



RESPONSE PAPER

Insurance in Superannuation

12 November 2021

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Executive summary

APRA has finalised its revisions to *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) and *Prudential Practice Guide SPG 250 Insurance in Superannuation* (SPG 250) to ensure that RSE licensees maintain a risk-based insurance strategy, strengthen insurance management frameworks and improve member outcomes. In making these changes, APRA has considered feedback from industry submissions and the increased focus on the best financial interests duty, recently implemented as part of the Government's Your Future, Your Super reforms (YFYS).¹

The key changes to the finalised prudential framework are:

- **Conflicted arrangements** – SPS 250 has been strengthened to protect members from potential adverse outcomes caused by conflicted life insurance arrangements. Examples of conflicted arrangements typically include related party arrangements and non-arm's length insurance arrangements. The framework has been strengthened to include heightened obligations on the RSE licensee to assess whether there are any conflicted provisions or business practices with respect to insurance arrangements, and whether they are appropriate and in the best financial interests of beneficiaries.
- **Independent certification** – Independent certification for insurance arrangements, as required under SPS 250, was introduced in response to recommendation 4.14 of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (Royal Commission). Accordingly, RSE licensees are required to obtain an independent certification for related party insurance arrangements, before entering into, or materially altering, an insurance arrangement, and on a triennial basis. APRA may also require an RSE licensee to obtain such a certification.

The certification originally required coverage that it was reasonable for the RSE licensee to consider the insurance arrangement to be in the best interests of the beneficiaries and that it satisfies legal and regulatory requirements. However, in response to industry submissions about the cost and duplication of effort, APRA has modified the provisions. The independent certification will only be required to consider the best *financial* interests of beneficiaries, and will not be required to also assess whether the arrangement satisfies legal and regulatory requirements. It is nevertheless APRA's expectation that ensuring compliance with legal and regulatory requirements will be a core part of an RSE licensee's risk management framework and practices.

- **Insurance strategy** – The framework has been amended to reinforce APRA's expectations that an RSE licensee undertake rigorous analysis to ensure that the kind and/or level of insurance offered does not inappropriately erode the retirement income of beneficiaries. An RSE licensee should consider the benefits and risks of insurance arrangements in its strategy, in the context of its membership profile. Updated provisions relating to the

¹ [Treasury Laws Amendment \(Your Future, Your Super\) Bill 2021 – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au/legislation/summaries/bills/2021/10)

insurance strategy in SPS 250 and SPG 250 also reinforce the duty of an RSE licensee to act in the best financial interests of beneficiaries.

- **Insurance management framework** – Enhancements have been made to ensure that RSE licensees maintain sound insurance management frameworks and robust decision-making in the negotiation and ongoing review of insurance arrangements. In particular, consideration must be given to potentially conflicting arrangements, and an RSE licensee must ensure that insurance outcomes are in the best financial interests of the beneficiaries. The scope of the comprehensive review of the insurance management framework has been broadened to cover these aspects.
- **Member matters** – Several amendments have been made to improve protections for members regarding their insurance arrangements. These include clearer expectations for RSE licensees in assisting members to make decisions about their insurance arrangements, including the ability to easily opt out of insurance, and for RSE licensees to ensure that the rules for attributing a status to a member for their insured benefit are fair and reasonable. Communication to members has been enhanced to facilitate the above and increase transparency around benefits and costs of insurance arrangements.
- **Data management** – Expectations around data management have been strengthened to improve cohort analysis by RSE licensees, and to thereby enable more meaningful member outcomes assessments. In order to address industry concerns, APRA has confirmed that data transferred under a successor fund transfer is expected to be sufficient so that an RSE licensee of the successor fund is able to effectively administer the insurance arrangements and meet its reporting obligations.

These enhancements to SPS 250 and SPG 250 will support RSE licensees to deliver better outcomes for their members, and are intended to ensure that related risks are appropriately considered and addressed. SPS 250 will commence on 1 July 2022. RSE licensees are encouraged, in preparation, to reassess their insurance arrangements, strategy, risk and compliance frameworks before this date.

