



FINANCIAL PLANNING
ASSOCIATION of AUSTRALIA.

26 April 2019

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: superannuation@treasury.gov.au

Dear Sir / Madam

RE: Universal terms for insurance within MySuper

The Financial Planning Association of Australia (FPA) welcomes the opportunity to provide a submission on the *Universal terms for insurance within MySuper* issues paper.

The FPA supports the intent of this policy measure and has long called for standardised definitions in life insurance policies to improve consumer understanding, comparability in engagement with life insurance matters.

However, it is important to remember that not all consumers in a MySuper product are disengaged members. Some members choose a MySuper product as it suits their needs and circumstances. Insurance offered through MySuper should be flexible to allow members to negotiate the cover that suits their needs and risk tolerance, particularly in relation to exclusions.

The most significant challenge this policy is trying to overcome is the disconnect between the insurance cover and consumer expectations and understanding of what the policy will provide should a claim arise. Hence, any changes to the insurance offerings within MySuper must come with improved consumer education.

We would welcome the opportunity to discuss with Treasury the issues raised in our submission. If you have any questions, please contact me on ben.marshan@fpa.com.au or 02 9220 4500.

Yours sincerely

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¹ The Financial Planning Association (FPA) has more than 14,000 members and affiliates of whom 11,000 are practising financial planners and 5,720 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
- We have an independent Conduct Review Commission, Chaired by Dale Boucher, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 26 member countries and the more than 175,570 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 18 Australian Universities for degrees in financial planning. Since 1st July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally.
- We are recognised as a professional body by the Tax Practitioners Board.



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Universal terms for insurance within MySuper

Taking action on recommendation 4.13 of the Banking,
Superannuation and Financial Services Royal Commission

26 April 2019



FPA RESPONSE TO CONSULTATION PAPER

Question 1

1. What are the costs and benefits of standardisation of terms and definitions for default MySuper group life policies?

Standardisation of key definitions and terms in insurance contracts may assist consumers with comparability of cover and potentially offer more consistent coverage of consumers at the time of a claim.

However, there are some issues that would need careful consideration to ensure the desired consumer benefits can be delivered. For example, standardised definitions may remove the flexibility and availability of cover for some consumers.

The introduction of standardised terms and definitions has the potential to make it much easier for consumers to compare products by removing some of the major variables that currently exist across the various life insurance products available through MySuper.

Currently there are significant differences in the definitions of terms, exclusions, conditions, and other product features, making it almost impossible for anyone to conduct a like-for-like product comparison. These differences in product features result in large differentials in premiums. Combined with the fact that insurance is an extremely complex product, this can influence the design of insurance products, and lead to a 'race to the bottom' to increase sales, as consumers commonly choose the lowest price product, which may not provide the cover they need or believe they are purchasing.

Consistency in terms and definitions would assist in overcoming this issue.

However, the FPA suggest consideration be given to ensure there would be no unintended consequences for some consumers from the introduction of standardisation of terms and definitions, such as a reduction in cover.

The FPA cannot comment on the costs of standardisation of terms and definitions.

Question 2

2. What terms and definitions would benefit from standardisation? Are there particular terms/definitions where the case for standardisation is stronger or should be prioritised?

The FPA recommends the standardisation of medical terms and definitions in life insurance products. Life insurance products, including TPD and income protection, are of critical importance to the long-term financial wellbeing of Australian consumers. These are key products through which consumers manage risk for themselves and their families.

The Financial Services Council (FSC) Life Insurance Code of Practice is a good start to addressing inconsistent consumer treatment by the life insurance industry due to variations in medical definitions, which historically has been a significant issue undermining the consumer benefits and value of life insurance products. The significant implications of this issue on consumers is only identified and felt when a claim is made.



The FSC Life Insurance Code of Practice demonstrates industry efforts to address this consumer issue. However, the FPA has the following concerns about the effectiveness of the Code and believe it does not go far enough to address this issue:

- there are a number of exclusions and clauses contained in the Code and for each medical definition specifically included in the Code. When purchasing a product, it may difficult for a consumer or non-medical person to understand the meaning of these definitions and exclusions. Most consumers would consider leukaemia to be leukaemia, and would not understand how subtle exclusions based on detailed medical terminology would result in the denial of a claim should such an event occur. This issue is consistent with many common medical conditions which are not currently defined in the FSC Code.
- only includes a definition for three medical conditions – cancer, heart attack and stroke.

