Ms Karen Chester
Deputy Chair
Productivity Commission
Melbourne VIC 8003

28 October 2016

Superannuation: Alternative Default Models – Productivity Commission Issues Paper

Dear Ms Chester,

I am an Actuary specialising in insurance in superannuation and have been following the Productivity Commission's recent work with great interest.

I wish to submit my views on the proposal in the Productivity Commission's Issues Paper that "the life and total and permanent disability insurance that is currently bundled with default superannuation products would… be allocated through a separate competitive process".

Submission

Given the details of any competitive process to allocate insurance in superannuation would need to be further developed (and noting that the current system is a competitive process), I suggest the following two principles, which are by no means exhaustive:

1. **The allocation process should lead to near-universal coverage with little or no evidence of health.**

   Reasons:

   - There are benefits for individuals, their families, the community and government in having insurance money available to support claimants through financial hardship arising from death or disability.
   - The provision of insurance under a system providing near universal coverage is very efficient, with no "leakage" of insurance premiums to fund expensive underwriting (assessment of health on obtaining cover) or sales incentives.

   Commentary:

   The efficiency of group insurance arises because it covers a broad spectrum of the working population entering in a uniform and orderly fashion (generally when they start work and join a superannuation fund). As such there is a solid base of healthy members to pay the premiums to fund the claims for those unfortunate enough to die or become disabled.

Any alternative method of allocation which eroded the broad base of healthy premium-paying members could inadvertently lead to inefficiency via the increased need for underwriting.

2. **The allocation process should promote stability and sustainability of the insurance industry;** in particular:

    - Allocation should be determined on a range of measures, including price, terms of cover (including disability definitions), the financial strength and security of the insurer, the services offered by the insurer including claims and data management, underwriting and reporting.
    - Allocation should not lead to an "all or nothing" situation where insurers can win or lose significant chunks of the entire group insurance industry through any given allocation exercise. This would lead to dislocation of staff and expertise and would increase the operational risk in the system.
    - Allocation should not introduce administrative complexity via tranching or grandfathering of arrangements (albeit an insurer "on risk" for any given period must be responsible for all claims occurring in that period).

My Background

My employer is Mercer and I am a member of the Actuaries Institute. However, on this occasion, I have not articulated my thoughts in sufficient time to engage either Mercer or the Actuaries Institute, and as such the views in this submission are my own personal views.

Thank-you for the opportunity to contribute.

Yours sincerely,

Richard Land BCom, FIAA