



# Prudential Practice Guide

## **SPG 250 – Insurance in Superannuation**

July 2013

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## About this guide

Prudential Practice Guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

*Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) sets out APRA's requirements in relation to making insured benefits available to beneficiaries. *Prudential Standard SPS 160 Defined Benefit Matters* (SPS 160) sets out APRA's requirements in relation to self-insurance. This PPG aims to assist an RSE licensee in complying with those requirements and, more generally, to outline prudent practices in relation to insurance in superannuation.

For the purposes of this guide, and consistent with the application of SPS 250 and SPS 160, 'RSE licensee' and 'registrable superannuation entity (RSE)' have the meaning given in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Subject to the requirements of SPS 250 and SPS 160, an RSE licensee has the flexibility to structure its business operations in the way most suited to achieving its business objectives. Not all practices outlined in this PPG will be relevant for every RSE licensee and some aspects may vary depending upon the size, business mix and complexity of the RSE licensee's business operations.

## Introduction

1. SPS 250 sets requirements with respect to making insured benefits available to beneficiaries. This PPG provides guidance for an RSE licensee with respect to the requirements of SPS 250, regardless of how the RSE licensee chooses to undertake this activity.

## Insurance management framework

2. Under the SIS Act, an RSE licensee is generally required to provide, death benefits and permanent incapacity benefits to all MySuper beneficiaries on an opt out basis.<sup>1</sup> An RSE licensee can also make certain types of insured benefits available to choice members.<sup>2</sup>
3. An RSE licensee is ultimately responsible for insured benefits that are made available to beneficiaries within its business operations.
4. For the purposes of this PPG and consistent with SPS 250, 'insured benefits' means benefits that are made available to beneficiaries via insurance acquired by the RSE licensee from an insurer or insurance offered under an RSE licensee's self-insurance arrangements.
5. An RSE licensee's insurance management framework encompasses all aspects of the RSE licensee's business operations that affect insured benefits made available to beneficiaries. APRA expects an RSE licensee to develop its insurance management framework in a way that pays particular attention to factors that could adversely affect these insured benefits.
6. It is common for parties other than the RSE licensee to have roles and responsibilities in relation to making insured benefits available to beneficiaries, including with respect to managing the risks relating to insurance. These parties can include, but are not limited to, insurer(s) and administrator(s). APRA expects an RSE licensee would ensure that it understands the roles and responsibilities of all such persons and documents these appropriately as part of the insurance management framework.
7. An insurance management framework supports the identification and monitoring of risks relating to insured benefits and encompasses all aspects relating to the management of those benefits. An RSE licensee's policies relating to the management of insured benefits would normally deal with risks including, but not limited to:
  - (a) the administration of insured benefits, regardless of whether it is undertaken by the RSE licensee or an external party. This may include risks arising from underwriting terms and their practical application, the management of eligibility for cover and granting of cover, claims management and assessments of eligibility to claim and risks associated with communication with beneficiaries including where communication with members does not accurately reflect the terms of the insurance policy;
  - (b) the roles and responsibilities of the RSE licensee where it makes insured benefits available to beneficiaries by way of individually underwritten insurance arrangements;
  - (c) holding or having access to adequate data to assess the performance of an arrangement that makes insured benefits available and to support ongoing management of this arrangement;
  - (d) risks related to the due diligence and selection of an insurer; and
  - (e) risks relating to the appropriate transfer of insurance risk to and between insurers including the possibility of self-insurance.
8. SPS 250 requires an RSE licensee to review its insurance management framework every three years to ensure that it remains appropriate and effective with respect to its business operations. It would also be prudent practice for an RSE licensee to undertake an objective annual review of the insurance management framework. A prudent RSE licensee would normally conduct this review in conjunction with the regular review of its risk management framework, as required under *Prudential Standard SPS 220 Risk Management*.

<sup>1</sup> Refer to s. 68AA of the SIS Act.