Currently each medically untrained individual financial planner and each medically untrained individual consumer must attempt to comprehend and assess the merits of the technical information in medical trauma definitions in life insurance products. The standardisation of medical terms and definitions could provide a much better system to protect the interests of Australians.

Introducing appropriate standardised definitions and terms of common medical conditions could improve consumer understanding of policy coverage at the time of purchase, and provide greater transparency and comparability of products as market competition would still appropriately dictate a variety of benefits of cover available under each medical condition for consumers to choose from.

However, the standardisation of medical terms and definitions must be developed under clearly defined policy conditions to ensure consumers benefit from the introduction of such standards. This should include:

- a) [Objective of standardisation](#) – the primary objective of introducing standardised medical terms and definitions for life risk insurance products must be to improve the system to protect the interests of Australian consumers, first and foremost.
- b) [Meeting consumer expectations](#) - Consumer expectations of what constitutes a traumatic event should underpin the development of standardised medical terms and definitions. An appropriate public and stakeholder consultation process should be established to facilitate consumer, medical professional, and financial planner input.
- c) [Advised consumers](#) – standardised medical terms and definitions must allow for personal advice to ensure the life insurance product is in the best interest of the each client.
- d) [Standard to be set](#) – the introduction of standardised terms and definitions must overcome the issues of the current system and provide clear definitions that allow consumers and financial planners to understand and make informed decisions about insurance products based on the medical conditions covered and the needs of the consumer.
- e) [Medical conditions to be included](#) - the list of medical conditions to be standardised must be developed via an appropriate consultation process and expand beyond the top three trauma conditions currently included in the FSC Code. It should consider medical conditions most likely to result in a loss of independence or present a significant financial risk for consumers, whose current



terms and definitions in life insurance products are confusing and inappropriate for consumers and non-medical individuals.

- f) [Type of insurance product](#) - clearly distinguish which medical terms and definitions would be standardised, and in which type (Life, CI, TPD, IP, BE) and style of insurance product the standardised terms and definitions would apply to (i.e. retail only, group/direct etc).
- g) [Pre-existing condition](#) - consumers would benefit from the introduction of a standard definition of the term pre-existing condition. Currently the language used to qualify a condition as pre-existing can vary greatly from product provider to product provider and can hold a different meaning to the end consumer.
- h) [Facilitates a culture of claim acceptance](#) - The standardisation of medical terms and definitions must be designed to deliver on the intent of the insurance cover for people who have indeed suffered a serious or life-altering traumatic event. That is, it must facilitate acceptance of insurance claims.
- i) [Contractual strength of standard terms and definitions](#) – consideration should be given to the contractual strength of the standardised medical terms and definitions on whether a claim for a relevant traumatic event would be accepted or declined by all insurers to the level expected under the standardised term or definition.
- j) [Non-compliant definitions](#) – the standardisation of terms and definitions must include requirements for dealing with claims which do not meet the technical definition of the wording but the client suffers a medical event which meets the spirit of the policy.
- k) [Reviewing process](#) – sets an appropriate process and timeframe for reviewing the standardised terms and definitions to ensure the definitions keep up with developments in the medical profession. This should include a process for identifying and assessing systemic or industry wide policy failures and an assessment for individual trauma conditions.
- l) [Market competition](#) - the standardised terms and definitions must allow competitive market forces to operate so insurers are permitted to offer innovative and more generous benefits for consumers to choose from. However, this must not create a situation where two people insured with different insurers could have different claim outcomes (ie. one accepted and one denied) when suffering the same medical condition.
- m) [Reinsurance market](#) - the concentrated underlying reinsurance market dictates underwriting terms to the retail life insurance product providers. Consideration should be given to standardised contract terms between reinsurers and life insurance product providers to support the new standardised medical terms and definitions, ensure retention of competition in the retail market where consumer welfare is more at risk from anti-competitive conduct, and preserve incentives for innovation that improves consumer welfare at a retail contract level.
- n) [Education](#) – includes a program to educate consumers, financial planners, and the medical profession about the introduction of the standardised medical terms and definitions and the potential impacts of these changes (ie. what it will mean for consumers, for financial planners, and for medical professionals). Consumer and financial planner education must include clear information about how to compare life insurance products in a competitive market that includes the standardised medical terms and definitions.



