



Institute
and Faculty
of Actuaries

B1: Millions face super premium sting

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Objective of Session

- Material losses recently suffered in the Australian "Group" protection market
- Share our views on specific circumstances that led to these losses
- Possible 'learnings' for UK
- Some recent relevant 'observations' from UK

The Sydney Morning Herald

Millions face super premium sting

By Anna Cougle, Peter Doherty, 28 May 2014, 5:10 a.m.



The cost of cover is going up. Photo: Tamas Vencsik

The Sydney Morning Herald

Almost every working Australian is being hit by price rises for the life insurance that they receive through their superannuation funds.

Fund members have received, or are about to receive, notifications from their funds of **increases in the cost of insurance premiums of up to 50 per cent.**

From June 29, the two million members of the AustralianSuper fund will face **increased premiums for death and for total and permanent disability cover by almost 40 per cent and by about 25 per cent for income protection insurance.**

Super funds of all stripes – whether not-for-profit funds, “retail” funds run by banks or corporate funds – are increasing their insurance premiums.

The insurance is in most cases a default option, unless you actively choose to opt out. The money is deducted automatically from the member's account balance by the fund. The funds note the insurance on their regular statements but in many cases people are unlikely to be aware that they have the insurance.

Super funds have contracts with insurers that typically run for three years; and some of the biggest funds are coming up for renewal at the same time.

More funds are expected to announce price rises this year as they renegotiate prices with their insurers.

Insurers are putting up their premiums because fund members are making more claims as the economy remains weak and unemployment edges up, said Jim Minto, the managing director of insurer TAL Australia, which is AustralianSuper's biggest insurer.

Mr Minto said there were significant premium price falls towards the end of the worst of the GFC as insurers expected claims would start to fall as the economy improves. He said there is a strong relationship between insurance claims and higher unemployment....

May 28, 2013

John Collett

Australian Super Funds

- Superannuation Funds i.e. saving for retirement

- Primarily investment arrangement, with default minimum insurance benefits with the option of higher cover:

- Death and accelerated TPD cover
- Terminal Illness
- Income Protection

- Open to:

- Public service workers
- White collar
- Education
- Health
- Government employees
- Police
- Blue collar
- Mine workers
- ...anybody!!!!

AMISTSUPER

first
state super

ANZ

REST
Industry Super

LOCAL
GOVERNMENT
SUPER

sunsuper

StatewideSuper
Trust the local

AustralianSuper

Typical Default Benefits (1 unit)

- Life plus accelerated TPD (and terminal illness)
- Fixed unit price with cover varying based on current age
- For example, age 35 gender neutral
 - Standard Risk \$50,000 approximate £25,000
 - Low risk \$85,000
 - Professional \$100,000
- Group Salary Continuation (Income protection cover)
 - 2 year benefit, 60 day deferred period (option for 30 days)
 - Pays on total disability or partial disability (totally sick for at least 14 days)
 - \$500 per month
 - up to 40 units no health evidence, 100 units with evidence

Typical TPD Benefit

- Unable to work for 3 consecutive months and unlikely to ever be able to engage in "any occupation".
- If you are professional or managerial (salary > \$80k, 80% of employment sedentary tasks in an office) then "any occupation" = "own"
- For all others "any" = "occupation based on your skills and knowledge acquired through previous education, training and experience".
- Above applies to employed and those unemployed for less than 12 months.
- Work tasks applies to other lives.
- Loss of limbs and certain medical conditions presumed to count as disability.
- This definition also applies to the income protection benefit.

Changing Economic Climate

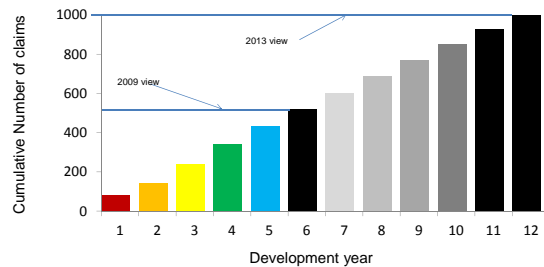
- Difficult for Funds to compete on Investment return
- Insurance benefits seen as an area for differentiation
- Higher levels of default cover
- Generous options to increase cover without underwriting
- Range of cover available to a wider occupation group
- Funds negotiate for best possible insurance price

Protection Market Growth

- \$3.7 billion premium at March 2013 from \$2.4 billion in 2009
- Inforce growth 11% per annum
- Growth driven by:
 - Consolidation of funds
 - Increasing default cover
- Key vehicle for addressing Australia's underinsurance problem
- The insurers view:
 - 7 primary insurers
 - Competitive quoting cycle
 - Large infrastructure and resource investment so keen to retain Funds

2012/2013 Quoting Cycle

- Significantly more claims than expected
- Cost of claims much higher than expected
- Late reporting of claims



Swiss Re Claims Team investigation outcomes

- Parties in the claim process
- Product design, including options
- Consumer behaviour
- Claims management



Lots of Parties!



Member/Claimant → Fund → Administrator → Insurer → Reinsurer

- Alignment of interests
- Data quality and speed of transfer (IBNR)
- Blurred view of potential liabilities
- Disconnect between claim assessor and claimant
- Delays impede early rehab intervention and effective claim management
- Delays impact recovery rates

Product Design

- Cover for all!
- Occupation based definition for all
- "Unlikely, ever"
- Education Training & Experience (ETE)
- 3-6 month waiting period rather than completion of optimal treatment
- Cover remains when contributions cease
- Non underwritten, generous increases



Product Design

E.g.

