



Prudential Standard SPS 250

Insurance in Superannuation

Objectives and key requirements of this Prudential Standard

This Prudential Standard establishes requirements for an RSE licensee with respect to making insured benefits available to beneficiaries.

The Board of an RSE licensee is ultimately responsible for having an insurance management framework that reflects the risks associated with making available insured benefits that is appropriate to the size, business mix and complexity of the RSE licensee's business operations. The insurance management framework must include the insurance strategies for each registrable superannuation entity required in the *Superannuation Industry (Supervision) Act 1993*.

The key requirements of this Prudential Standard are that an RSE licensee must also:

- ensure that insurance arrangements adequately address the minimum requirements set out in this Prudential Standard;
- formulate and give effect to appropriate selection processes for, and due diligence of, insurers and monitor relationships with insurers on an ongoing basis; and
- obtain and provide to APRA an independent certification of an insurance arrangement, where the arrangement is with an insurer that is a connected entity of the RSE licensee, or where a contractual term of the arrangement provides the insurer with a priority or privilege.

Authority

1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Application

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees) under the SIS Act.¹
3. All RSE licensees must comply with this Prudential Standard in its entirety, unless otherwise expressly indicated.
4. Where an RSE licensee of a defined benefit fund is permitted to self-insure benefits, paragraphs 22 to 28 inclusive do not apply with respect to the self-insured benefits.²
5. This Prudential Standard commences on 1 January 2022 (effective date).

Interpretation

6. For the purposes of this Prudential Standard, ‘insured benefits’ means benefits that are made available to beneficiaries via³:
 - (a) insurance acquired by an RSE licensee from a life company registered, or taken to be registered, under section 21 of the *Life Insurance Act 1995* or a general insurance company or Lloyd’s underwriter authorised, or taken to be authorised, under the *Insurance Act 1973* (an insurer); or
 - (b) insurance offered under an RSE licensee’s self-insurance arrangements.

For the purposes of this Prudential Standard, the activities described in paragraphs 6(a) and (b) are referred to as ‘making insured benefits available’ to beneficiaries.

RSE licensees that are part of a group⁴

7. Where an RSE licensee is part of a corporate group, and the RSE licensee utilises group policies or functions, the Board must approve the use of group policies and functions and must ensure that these policies and functions give

¹ For the purposes of this Prudential Standard, ‘RSE licensee’ has the meaning given in section 10(1) of the SIS Act.

² Refer to *Prudential Standard SPS 160 Defined Benefit Matters* for additional requirements applying to RSE licensees that are permitted to self-insure insurance benefits and to regulation 4.07E(8) of the *Superannuation Industry (Supervision) Regulations 1994*, which exempts defined benefit funds, that self-insure on 1 July 2013, from the general prohibition on self-insurance (subject to certain conditions).

³ For the purposes of this Prudential Standard, a reference to ‘beneficiaries’ is a reference to ‘beneficiaries of an RSE within the RSE licensee’s business operations’.

⁴ For the purposes of this Prudential Standard, a reference to ‘a group’ is a reference to a group comprising the RSE licensee and all connected entities of the RSE licensee, and ‘connected entity’ has the meaning given in section 10(1) of the SIS Act.

appropriate regard to the RSE licensee's business operations and its specific requirements.⁵

Insurance management framework

8. An RSE licensee must have in place an insurance management framework to manage making insured benefits available to beneficiaries.
9. An RSE licensee's insurance management framework is the totality of systems, structures, policies, processes and people to manage making insured benefits available to beneficiaries.
10. An RSE licensee's insurance management framework must be appropriate to the size, business mix and complexity of the RSE licensee's business operations and to the types of insured benefits made available.
11. The Board is ultimately responsible for the insurance management framework.
12. An RSE licensee's insurance management framework must, at a minimum, include:
 - (a) the insurance strategy required under section 52(7) of the SIS Act (which must also comply with the requirements of this Prudential Standard);
 - (b) policies and procedures of the RSE licensee relevant to making insured benefits available to beneficiaries, that cover but are not limited to:
 - (i) the process by which the cost to the RSE licensee of insurance premiums is recovered from the RSE(s);
 - (ii) the process for monitoring and reviewing the administration of insurance;
 - (iii) underwriting; and
 - (iv) claims assessment;
 - (c) clearly defined roles and responsibilities and lines of reporting for the oversight of the insurance management framework;
 - (d) a review process to ensure the insurance management framework remains appropriate and effective;
 - (e) a policy for managing declined applications for insurance, applications resulting in reduced cover or restrictions, terminations of cover and requests for reinstatement; and