Glossary

| | |
|-------------------------------|--|
| Connected entity | As defined in s. 10(1) of the SIS Act, commonly also referred to as a 'related party' |
| Priority and privilege | APRA understands priority and privilege in an insurance arrangement to be where an insurer may be afforded an advantage such that member interests may not have been prioritised and/or where an RSE licensee may be prevented from acting independently in relation to the insurance arrangements for the beneficiaries |
| Related party | See definition of 'connected entity' |
| Royal Commission | <i>Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry</i> |
| RSE | Registrable superannuation entity, as defined in s. 10(1) of the SIS Act |
| RSE licensee | As defined in s. 10(1) of the SIS Act |
| SIS Act | <i>Superannuation Industry (Supervision) Act 1993</i> |
| SPG 250 | <i>Prudential Practice Guide SPG 250 Insurance in Superannuation</i> |
| SPS 250 | <i>Prudential Standard SPS 250 Insurance in Superannuation</i> |
| SPS 515 | <i>Prudential Standard SPS 515 Strategic Planning and Member Outcomes</i> |
| Status attribution | A status assigned to a member under a life insurance policy, e.g. 'smoker status', 'blue collar', 'white collar', etc |
| YFYS reforms | Your Future, Your Super reforms (which came into effect on 1 July 2021) |

Chapter 1 - Introduction

APRA has made several revisions to *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) and *Prudential Practice Guide SPG 250 Insurance in Superannuation* (SPG 250), aimed at ensuring better superannuation member outcomes, through updated requirements for selecting and monitoring insurers, and providing insured benefits to beneficiaries.

In the process of implementing the revisions, APRA has undertaken two rounds of consultation, in November 2019 and January 2021, and is now releasing the final package of reforms.² This chapter sets out the timeline of development of final SPS 250 and SPG 250.

1.1 The development of final SPS 250 and SPG 250

In November 2019, APRA released its first round of consultation of its proposed revisions to SPS 250, which addressed the following:

- Government concerns around members' ability to easily opt-out of insurance, and the cost of insurance inappropriately eroding the retirement income of beneficiaries;
- recommendations 4.14 and 4.15 of the *Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (Final Report).³ Accordingly, draft SPS 250 proposed a new independent certification requirement for RSE licensees, where an insurance arrangement is with a related party insurer or gives a priority or privilege to an insurer; and
- enhancements identified in APRA's post-implementation review of the superannuation prudential framework.⁴

A number of submissions to the November 2019 consultation sought guidance, particularly in respect of the independent certification requirements, the scope and meaning of priority and privilege, and related matters such as easy opt-out of insurance and status attribution.⁵

In January 2021, APRA released its second round of consultation, where APRA made amendments to draft SPS 250 and provided guidance in areas requested by the industry in draft SPG 250. The timing gap between the November 2019 and January 2021 consultations was on account of APRA suspending its planned policy initiatives and updates to the prudential framework, until 30 September 2020, due to COVID-19.⁶

² [Consultation on Prudential Standard SPS 250 Insurance in Superannuation | APRA](#)

³ [Final report | Royal Commissions](#)

⁴ [Post-implementation review of APRA's superannuation prudential framework | APRA](#)

⁵ 'Status attribution' refers to a status assigned to a member under a life insurance policy, e.g. 'smoker status', 'blue collar', 'white collar', etc

⁶ [APRA adapts 2020 agenda to prioritise COVID-19 response | APRA](#)

Submissions to the January 2021 consultation were generally supportive of the draft amendments to SPS 250 and SPG 250, including the proposed independent certification for insurance arrangements with related parties.⁷ However, concerns were raised about the scope of priority and privilege arrangements and the requirement for an independent certification of these arrangements. In particular, the submissions noted that the priority and privilege arrangements would potentially capture all, or a majority of, insurance arrangements and the concepts of priority and privilege were complex and ambiguous.

In response to industry concerns, APRA has removed the requirement for an independent certification for priority and privilege arrangements, and instead made other enhancements to the prudential framework, to ensure that insurance arrangements are entered into and managed in the best financial interests of beneficiaries. A letter to RSE licensees to notify industry of this change in approach was released on 21 September 2021.⁸

Figure 1. APRA’s development of the changes to SPS 250 and SPG 250



⁷ The Final Report of the Royal Commission used the term ‘related party’ in recommendation 4.14, which is a commonly used term for the legal concept of ‘connected entity’. A reference to a ‘connected entity’ has the meaning given in section 10(1) of the SIS Act.

