Australian Government

Productivity Commission

How to Assess the Competitiveness and Efficiency of the Superannuation System

Submission in response to Draft Report of August 2016

Prepared by Nettie Handley on behalf of Bombora Advice

September 7, 2016

Bombora Advice Pty Ltd is a Risk Specialist AFSL
AFSL no 439065, established in July 2013.

Submitted Online
www.pc.gov.au/inquiries/current/superannuation/competitiveness-efficiency
Superannuation Productivity Commission

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Issues with insurance inside industry superannuation funds

Introduction

We are a collective of life insurance-focussed advisers, many of us 'risk specialists' where insurance is all we do.

This service is offered as a specialist outsource facility for other professionals, such as financial planners, accountants, lawyers, and general insurance brokers.

We believe the provision of default cover within super is a valuable initiative for Australians in general.

However, if we are to rebuild the trust and confidence of consumers, **there are many issues that should be addressed**. They are mostly around consumer financial education, and building certainty for consumers around the products offered and conditions under which they are offered.

As a risk specialist we have long been witnesses of the poor outcomes for many clients who have 'Group' insurance within their industry or corporate superfunds. This is especially evident at claim time when our clients find the cover they thought they had was no longer there, or than their valid claim is declined for 'technical' reasons. Unfortunately all too often this is played out in the media on a member by member basis and little is done to address the underlying issues. Further commentary on this is available in **Appendix 1** *"Scandals in Life insurance: Please explain".*

A review of the deficiencies of insurance inside super is urgently needed as ASIC requires independent advisers to take into account the insurance clients may have in their super funds when assessing need. However, experience has shown us that there is no guarantee that the documented cover under super will be honored at claim time.

Independent advisers have a legally binding 'Clients Best Interest' duty (insurers do not have this obligation). Our considered recommendations must take into account the multitude of issues shared herein, and this leads to great challenges in providing quality, long-term insurance advice that might include insurance under superfunds.

We believe insurance inside superannuation has a vital role to play for Australians. We hope to be part of the solution to bring certainty and fairness so as to build the trust and confidence Australians have in any form of life insurance, and to ensure that we have a long-term profitable and sustainable life insurance industry.

We welcome the opportunity to share our experiences and ideas as a submission to the Productivity Commission study.

Insurance inside Super in the broader context

The purpose of this submission it to primarily focus on consumer (member) issues and outcomes as we have found them, that being on a client-by-client basis.

That said, insurance inside super is only a subset of the life insurance industry and cannot be viewed in isolation.

The Productivity Commission is likely to have access to the statistics on overall underinsurance in Australia and underinsurance for members of super funds. Therefore, we have not addressed these matters herein, except to note that Rice Warner in their July 2015 Research "*Australia's Persistent Life*

Underinsurance Gap" indicated that default cover under super only offers approximately 60% of a family's needs.

The Productivity Commission is also likely to have access to the important APRA reporting that is critical of the lack of mature, long-sighted decision making, poor behaviours and lack of proper statistical and other data collection and management in Group Insurance.

An overview of recent APRA findings in correlation to previous years of APRA findings is provided in **Appendix 2** *"APRA shows the need for a life insurance productivity commission".* Of significance is reporting in Insights 1, 2015 where they concentrate on the Superannuation 'industry' APRA says:

> "*APRA has had a heightened supervisory focus on the group life insurance market for a number of years because of concerns about industry practices. This attention intensified following the deterioration in claims experience for group life insurers and reinsurers. The factors contributing to this situation include increasing levels of default cover being made available without underwriting, poor underwriting controls for optional levels of cover, competitive tender and pricing practices, increased member awareness of their rights to make claims, increased involvement in the claims process of the legal profession, and changing community attitudes to mental health.*" (p37)

All of these factors lead to poor outcomes for super fund members, as well as the industry in general.

