

SUPERRATINGS MEDIA RELEASE

Monday 2 May 2016

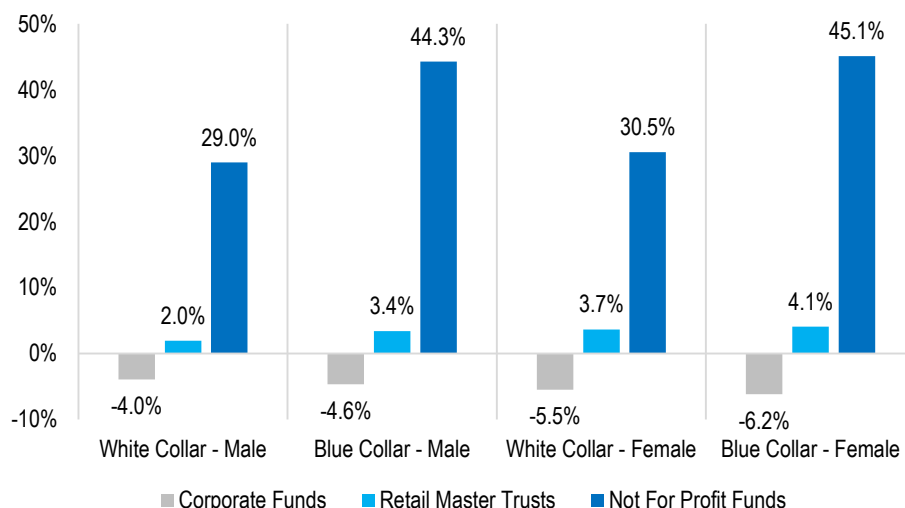
INSURANCE – WHEN IS ENOUGH, ENOUGH?

Insurance premium increases continue to be a feature of the superannuation landscape. Whilst there are a range of default sums insured and different premium rates across funds, it is evident that some commentators and superannuation funds alike are beginning to question the value of providing default insurance benefits through a superannuation fund or through non-superannuation policies at the request of the individual member.

SuperRatings most recent research shows that default levels of Death and Total and Permanent Disablement (“TPD”) cover have increased on average by 10% over the past four years. Overlayed with the increase in cover is the substantial rise in premiums over the last twelve months, with the median increase being approximately 50.5%.

Despite the combination of increased AALs and higher insurance premiums, SuperRatings believes that insurance continues to be affordable for the average superannuation fund member. As can be seen from the chart below, the average increase in premiums for Death and TPD cover over the past 4 years has ranged from 29.0% - 45.1% for Not for Profit funds, compared to increases of 2.0% - 4.1% for Retail Master Trusts. Conversely, Corporate funds have enjoyed a reduction in Death and TPD premiums of 4.0% - 6.2% over the same period.

**Average Increases in premiums for Death and TPD
(2011 to 2015)**



Taking personal tax considerations aside, affordability can also be measured by the full-time adult weekly total earnings of \$1,449.30 (\$75,364 p.a. based upon the latest Australian Bureau of Statistics (“ABS”) statistics. Based upon SuperRatings analysis, the average Death and TPD insurance annual premium of \$239 for a 40 year old and \$243 for a 45 year old equates to approximately 3.3% and 3.4% (respectively) of the Superannuation Guarantee (“SG”) contribution for the average Australian worker, resulting in a net contribution to superannuation of more than 95% of the SG contribution into a members account. This suggests that default insurance continues to be affordable for the average superannuation fund member.

SuperRatings welcome media enquiries regarding any of our research or information held in our database.

We are also able to provide commentary and customised tables/graphs for your use.

Our Media Contacts

Wendy Tse
General Manager - Consulting
Tel: 02 9247 4711
wendy.tse@superratings.com.au

Adam Gee
Chief Executive Officer
Tel: 02 9247 4711
adam.gee@superratings.com.au

Varinia Hardy
Manager
Tel: 02 9247 4711
varinia.hardy@superratings.com.au

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SuperRatings further segmented the premium increase data to ascertain the sustainability of insurance premiums for funds servicing a specific industry compared to multi-industry funds. This analysis suggests that funds with a focus on a specific sector are better able to target their insurance benefits to their membership. Our research further demonstrates that larger funds, with highly diversified membership bases have borne the brunt of higher premium increases in comparison to the smaller, sector specific funds, showing that pure size is not always of benefit when it comes to competitive insurance premiums.