⁸ <https://www.apra.gov.au/prudential-standard-sps-250-insurance-super-update-on-industry-consultation>

Table 1 below summarises the key outcomes of the two rounds of consultation.

| | Submissions received | Key feedback |
|-----------------------------------|--|--|
| November 2019 consultation | 11 submissions (from RSE licensees, insurers and industry associations) | <ul style="list-style-type: none"> Guidance was sought in respect of the independent certification requirements and the meaning of priority and privilege in insurance arrangements, and several other matters such as easy opt-out of insurance and status attribution.⁹ |
| January 2021 consultation | 7 submissions (from RSE licensees, insurers, consulting firms and legal firms) | <ul style="list-style-type: none"> Industry was broadly supportive of the proposals, but material concerns were raised about the scope of priority and privilege arrangements and the requirement for an independent certification of these arrangements. Other issues in submissions related to queries on independent certification, insurance strategy, termination of an insurance arrangement and member-related matters such as easy opt-out of insurance arrangements and status attribution. |

⁹ 'Status attribution' refers to a status assigned to a member under a life insurance policy, e.g. 'smoker status', 'blue collar', 'white collar', etc

Chapter 2 - Priority and privilege and related party insurance arrangements

The Royal Commission recommended:

'Recommendation 4.14 - APRA should amend SPS 250 to require RSE licensees that engage a related party to provide group life insurance, or who enter into a contract, arrangement or understanding with a life insurer by which the insurer is given a priority or privilege in connection with the provision of life insurance, to obtain and provide to APRA within a fixed time, independent certification that the arrangements and policies entered into are in the best interests of members and otherwise satisfy legal and regulatory requirements.'

There are additional risks associated with insurance arrangements where an RSE licensee has relationships that may raise matters of conflict, in particular with related parties. Draft SPS 250 (November 2019 and January 2021), therefore, proposed a new independent certification requirement for both insurance arrangements with an insurer that is a related party of the RSE licensee, as well as arrangements that give a priority or privilege to an insurer. This requirement was aimed at strengthening insurance management frameworks of RSE licensees, to ensure appropriate consideration of member outcomes.

2.1 Related party arrangements

Draft SPS 250 required an RSE licensee to obtain an independent certification for insurance arrangements with a connected entity 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.

2.1.1 Comments received

Respondents broadly supported this proposed requirement.

2.1.2 APRA's response

Further amendments have been made to SPS 250, consistent with the Government's Your Future, Your Super (YFYS) reforms, to require an independent certification to state that it is reasonable for the RSE licensee to form the view that the insurance arrangement is in the best *financial* interests of the beneficiaries.

2.2 Priority and privilege insurance agreements

Draft SPS 250 also proposed that an RSE licensee obtain an independent certification for insurance arrangements with priority and privilege terms. Draft SPG 250 outlined APRA's view of contractual terms that may provide a priority or privilege to an insurer, and its expectations that insurance arrangements including such terms would generally require an independent certification.

2.2.1 Comments received

Respondents raised several concerns regarding the proposed approach for determining priority and privilege terms. Submissions suggested that the concepts of priority and privilege were complex and ambiguous, and that the examples in draft SPG 250 would potentially capture all, or a majority of, insurance arrangements. Applying independent certification requirements to a significant number of insurance arrangements would result in increased costs that would ultimately be borne by members.

2.2.2 APRA's response

APRA notes the feedback raised by the industry. As outlined in APRA's 21 September 2021 letter, APRA has made alternative amendments to SPS 250 and SPG 250 to require RSE licensees to ensure that the risks arising from potentially conflicting arrangements are appropriately identified and managed.¹⁰

The amendments are set out in the following table:

| Prudential Standard SPS 250 Insurance in Superannuation | | Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515) |
|---|--|---|
| APRA power to require independent certification | Expanded scope of the comprehensive review of the insurance management framework | Express consideration of priority and privilege provisions in delivering financial outcomes to members |
| In addition to maintaining the requirement for independent certification for an insurance arrangement with a related party, under final SPS 250, APRA may require an RSE licensee to obtain an independent certification of an insurance arrangement. This is intended to be a reserve power that is likely to be used in limited situations. | SPS 250 requires comprehensive reviews of the insurance management framework to assess potentially conflicting insurance arrangements. This would include consideration of any contractual terms or business practices that may impact the arm's length nature of an insurance arrangement or whether the best financial interests of beneficiaries may not have been prioritised. | APRA intends to clarify in SPS 515 that RSE licensees should expressly consider whether any contractual terms or business practices may compromise the arm's length nature of the insurance arrangement or the best financial interests of beneficiaries. RSE licensees would be required to consider if any such matters are affecting insurance outcomes for members, as reflected in the Business Performance Review (BPR) and annual outcomes assessment. ¹¹ |