<sup>2</sup> Refer to r. 4.07D of the *Superannuation Industry (Supervision) Regulations 1994*.

9. At a minimum, in addition to consideration of each component required to be included in the insurance management framework, APRA expects that the periodic review of the insurance management framework would consider whether the risks relating to making insured benefits available outlined in paragraph 7 are adequately addressed by the risk management framework.
10. An RSE licensee's approach to the management of insured benefits is not expected to duplicate the policies and practices of an insurer providing insured benefits. An RSE licensee would instead be expected to have an understanding of the underwriting, claims and premium deduction and remittance processes of the insurer and other parties involved in the management of insured benefits and to have considered how the insurer's approach and processes align with the RSE licensee's expectations and understanding.
11. APRA expects that an RSE licensee would have in place a process that supports timely communication to beneficiaries about the insured benefits to which they are entitled. The communications may relate to both standard and non-standard insurance conditions such as restrictions, loadings and also the cessation and reinstatement of cover.
12. An RSE licensee's insurance management framework would normally include specific consideration of how the RSE licensee will ensure compliance with the requirements in the *Insurance Contracts Act 1984*<sup>3</sup>, specifically obligations to act in utmost good faith in its relationships with insurers.

## Data management

13. SPS 250 requires an RSE licensee to maintain records of at least five years' duration about the claims experience for each RSE within its business operations. This information is important to support the tender process and orderly transition where an RSE licensee enters into an agreement for an insurer to provide the insured benefits. Accurate claims records also support the identification, monitoring and management of the risks associated with making insured benefits available to beneficiaries.
14. Whilst an RSE licensee may, as part of its contractual arrangements with an insurer or administrator, allocate specific responsibility for the maintenance of claims data to that other party, the RSE licensee is ultimately responsible for complying with the requirements in SPS 250.
15. Claim experience information that an RSE licensee would ordinarily maintain includes, but is not limited to:
  - (a) event type i.e. the reason behind the claim being lodged;
  - (b) the date of the event giving rise to the claim;
  - (c) the date on which the claim was notified;
  - (d) the details of insurance cover disclosed to the member on taking up the cover;
  - (e) the date that the claim was admitted for each death and permanent incapacity and terminal illness claim and the dates that payments started and ceased for each temporary incapacity, or the date the claim was denied;
  - (f) disputed claims and the reason for the dispute;
  - (g) the date(s) the claim was paid; and
  - (h) the amount of the claim.

<sup>3</sup> Refer to s. 13 of the *Insurance Contracts Act 1984*.

16. Whilst SPS 250 makes specific reference to data of five years' duration, APRA considers that a prudent RSE licensee would maintain information, over time, that covers as long a period as possible. APRA expects an RSE licensee would ordinarily consider the historical run-off pattern of claims when determining the longevity of records maintained. APRA considers it good practice for an RSE licensee to continue to maintain insurance data beyond the expiry of insurance risk, and until the last claim payment is made.
17. APRA expects that an RSE licensee would maintain records of sufficient detail, currency and accuracy to support both the management and assessment of the provision of insured benefits and the associated risks. This information would usually include complaints data, take-up rates of opt-in and opt-out arrangements and requests for additional cover and their outcome. Where this information is maintained by an insurer or outsourced service provider (such as an administrator) on behalf of the RSE licensee, APRA expects that the RSE licensee would receive periodic reporting on and/or have access to relevant insurance information.
18. APRA expects that an RSE licensee would have in place mechanisms for the regular review of the processes of each outsourced service provider that plays a role in making insured benefits available and of the processes of the insurer. This review can support the accuracy of premiums charged, underwriting processes and claims information over time.
19. APRA also considers it good practice for an RSE licensee to maintain a history of the design of insured benefits and membership in each type of insurance made available as they have evolved over time. Much of this information would be retained by maintaining insurance policy documents and recording any amendments to these documents over time. This would ordinarily include:
  - (a) changes in the type and level of insured benefits made available, as well as pricing and associated advice to beneficiaries regarding changes to their cover;
  - (b) significant groups of beneficiaries joining or leaving the RSE, such as those employed by a particular employer that enters or leaves the RSE, or successor fund transfers;
  - (c) changes to insurance processes, e.g. changes to administration systems, changes in marketing methods, bulk adjustments, special offers to alter the terms of insurance or changes that result in claims being reported earlier or later; and
  - (d) changes in automatic acceptance limits.
20. Where an external party other than the insurer is responsible for the day-to-day maintenance of claims information, good practice would be for an RSE licensee to have in place arrangements for accessing this information in a timely manner.
21. In addition to information about resolved claims, APRA considers that a prudent RSE licensee would also maintain accurate and up-to-date records of claims that are continuing to be paid or are in dispute.

