20 July 2018

Ms Karen Chester
Deputy Chair
Productivity Commission
Locked Bag 2
Collins St East
MELBOURNE VIC 8003

Dear Ms Chester

Productivity Commission: Draft Report into Superannuation: Assessing Efficiency and Competitiveness

We refer to the Productivity Commission's *Draft Report into Superannuation: Assessing Efficiency and Competitiveness* (**Draft Report**) and are pleased to provide the attached submission.

MetLife Insurance Limited (**MetLife**) first entered the Australian life insurance market in 2005. MetLife's principal business in Australia is in group insurance, that is, insurance provided via a superannuation fund or employer. We are the third largest provider of group insurance in the Australian market.

MetLife is ultimately owned by MetLife, Inc., which is listed on the New York Stock Exchange. MetLife, Inc., through its subsidiaries and affiliates, is one of the world's leading financial services companies. Founded in 1868, MetLife, Inc. has operations in more than 40 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

We are proud of our ability to support Australians whose lives are disrupted by death or disability, and our success in this area speaks for itself. Last year, we disbursed approximately $485 million in claims and provided protection to approximately 2.6 million Australians. Over the last five years, we paid over 95% of all received and finalised group insurance claims.

We would like to congratulate the Productivity Commission (**Commission**) on the thoroughness and comprehensiveness of this Draft Report. The data and analysis in the Draft Report is of a high quality and will be a useful resource for many in the industry as well as interested members of the public.

If you require any further information or would like to meet to discuss this submission, please contact Cathy Duloy, Head of Public Policy, MetLife Australia.

Yours sincerely

Vince Watt
Acting Chief Executive

MetLife Australia Submission

Draft Report into Superannuation: Assessing Efficiency and Competitiveness

Introduction

Our submission is structured as follows:

- Discussion of the Commission's draft findings regarding insurance in super;
- Discussion of the Commission's draft recommendations on default settings;
- Response to the Commission's draft recommendations for insurance in superannuation;
- Response to the Commission's information requests regarding insurance.

Draft Findings

This section provides a discussion of the Commission's draft findings regarding insurance in superannuation.

The Commission has made the draft finding that: "In terms of premium paid, default insurance in superannuation offers good value for many, but not for all members….Income protection insurance and unintended multiple policies are the main culprits for policies of low or no value for members"[1].

The Commission has pointed to a number of key drivers that can reduce value for members. These are discussed below.

Multiple Accounts

In the Draft Report, the Commission makes two key findings in relation to structural flaws in the superannuation industry. These are that:

- there is entrenched underperformance; and
- there are too many unintended multiple accounts.

The second finding is linked to the view expressed in the Draft Report that the current arrangements for insurance in superannuation have led to a litany of problems including: "account proliferation resulting in many members holding multiple insurance policies, some of which they would be ineligible to claim against (so-called 'zombie' policies)"[2].

While it is correct that some members have unfortunately been defaulted into insurance that is inappropriate, we submit that the proportion of claims that fail due to multiple accounts is in fact very small. This view is supported by the following evidence:

- Total and permanent disability (**TPD**) and death benefits are generally payable on more than one insurance account;
- According to data published by ASIC and APRA, 93% of claims were admitted[3] in the first half of 2017. This is consistent with earlier data published by ASIC and APRA. The claims that are denied include those that have been denied for a range of issues, including not meeting definitions and non-disclosure. If having multiple policies as a cause of claims ineligibility is as widespread as suggested by the Commission, one would expect the claims denial rate to be higher than 7%, and even higher for claims in insurance in superannuation. In fact, claims acceptance rates are higher for group insurance than in other forms of insurance (98% for death claims, 86% for TPD claims and 96% for income protection).
- According to the Productivity Commission's data, approximately 17%[4] of members have two or more accounts with insurance and about 29% of MySuper members have income protection insurance[5]. This would imply that

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[1] Draft Finding 8.2 p 339
[2] Draft Report p 322
[3] APRA and ASIC media release "APRA and ASIC release new life claims data" 24 May 2018 https://www.apra.gov.au/media-centre/media-releases/apra-and-asic-release-new-life-claims-data
[4] Draft Report Figure 8.8 p 327
[5] Draft Report Figure 8.3 p 316

less than 5% of MySuper accounts have multiple income protection accounts, approximately one third of which are 'intended' accounts, according to the Commission's analysis [6] of responses to the member survey.

The Productivity Commission has identified income protection policies as being a particular culprit in relation to 'zombie policies' due to the fact that offset rules mean it may not be possible to claim against more than one income protection policy. In our experience, the number of income protection claims denied due to the member having multiple policies is so small as to be statistically insignificant[7]. As noted above, ASIC and APRA data shows that the acceptance rate for income protection claims in superannuation is 96%.