We know you will have access to information that shows the difference in claims benefits paid between cover in super funds (which is typically much lower and most often insufficient for family needs) and tailored retail outcomes. You would realize how important this is for a review to take into account.

We include a Technical Update from insurers MLC and BT **(appendices 5 and 6)** which highlight the challenges for adviser and members in knowing exactly what policy conditions and definitions are being offered, and how these can be 'interpreted' by Trustees rather than been self-evident.

Offer to provide additional data

As a collective, we have access to many, many examples of consumer detriment because of features and conditions of insurance under super funds. In the interest of brevity, we provide limited examples herein.

We have the capacity to gather testimonials and case studies of super member experiences and outcomes as a separate submission, upon request, should you consider that to be of value.

We have the capacity to gather data on comparison pricing and features between cover within industry fund and in retail. We can provide that as a separate submission, upon request, should you consider that to be of value.

The information provided herein is not exhaustive, it is intended as an overview only.

We welcome any correction if any errors or oversights are identified.

Background - insurance inside industry super funds

Insurance cover inside super funds is typically provided by commercial arrangement with a third party, an insurance company that will offer 'Group' insurance.

The majority of member insurance is offered by Automatic Acceptance and is therefore not underwritten to contain and manage risk. Increased claims have meant that the existing pricing became untenable, making huge threats to profits, even industry sustainability in recent years. APRA has highlighted this as an issue since at least 2012.

Also highlighted by APRA is anti-selection. Clients not healthy enough to be considered for new insurance cover elsewhere will remain in their existing pool, diluting the profitability of that pool and threatening long-term sustainability. This will disadvantage those members remaining through ongoing premium increases. Healthier lives with more options can take their cover elsewhere, where it will be re-underwritten and improve that new pool.

Those commercial arrangements for the opportunity of providing this insurance cover entails some form of financial return to the super fund (either commission or profit share or the like) which arguably benefits the overall pool of members.

Unfortunately, over the past several years, intensive competition to get the privilege of providing insurance for these large funds has created significant, unrealistic, downward pressure on premiums and upward pressure on policy benefits.

Tax concession for premiums inside super (the commensurate tax implication for proceeds of claim payment are mentioned later in this paper) contributed to the perception that premiums are 'cheaper' inside super. Examples provided in **Appendix 4** *'Examples of comparison of pricing a policy features between industry fund insurance and retail contracts'* show that retail insurance provided by advisers is less expensive and provides other significant consumer benefits compared to what is available for cover inside industry and corporate funds.

Default insurance inside super has been a boon to many consumers who haven't quite gotten around to arranging their own insurance yet (and are statistically not likely to, given research on underinsurance). This instrument of liberal paternalism has its benefits but there are issues that need to be understood.

The overall downside for consumers that Government might consider:

- Members often believe that the insurance provided within their super is sufficient and appropriate for all their needs. Therefore, they don't know what they don't know.
- Members are often not aware that their cover inside super may not offer the range of cover they need, either in the level of cover, or the type of cover.
- Members are often not sufficiently financially literate to understand that their insurance needs will change over time, depending on personal and family circumstances, so a 'set and forget' approach to cover is not optimal
- Premiums, whether competitive compared to retail insurance contracts or not, will erode retirement savings (the purpose for superannuation savings)
- Pressure in the industry has seen significant premium rises in this insurance cover, such that it is often cheaper to have a retail policy

- Heavy competition for insurers to be the providers in funds means that there is a huge variation in the quality of insurance contracts offered to consumers
- The range of terms and conditions under which insurance is offered in each fund means that there is no guarantee to the member that the insurance cover they may be paying for (deducted from assets), or listed on their Member Statement each reporting cycle, will be available to them at time of needing to claim
- Neither is there any certainty that the insurance they signed up for will remain available at all, or remain as originally set up, they can be changed at any time and any number of times
- Definitions for TPD have been watered down. Insurers now use tests as to whether a claimant can be re-skilled or re-trained in any other occupation, but absolve themselves of responsibility of ensuring there is such work available to the member at all, and what the financial impact of lesser skilled/capacity work pay rates might be. This replaces the standard definition as per SIS regulations for 'any occupation' making it much harder to qualify for a claim.
- Claiming is complex. Members are disadvantaged by the 'administration service' funds put in place and often have to resort to legal assistance.