¹⁰ <https://www.apra.gov.au/prudential-standard-sps-250-insurance-super-update-on-industry-consultation>

¹¹ This update will be considered in 2022 as part of a broader suite of potential revisions to *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* and the associated guidance, as advised in APRA's July 2021 letter on YFYS implementation - <https://www.apra.gov.au/implementation-of-your-future-your-super-reforms>.

APRA has also amended SPG 250 to outline certain business practices, and terms and conditions of insurance arrangements, that may indicate that the best financial interests of beneficiaries have not been prioritised. Examples of such poor business practices may be where an insurer is appointed without a market tender being conducted, and tendering practices that advantage one insurer over others. An example of poor terms and conditions may be where an insurer is provided with exclusivity rights under its contractual terms.

Chapter 3 - Independent certification

Draft SPS 250 (November 2019 and January 2021) proposed that RSE licensees would need to 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 and that the insurance arrangement 'otherwise satisfies applicable legal and regulatory requirements'.

Respondents raised a number of comments and queries on the scope, process and timing in relation to the independent certification requirement. This feedback is addressed below.

3.1 Scope of the certification

3.1.1 Comments received

Respondents raised concerns that forming a view that the arrangement satisfied all legal and regulatory requirements was too complex, onerous, and would require extensive specialised legal expertise. In addition, some submissions stated that the definition of an insurance arrangement was too broad and that only the contract of insurance (insurance policy) should be subject to certification. Some respondents sought clarity as to whether independent certification was required for material alterations, and what would constitute a material alteration. Finally, some respondents suggested that a negative assurance be provided in the certification, as it is difficult for an external party to provide a positive assurance.

3.1.2 APRA's response

APRA has considered the feedback received. SPS 250 and SPG 250 now include the following provisions.

- **Legal and regulatory requirements** – the independent certification has been limited to considering only the best *financial* interests of the beneficiaries, as there are other mechanisms in the prudential framework that are aimed at assessing compliance with legal and regulatory requirements (for example, the RSE licensee's risk management framework as required by *Prudential Standard SPS 220 Risk Management*).
- **Definition of insurance arrangement** – APRA considers that the definition of insurance arrangement in SPS 250 is appropriate, but has made some minor amendments for clarity. Further, it remains APRA's view that the certification should consider the insurance arrangement as a whole. SPG 250 includes further information on the types of other agreements that would be considered to form part of the insurance arrangement.
- **Material alteration** – SPS 250 has maintained the requirement for an RSE licensee to obtain an independent certification prior to materially altering the terms of an existing insurance arrangement with a related party. APRA considers that the materiality threshold would be an assessment made by an RSE licensee based on several factors. These factors would include, but would not be limited to, the complexity of the agreement, the extent of the changes to the terms of the agreement, and the expected

impact on beneficiaries. APRA confirms that a legislative change would be a valid trigger for a material alteration.

- **Positive assurance** – APRA considers that the wording ‘it is reasonable for an RSE licensee to form the view’ achieves an appropriate balance in providing a higher standard than a negative certification, while being clear that it is the RSE licensee that will form the view of whether the arrangement is in the best financial interests of the beneficiaries.

3.2 Certification process

3.2.1 Comments received

Respondents sought guidance on a range of matters relating to the process of certification, including where there may be differences of opinion between a certifier and an RSE licensee; or where a positive certification is not initially provided. Some respondents queried the depth of examination required, for example, whether it is the insurance selection process undertaken, or the technical aspects of the insurance arrangement, that should be certified. In addition, some respondents queried whether an RSE licensee would need to undertake a tender-like process. Respondents also asked whether APRA would maintain an online listing of persons and firms qualified to do an independent certification or provide more guidance on the attributes of the certifier. Finally, respondents queried whether the standard should provide for circumstances where an independent certification cannot be obtained for a new arrangement.

