SUPERRATINGS' MEDIA RELEASE

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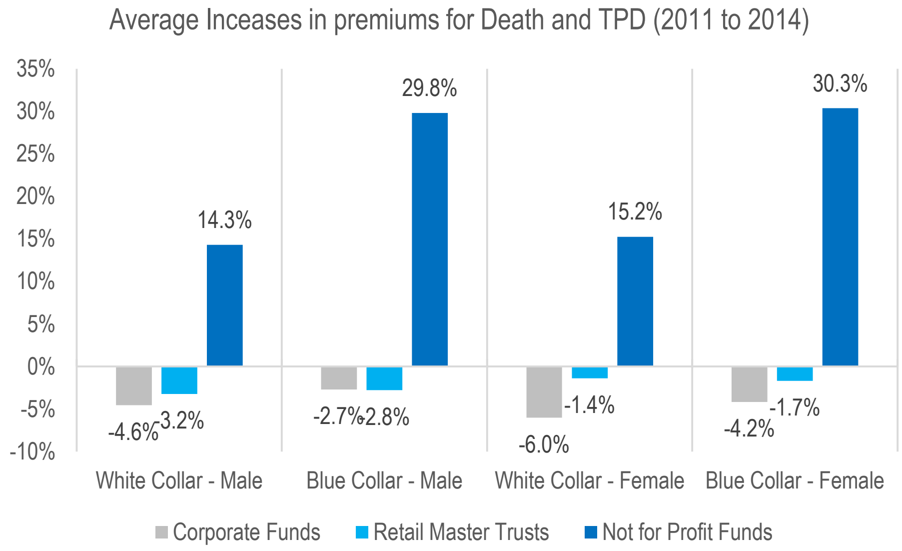
Surging insurance premiums – is a long-term view required?

In what is perhaps SuperRatings most comprehensive analysis of insurance data to date it is evident that whilst many funds are experiencing significant increases in premiums during 2013/14, members are not that much worse off than they were three years ago in terms of the cost of insurance and in some cases, members are actually paying less.

The data analysed by SuperRatings included the insurance premiums of over 390 superannuation products, representing in excess of 150 superannuation funds incorporating Death & TPD insurance and Income Protection. The research included an assessment of premium rates across a broad segment of age groups (commencing at age 20 through to age 60), occupations (incorporating professional, white collar and blue collar members) and gender.

Whilst the findings show that overall, the average superannuation fund Death and TPD insurance premium is only slightly higher in 2014 than it was in 2011, the research illustrates a substantial divergence between the sectors of the industry though, with Not for Profit funds suffering overall increases compared to their Retail Master Trust or Corporate Fund peers, whereby premiums declined over the three year period.



As noted previously, the disparity between sectors is vast with Not for Profit superannuation funds bearing the brunt of the re-ratings, averaging a 22.4% increase over this time. Retail Master Trusts however, experienced an average decrease in premiums of 2.3%, whilst Corporate Funds fared far better than their peers, passing on an average 4.4% decrease over the three year period.

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.

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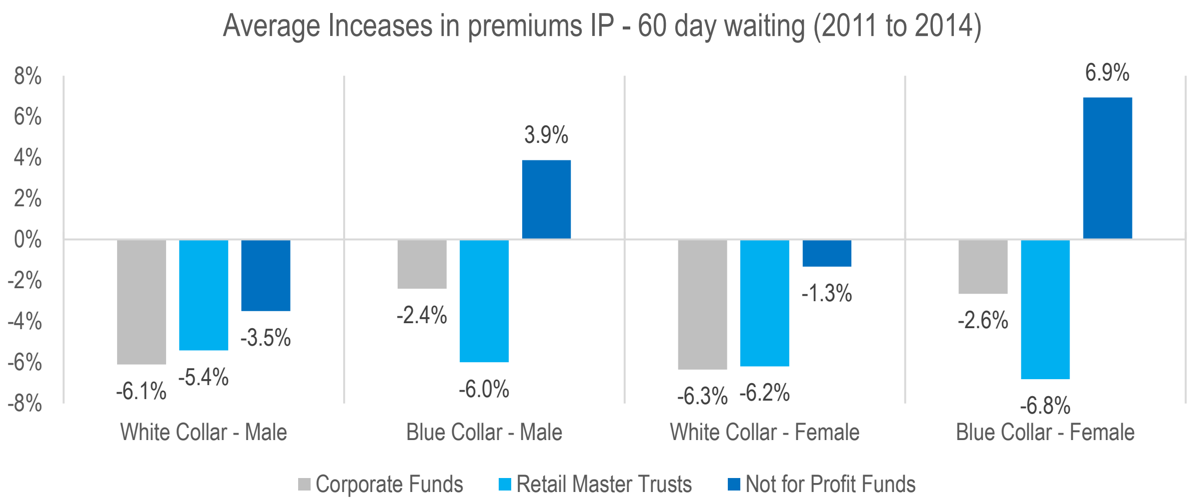
Of those funds that did experience a premium increase during the 3-year period, a similar landscape emerges with Not for Profit funds being hit the hardest, experiencing an average increase of 14.3% for white collar male and 15.2% for white collar female, while blue collar members suffered the largest increase of 29.8% and 30.3% for males and females (respectively). Retail Master Trusts and Corporate Funds fared better given the captive membership and attract on average a decline in insurance premiums over the same period.