An innovation providing solutions for consumers that super funds see as competition and that must be factored in:

- New partial roll-over facilities enable members to use super funds to pay for retail super cover (if appropriate)
- This can provide the best of both worlds - advised insurance with certainties of retail contracts at better premium rates (with an advocate at claim time) AND premium paid by superannuation asset.

General observations

Some advantages for consumers in holding insurance inside their super fund are:

- The challenge of choosing an insurance provider is solved – only one insurer available
- Access to automatic default cover – no underwriting required
- Premium deducted from super assets so not felt from cash-flow

From those advantages come concomitant disadvantages. Some of those are:

- Only one insurer available
- No choice of policy features
- Beyond automatic default cover – restrictive underwriting. More restrictive than retail underwriting. If complex medical history, a risk specialist may be able to get cover other advisers don't have access to (see article "**Husband of woman denied life insurance regrets being honest about mental illness" –** had an independent adviser had the opportunity to support this member, we would have at least been likely to get life cover with an exclusion for mental illness at worst, or, depending on the members circumstances, no exclusions for mental illness at all).
- Premium deduction not felt from cash-flow, but without commensurate top-up, where viable, this will result in the erosion of retirement savings.

- Because premiums are deducted from super funds and there is no out-of-pocket 'head-ache' to prompt response, not all members will actively check whether they are best served with their insurance where it is.
- Members don't understand that they don't have full control of any insurance proceeds, the Trustees of the fund do. In the event of a death benefit, unless a valid Binding Nomination for the member's preferred beneficiary is provided, the Trustees determine the distribution of claim proceeds (based on their criteria and Superannuation Industry (Supervision) (SIS) regulations).
- Because insurance inside super is not guaranteed renewable in the manner of retail contracts, members can find themselves without cover, and if no longer in good health, unable to get replacement cover.

And there are many more disadvantages to members:

No certainty at claim time:

- Despite assertions on a member statement**, a member's eligibility for cover is only tested at claim time.**
- Super funds have various 'start dates' they can apply to default cover. In most cases this is dependent on the employer paying the contributions in a timely manner. Employer tardiness may result in a member being deemed 'ineligible'. This also means that start dates provided on Welcome Letters and statements are not necessarily those used at claim time.
- Despite the ASIC requirement for retail advisers to take into account a client's cover under super when assessing need, there is no guarantee that the cover will be honored at claim time.
- Appointing a new insurer may oblige the member (unknowingly) to satisfy a new 'at work' condition at the new policy commencement date. We have had pro-bono example of this being enforced upon a very ill member where the change-over for cover was many years prior, and the then employer was no longer in business. The obligation was on the member to prove they were at work on a particular day. You can imagine the challenge this presented us with.
- Gotchas of the 'gainful employment' clause inside super. Being caught, either by retrenchment or 'garden leave' or the like, by not being 'gainfully employed' on the date of an accident or being diagnosed (happens more often than you might think). If not 'gainfully employed' at the time of disability – no claim.

Further issues at claim time:

- Super funds use 'administration services' to block members from speaking directly to insurers or trustees. The member, with nowhere to turn, either gives up, or engages a lawyer. We can provide first hand examples where 'stone-walling' defers activity for months and months at a time.
- No advocate at claim time.