We acknowledge that multiple cover for income protection can be problematic and can unnecessarily erode savings accounts, as having multiple policies can lead to income protection claims being denied, or only partially accepted. MetLife is of the view that the policy approach to this issue should be proportionate to the size of the issue. We therefore support the measures adopted in the Insurance in Superannuation Voluntary Code of Practice to address this situation by requiring refunds of premiums where this occurs.

Tailoring of insurance to members

The Commission comments in the Draft Report[8] that tailoring of insurance to member cohorts is still needed, and that this is a key driver leading to value-reduction in insurance for members. The Commission highlights two examples of funds which have introduced innovations in their insurance cover to better meet the needs of members, namely AustralianSuper and Sunsuper.

We would like to highlight other examples of trustees who have thought deeply about insurance product design for the benefit of their members.

First Super

First Super's members are predominantly blue collar workers and include workers living in rural areas and in hazardous occupations, such as forestry. In a submission to Treasury, First Super described how their insurance is designed to meet their members' particular needs and concluded that: "First Super's insurance is value for money, valued by Members and provides a financial buffer, protecting those members in high risk occupations, and blue collar occupations when accident or illness occurs."[9]

MTAA

MTAA has undertaken a number of changes to its insurance design in recent years. For example, it has redesigned its TPD benefit so that if a member is eligible for a TPD benefit and is also unable to perform some of the key activities of daily work, the benefit to the member will be increased by 25%. MTAA Super has also reduced the cost of premiums for younger members to address issues of cross-subsidies.

MetLife is involved with superannuation trustees from across the sector, including industry, corporate and retail funds, and both large and small funds. It is our observation that all of the trustees we deal with are committed to the best interests of their members and keen to embrace initiatives to improve value for their members.

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6 Draft Report Figure 6.2 p 247

7 In this regard, we note the evidence supplied by Mr Richard Weatherhead of AustralianSuper at the Commission's recent public hearings. Mr Weatherhead advised the Commission that for AustralianSuper (the largest fund in Australia), the number of income protection claims that are not paid due to holding another policy is 0.4%.

8 Draft Report p334

9 First Super submission to Treasury in relation to the Protecting Your Super Package, 29 May 2018 https://treasury.gov.au/consultation/c2018-t286292/

Complaints data

The Committee observed that "(the current) arrangements have led to a litany of problems, which is in part evidenced by insurance matters accounting for over a third of member complaints against superannuation funds."[10]

The figures from the Superannuation Complaints Tribunal relied on by the Commission show 511 insurance complaints out of 1376 complaints for the 2017 year. We submit that 500 complaints in a system that covers millions of members is not a particularly high number. Many of those complaints are withdrawn by the SCT following conciliation or because the complaint lacks merit. Of the complaints that proceed to determination, a minority of determinations overturn the decision of the trustee or insurer [11].

Ease of interaction with funds on insurance

One of the drivers of value identified by the Commission is the difficulty that some members have in interacting with their superannuation fund, especially in relation to opting-out of insurance. MetLife agrees that the industry needs to improve its level of engagement with members generally and needs to ensure that members can transact easily in relation on their insurance policy.

MetLife has introduced online solutions to make it easier for members to change their cover, including opting-out, reducing cover or increasing cover.

We have also developed and implemented an online tracking tool for members who claim so that they can easily follow the status of their claim. MetLife has developed a claims application solution which will make it easier for members to claim electronically. This solution will be implemented later this month, and will include functionality for members to make a claim for TPD and income protection benefits on the same electronic claim form.

Member understanding

The Commission's draft report points to analysis that the Commission has undertaken following a survey of members. From the responses to this survey, the Commission concluded that many members have little understanding of insurance in superannuation. About 24% of respondents did not know if their fund had insurance[12].

MetLife agrees that member understanding and engagement is an area in which the industry needs to do better.

The Commission's findings are consistent with those of a research project carried out by MetLife in 2017. This research was based on a survey of 1554 working Australians. Results were weighted to Australian Bureau of Statistics Labour Force data 2017 for age, gender and geography. The survey tested attitudes and knowledge of insurance in superannuation. It found that that about 74% of Australians are aware of insurance in superannuation. This report observed that there is a clear opportunity to improve communication to members about insurance in superannuation.[13]

In order to address this MetLife has:

- Conducted an educational campaign on radio to raise awareness and understanding;
- Developed a digital tool-kit that funds can use on their web-sites to improve understanding of insurance in super;
- Supported the work of the Insurance in Superannuation Working Group and the Insurance in Superannuation Voluntary Code of Practice (**Code**) which have measures to improve communication standards with members;
- Developed a number of short videos explaining insurance in superannuation which are available on our social media pages.