## Insurance strategy

22. An RSE licensee's insurance strategy, as required by SPS 250, is a key component of the insurance management framework. In addition to the requirements contained in s. 52(7) of the SIS Act, an RSE licensee's insurance strategy would ordinarily include consideration of:
- (a) which beneficiaries are to be provided with insured benefits and at what level, including when insured benefits of a particular type are not appropriate to make available to some groups of members or beneficiaries (e.g. when the best interests of casual employees and beneficiaries close to retirement age may not be served by these types of benefits);
  - (b) relevant factors in relation to the appointment of an insurer to make insured benefits available to beneficiaries and how the risks relating to this selection are to be managed;
  - (c) when insurance cover is to commence and the circumstances under which member's eligibility for insurance cover would cease;
  - (d) the level of underwriting needed for beneficiaries to be provided insured benefits;
  - (e) administrative capabilities, including ease of underwriting and claims processes; and
  - (f) how, where appropriate, existing insured benefits provided to beneficiaries are to be preserved (e.g. in the situation of a successor fund transfer).
23. APRA expects that strategic decisions relating to making insured benefits available to beneficiaries would be made with reference to the collective best interests of beneficiaries of the RSE as a whole as well as the financial interests of members with an interest in a MySuper product.
24. An RSE licensee may decide it is appropriate to enter into arrangements with more than one insurer for making insured benefits available, for example, to address complexity within its business operations or particular characteristics of parts of its membership.
25. Where an RSE licensee uses more than one insurer for a given RSE or group of members within an RSE (including sub-funds), APRA considers it good practice for the RSE licensee to address the risks involved in this arrangement within its insurance strategy. This would consider risks related to the maintenance and communication of complete and accurate member data where this data may be provided to the RSE licensee, or another party involved in making insured benefits available, by multiple parties.
26. The use of a general insurer or Lloyd's underwriter may generate specific risks given the nature of, and differences between, general insurance and life insurance policies. These include, but are not limited to, the risk of the policy being cancelled, or significant changes to the terms and conditions being made, at the end of the contract. APRA expects that the benefits of policies that are guaranteed renewable and the risks involved in making benefits available that are not guaranteed would be closely considered by an RSE licensee that considers, or enters into an arrangement with, a general insurer or Lloyd's underwriter and that these risks are reflected in the insurance strategy and addressed in the insurance management framework.
27. An RSE licensee would be expected to consider the membership profile of each RSE within its business operations (or group of beneficiaries or sub-funds within an RSE) to which insurance is being made available when determining its insurance strategy in relation to that RSE or group. This would include whether there are substantial differences in profile between different groups of beneficiaries within a single RSE, e.g. the size of the pool insured, and age, gender and occupational profile of the membership.

28. As a material fluctuation in the number of beneficiaries insured can affect the insurance coverage and the cost of that coverage, an RSE licensee would ordinarily consider in its insurance strategy how it expects to monitor the overall number and profile of beneficiaries covered under an insurance policy. This would ordinarily include consideration of membership volatility given the insurance profile and risk factors of the insured beneficiaries and/or the circumstances of employer sponsors. This is particularly important in the context of insured benefits made available on an opt-out basis.