- o) **Transition** – consideration should be given to the need for a transition period to any standardised terms and definitions, including any impact this change may have on consumers with existing policies.

The introduction of a broader range of standardised medical terms and definitions would provide greater consistency across policies allowing insurers to price products on a more sustainable basis for the long term, potentially resulting in more manageable premiums and reliable cover for consumers.

The FPA suggests there is a need to introduce standardised terms and definitions for medical conditions in addition to the three conditions currently defined in the FSC Life Insurance Code of Practice.

Question 3

3. Should trustees be permitted to offer TPD insurances that differs from the definition of ‘permanent incapacity’ in the SIS Act? Is the current legislated definition of ‘permanent incapacity’ an appropriate standard definition of TPD?

The FPA supports a definition that is clear and consistent for consumers.

Currently the definition of “permanent incapacity” contained in regulation 1.03C of the Superannuation Industry (Supervision) Regulations 1994 (Regulations) is often inconsistent with the definition in the insurance provider’s policy. The Regulations rely on the member being “unlikely” to engage in gainful employment, resulting in the early release of retirement funds and creating a consumer expectation of a payment under the total and permanent disability (TPD) insurance policy held through their super account, even if the person eventually returns to work. However, the definition usually included in an insurer’s policy more conclusively states the requirement for permanency of the incapacity. The inconsistency in definitions means that while super funds may approve a condition of release and access to money, the insurer may not, based on the same information.

However, matching definitions in the MySuper space is not an effective solution to this issue with the current definition in regulation 1.03C. The FPA suggests consideration be given to rethinking the “Meaning of permanent capacity” in regulation 1.03C of the SIS Regulations.

Question 4

4. Should the definition of TPD allow for rehabilitation or return to work initiatives? Why/Why not?

The FPA believe consumers expect a TPD policy to provide support in relation to rehabilitation and/or return to work initiatives. An individual may sustain a permanent disability and still have the capacity to earn an income. The ability to earn an income can have a profound impact on an individual’s confidence, independence, state of mind, and overall wellbeing.

The FPA suggests that an individual’s insurance policy should facilitate and encourage the policy holder to lead an independent lifestyle as much as possible.



Question 5

5. Is there a need for universal insurance exclusions in MySuper products? Why/Why not? If yes, should exclusions be standardised across all types of insurance provided within MySuper products? What standardised exclusions would deliver the greatest benefit to consumers?

The FPA suggests there may be some benefits to the introduction of standardised exclusions. Standardised exclusions may make it easier for consumers to compare products by removing some of the major variables amongst the various products available through MySuper, as discussed in response to Question 1.

However, standardisation of exclusions may have several unintended consequences for consumers, that warrant careful consideration.

Some superannuation funds and products are designed specifically for a category or type of consumer. For example, products of many industry funds are designed for specific types of employment or occupation. A fund that provides superannuation products for construction workers will therefore have insurance cover offered in MySuper appropriate for individuals whose underwriting assessment covers the higher risks associated with construction work.

Similarly, a superannuation fund that provides products for journalists will offer insurance based on an underwriting assessment covering the lower risks associated with white collar work.

Using these example, standardising exclusions in insurance products for MySuper has the potential to result in either or both:

- the constructions workers having inadequate cover as risks associated with their line of work are not covered because of the standardised exclusions; and/or
- journalists paying higher premiums than they otherwise may have to in order to cover the higher risk across a broader pool of “universal-terms” covered individuals (such as construction workers).

The FPA is also concerned that standardised exclusions may remove the flexibility of insurers to adapt policies to the meet needs of consumers. It is important to remember that not all consumers in a MySuper product are disengaged members. Some members choose a MySuper product as it suits their needs and circumstances. Insurance offered through MySuper should be flexible to allow members to negotiate the cover that suits their needs and risk tolerance, particularly in relation to exclusions.

For example, the introduction of bronze, silver and gold insurance categories in the health insurance market has greatly restricted consumer’s ability to personalise the cover they need.

Care should be taken to ensure that any standardised exclusions do not undermine the value and expected cover of the insurance policy for consumers.