The Code has a range of measures designed to improve member engagement and understanding of insurance in superannuation.

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[10] Draft Report p377 and note 70
[11] Draft Report p 422
[12] Draft Report Figure 8.9 p 331
[13] MetLife Insurance Inside Super Report 2017

While we accept that this is an area where improvement is required, we believe that many funds are seeking to address this and the measures in the Code will also serve to drive change in this area.

While the industry needs to do better in helping members understand insurance in superannuation, low member understanding is not necessarily a key driver of poor value. In our experience, members or their families who become aware of their insurance only when a life event occurs, are generally very grateful that they had cover. The following case study supports this view.

Case Study

Annette[14] *has dedicated her life to helping homeless kids by giving them food and shelter. In 2014 she suffered a back injury which meant she couldn't work and almost became homeless herself. MetLife paid Annette a TPD benefit in 2017 which went some way to getting her life back on track.*
We also contacted Annette to let her know she would be eligible for income protection cover and paid her three years of income protection, which was a significant amount of money. Annette has three dogs that she loves more than anything and said that if it came to it, she would rather live out of her car than give up her dogs. She was overjoyed when she heard we could pay her income protection benefit as she didn't realise she had this cover as part of her superannuation.

Low income members

In Draft Finding 8.1, the Commission noted that insurance premiums can have a material impact on member balances at retirement and that the balance erosion is regressive in its impact, that is, it has more impact on members with low income.

While insurance premiums are more expensive in relative terms for members who have low incomes and therefore lower levels of superannuation contributions, our analysis shows that these members are more likely to benefit from an insurance claim.

MetLife has performed analysis of the socioeconomic status of members for whom claims have been paid, using postcode as a proxy for socioeconomic status. We have used this measure because we do not generally have data in relation to other indicators of socioeconomic status (such as income, savings or debt information). Using this measure, our analysis shows that members with lower socioeconomic status are more likely to claim than other members. This is supported by data from the *Australian Health and Welfare Institute in the Australian Burden of Disease Study 2011*. This study compared the disease burden borne by different socioeconomic groups and found that the largest disease burden (24%) was borne by the lowest socioeconomic quintile[15]. Additionally, the lowest socioeconomic group bore a greater burden of disease across every disease type[16].

This shows that while insurance may be relatively more expensive to those in lower socioeconomic groups, it also has more relative value to those groups.

The Commission's draft finding emphasises the cost of insurance rather than the value of insurance, which are the claims payments provided to many sick and injured members or their families. In addition, there are the non-financial benefits of insurance, including peace of mind and the extra support services provided by trustees and insurers. The value of insurance (of any type) may not be recognised by customers until the critical juncture when an insured event occurs.

[14] Not her real name
[15] Australian Institute of Health and Welfare 2016 *Australian Burden of Disease Study: Impact and causes of illness and death in Australia 2011* pp97-98, Figure 8.8 Distribution of burden of disease in socioeconomic groups 2001
[16] Ibid p99

Draft Recommendations - Default members

This section discusses the Commission's draft recommendations in relation to allocation of default members. In this regard, the Commission has recommended that, in summary:

- Members are defaulted only once when they first join the workforce in Australia; and
- An independent expert panel should be appointed to compile a shortlist of 10 'best in show' funds from which members may make a choice when they start working. If they do not make a selection, they would be sequentially allocated to one of the shortlisted funds.

The proposed model would link the superannuation account to a member, rather than the member's employer. It is expected that this recommendation, along with other recommendations such as strengthening the MySuper test, will over time lead to further fund consolidation and a reduction in the number of funds on offer.

MetLife's submission does not support or oppose these draft recommendations; however we would like to provide this discussion of the potential insurance implications.

The current arrangements for superannuation are, as described by the Commission, linked to the industrial system. For industry funds and corporate funds, insurance is designed and priced based on data about the membership, including their age distribution, gender distribution, regional data and typical occupation. This leads to tailoring of insurance based on the membership, including:

- Tailoring for members who are predominantly in industries with hazardous occupations, such as construction, forestry, abattoirs and emergency services;
- Pricing based on the risk profile of the membership. For example, some funds have predominantly younger and female members, with the ability to negotiate lower premiums than other funds;
- Balancing of types of benefits based on the needs of the membership, for example, the proportion of premium expended on lump sum versus income protection.

