



30 October 2014

**To: CEOs of life companies (including friendly societies) and other interested parties**

***Final Prudential Practice Guide LPG 270 Group Insurance Arrangements***

In December 2013, APRA released for consultation draft *Prudential Practice Guide LPG 270 Group Insurance Arrangements* (LPG 270). This letter sets out APRA's response to the issues raised during consultation and other minor amendments to LPG 270.

**Background**

LPG 270 provides guidance to insurers on good practice for group insurance arrangements with a focus on life insurance provided to Registrable Superannuation Entity (RSE) licensees. Topics covered include the identification of risks in accordance with an insurer's risk management framework, responding to tenders and data management. LPG 270 also discusses the implications of *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) for insurers.

**Issues from consultation**

Consultation on draft LPG 270 closed on 7 March 2014. APRA received six submissions, which broadly supported the content of LPG 270 and sought further clarification on certain aspects.

The key issues raised and APRA's responses are summarised below.

***Outsourcing of claims decisions***

Consultation feedback expressed the view that there are circumstances where the outsourcing of claims decisions can take place and would not be inconsistent with good practice. This would be the case where, for example, there are clear limits and monitoring processes in place and where the insurer has made appropriate enquiries to assure itself of the outsourced provider's level of resources and its processes and controls for the management of claims.

LPG 270 has been amended to reflect this feedback, as well as emerging industry practice, with the addition of key factors that a prudent insurer would typically consider in relation to outsourcing of claims decisions.

***Claims philosophy***

Submissions sought clarity on APRA's expectations in the event of changes in an insurer's claims philosophy. In APRA's view, it is good practice for an insurer to make it clear in its response to a tender that its claims philosophy captures the insurer's *current* approach to claims assessment, administration and settlement. This has been clarified in LPG 270.

Further, the degree of reliance placed on prior claims experience may be affected where those claims were assessed under a materially different claims philosophy or where

knowledge of the claims philosophy is limited. For example, the claims philosophy of a tendering insurer may be different to the claims philosophy of a previous insurer of the group scheme. In such circumstances, the increased uncertainty around the degree of reliance that can be placed on prior claims experience would be expected to be considered by a tendering insurer in its pricing assumptions and reserving.

#### *Availability of data*

Submissions sought clarity on the level of data that insurers are expected to obtain from RSE licensees and suggested that the assessment of certain risks effectively required insurers to maintain individual member-level data. It is not APRA's expectation that insurers specifically request or hold detailed data on individual members for the purposes of assessing risks addressed in LPG 270. LPG 270 provides guidance on certain risks specific to group insurance. Where those risks are material, good practice is demonstrated by an insurer identifying risks in its risk management framework and considering risks in pricing and the assessment of capital adequacy. Insurers are encouraged to engage with trustees proactively in order to obtain the degree of information required to conduct their businesses prudently. If adequate data is not available, it is prudent to take that into account as a factor heightening uncertainty in pricing and reserving.

#### *Other minor changes*

Other minor changes have been made to LPG 270 in light of consultation feedback. These include:

- an insurer's approach to managing claims arising from past insurance arrangements where the policies are no longer in effect has been added as a further example illustrating how an insurer supports its claims philosophy;
- clarifying APRA's expectations regarding the communication of factors (both positive and negative) affecting the sustainability of premium rates and terms and conditions of insurance contracts in an insurer's response to a tender; and
- further clarifying APRA's expectations of data used in tenders.

#### **Final LPG 270**

The final version of LPG 270 can be found on APRA's website at: <http://www.apra.gov.au/lifs/PrudentialFramework/Pages/life-insurance-ppts.aspx>

For any questions related to LPG 270, please contact your responsible supervisor.

Yours sincerely



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