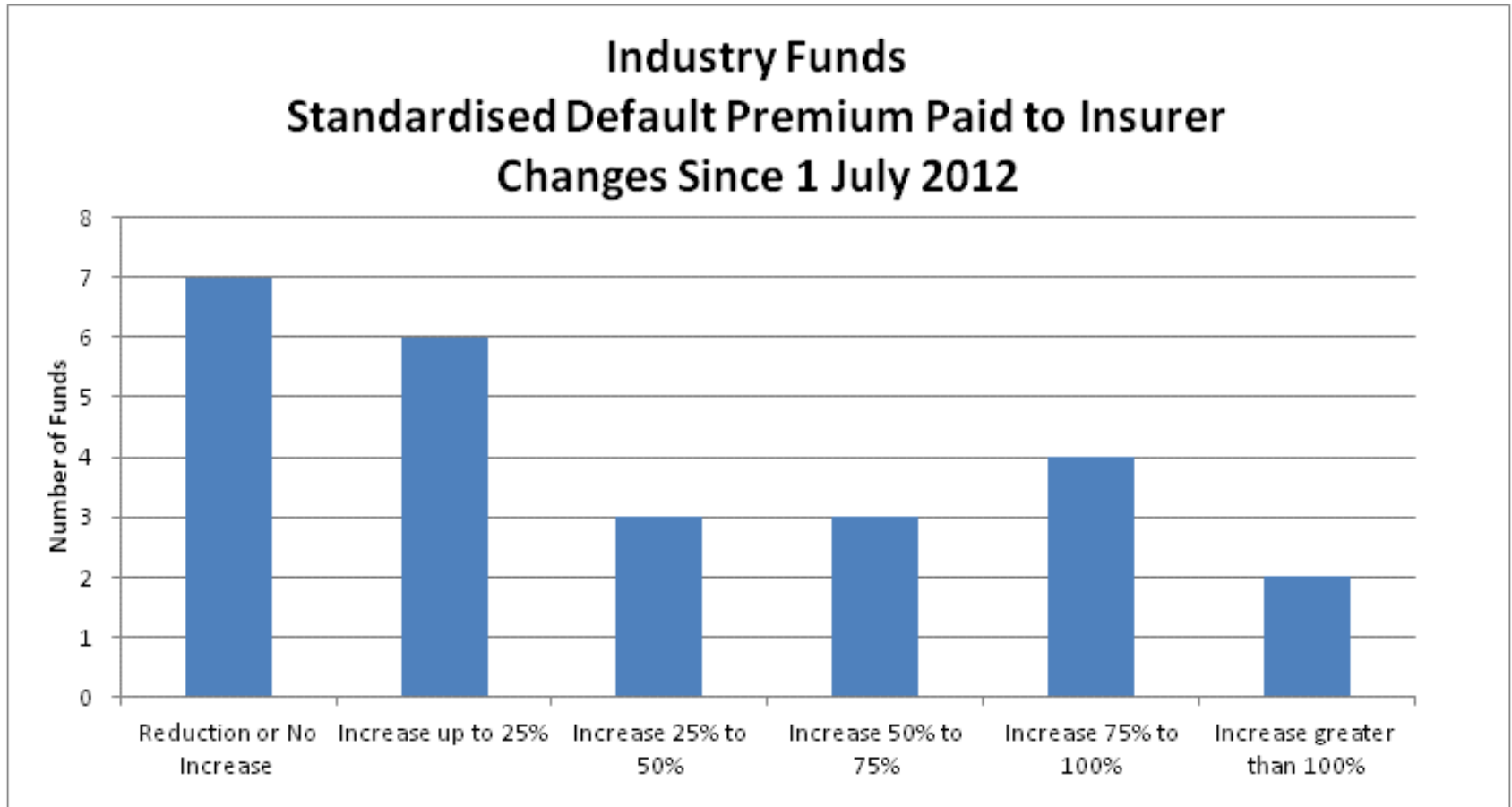
# Consulting Perspective



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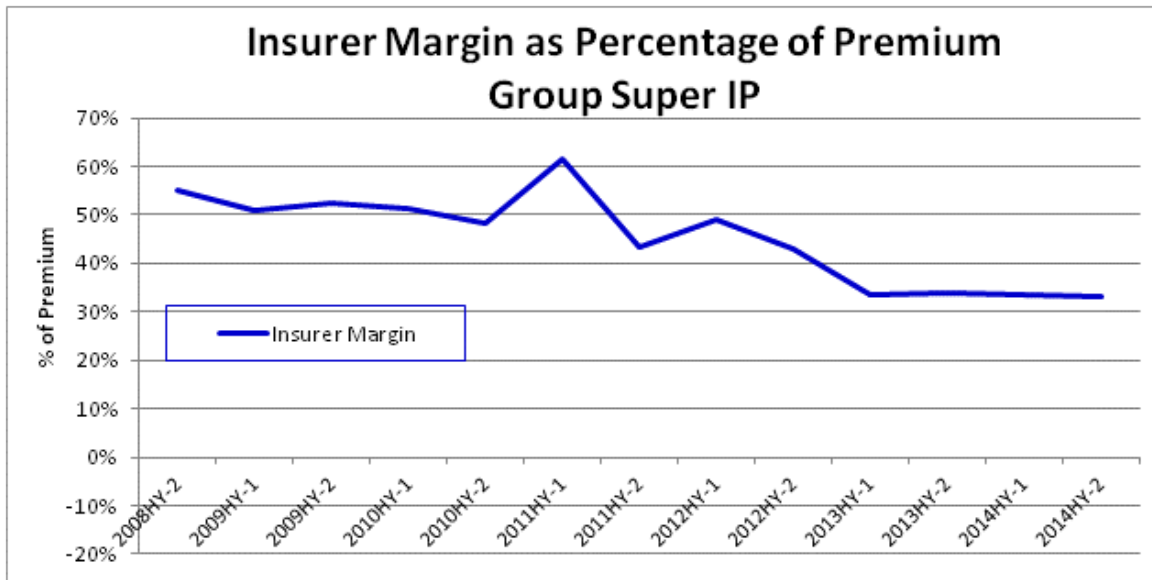
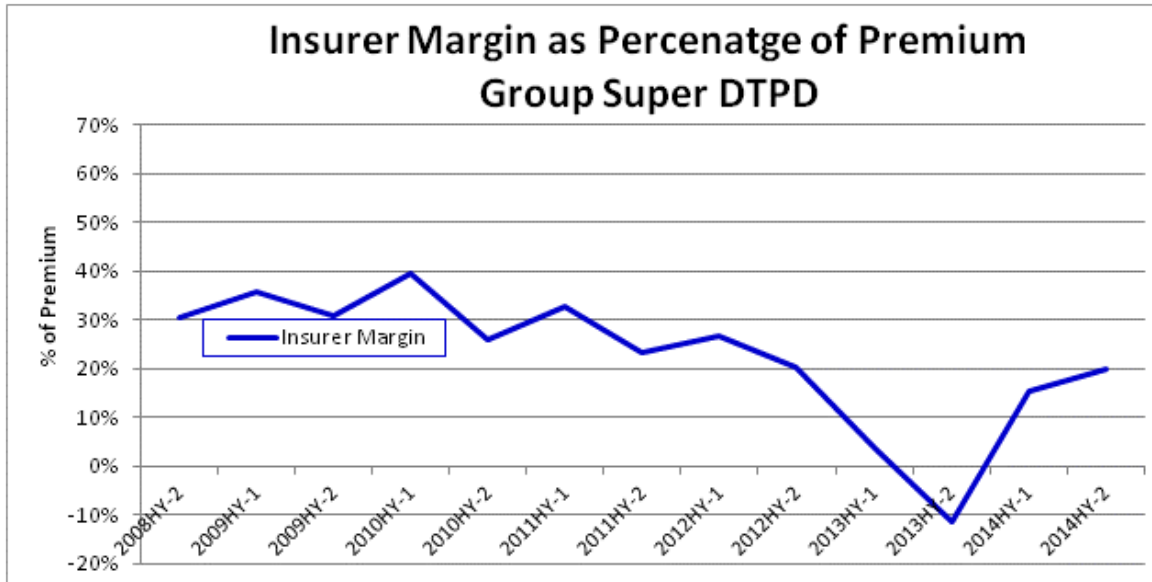
# Consulting Perspective

- APRA statistics show premiums have increased 299%, operating expenses 263% since 2009
  - But large proportion of operating expenses are independent of premium
  - Reflects staff shortages, lack of competition, costs of regulation, inefficiencies not being addressed?