MEMBER ENGAGEMENT AND COMMUNICATION REMAINS KEY

SuperRatings recognises that insurance still remains a key offering within superannuation and, on average, continues to be affordable for the average member. In spite of overall increases in the cost of insurance cover, SuperRatings believes there are opportunities for funds to improve sustainability by ensuring that their insurance offering remains appropriately tailored to their members' needs.

SuperRatings General Manager - Consulting, Wendy Tse commented:

"Whilst some form of cross-subsidisation is a key tenet of any group insurance policy, we believe funds can do more to individually tailor insurance premiums across varying gender and occupational categories, rather than utilising a range of blended rates for all members. This will ensure any future premium increases (or potentially reductions) can be accurately targeted at those segments of a fund that claim more frequently".

SuperRatings also believes that funds can engage better with their members to ensure they understand the insurance claims process and in turn, this will address some unnecessary legal involvement. Our research shows that many members approach lawyers prior to even submitting a claim as they are fearful of the complexity of the process and the raft of documentation. In most instances, there is no role for litigation firms to be involved especially for those members who genuinely meet the requirements of release as the majority of claims will be paid.

In spite of recent press, based upon SuperRatings most recent research, we note that, on average, superannuation funds pay out between 91-100% of Death claims, 81-90% of TPD claims and 91-100% of Income Protection claims. Whilst SuperRatings does not necessarily believe that a fund's specific claim pay-out ratio should be made publicly available, communications to members outlining the ratio of genuine claims paid during the previous 12-month period may go a long-way to reducing member's beliefs that they must rely on legal involvement for a claim to be paid.

Ms Tse added: "We are concerned that members' insurance benefits are being unnecessarily diluted by legal costs. Members should contact their superannuation fund in the first instance and only revert to legal support as a last resort, given superannuation trustees are required by law to act in the best interests of members and the vast majority of genuine claims are paid".

WHAT CAN FUNDS DO?

In conjunction with better communication, SuperRatings suggests that funds should consider the possibility of altering insurance designs in order to mitigate against further premium increases going forward. SuperRatings believes positive steps such as greater reliance on Income Protection, rather than lump sum TPD payments is appropriate. Additionally, funds must ensure that any changes to terms and conditions are not unnecessarily onerous such that they can result in the potential for genuine claims to be declined.

"With commentary regarding the non-payment of claims in the market, funds must remember insurance is provided to members as a protection mechanism in the event of unfortunate personal circumstances and making it more difficult for members to claim and receive a benefit cannot be a positive outcome for the industry as a whole" Ms Tse said.

In discussions with many insurers, funds also need to be accountable for their member data, incorporating a robust history of claims experience and sums insured. Whilst the difficult economic climate and increasing mental health claims have placed continued pressure on insurance premiums, this may also be the result of poor insurance data as well as limited claims experience provided to insurers by funds during any review and tender process.



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Ms Tse added: “Insurers are increasingly demanding that data quality requirements be included within insurance contracts and insurance policy reviews, thereby placing greater responsibility on superannuation trustees in respect of data quality. This includes the ability to audit the fund’s insurance data to adjust premium pricing where significant discrepancies in the data provided are identified post-appointment”.

Release Ends

ADDITIONAL DATABASE INFORMATION

We believe our database to be the largest in Australia dealing with multi-employer superannuation funds, where the great majority of Australians have their retirement benefits invested. SuperRatings captures data from key industry players on a monthly basis, enabling us to maintain the most up-to-date data across the superannuation industry.

About SuperRatings

SuperRatings Pty Ltd ABN 95 100 192 283 AFSL No. 311880 (SuperRatings) is a superannuation research house with specialist areas of expertise that was originally established in 2002. From 1 July 2011, SuperRatings became a fully owned subsidiary of the entity currently registered as Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution. SuperRatings believes that professional financial services institutions and members need informed opinions on the best superannuation and pension financial products. To meet this need, SuperRatings has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of superannuation financial products. No fee is paid by superannuation and pension funds to SuperRatings for reviewing and rating superannuation and pension financial products.

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