⁵ For the purposes of this Prudential Standard, an 'RSE licensee's business operations' includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

- (f) a process that enables beneficiaries to easily opt-out of insurance cover, and that sets out how this will be communicated to beneficiaries.⁶
13. An RSE licensee must have procedures to ensure that all persons in roles relevant to the insurance activities of the RSE licensee are made aware of, and have processes and controls for monitoring compliance with, the RSE licensee's insurance management framework.
14. An RSE licensee must maintain or have access to records of sufficient detail to comply with its obligations under the reporting framework and for a prospective insurer to properly assess the insured benefits that are made available.⁷ These records must include, for at least the previous five years, the claims experience, membership, sum insured and premiums paid in relation to beneficiaries.
15. An RSE licensee's risk management framework must reflect the risks associated with making insured benefits available to beneficiaries as a material risk area identified in *Prudential Standard SPS 220 Risk Management*.

Insurance strategy

16. In addition to complying with section 52(7)(a) of the SIS Act, an RSE licensee's insurance strategy for an RSE must, at a minimum, document:
- (a) the RSE licensee's approach to complying with the insurance covenants in section 52(7)(b) to (d) of the SIS Act, including the RSE licensee's methodology to assess whether the cost of the insurance inappropriately erodes the retirement income of beneficiaries;
 - (b) how the RSE licensee's assessment under section 52(11)(d) of the SIS Act will be documented in the RSE licensee's annual member outcomes assessments;⁸
 - (c) the processes for monitoring, reviewing and renewing the insured benefits made available to beneficiaries;
 - (d) the RSE licensee's approach to claims management, regardless of who is responsible for handling claims; and
 - (e) the RSE licensee's approach, as outlined in its conflicts management framework, to conflicts that may arise through making available insured benefits to beneficiaries.⁹

⁶ For the purposes of this Prudential Standard, where an RSE licensee is not required under RSE licensee law to provide for opt-out of insurance cover, this requirement does not apply, and 'RSE licensee law' has the meaning given in section 10(1) of the SIS Act.

⁷ 'Reporting framework' means the reporting standards made under the *Financial Sector (Collection of Data) Act 2001*.

⁸ Refer to section 52(9) – (11) of the SIS Act and *Prudential Standard SPS 515 Strategic Planning and Member Outcomes*.

⁹ Refer to *Prudential Standard SPS 521 Conflicts of Interest* for details of conflicts management requirements.

Insurance arrangements

17. For the purposes of this Prudential Standard, ‘insurance arrangement’ means:
- (a) where an RSE licensee makes available insured benefits as described in paragraph 6(a) – an insurance policy document¹⁰; or
 - (b) where an RSE licensee makes available insured benefits as described in paragraph 6(b) – appropriate documentation of the terms and conditions of the insured benefits
- and any agreements with any other party related to making available insured benefits.¹¹
18. At a minimum, the insurance arrangement must address:
- (a) the level and type of insured benefits made available, including any exclusions;
 - (b) the term of the insured benefits;
 - (c) automatic acceptance limits (to the extent relevant);
 - (d) availability of opt in and/or opt out cover;
 - (e) requirements for the beneficiaries’ eligibility for, cessation of, and any reinstatement of entitlements to insured benefits where available;
 - (f) premium structure, including any variable components;
 - (g) procedures for notification and payment of claims;
 - (h) dispute resolution arrangements;
 - (i) agreed service standards;
 - (j) reporting requirements for monitoring agreed service standards;
 - (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 14;
 - (l) liability and indemnity arrangements;
 - (m) review, termination and renewal provisions for the insurance arrangement; and

¹⁰ For the purposes of this Prudential Standard, a reference to ‘an insurance policy document’ is a reference to a contract of insurance issued by an insurer.

¹¹ An accompanying agreement that meets the definition of outsourcing in *Prudential Standard SPS 231 Outsourcing* must meet the requirements of that Prudential Standard.

- (n) without limiting sub-paragraph 18(m) to specify a termination provision, the termination provision must include the RSE licensee's right to terminate the insurance arrangement if an independent certification required under paragraph 25 or paragraph 26 does not state it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries.¹²
- 19. An RSE licensee must be able to satisfy itself, and demonstrate to APRA, that the rules for attributing any status to a beneficiary (including a class or cohort of beneficiaries) in connection with the provision of insurance are fair and reasonable.
- 20. An RSE licensee must notify APRA as soon as practicable of any issues that it considers might materially affect its ability to make insured benefits available to beneficiaries.
- 21. Where an insurance arrangement is terminated, an RSE licensee must notify APRA as soon as practicable and provide a statement about the transition arrangements and future strategies for continuing to make insured benefits available to beneficiaries.