3.2.2 APRA’s response

APRA has considered the submissions and provides the following clarifications:

- **Differences of opinion** – Under SPS 250, an RSE licensee must be able to satisfy itself and demonstrate to APRA that the engagement of an insurer is in the best financial interests of beneficiaries. As such, where there are differences of opinion between a certifier and an RSE licensee, APRA expects that the RSE licensee would give serious consideration to any substantive matters raised and take appropriate action to address these concerns. APRA expects that the RSE licensee would then make appropriate changes to the insurance arrangement that are necessary to obtain the independent certification. APRA also expects that the relevant APRA supervisor is kept informed of any material concerns.
- **Depth of required examination** – APRA confirms that it is not only the process, but also the technical aspects of the arrangement that should be taken into consideration in the certification.
- **Selection process** – SPS 250 requires that an RSE licensee implement a selection process for choosing an insurer, and that an RSE licensee must be able to satisfy itself and demonstrate to APRA that the agreement is at arm’s length and is in the best financial interests of beneficiaries. While a tender process is not required for new arrangements or the renewal of arrangements with related parties, APRA expects a sound selection process for all arrangements, including for related parties, to be undertaken. A sound process would include due diligence by the RSE licensee and other appropriate processes, such as a comparative benchmarking before entering into, or renewing the arrangement.

- **On-line listing of independent certifiers** – APRA does not intend to maintain an on-line listing of persons or firms that would be eligible to provide an independent certification of an insurance arrangement. APRA considers that the existing guidance on the independent certification process in SPG 250 provides sufficient clarity.
- **Different treatment of existing arrangements and new arrangements** – APRA confirms that SPS 250 has differential treatment for new arrangements and existing arrangements.

For new arrangements coming into force after the commencement of revised SPS 250, RSE licensees must obtain an independent certification before they enter into, renew or materially alter the arrangement. If an RSE licensee cannot obtain the certification, they must not enter into, renew or materially alter the arrangement. RSE licensees are to maintain an insurance arrangement that meets SPS 250 requirements.

For insurance arrangements in place before the revised standard comes into force, transitional arrangements allow RSE licensees 12 months (before 1 July 2023) to seek an independent certification. APRA acknowledges that there may be difficulties in terminating an arrangement that did not contemplate the new provisions. SPS 250 requires the RSE licensee to notify APRA within ten business days if it is unable to obtain an independent certification for existing arrangements. APRA will determine the appropriate action to be undertaken depending on the circumstances.

3.3 Timing for the certification

3.3.1 Comments received

Respondents asked if an independent certification could be given after an arrangement is entered into, in circumstances where it is not practicable to obtain a prior certification. Further, respondents asked if a certification could be given to APRA within 20 business days instead of five business days or, if an RSE licensee is unable to obtain an independent certification, if the RSE licensee could notify APRA within 20 business days instead of five business days.

3.3.2 APRA's response

The purpose of obtaining an independent certification in advance of entering into an agreement is so an RSE licensee has an independent view of the appropriateness of the arrangement before entering into an arrangement. Seeking an independent view of the arrangement after it is entered into would not support the objective of avoiding an arrangement that is not in the best financial interests of the beneficiaries.

APRA has decided to increase the timeframe for the requirement to provide an independent certification to APRA to ten business days, noting that this is a procedural requirement as the independent certification would already have been obtained. The requirement for an RSE licensee to notify APRA where it is unable to obtain an independent certification applies only to arrangements in place before the effective date of SPS 250. The timeframe for notifying APRA in this circumstance has also been increased to ten business days.

Chapter 4 - Insurance strategy and arrangements

An RSE licensee, in developing and implementing its insurance strategy, must act in the best financial interests of beneficiaries, in addition to complying with other obligations under the SIS Act and SPS 250. APRA has amended SPG 250 to ensure RSE licensees address the risk that the cost of the insurance may inappropriately erode the retirement income of beneficiaries. Further, APRA has amended SPS 250 in relation to the termination provisions of an arrangement.

4.1 Insurance strategy documentation

Draft SPS 250 (January 2021) stated that, in addition to complying with section 52(7)(a) of the SIS Act, an RSE licensee's insurance strategy must document its approach to complying with the insurance covenants in section 52(7)(b) to (d) of the SIS Act. This included the RSE licensee's methodology to assess whether the cost of the insurance inappropriately erodes the retirement income of beneficiaries, and how the RSE licensee's assessment under section 52(11)(d) of the SIS Act will be documented in the annual member outcomes assessments.