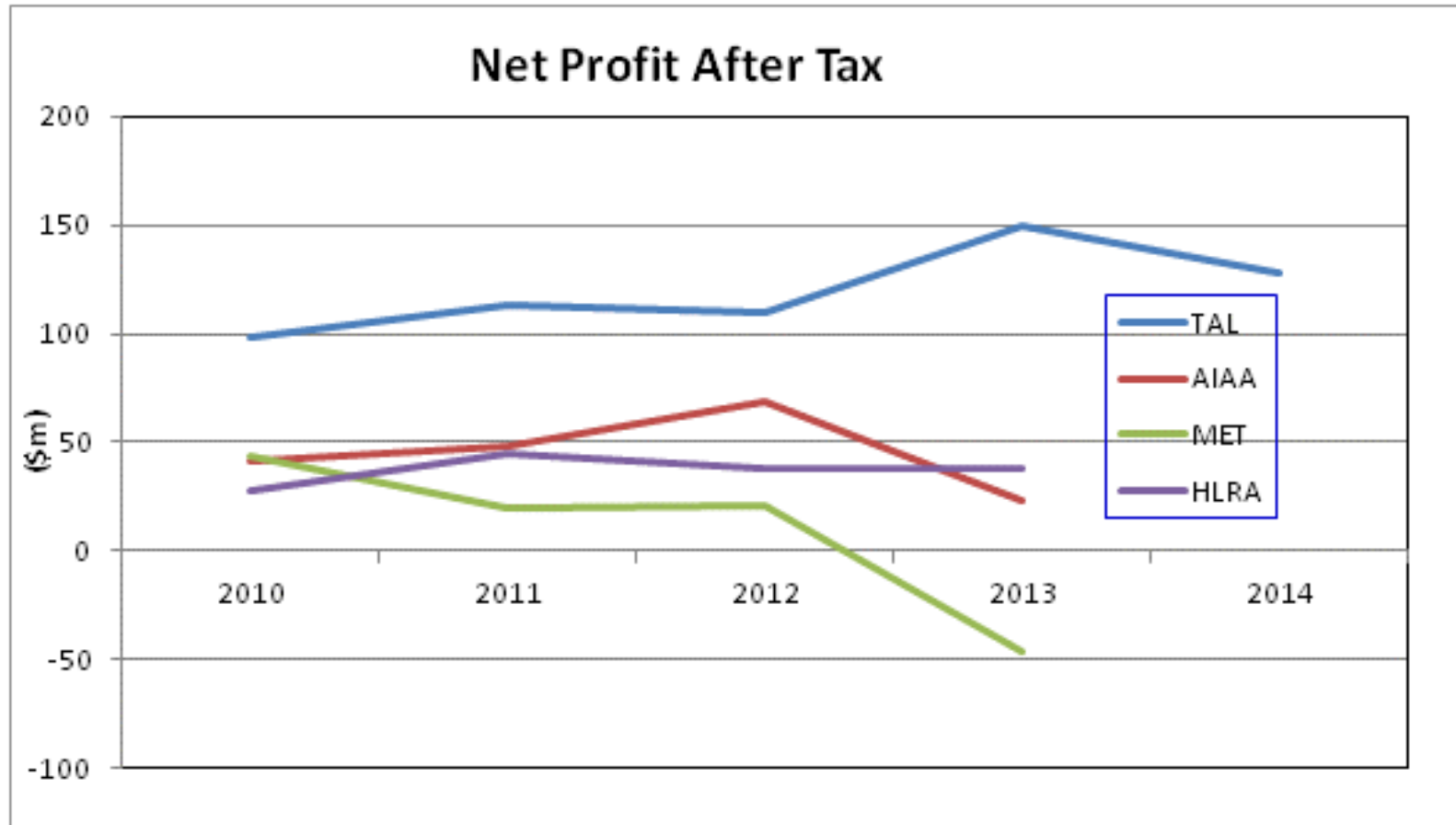
# Consulting Perspective

- APRA profitability statistics are deficient because they don't disclose the actuarial profit for a risk period
  - APRA profit is disclosed for a period as:
    - premium for the period less
    - claims for that period less
    - **changes to the claims experience of prior periods**, less
    - expenses
- Can be overcome a bit by summing profit over longer periods
  - Group superannuation Profit since 1 July 2008 = \$700m
  - Group superannuation Operating Expenses since 1 July 2008 = \$3,900m

# Consulting Perspective



# Consulting Perspective



# Consulting Perspective

- Actuarial practice
  - Variations in experience v Trends

# Discussion

# Discussion

## Discussion of issues and solutions

1. What is the experience of funds and their advisers and the issues they encounter when dealing with the group insurance market
2. Why is the group insurance market not creating a competitive market for most funds?
3. How should a Fund assess the design changes suggested/imposed by insurers
4. How should the SIS Covenant (inappropriate erosion of retirement savings) be applied by trustees
5. Innovation in claims assessment and service delivery
6. Retrospective premium changes
7. Other areas of interest/concern

# Discussion

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# Discussion

Why is the group insurance market not creating a competitive market for most funds?

# Discussion

What are the design changes being suggested/imposed by insurers

- How should a Fund assess these

# Discussion

How is/should the SIS Covenant (inappropriate erosion of retirement savings) be applied by trustees

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Innovation in claims assessment and service delivery

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Retrospective premium changes

# Discussion

Other areas of interest/concern