### Selection of insurer

29. SPS 250 sets out an RSE licensee's minimum obligations that apply when deciding whether to enter into a new agreement with an insurer. APRA considers a prudent RSE licensee would also consider these factors when determining whether to renew an existing relationship with an insurer.
30. APRA expects that an RSE licensee would, when undertaking a selection or tender process, first consider its criteria for selecting insurers or inviting insurers to tender, based on the RSE licensee's insurance strategy.
31. Where a tender is conducted, APRA considers it good practice for information that is provided to prospective insurers as part of a selection or tender process to be reviewed and approved by the RSE licensee regardless of who provides the information. To support the requirement in SPS 250 that the selection process be conducted at arm's length, APRA considers it sound practice for the RSE licensee to provide the same information to all prospective insurers at the same time.
32. It is important that an RSE licensee conducts its selection processes in a manner that allows sufficient time for prospective insurers to properly assess the risks of providing the requested insurance.
33. APRA expects that an RSE licensee, when selecting an insurer, would consider the cost of insurance as one of many considerations that inform the selection process. Other important factors include, but are not limited to:
- (a) whether the insured benefits under consideration align with the best interests of beneficiaries more broadly;
  - (b) the appropriateness of the terms and conditions of the insurance cover provided to any given group of beneficiaries, including takeover terms;
  - (c) the services offered by the insurer under the agreements accompanying the insurance policy, including claims and data management, underwriting and reporting provisions; and
  - (d) the insurer's long term viability or sustainability.
34. APRA considers it good practice for an RSE licensee to consider the sustainability of both the insured benefits to be provided by prospective insurers and the insurer itself. This includes consideration of matters such as:
- (a) access to capital;
  - (b) relevant resources, experience and practice in claims management;
  - (c) any additional risks that may be involved in increasing benefits made available to beneficiaries (e.g. increasing automatic acceptance levels and/or life-style increase options);
  - (d) tailored service models;
  - (e) the rate guarantee period; and
  - (f) the terms of any extension or new cover provided after termination of a policy and how this would be managed in relation to notices required to beneficiaries advising them of a change in insurance terms.

35. SPS 250 requires an RSE licensee to give due consideration to claims philosophy when selecting an insurer. In APRA's view, an insurer's claim philosophy is a reflection of the insurer's ability and willingness to assess and pay legitimate claims expeditiously. Claims philosophy includes measurable factors such as the insurer's history of rate of rejection of claims formally made, the insurer's record of claims decisions being overturned by the Superannuation Complaints Tribunal, the reasonableness of claims underwriting requirements and the training and skills of claims assessors. Other information that might be relevant includes details of specific examples of claims paid and claims denied. Claims philosophy also encompasses those processes of the insurer which support procedural fairness for claimants. Examples of how procedural fairness might be supported by an insurer's processes include, but are not limited to:
- (a) the insurer having formal service levels for processing claims and reporting against those service levels;
  - (b) the insurer having in place a process to ensure that all relevant information has been provided to it and a process that supports the appropriate review of previous decisions when new information comes to light;
  - (c) the insurer's process for paying interest on claims; and
  - (d) the insurer's awareness of case law that might affect its decision making processes.
36. It would be good practice for an RSE licensee to consider both the appropriateness of continuation options as well as their management to ensure that these options are in the best interest of beneficiaries. This includes ensuring that the continuation options are appropriate to the membership group and the cost and terms of these options are fair and clearly communicated to relevant beneficiaries.
37. APRA expects an RSE licensee would have in place a formal process for appointing an insurer, including appropriate delegations for appointing the insurer. The Board may choose to delegate elements of the tender and/or selection process, such as the determination of the selection criteria, but the Board, or a relevant Board committee, would ordinarily review and approve the criteria.