The proposal made by the Commission to de-couple superannuation from the industrial system and to default members into one of ten shortlisted fund will, over time, lead to the members in shortlisted funds representing a broad cross section of individuals from all occupations and across all regions of Australia. This will lead to insurance in those funds being based on a broad membership base rather than it being tailored to the particular characteristic of the fund's membership. For the 'legacy' members in those funds this could result either in:

- Insurance becoming less expensive, if insurance was previously priced on the basis that the membership was predominantly in high risk occupations; or
- Insurance becoming more expensive, if insurance was previously priced on the basis that the membership was predominantly lower risk, for example, funds that mainly have younger, female members.

While the Commission recognises that insurance which is not tailored to member cohorts can be a driver of poor value, these recommendations will lead to insurance in the shortlisted funds eventually becoming less tailored and more 'vanilla'.

For members in the non-shortlisted funds, insurance is likely to become more expensive. This is because these funds will not have the same level of new members joining the fund but will have the same number of members leaving the fund as they exit the workforce, leading to an increasing average member age. This will compound with the other draft recommendations regarding younger members and inactive accounts to increase the premiums paid by the remaining members in those funds. The unintended consequence of this could be increased erosion of those members' accounts.

The effect on non-shortlisted funds of members switching to the top ten funds is yet to be tested, but could also affect the insurance risk profile of those funds.

We further note that the changes proposed would, if adopted, cause considerable disruption in the industry. Therefore, there should be appropriate consultation on transition and implementation arrangements, if the proposed model is adopted by Government.

Draft recommendations – insurance

This section comments specifically on the draft recommendations that the Commission has made regarding insurance.

Opt-in insurance for members under 25[17]

The Commission has recommended that insurance be provided only on an opt-in basis for members under the age of 25, so that these members would need to elect to have insurance in order to get cover. This differs from the current arrangements under which MySuper trustees are actually obliged to offer life insurance and TPD insurance on an opt-out basis.

While we are aware that the Government has already moved to implement this recommendation[18], we wish to express our concerns about the unintended consequences of removing default insurance for the under 25s, especially in relation to disability cover.

Life insurance provides cover for younger people who have accidents, even if the accident is unrelated to the workplace. People under the age of 25 are known to engage in more risk-taking behaviours than older adults. This has been attributed to continuing brain development into the twenties, in particular the process of synaptic pruning[19]. Risk-taking behaviour in younger people partly accounts for the greater proportion of people under age 25 who are involved in fatal motor vehicle accidents[20]. While some may argue that younger people are less likely to need cover in the event of death, they are more likely to need cover due to accidents. The workers compensation regimes in Australia only provide support if the worker suffers a workplace-related injury, while life insurance based disability cover provides support if the event occurs outside the workplace, including sporting injuries and motor vehicle accidents that occur outside of work time.

The current MySuper regime requires trustees to offer death and permanent incapacity insurance on an opt-out basis, and they may offer income protection on an opt-out basis. An alternative solution to protect younger members' accounts would be to enable trustees to offer disability insurance on an opt-out basis, but not death cover.

We acknowledge the argument that there may be less need for younger members to have death cover. However we note that analysis of death claims in our industry fund portfolio indicates that about 30% of death claims for younger members were paid to dependents. According to Australian Bureau of Statistics data, in 2015-16 there were nearly 300,000 households in Australia where the household head was less than 25 years of age, and about 60,000 of those households included children[21]. About 25% of people under 25 were married or in de facto relationships[22].

Our submission on the Protecting Your Super Package recommended that the Government consider more flexibility in the superannuation legislation to enable members under the age of 25 to receive opt-out disability insurance, rather than trustees being obliged to offer death cover (as is currently the case).

An alternative would be for trustees to be given the ability to determine at what age insurance should be provided on a default basis, taking into account the demographics of the particular fund.

Cessation of cover when member is not making contributions[23]

The Commission has recommended that the Government legislate to require cessation of insurance when a member has not made contributions for 13 months. We note that, as with Draft Recommendation 14, the Government has already decided to proceed with this recommendation.

17 Draft Report, Draft Recommendation14
18 See *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*.
19 https://www.newscientist.com/article/dn20803-brains-synaptic-pruning-continues-into-your-20s/
20 https://www.youngdriverfactbase.com/key-statistics/
21 ABS – Household Income and Wealth survey 2015-16
22 ABS Census 2016, Social Marital Status by Age by Sex
23 Draft Recommendation 15

MetLife is concerned that the 13 month inactivity rule could have unintended consequences, and in particular, could have a discriminatory effect on women. One of the reasons that contributions cease is that an employee has an extended period of parental leave. It is usually women who bear the bulk of parenting responsibility and who would be most affected by this change. This problem will be particularly acute for women who have casual or part-time roles and are more likely to have interrupted work patterns, such as those who work in the retail industry.