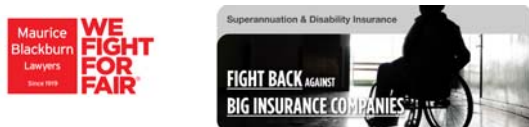
- When you join the fund (up to 6 months to decide)
 - up to AUS\$600,000 regardless of salary or occupation
 - 10 times salary up to a maximum benefit of AUS\$1.5m
- Life changes
 - up to an extra AUS\$500,000 on
 - Marriage/ start of a de facto relationship
 - Divorce/ end of a de facto relationship
 - Birth of a child
 - Death of a spouse or defacto partner
 - Mortgage

Consumer Behaviour

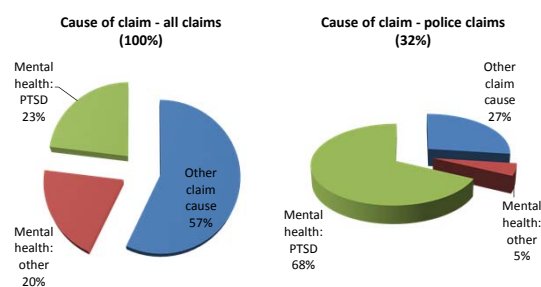
- Anti-selection
- Review of the 11 largest TPD claims showed that 3 policyholders were eligible to claim before they exercised the option to increase cover.
- The average claim is AUS \$50,000
- Exploit imprecise wording on date of insured event
- Examples of 'rush to the door' before some benefits removed/reduced

Consumer Behaviour

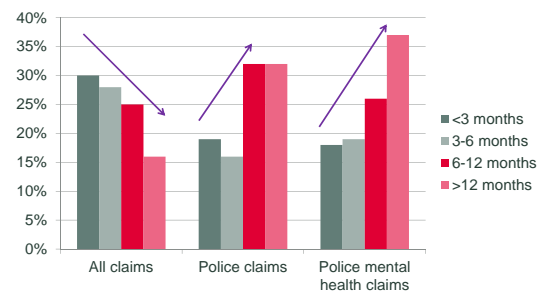
- Heightened consumer awareness – late notification of old claims
- Medical profession awareness
- Solicitors – no win no fee
- Unions and consumer groups
- Brokers advice to poor 'risks' to purchase cover via Supers



Consumer Behaviour - PTSD and the XYZ police Super Fund "X" – cause of claim



PTSD and the XYZ police: Super Fund "X" – claim assessment duration



Nature of the Police job?

Underpaid. Undermanned. NSW Police tell The Daily Telegraph poll



**Underpaid.
Undermanned.
Unappreciated.**

The Daily Telegraph polled almost 1500 NSW police officers and gave them an opportunity to express their views. They reveal a force suffering low morale. Source: The Daily Telegraph

Or a financially driven epidemic?



Medical professionals and PTSD claims

Certain
Doctors



Independent
medical
examinations



- Issues with correct diagnosis
- Issues with provision of evidence based reporting
- Lack of evidence of impairment in reporting
- Lack of evidence regarding treatment
- Weighting of evidence missing

Claims Management

- Late start!
- Case law - late notification / rehabilitation since
- Robustness of T+C's
- Delays in gathering evidence
- Lack of direct contact with member/claimant
- Industry shortage of skilled claims assessors
- Culture of entitlement



Lessons for the UK

1. Proper allowance for late reported claims

- Do we have products with the potential for late reported claims?
 - many critical illness claims are reported late
 - SIAS paper "A Critical Review" effectively underestimated insurance experience by 10-15%
 - many TPD claims declined
 - terminal illness claims
 - claims from "lapsed" policies
- Is anything happening in the market that may change the reporting pattern?
 - Some policyholders currently do not claim short duration disability benefits

Lessons for the UK

2. Do not underestimate consumer self interest

- Policyholders will take advantage of generous policy features and options
- Voluntary Group IP
 - Choosing cover to SPA rather than limited term
 - Over 50 plans
 - Poor early experience at extremes of target age group (eg 50-55, 75+)
 - Poor experience on policies with high premiums
 - Purchase of multiple policies
 - Optional indexation increases
 - Average increase by those who subsequently died higher up to 3 years before death
 - Premium reviews
 - Spike in claims after review as healthy lives lapse

Lessons for the UK

3. Do not underestimate the impact of other professionals

- Other professionals may encourage policyholders to behave against the insurers interest
- Over 50 plans
 - IFA encourage declined and substandard lives to apply
 - Charities
 - Checking for "forgotten" cover
 - Presentation of the facts
 - Australian doctors know how to present a TPD claim so it's "valid"
 - Ambulance chasing
 - Australian legal profession supporting claims for a fee of just 25% of the benefit

Lessons for the UK

4. Inappropriate product design

- Just because a product works for one market do not assume it will work for another
- Income protection
 - Inappropriate claim definitions
 - Over 50s plans
 - IFA distribution
 - Voluntary group
 - Generous options to increase cover without underwriting

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.