4.1.1 Comments received

Some respondents noted that the emphasis in draft SPS 250 (January 2021) on the inappropriate erosion of retirement income covenant (s. 52(7)(c)) was inconsistent with the equal importance of all of the insurance covenants in section 52(7) of the SIS Act.

Some respondents also suggested that the guidance in SPG 250 should be amended in regards to the considerations that should inform an RSE licensee's selection of an insurer and the type of insurance that may be provided. This may include whether the insurance policies are offered by life or general insurers and whether they may provide terms and conditions such as 'guaranteed renewability'. Suggestions included updating draft SPG 250 to make express reference to the benefits and risks of 'guaranteed renewability' in an insurance arrangement.

4.1.2 APRA's response

APRA recognises the equal importance of all the insurance covenants in s. 52(7) of the SIS Act. APRA has therefore reinstated the original drafting of the provision in SPS 250, and has instead enhanced guidance in SPG 250 on an RSE licensee's obligations to avoid inappropriate erosion of retirement income when designing insurance offerings and setting premiums.

APRA has also amended SPG 250 on the considerations that should inform the selection of an insurer, the different types of insurance offerings and the terms and conditions, such as guaranteed renewability, that may apply to an insurance arrangement.

4.2 Termination of arrangement

Draft SPS 250 (January 2021) required the termination provision in an insurance arrangement to include the RSE licensee's right to terminate where an independent certification 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.

4.2.1 Comments received

Some submissions raised concerns that it is unlikely that a certification would state that it is 'not reasonable' for the RSE licensee to form the relevant view, but rather that the certification would not be given. Some respondents suggested that the termination provision be amended so that an RSE licensee would have the right to terminate an arrangement if they were unable to obtain an independent certification, while others suggested that a better approach would be a broader termination right where the arrangement is not in the best interests of the beneficiaries. Further, some submissions suggested that this provision should apply in respect of renewals and material changes to insurance arrangements already in place, not just to new insurance arrangements after the commencement of revised SPS 250.

4.2.2 APRA's response

APRA recognises that an independent certifier is more likely to refrain from giving a certification than give a negative certification. APRA has therefore revised SPS 250 to require an insurance arrangement to include a broader termination right where an RSE licensee is not satisfied that the arrangement is in the best financial interests of the beneficiaries.

An independent certification is required before entering into, renewing or materially altering an arrangement. APRA expects an RSE licensee to consider appropriate changes to an insurance arrangement, or where applicable, terminate the insurance arrangement if the RSE licensee is not satisfied that the arrangement is in the best financial interests of the beneficiaries. If an RSE licensee identifies concerns with arrangements that are already in place, APRA expects the RSE licensee to determine the appropriate actions, which may include altering the arrangement or termination of an arrangement.

Chapter 5 - Member matters

APRA's amendments in finalising SPS 250 and SPG 250 also address a number of membership-related matters. These matters include provisions to address concerns around easy opt-out of insurance, data management and the data to support member outcomes, expectations for cohorts of members and the Royal Commission recommendation (4.15) that the rules for status attribution to members must be fair and reasonable in connection with the provision of insurance.¹²

5.1 Opt-out processes

Draft SPG 250 made clear that an RSE licensee should have a process for enabling members to easily opt-out of insurance cover and for this process to be clearly communicated to beneficiaries.

5.1.1 Comments received

Respondents recommended that APRA's guidance on member opt-out processes should be flexible and technology neutral, where possible. Other respondents cautioned that reducing barriers to action should not override the need to verify the identity of those making the request. Some respondents questioned why opting out was the only member decision for which guidance was being provided.

5.1.2 APRA's response

SPG 250 has been amended to outline APRA's expectations that an RSE licensee's communications should assist members in making decisions about all matters related to their insured benefits. APRA's guidance further reinforces easy opt-out of insurance as being critical to member needs.

5.2 Status attribution to a beneficiary

In accordance with the Royal Commission recommendation 4.15, SPS 250 requires that 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 is fair and reasonable. Draft SPG 250 provided supporting guidance, including that the rules for attributing status to a beneficiary relate to statuses affecting the premium to be charged and that, to be considered fair and reasonable, the rules must be based on statistically appropriate data.

¹² Recommendation 4.15 - APRA should amend Prudential Standard SPS 250 to require RSE licensees to be satisfied that the rules by which a particular status is attributed to a member in connection with insurance are fair and reasonable.