The proposed timeline of 13 months does not fit with the obligations under the Fair Work Act to provide employees who have more than 12 months service with up to 24 months of parental leave following the birth or adoption of a child.

MetLife is of the view that employers should be obliged to continue to make contributions to superannuation during employer-approved parental leave. This would also help to address the gender gap in retirement savings.

Further, we are of the view that the proposal in the Codein relation to inactive accounts better balances account erosion while providing members with appropriate protection. The Code provides that cover should cease for inactive accounts after 13 months for income protection, and after 13 months for lump sum cover if the account balance is less than $6000.

Insurance Balance Erosion Trade-offs[24]

The Commission has recommended, in summary, that trustees be required to quantify and articulate the insurance balance erosion trade off they have made, and to publish this determination.

MetLife supports this recommendation. In MetLife's view, most trustees carefully consider this trade-off when determining the benefit design of the insurance they offer. By way of example, the Code provides that insurance premiums should not exceed one percent of expected salary over the life of the member. A survey of the funds that participated in the Insurance in Superannuation Working Group indicated that most default insurance designs already meet this expectation. This is consistent with MetLife's analysis of MetLife client funds. We note that the Productivity Commissioner considers this benchmark to be reasonable[25].

Insurance Code to be a MySuper condition[26]

MetLIfe was an active participant in the Insurance in Superannuation Working Group. We support the objectives of the Code and agree with this recommendation. We note that most trustees have indicated their intention to adopt the Code.

Insurance Code Taskforce [27]

The Productivity Commission has recommended a joint regulatory taskforce to monitor and advance the Code. If the Code becomes a MySuper condition, the Government will need to determine how it is monitored from a regulatory perspective and the best way of resourcing that function. As the prudential regulator, APRA would seem the most appropriate body to adopt this role.

Independent Review of Insurance in Super

The Commission has recommended a further review of insurance in superannuation within 4 years[28]. Given the number of inquiries in recent years and the inquiries that are still under way, including the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, MetLife queries the need for a further inquiry.

Information Requests

This section responds to the two information requests made by the Commission regarding insurance in superannuation.

What is the case for bundling life and total and permanent disability insurance together, as is done by some superannuation funds? Are there funds that offer these separately, and if so, do many members of these funds elect to have one type of cover but not the other?[29]

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24 Draft Recommendation 16
25 Draft Report p324 note 71
26 Draft Recommendation 17
27 Draft Recommendation 18
28 Draft Recommendation 19
29 Information Request 8.1

In our opinion, trustees should have flexibility to determine the level of death cover, TPD cover and income protection cover offered in their funds that is tailored to the demographics of the fund. The current legislation requires MySuper funds to provide death and TPD cover on an opt-out basis. MetLife has advocated that trustees should be able to develop insurance models with an appropriate combination of the three kinds of cover, as this would encourage innovation in product design. We therefore suggest that the legislation be amended so that trustees may offer either TPD or IP on an opt-out basis.

There are some funds in which death and TPD cover amounts are different following benefit design choices made by the trustee that are tailored to their membership. There are also some funds which allow members to take stand-alone death or TPD cover, however, the take-up of this feature is generally very low. For this reason, the pricing of stand-alone death or TPD would be a factor in trustees determining that bundled cover is more cost-effective.

One reason for bundling death and TPD is that a terminal illness benefit is usually linked to death cover and is regarded by the industry as a form of advanced payment of a death benefit. If a member were for example diagnosed with a late stage breast cancer that was not affecting their ability to engage in work, they may be ineligible for TPD. However they would not be able to claim a terminal illness benefit, as this would be linked to death cover.

What is the value for money case for income protection insurance being provided on an opt-out basis in MySuper products?[30]

MetLife is of the view that there is a case for income protection cover being provided on an opt-out basis in MySuper products. Income protection is aligned to the objective of superannuation to provide retirement savings, as it provides income during a period of illness, and may allow contributions to superannuation to continue to be made.

Income protection can help to mitigate risks of a period of illness, including stress caused by financial hardship. Life insurers often provide extra support in the course of an income protection claim, including rehabilitation support.

Income protection benefits have a lower threshold to claim as there is no requirement to determine that the member is unlikely ever to work again. They therefore allow payment where a member is not TPD but may need some readjustment to their lifestyle and work practices, or simply cashflow while they are being assessed for a TPD claim.

………………End of submission…………….

[30] Information Request 8.2