- Members are fearful of the process at claim time and often see the use of lawyers as their only option to fight the super funds. Lawyers fees (albeit no win, no fee) range upward from around $10,000, increasing depending on the value of the claim. $25,000 and upwards would not be unusual, especially if the claim is initially declined and the claim process is re-prosecuted. Keep adding if it is taken to court.)
- If the legal agreement is on a 'no win, no fee' and a member's case is lost: member not get the claim paid, although they might not be charged the agreed fee for prosecuting the claim, but they may charged court and other costs which could be significant.
- Undue delays in getting claims processed (compared with retail claims).
- **Claim payments for 'any occupation' TPD inside super are taxable to beneficiary, not taxable if non-super.**

No certainty for other reasons:

- **Trustees can change insurer, or policy definitions at any time**. For example recent changes in TPD definitions at AustralianSuper and Plum that reduces the member's ability to meet the definition and, therefore, receive claim proceeds.
- **Various contracts, various definitions, various insurer 'views' about interpretation of definitions means various outcomes for consumers.**
- Contract gotchas: In some contracts, if a claimant satisfies a TPD claim whilst on income replacement claim, the income replacement contract is voided, and no further benefits payable.
- Where cover is unit based, the value of the units decrease over time. Cover is often reduced significantly just at the time a member with children as dependents might need it most, around early to mid-forties. There is no commensurate drop in premium. The member is not fully aware of this, or the impact it will have on his or her financial protection.

In general:

- Members joining more than 1 fund will often end up with multiple 'default insurances,' unknowingly eroding and even losing altogether their asset to the multiple insurances they are not even aware they have.
- Members are unaware of the impact of premium deductions on their long term retirement savings.
- Members may be unaware that in some cases their insurance is cancelled once active contributions stop (regardless of age and why active contributions stopped).
- Members may be unaware that in some cases their insurance will be cancelled if their asset balance falls below a certain amount. Members are not made aware of the proportion of their premium going toward some form of remuneration rewarding the super fund for awarding the insurer the monopoly of automatic member insurance.
- Independent advisers are not permitted to advise or assist members in underwriting for increases. They are permitted to access information only.
- TPD definitions inside super must be 'any occupation' only. 'Own occupation' definition is available outside of super.

- Income Protection (IP) benefits under super cannot include ancillary (not income replacement) benefits. These are available outside super.
- IP features are determined by fund, range of waiting period and benefit period options are set. No option for member to take a longer waiting period (cheaper premium) or shorter waiting period (more expensive, but the protection is needed). Many benefit periods are still set at 2 years, norm is to age 65 or age 70, for many professionals.
- Members are unable to access 'own occupation' disability definition for TPD within superannuation, which is significant for professionals.
- Trauma cover, statistically the most likely reason for claim, cannot be held inside super.
- No option to provide members with certainty of premiums costs over time through level premium arrangements (as available in retail).
- **Profit share arrangements between some super funds and insurers create a disincentive to pay claims (see recent 4 Corners examples).** A conflict for Trustees?

What problem are we trying to solve?

We believe it is in everyone's best interest to review the life industry, of which insurance within superannuation is a substantial and very important subset.

We would argue the challenge of the Superannuation Productivity Commission in considering life insurance is to engage all stakeholders in this debate in an open conversation about all the elements involved, and make recommendations that consider the needs and rewards of all stakeholders, most importantly fund members.

We know that consumers would be better off with tailored personal advice, and advice that is reviewed regularly as circumstances change. But that is unlikely to be what all consumers value or want.

We need to explore better solutions for those consumers/members. The standardization of contracts and use of some sort of robo-advice may provide good options.

Points for Government consideration regarding insurance inside super

May we also suggest:

- Require insurers / super funds to issue a GUARANTEED 'at work' certificate so members have certainty about the cover indicated on their super statement.
- Oblige new insurers to accept the risk of existing members on 'take-over' terms removing the requirement for members to unknowingly have to satisfy multiple 'at work' days.
- Require super funds to articulate to members the cost of insurance over time, and how that will impact on their retirement savings.
- Require super funds to be more proactive in educating the members on the value of all types of insurance, and the impact of holding it inside or outside their super funds.
- Consider some sort of robo-advice, responsive tool. Members are often not sufficiently financially literal to understand that their insurance needs will change depending on personal and family

circumstances so a 'set and forget' approach to cover should not be considered in the members best interest.

