



31 March 2014

Mr Charles Littrell
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Dear Mr Littrell

Draft LPG270 – Group Insurance Arrangements

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the development of insurance regulation, financial reporting, risk management and related practices in Australia and Asia.

We refer to the draft LPG270 and thank you for the opportunity to provide comments. Our comments are set out in the attachment.

If required, we would be happy to discuss our views on this matter. Please do not hesitate to contact David Bell, Chief Executive Officer of the Actuaries Institute (phone _____ or email _____) to arrange this, or for any further information.

Yours sincerely

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Draft LPG 270 – Group Insurance Arrangements

The Actuaries Institute welcomes the introduction of guidance on APRA's view of sound practice in the area of Group Insurance Arrangements.

The Actuaries Institute notes that subject to meeting APRA's prudential requirements insurers have the flexibility to manage their group insurance arrangements in a manner best suited to achieving their business objectives.

Overall the Actuaries Institute is substantially in agreement with APRA's views but makes the following comments and suggestions.

Designation of LPG 270

LPG 270 applies equally to both Life Insurers and General Insurers when dealing with Group Insurance Arrangements. To avoid any confusion as to its application we recommend that its name is either changed to CPG 270 or that APRA ensure that LPG 270 is also included in the list of General Insurance Practice Guides that apply to General Insurers.

Scope

The draft PPG's main focus is life insurance (LI), total and permanent disability (TPD) insurance and income protection (IP) insurance. It is plausible that the draft PPG could apply to a general insurers group insurance schemes which are not LI, TPD and IP insurance - such as Personal Accident and Travel schemes, and Jockey Accident schemes etc. We propose that these bulk insurance arrangements outside of LI, TPD and IP insurance are excluded from this draft PPG because the language, context and specific guidelines are directly applicable to LI, TPD and IP insurance.

We have concerns that this LPG applies to general insurers but is not being issued as a GPG. Unless it is issued as a GPG then general insurers will not be aware of it which will result in non compliance.

General Comments

Throughout LPG 270 differing emphasis is placed on various paragraphs and statements. For example many comments use language such as "APRA expects that", "APRA considers it to be good practice", "APRA would ordinarily expect" and "APRA does not consider". Where LPG 270 has used "APRA expects" there is concern that these parts of the guidance will in practice become a pseudo standard even noting the introductory paragraphs of the guidance and has the potential to take the guidance from APRA's view of sound practice to a standing requirement. This concern is heightened as no reference to materiality has been included. We suggest this wording be revisited.

General Comments on Insurance Tenders

LPG 270 does not provide any guidance as to what should be regarded as a tender or how reinsurance tenders fit into the process.

- A tender conducted through a formal process is clearly a tender. There are scenarios that may not ordinarily be considered a tender yet parts of the guidance should still be followed and considered as good practice e.g. renewal of a scheme. The guidance should be expanded to include the renewal of funds in a non-tender situation where appropriate.



- The guidance is clearly aimed at direct insurers, however, much of it is also relevant for reinsurers. The guidance should be changed to clearly include reinsurance where appropriate from both the insurers and reinsurers perspectives.

Parts of LPG 270 dealing with insurance tenders provide guidance on what should be contained within an insurer's response to a tender. For example, paragraph 11 clearly sets out some of the elements that APRA expects to be included in the tender response. For paragraph 12 that follows it is not immediately obvious if this is intended to be included in the tender response or not. We recommend that APRA make it clearer throughout LPG 270 what should be included in the tender response and what is for consideration by the insurer only.

Risk Management Framework

Paragraph 4

The end of paragraph 4 should make it clear that there are additional considerations in pricing and capital adequacy and not just those listed in relation to material risks. We suggest rewording along the following lines:

"However, there are risks specific to group insurance that, if material, should be specifically identified within the risk management framework and taken into account (together with other considerations) in pricing and the assessment of capital adequacy."

Paragraph 4 (a)

This should be extended to include reference to all data, including member data, and not just claims data. This section should also cover any claims data that the insurer maintains and the insurer's own responsibility to maintain accurate data.