Selection and monitoring of insurers

- 22. An RSE licensee must:
 - (a) develop and implement a selection process for choosing an insurer that includes, at a minimum, consideration of the prospective insurer's terms of cover and exclusions, claims philosophy, the reasonableness of the premiums to be charged and terms of any delegation to any other person of functions associated with making available insured benefits;
 - (b) undertake a due diligence review of the selected insurer; and
 - (c) be able to demonstrate to APRA the appropriateness of the selection process and due diligence review and how it is applied.
- 23. An RSE licensee must be able to satisfy itself, and demonstrate to APRA, that the engagement of an insurer is conducted at arm's length and is in the best interests of beneficiaries.
- 24. Subject to paragraph 31 and paragraph 32, an RSE licensee that is required to obtain an independent certification under paragraph 25 or paragraph 26 must obtain the certification:
 - (a) before the RSE licensee:
 - (i) enters into a new insurance arrangement; or

¹² Sub-paragraph 18(n) applies to new insurance arrangements entered into on and from the effective date of this Prudential Standard.

- (ii) renews, or materially alters the terms of, an existing insurance arrangement; or
 - (b) on a triennial basis if the insurance arrangement is for a term exceeding three years.
- 25. Where an insurer that is a connected entity of an RSE licensee is party, or will be party, to an insurance arrangement with the RSE licensee under which the RSE licensee makes or will make insured benefits available to beneficiaries (other than an insurance arrangement covered by paragraph 31), the RSE licensee must obtain an independent certification that states:
 - (a) it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries; and
 - (b) the insurance arrangement otherwise satisfies applicable legal and regulatory requirements.
- 26. Where an insurer that is not a connected entity of an RSE licensee is party, or will be party, to an insurance arrangement with the RSE licensee under which the RSE licensee makes or will make insured benefits available to beneficiaries (other than an insurance arrangement covered by paragraph 32), and a contractual term of the insurance arrangement provides the insurer with a priority or privilege, the RSE licensee must obtain an independent certification that states it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries.
- 27. An RSE licensee must provide APRA with an independent certification obtained under paragraph 25 or paragraph 26 no later than five business days after the RSE licensee receives the certification.
- 28. An RSE licensee must ensure it has sufficient and appropriate resources to manage and monitor its relationship with an insurer at all times. At a minimum, the monitoring must include:
 - (a) maintaining regular contact with the insurer at an appropriate frequency and level of seniority; and
 - (b) a process for regular monitoring of performance under the insurance arrangement, including reporting to senior management against service levels.

Review of insurance management framework

- 29. An RSE licensee must ensure that the appropriateness, effectiveness and adequacy of its insurance management framework are subject to a review by operationally independent, appropriately trained and competent persons at least every three years.
- 30. The scope of the review of an RSE licensee's insurance management framework must have regard to the size, business mix and complexity of the RSE licensee's

business operations, the extent of any change to those operations and any changes to the external environment in which the RSE licensee operates.

Transitional arrangements

31. Where:

- (a) an RSE licensee has entered into an insurance arrangement with a connected entity of the RSE licensee prior to the effective date; and
- (b) the insurance arrangement ends on or after 1 January 2023,

the RSE licensee must, before 1 January 2023, seek an independent certification that states it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries.

32. Where:

- (a) an RSE licensee has entered into an insurance arrangement with an insurer that is not a connected entity of the RSE licensee prior to the effective date; and
- (b) a contractual term of the insurance arrangement provides the insurer with a priority or privilege; and
- (c) the insurance arrangement ends on or after 1 January 2025,

the RSE licensee must, before 1 January 2025, seek an independent certification that states it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries.

33. An RSE licensee must provide APRA with an independent certification obtained for the purposes of paragraph 31 or paragraph 32 no later than five business days after the RSE licensee receives the certification.

34. Where an RSE licensee is unable to obtain an independent certification for the purposes of paragraph 31 or paragraph 32, that states it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best interests of the beneficiaries, the RSE licensee must notify APRA no later than five business days after becoming aware that it cannot obtain an independent certification containing that statement.

Adjustments and exclusions

35. APRA may, by notice in writing to an RSE licensee, adjust or exclude a specific prudential requirement in this Prudential Standard in relation to that RSE licensee.¹³

¹³ Refer to section 34C(5) of the SIS Act.