- Require insurers / super funds to have TPD and Income Protection definitions that are more in line with retail insurers and are somewhat standardized within the group insurance / super environment .
- Standardisation of processes for super funds to release partial roll-overs (timeframes and administration fees) to reduce barriers for members.
- Unless some of the certainties recommended above are delivered so there is some guarantee of payment at claim time, ASIC should re-consider the requirement for retail advisers to take into account a client's cover under super when assessing need.

And, as a matter of process to introduce some accountability:

- Require insurers/funds to provide statistics on what claims are not being paid and why not.
- Include requirement for providing statistics on claim assessment timelines, through administration service, trustees department **and** insurer claims department.
- The restricted terms of reference of the Super Complaints Tribunal means there is limited visibility of issues fund members face, and thereby limits the accountability of funds.
- Develop a vehicle for members to report in where they have grievances that don't meet the SCT terms of reference.

The elephant in the room: Industry Superannuation Australia support for the proposed Retail Life Insurance Framework legislation

This submission is not intended to be political in any way, however we do need to observe that the Industry Superannuation Australia (ISA) has taken an active interest in the Retail Life Insurance Advice 'reforms' debate, and we ask "why is the ISA so strongly advocating for the removal of commission in retail insurance advice?"

We would argue that there is a vested interest in ISA supporting measures to threaten independent adviser business viability by restricting remuneration. It would appear that independent, unaligned advisers are viewed as competitors.

A threat to small adviser business viability means less advisers, which means consumers have less access to independent advice. This independent advice can take into account all elements of an existing portfolio, review and source solutions from across the spectrum of products available, and offer alternatives. The "Clients' Best Interest' duty of independent advisers obliges them to do so.

Less advisers means less chance of scrutiny of the obvious shortcomings in the offer under super.

We argue this is a commercial threat to the ISA and that the motivation of the ISA is commercial and not an altruistic concern for members. It would make sense for the ISA to attempt to cut out or at least reduce this competition.

Authorised Independent advisers (who have a Client Best Interest obligation to do so) are the only ones who can:

- Demonstrate the difference between the cover inside the fund and what is available outside the fund (see previous section).
- Illustrate premium differences. Recent significant increases in 'group' insurance premiums mean that premiums inside industry funds are no longer as price competitive as they were. In fact, cover inside funds can be more expensive than retail, and be significantly weaker in policy features.
- Be an active advocate who can advise members to 'top-up' their contributions (where appropriate) to preserve their retirement savings plans.
- Assist in claims for retail policies, which are typically processed much faster than claims within super funds. In super funds, administration services and trustees form barriers between the member and the insurer. Most advisers **do not charge a fee for claim support.**
- If some cover is retained in a super fund, experienced insurance advisers can be authorized to advocate and act on behalf of their client at claim time.
- Many advisers have the specialist knowledge of insurance contract law and the interpretation of policy documents (equal to lawyers) to ensure super fund claims departments don't avoid paying valid claims.

Further threats to ISA status quo:

- Recent regulations have enabled members to do partial 'roll-overs' to fund premiums for policies held in retail super funds. Assets are therefore leaving the ISA funds.
- The ongoing increases in SMSFs and the Trustees' obligation to consider insurance for members of those funds.
- Where opportune, insurance cover (and premium) has been moved along with the accumulated asset into SMSFs.
- Where medical reasons prevent the safe replacement of cover in the SMSF, existing insurances are retained inside the industry fund, and minimum assets to service the premiums of these policies is retained in the fund. This creates an anti-selection environment in the super fund insurance pool - the unhealthy lives remain, healthy lives may move.