Paragraph 4(f) and 4(g)

Assessment of the following risks in particular would require RSE licensees or insurers to maintain detailed information that they do not currently hold and in practice may not be able to reliably obtain and keep up to date:

- Paragraph 4 (f) may require an RSE licensee to maintain members' working locations, especially if working for large employers
- Paragraph 4(g) may require an insurer to aggregate exposure for individuals which would require members to be identified across superannuation funds

This would be a significant additional workload and cost for superannuation funds and insurers who will have to maintain large databases that would be impractical to establish and keep up to date and provide limited benefit. This work would be duplicated across the industry as each fund/insurer would have to source and maintain its own data.

To identify the materiality and if material the impact of the risks referred to in 4(f) and 4(g) will be extremely hard in practice. In particular the information required for 4 (g) would have to be obtained from the member or each member's consent would be required so that information held by all superannuation funds can be aggregated by each fund.

It is not clear if this is the intention of 4(f) and 4(g) or how APRA expects these risks to be otherwise addressed.



Paragraph 4 (h)

Some insurers may to a limited extent outsource to a RSE licensee determining premiums for a corporate scheme, for example, where the RSE licensee is a master trust or an industry fund with a sub-fund for corporate schemes. This should be explicitly covered in paragraph 4(h) or elsewhere.

Sustainability

Paragraph 6(c) and 11

This is useful if a very short term guarantee is provided with the tender. However for longer guarantees there is increased uncertainty and the insurer should be wary of providing any guidance to the RSE licensee on future changes to premium rates. The risk to the insurer is that they set unreasonable expectations and/or create an implied rate guarantee. Good practice by the insurer would be to advise the RSE licensee on the factors (positive and negative) that could potentially affect the premium rates and terms and conditions so that the RSE licensee can monitor and influence these factors.

Outsourcing

Paragraph 22

APRA's draft guidance that outsourcing of claims decisions is not good practice does not appear to allow for any situations where outsourcing of claims decisions may be reasonable and lead to better outcomes for both the insurer and the RSE licensee. We believe that there are situations where outsourcing of claims decisions could be good practice and that this paragraph should be softened.

Scenarios that may be considered as good practice are:

- Outsourcing of death claims where the amounts are not large and almost all claims will be paid subject to checks on eligibility;
- For schemes that have historically been self-insured

In addition to this, APRA has had concerns on the impact that transitioning large schemes between insurers and the impact has on staff and the increase to operational risk of the insurer. Limited outsourcing can help address the issues created by the transfer of large insurance arrangements between insurers.

APRA's prudential standard on outsourcing provides much detail and guidance in this area. Rather than APRA providing a general statement that claims outsourcing is not good practice we would prefer to see direction from APRA about what would be regarded as good practice in the totality of the arrangement. Some flexibility should be provided to allow insurers and RSE licensees to adopt claims management models that provide optimal outcomes to both parties as long as strict risk management frameworks are in place.

Paragraph 24

Reporting on emerging experience can be highly uncertain. We would prefer to see the phrase "information on emerging experience" altered to "information on past experience" as this more accurately describes the information that an insurer can reasonably provide.



Data management

Paragraph 30

Paragraph 30 highlights that records must be of sufficient detail to enable prospective insurers to properly assess the benefits made available. APRA has not introduced a minimum standard for data but has provided some guidance within SPG 250. We would take this opportunity to ask that APRA provide support for upcoming initiatives from the superannuation industry by funds and insurers to agree in general the data required for a tender.

Data used in tenders

Paragraph 38

Carrying out validation and reasonableness checks is good practice, however, it should be acknowledged that an insurer will often have difficulties in being able to do this and that an insurer should at least make reasonable efforts. We recommend that the wording is amended along the following lines:

“APRA considers it to be good practice for a prospective insurer to carry out validation and reasonableness checks of all data that they rely on. If an insurer is unable to fully validate the data that it relies upon, it should nevertheless have made reasonable efforts to validate the data prior to relying on unvalidated data. It is not good practice to assume data is complete and free of error, even though the RSE licensee has a duty of disclosure and a requirement to act in the utmost good faith under the *Insurance Contract Act 1984* (Contracts Act).”

Paragraph 41

There are concerns that insurers could enforce their rights regarding incomplete or incorrect data where this leads to small adjustments to premiums. We believe that insurers and RSE licensees should be able to agree to waive their rights when the impact of incomplete or incorrect data is below a certain threshold. We would recommend that this section be amended to include the word “materially” as follows:

“In general, APRA does not consider it to be good practice for an insurer to waive its rights under the Contracts Act to take remedial action if the data it relied on is subsequently found to be materially incorrect.”