### Insurance arrangements

38. SPS 250 outlines the minimum requirements that must be included in insurance arrangements. APRA expects that ordinarily, an RSE licensee would also have documented arrangements in place, prior to the commencement of risk, which address matters including but not limited to:
- (a) underwriting requirements, including the responsibilities of the insurer, the RSE licensee or any other party with respect to underwriting;
  - (b) any reduction in benefits and premium loadings i.e. extra premiums charged to a member or group of beneficiaries based on specific conditions, including how beneficiaries are notified about additional premiums;
  - (c) clearly defined conditions for when claims will be admitted or denied;
  - (d) procedures for deducting premiums from beneficiaries' accounts and paying premiums to insurers;
  - (e) procedures for notifying and paying claims, including the responsibilities of the insurer when communicating directly with beneficiaries;
  - (f) continuation options including notification to beneficiaries;
  - (g) liability and indemnity where the insurer outsources a material business activity relating to the insured benefits made available by the RSE licensee;
  - (h) liability and indemnity where incorrect data has been relied upon; and

- (i) profit-sharing arrangements and experience commission terms, including their consistency with the undertaking provided under s. 29SAC of the SIS Act in relation to members with an interest in a MySuper product.
39. The responsibilities of the RSE licensee and the insurer's service levels would typically be outlined in an insurance arrangement. APRA considers that it would be sound practice for these to cover, at a minimum, the timeframes for:
- (a) the provision of relevant member and claims information to the insurer;
  - (b) processing claims, including the time taken to undertake the initial assessment of a claim;
  - (c) claim decisions once all relevant information has been received;
  - (d) when admitted claims are paid; and
  - (e) processing of underwriting requests and the communication of the outcome of underwriting decisions to beneficiaries.
40. SPS 250 requires that dispute resolution arrangements be addressed in an RSE licensee's insurance arrangements. APRA expects that this would cover the management of disputes between the RSE licensee and the insurer and the RSE licensee's internal dispute resolution processes, as appropriate. The matters that would ordinarily be expected to be covered include, at a minimum, how disputes relating to claims, underwriting, premium payment, renewal, data and service standards are agreed upon, including how a dispute is to be escalated.

### RSE licensees that are part of a group

41. An RSE licensee that is part of a broader group of associated entities may utilise policies and functions of the group, with respect to making insured benefits available, provided that those policies meet the requirements of SPS 250. For example, an RSE licensee in a conglomerate group may use an established claims management approach used by other entities within the group to meet the obligations in SPS 250.

42. If an RSE licensee relies on documentation relating to making insured benefits available that is developed elsewhere in the broader group, it is important that this documentation be adopted only where it appropriately reflects the insurance management framework of the RSE licensee. The documentation would be expected to provide sufficient clarity to facilitate ownership by those with responsibilities associated with making available insured benefits within the RSE licensee's business operations.

### Monitoring the insurer relationship

43. The resources required to manage and monitor the relationship with an insurer will depend on the complexity of insurance arrangements. Typically, an RSE licensee that maintains a complex insurance management framework with multiple types or sources of insured benefits and/or complicated benefit structures would need closer and more frequent contact with an insurer(s) and other relevant service providers, such as the administrator, than where simple insured benefits are made available to beneficiaries. Whilst APRA does not expect an RSE licensee to have dedicated insurance management resources in place, a prudent RSE licensee would ensure that its business structure allows adequate oversight of the risks related to the ongoing performance of the insurer and the administrator where relevant.<sup>4</sup>
44. APRA considers that appropriately detailed and frequent reporting between the insurer, the RSE licensee and other parties involved in the management of insured benefits is crucial for managing the risks related to making available insured benefits.

<sup>4</sup> Refer to *Prudential Standard SPS 231 Outsourcing* for requirements relating to outsourcing of material business activities.



Telephone  
1300 55 88 49

Email  
[info@apra.gov.au](mailto:info@apra.gov.au)

Website  
[www.apra.gov.au](http://www.apra.gov.au)

Mail  
GPO Box 9836  
in all capital cities  
(except Hobart and Darwin)