Insurance Inside Super – part of a bigger problem

We ask that this Productivity Commission enquiry consider their assessment of insurance inside super as subset issue to the larger problem of the life insurance industry as a whole. Issues with profitability and sustainability in 'Group' insurance have almost exclusively created the instability and loss of trust and confidence of the Australian public in life insurance. Not that most Australian's would really understand that. Please refer to attached article **Appendix 3** "*Scandals in Life insurance: Please explain"* for evidence behind this comment.

The ISA, and other commentators including Treasury, reference ASIC Report 413 and the Trowbridge and Murray (FSI) reports as justification for a particular proposition. The Bombora Advice position is that these reports are not as independent, un-biased and evidence-based, as you might expect.

In open disclosure we advise that we have made representations to Government to have the unstated propositions, methodologies and lack of data in these pieces of research, and subsequent reports, properly tested, and in the context of the life insurance industry as a whole. Our industry is '*highly troubled*'. The problems are fundamental and, as APRA has highlighted, only insurers can properly address the root causes. The industry is too important to allow it to bumble along as it appears to be.

We believe that the following suggestions provide a pathway to proper and thorough investigation outside the influence of vested interests.

- Immediately establish a comprehensive Life Insurance Productivity Commission to conduct a thorough review, **across all distribution channels, especially Industry Super Funds and vertically-aligned distribution models**, so that the interconnection of all facets of the industry are taken into account before any 'reforms' are implemented. The methodology and approach of this current Superannuation Productivity Commission is a good example.
- Establish a permanent authority/entity - to whom the FSC is accountable - that encompasses the regulatory objectives of ASIC, APRA and the ACCC and includes the dispute resolution findings and objectives of FOS and SCT. It should have the power to ensure findings from enquiries are properly implemented. All disputes reported against the FSC Code of Practice and the mooted Life Insurance Code of Practice should be registered and actioned there. The New Zealand Financial Markets Authority (FMA) would appear to be a good model.

We have included a recent paper "*APRA shows a need for a life insurance productivity commission"* which provides some information as to why we believe (and APRA shows) our life insurance industry, and in particular the Group sector, is '*highly troubled*'. We have also included the paper "*LIF Bill: Good policy or Political Manipulation*" which discusses the proposed legislation, the lack of evidence for it, and the flaws in logic that underpin it. We have yet to receive any correction for the evidence we provide.

We would welcome the opportunity to discuss this further.

To end

As we said earlier, we believe insurance inside superannuation has a vital role to play for Australians.

We hope to be part of the solution to bring certainty and fairness so as to build the trust and confidence Australians have in any form of life insurance, and to ensure that we have a long-term profitable and sustainable life insurance industry.

For us, insurance is about enabling our community to take pro-active measures to ensure their own dignity and financial certainty at the time of need, and that of their family.

To undermine this effort, wherever the failure comes from, is to undermine the trust and confidence of consumers in the whole industry.

The purpose of this submission was to primarily focus on consumer (member) issues and outcomes as we have found them, that being on a client-by-client basis, and we repeat our offer to provide additional information to demonstrate issues.

We welcome any correction if any errors or oversights are identified.

Thank you for the opportunity to participate in your important work.

References and Resources

Articles referenced in submission

http://www.apra.gov.au/Insight/Documents/12-Insight-issue-3.pdf

http://www.apra.gov.au/Insight/Documents/13-Insight-Issue-3.pdf

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http://riskinfo.com.au/news/2015/06/26/australias-underinsurance-gap-explained/
Risk Info interpretation and report on Rice Warner research findings on underinsurance June 2015

Media Stories

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FinePrint re minimum super balances etc

http://www.abc.net.au/news/2015-10-27/husband-of-women-denied-insurance-over-depression-regrets-honest/6890426
Comparison Group v Retail underwriting

http://www.smh.com.au/money/super-and-funds/super-fund-members-wear-price-rise-for-less-disability-insurance-20160502-gojrsj.html
SuperRatings say median 50.5% increase in premiums in 2015, no material increase in cover amount, terms and conditions for eligibility to claim tightened