A similar sectoral trend is also evident in relation to Income Protection insurance, albeit the overall industry average premium actually reduced by 3.0% over the 3-year period. Once again, Not for Profit funds experienced the smallest reduction in premiums of 1.5% in comparison to Retail Master Trusts and Corporate Funds, which experienced 6.1% and 4.4% decreases (respectively) over this time.



Analysis of the data and implications for the industry

SuperRatings recognises that insurance is now one of the key pillars of a superannuation fund's product offering and the increasing premiums (if they continue beyond existing levels) will no doubt have a detrimental impact on the retirement savings of members, particularly those with higher levels of insurance.

In spite of overall increases over the last three years being minimal, SuperRatings believes there are a number of key drivers of the increases in recent years. SuperRatings Chief Executive Officer, Adam Gee commented:

"Whilst there is no doubt that claims experience has worsened in recent years with pay-out ratios (being the percentage of claims paid compared to the premiums collected) increasing from 53 cents in every dollar in 2010/11 to nearly 65 cents in 2013/14, we believe that much of the increase follows a sequence of significant discounting by insurers vying for key superannuation books during 2010 and 2011and this is borne out in the research".

Anecdotal evidence suggests funds that did not pass on premium reductions to members during this time but instead afforded members with increased levels of cover for the same cost are now bearing the brunt of significant premium increases compounded by higher levels of cover.

In respect of some of the more recent increases, SuperRatings Executive Manager, Consulting, Wendy Tse further noted:

"Given some of the poor claims experience, margin pressures within the sector and the lack of reinsurance support, there is no doubt that insurers are being far more selective in relation to the tenders they respond to. Evidence suggests that a number of funds have been left to negotiate with only their incumbent insurer in the current market, making it even more difficult for funds to achieve positive outcomes for their members".

Ms Tse also added:

"Many funds have strived to provide the most attractive insurance benefits possible, offering the highest levels of cover, incorporating broader definitions of disablement and requiring minimal underwriting to ensure as many members can obtain insurance as possible. Whilst this is a valiant attempt to act in members' best interests, it has potentially worsened claims experience and pay-out ratios, adding further fuel to an already challenging environment."

Whilst we also recognise that the greater focus of personal injury lawyers and a greater engagement of members has led to greater levels of claims being paid, SuperRatings believes that there are a number of items that fund trustee's should consider in order to potentially minimise future increases.

What can be done to mitigate further increases?

Given superannuation funds are potentially faced with further rising premium costs, a significant shift in thinking for the industry must occur. Funds must re-consider their overall insurance design, including levels of cover, disablement definitions and Automatic Acceptance Limits to ensure these are appropriate for their membership bases.

SuperRatings assesses funds based upon a number of criteria and within our analysis, we note many funds continue to offer composite rates across both male and female categories, albeit most funds are now differentiating premiums by occupational categories.

Ms Tse suggests that:

"Funds need to reconsider the generous AALs and the differentiation of premium rates to ensure any premium increases are appropriately at individual categories rather than being borne by the total membership to minimise the possibility of cross-subsidisation between occupational, age and gender categories".

In addition, funds should ensure that their TPD definitions are closely aligned to the requirements of their membership and should ensure that any potential loopholes in policy definitions are closed, so as to minimise the risk of members claiming benefits for which they are not genuinely entitled.

Finally, SuperRatings believe that there is a greater role for Income Protection benefits within superannuation. The regular assessment of an individual's capacity to work and the potential for rehabilitation over the payment period can assist in minimising the amount of insurance paid to members on claim. Additionally, the risk associated with a single assessment of TPD resulting in a large lump sum payment prior to any opportunity for rehabilitation is significant and has been a key driver of poor claims experience for many funds in recent years. Finally, SuperRatings suggest that funds should consider the potential interplay between Income Protection and the TPD benefit to ensure that members are provided with the greatest ability to return to work, prior to the payment of a large lump sum TPD benefit from the fund.

Mr Gee finally comments that:

"With underinsurance already a key concern within Australia generally, funds must consider innovative solutions to their insurance designs in order to minimise future premium increases and to ensure members are able to maintain cover, without substantially eroding their retirement savings."

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. For any further information, please contact one of the SuperRatings team.

Release Ends