5.2.1 Comments received

Respondents strongly supported the requirement and guidance in draft SPS 250 and draft SPG 250. However, some respondents requested that the guidance linking status attribution to the premium to be charged to the member be made clearer. If APRA intends that the rules for status attribution are relevant to factors other than the premium to be charged, respondents suggested that the guidance should identify these other factors. Respondents provided examples of other factors that may be relevant to the status attributed to a member. These factors may include the cover and terms that an insurer or insurance market is willing to provide. Respondents also raised concerns regarding limited data availability for RSE licensees, particularly relating to members who are not individually underwritten in group insurance arrangements and therefore typically not required to provide additional information to an RSE licensee or an insurer.

5.2.2 APRA's response

APRA has maintained the existing requirement on status attribution in SPS 250.

APRA has, however, amended SPG 250 to clarify that the rules for attribution of a status are expected to be applied in an equitable manner, taking into account the financial impact of attributing a particular status to a member. This is particularly important where it may affect the premium to be charged for insurance. While a status attributed to a member may have a financial impact on other factors, an RSE licensee is expected to give primary consideration to the impact on the premium to be charged to the member. APRA also expects that the rules for status attribution be based on statistically appropriate data.

5.3 Maintenance of insurance data

Draft SPS 250 (January 2021) retained the existing requirement for an RSE licensee to maintain records of sufficient detail to comply with its obligations. These records must include, for at least the previous five years, the claims experience, membership, sum insured and premiums paid in relation to beneficiaries.

5.3.1 Comments received

Some respondents suggested APRA consider requiring RSE licensees to retain at least eight years of data of claims experience, membership, sum insured and premiums paid in relation to beneficiaries, as compared to the current requirement of five years.

Some respondents asked that APRA clarify minimum and/or best practice data retention timeframes beyond the expiry of risk, including transition timeframes as appropriate. Submissions suggested that the guidance make it clear that in the event of a merger, the data should be made available to the receiving RSE licensee.

5.3.2 APRA's response

While APRA encourages RSE licensees to hold insurance data for as long as possible, SPS 250 maintains the existing requirement of a minimum of five years of data, with the expectation that RSE licensees should continue to build on this level of data. APRA's Superannuation Data Transformation project introduced a suite of new superannuation

reporting standards, commencing from June 2021. The new standards include *Reporting Standard SRS 251.0 Insurance* (SRS 251.0). While it was originally intended that historical data be reported to APRA for the previous ten years, this was revised to the previous five years (as reflected in SRS 251).¹³

As a result, SPS 250 has maintained the requirement for five years of data. SPG 250 notes that a prudent RSE licensee would maintain information, over time, that covers as long a period as possible.

APRA has also amended SPG 250 to make clear that data transferred under a successor fund transfer is to be sufficient to enable the RSE licensee of a successor fund to effectively administer the insurance arrangements and report insurance data to APRA.

5.4 Cohort analysis

Draft SPS 250 (January 2021) set expectations with respect to member outcomes assessments, including maintaining sufficient data to enable cohort analysis.

5.4.1 Comments received

Some respondents requested that APRA remove specific cohort examples in SPG 250, and instead refer to the cohorts determined by the RSE licensee when performing their member outcomes determination. They also added that these examples should be in *Prudential Practice Guide SPG 516 Business Performance Review*.

Respondents recommended that SPG 250 make clear that cohort analysis be limited to member cohorts that lead to statistically significant results and conclusions, and suggested including a statement that RSE licensees should consider the materiality of each cohort in the context of their insured membership base in the member outcomes assessment.

5.4.2 APRA's response

APRA agrees that guidance on membership cohorts belongs primarily in SPS 515 and related guidance, but considers that some guidance on cohorts is appropriate for SPG 250. APRA has made some amendments to SPG 250 to confirm that analysis of membership cohorts is a key part of an RSE licensee's insurance strategy, and an important factor to be considered for the collection and maintenance of data on members' insured benefits. A strong data-driven analysis will assist RSE licensees in making effective assessments of member outcomes.

APRA will take the feedback on membership cohorts into consideration when SPS 515 and related standards and guidance are reviewed in 2022.

¹³ Information on the Superannuation Data Transformation project, including links to the superannuation reporting standards, is available here: [Consultation on APRA's Superannuation Data Transformation | APRA](#)



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