



9 March 2021

TO: ALL RSE LICENSEES AND GROUP LIFE INSURANCE CHIEF EXECUTIVE OFFICERS

SUSTAINABILITY OF LIFE INSURANCE IN SUPERANNUATION

Recently, the Australian Prudential Regulation Authority (APRA) has seen a re-emergence of some concerning developments in group life insurance in superannuation in relation to premium volatility, availability and provision of data, and tender practices. APRA's view is that these developments, if unaddressed, are likely to result in poor member outcomes, and adversely impact the availability and sustainability of life insurance through superannuation.

APRA expects registrable superannuation entity (RSE) licensees and life insurers to take note of the concerns and expectations set out in this letter, and take steps to address them.

Key areas of concern

Following a period of significant premium reductions and benefit increases for life insurance provided through superannuation, between 2012 and 2016 insurers experienced significant losses. As a result, there were large premium increases, more restrictive cover terms were introduced, and a number of trustees experienced difficulty in obtaining quotes for cover for their members as insurers and reinsurers declined to participate in many tenders. The significant changes in premiums (as a result of premium reductions followed relatively quickly by large increases) was a poor outcome for members.

The trends and practices which APRA has observed recently (outlined further below) appear similar to those seen in 2012-2016, and have similarly been accompanied by a deterioration in group life insurance claims experience and significant impact on life insurer profitability.

APRA is concerned that, should these trends continue, members are likely to be adversely impacted through further substantial increases in insurance premiums and/or a reduction in the value and quality of life insurance in superannuation. Indeed, the ongoing viability and availability of life insurance through superannuation may be at risk, adversely impacting access to life insurance cover for a large part of the Australian community.

Premium volatility

With the deterioration in life insurance claims experience within superannuation, and consequent unprecedented losses for insurers, recent APRA data illustrates that insurance premiums per insured member have been escalating during 2020¹.

APRA has also observed that material premium increases by insurers have contributed to RSE licensees tendering insurance arrangements more frequently. APRA is concerned that, in some cases, the pricing on which tenders are being won by insurers, whilst initially attractive to RSE licensees, may prove to be unsustainable, and therefore likely to lead to significant increases in premiums at the end of premium guarantee or contractual periods.

¹ Life Insurance Claims and Disputes Statistics submitted to APRA for the six months ending 30 June 2020.

Such price volatility was observed in 2012-2016, following the losses in the group insurance market at that time. Ultimately, members are not best served by such unpredictability and volatility in insurance premiums, with members paying more in future for insurance as a result of unsustainable prices being offered to win tenders in a prior period. This volatility makes it more difficult for members to assess insurance costs and the value of the insurance.

Availability and provision of data

Insurers are continuing to face challenges in accessing high quality and timely superannuation fund and membership data relevant to designing and pricing insurance. This is due to both the varying quality and type of data captured by RSE licensees on members, as well as varying approaches to providing such data to insurers. Lack of sufficiently granular, quality data impacts the ability of RSE licensees and life insurers to design and price appropriate insurance arrangements, contributing to losses for insurers should experience not align with expectations based on the data provided. Ultimately, this can result in poor outcomes to members through price volatility and may impact availability of insurance through superannuation, as noted above.

Tender practices

APRA has also observed increasing incidences of undesirable tender practices, including abbreviated timeframes for the tender process, or to respond to revisions in insurance design or other parameters as part of that process, being imposed; life insurers being unduly restricted by RSE licensees seeking to have a major role in determining the reinsurers that must be used; and the data provided being inadequate, out of date and/or not made available to all tender participants. These sorts of practices contribute to many of the issues outlined above, as they adversely impact the ability of life insurers to effectively and appropriately respond to the tender request.

Tender assessment criteria should align with and reflect the key requirements of an RSE licensee's insurance strategy and include criteria beyond price, such as service levels, claims philosophy, member access to insurance information and member education.

APRA's Expectations

APRA expects that life insurers and RSE licensees will take steps to ensure that insurance offerings and benefits are sustainably designed and priced, provide appropriate value for members, and adequately reflect the underlying risk and expected experience. Specifically:

- (a) RSE licensees should maintain clear insurance strategies that reflect a scheme design for default insurance which reflects their members' needs. In particular, APRA expects such strategies and arrangements to be thoroughly and carefully considered by RSE licensees and appropriately balance the needs of members and the cost of insurance.
- (b) RSE licensees should maintain, and make available to insurers, high quality and sufficiently granular data to support a thorough understanding of fund membership and sound insurance benefit design. *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) requires RSE licensees to maintain sufficient records that can form the basis for insurers to assess and price insured benefits. Where data and records are incomplete or inadequate, APRA expects these issues to be escalated and addressed. ASIC's *Report 675 Default insurance in superannuation: Member value for money* contains key observations about the data superannuation trustees have that can give insights into improving the quality of membership and insurance records.
- (c) Tender practices should support sustainable insurance benefit design and pricing. Tenders should be conducted in such a way that insurers are given adequate time to

consult on scheme designs and appropriately price the risks and benefits. New data that becomes available during the tender process should be provided to all participants, with sufficient time for the impact of any changes to be assessed.

APRA's focus is on ensuring RSE licensees and life insurers take steps that will support the provision of high quality and sustainable insurance outcomes over the medium to long-term for both current and future superannuation members, and reduce the unpredictability and volatility in insurance product design and pricing that makes assessment of the value of insurance very difficult. To that end, APRA will actively monitor progress against the expectations set out in this letter through its supervision of both RSE licensees and life insurers.

Ultimately, APRA expects all participants in the industry to take note of these concerns and take appropriate steps to address them. Should APRA not see evidence that life insurers and RSE licensees are addressing these matters, APRA will consider further action.

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