Should standardised exclusions be introduced, the FPA suggests these should be reviewed regularly to ensure the availability of appropriate cover is maintained, premium levels are commensurate with the standardised exclusions and risks covered under the policy, and that consumers are not adversely affected by this policy.



Question 6

6. What lead time would be required for the industry to implement standardised terms, definitions and exclusions if this reform was implemented?

No comment.

Question 7

7. To what extent would standardising terms, definitions and exclusions across MySuper products impact the price of premiums?

The underwriting process is, in simple terms, based on an actuarial prediction of how likely the insurance applicant will make a claim on their policy. The higher the probability of a claim, the higher the premiums usually are. That is, the premium takes into account the consumer's individual circumstances and history in order to determine the level of premium required to underwrite the risk covered by that specific policy. While mathematical statistics and data are factors, the individual's unique circumstances are also taken into account.

Therefore, the FPA suggests that standardising terms, definitions and exclusions across MySuper insurance products has the potential to minimise the variety of policies on offer in MySuper and potentially make premiums more competitive across products.

The FPA cannot comment on whether premiums would likely increase or decrease.

Question 8

8. Would the impact on premiums outweigh the benefits of standardising the definition of TPD, or other definitions, terms and exclusions?

No comment.

Question 9

9. How could the impact on the price of premiums be mitigated, without incentivising the creation of 'junk insurance policies'?

No comment.



Question 10

10. If terms, definitions and exclusions for MySuper products were standardised, how long would repricing of premiums take to flow through to members?

No comment.

Question 11

11. To what extent would standardised terms, definitions and exclusions for MySuper products improve consumer understanding of insurance in superannuation? What particular changes would deliver the greatest benefits to consumer outcomes?

The introduction of standardised terms, definitions and exclusions for MySuper products would provide consistency to enable consumers to compare products. A greater level of consistency would facilitate consumer engagement and greatly improve consumer understanding of products.

The introduction of standardised terms and definitions would deliver the greatest benefits for consumers.

Question 12

12. Are there other ways to improve consumer understanding of insurance in superannuation without standardising terms/definitions/exclusions?

The purpose of the MySuper regime is to provide a quality default option for those consumers who are generally not engaged with their superannuation. Insurance is an equally complex product. The greater the diversity in terms, definitions, exclusions and features across insurance products, the more complex consumers find such products. The level of complexity generally increases the level of disengagement by MySuper consumers who are potentially already disengaged. A person's level of engagement is directly linked to their understanding of financial products.

The FPA agrees with ASIC's statement to the Royal Commission:

"For consumers, the intrinsic value of an insurance product lies in the ability to make a successful claim when an insured event occurs."

However, consumers often do not engage with the terms, definitions and exclusions of an insurance policy during the purchasing of the product because it is currently too challenging to compare products. Rather the decision is often based on price alone, and consumers expect all medical conditions to be covered should a claim arise.

The FPA believes there is a gap between the understanding and expectations disengaged superannuation members have in regard to their insurance coverage, and the terms of the actual policy. This issue cannot be addressed through disclosure or the provision of information.



Overcoming this issue and improving consumer understanding would be best achieved by reducing the complexity and improving the consistency and comparability of MySuper insurance products. The introduction of standardised terms and definitions (in particular) will help overcome this issue for consumers.

However, it is important to remember that not all consumers in a MySuper product are disengaged members. Some members choose a MySuper product as it suits their needs and circumstances. Insurance offered through MySuper should be flexible to allow members to negotiate the cover that suits their needs and risk tolerance, particularly in relation to exclusions.

Question 13

13. Should maximum, minimum or set levels of cover be prescribed for MySuper products? Why/Why not? Should these apply to all types of insurance provided within MySuper products?

The FPA supports public policy that enables consumers to choose the level of insurance they need and is within their risk tolerance.

Question 14

14. What factors should be taken into account if a minimum, maximum or set level of cover were to be prescribed?

If minimum or maximum limits of insurance coverage are set in the law, care must be taken to ensure that consumers still have the ability to choose the type and amount of insurance coverage they need, or that balances the level of risk they are willing to tolerate with the cost and coverage of the insurance policy.

Question 15

15. Are there any unintended consequences of mandating a minimum, maximum or set level of cover for MySuper products?

A minimum, maximum or set level of cover may result in inappropriate cover for consumers.