Attached Papers

Appendix 1* *"Scandals in Life insurance: Please explain"*

Appendix 2* *"APRA shows the need for a life insurance productivity commission"*

Appendix 3* *"LIF Legislation: Good Policy or Political Manipulation"*
*These papers have been published to the media using the distribution of the Life insurance Customers Group (LICG)

Appendix 4 Examples of comparison of pricing and policy features between industry fund insurance and retail contracts. (Collated by Bombora Advice colleague Sam Perera, reproduced with permission)

~~**Appendix 5** MLC technical News: Trustee interpretations can limit disability insurance~~
(removed due to copyright)

Appendix 6 BT Lifetime Super – Employer Plan – insurance definitions impacting

Examples- Real Stories – pro-bono assistance for industry super claims (details available upon request)

Changeover of insurer
A very ill member where the insurers within a fund was changed-over many years prior to claim.
The then employer was no longer in business, yet there was an obligation on the member to prove they were at work on a particular day. You can imagine the challenge this presented us with.

Insurer Claim Department not knowing what their actual contract says
Sad case of family looking for some financial support in situation of a young adult TPD'd as a result of an attempted suicide. Claims departments declined saying suicide is excluded. We argued – not according to the policy document and PDS (both were silent on this). After significant time claim was paid and their documents were changed.

Insurer Claim Department not knowing their contract and shifting the goal post for contract start date
Member joined plan, was offered a standard default cover upon joining, and an option to further increase default Automatic Acceptance cover if an to do so was application received within 60 days of 'Welcome Letter'. Claim later made and only paid on original default amount, increase was declined because Member was not deemed 'at work' on the date the accepted increase was notified. Once we argued, according to policy document there is no second "At work" obligation insurer changed official start date to "date contributions first received". Case going through Super Complaints Tribunal (SCT) on basis that insurer not complying with their own policy document and all supporting offer letters to member.

Superfund stonewalling through administration services
Member attempted to have a claim processed. We have documented evidence of months and months of stonewalling of member and the member's representative at admin and trustees office. You cannot get past a 'gatekeeper', if you do eventually get a contact emails are constantly ignored and explained later with comments like "oh, it dropped through the cracks", or "I had passed that along to someone else to do". The Member says to us "so glad to have you helping, we would have given up years ago without you."
We wonder whether this isn't the strategy.

About the Author

Antoinette (Nettie) Handley, Partner and Chief Executive Officer, Complete Risk Analysis Pty Ltd (CRA)

Nettie holds a Masters degree in Information Management and Systems, a Bachelor of Arts (majoring in Sociology and Anthropology) and a Bachelor of Information Management.

She also holds a Diploma of Financial Services and is a Chartered Life Practitioner.

Nettie has extensive experience in the life insurance industry having worked for many years in several different roles within Australian Eagle before leaving to raise a family. Whilst on home duties she attended university to pursue her interests and build new skills. She returned to the paid workforce in 2000 when offered an opportunity to combine her experience, interests and newly-acquired skills, joining Glenn Kerr in his business, CRA, a Risk Specialist business established in 1998. She was appointed CEO of CRA in 2009.

CRA was established in 1998 as a risk specialist business, providing a specialist outsource facility for referring professionals. CRA supports the 2,633 holders of more than 4,000 polices under management. This represents just over 1,500 separate client groupings (husband & wife, or business partners etc.) and 19 group plans, with over $16.5 million in in-force premium. CRA has in excess of 50 referring partners.

CRA has a team of 15 members to support clients in developing a tailored insurance portfolio and retaining this cover for as long as the client has a need for it. CRA is also there to help them, at no extra charge, at their time of greatest need – claim time.

As at the end of August 2016, CRA has assisted clients in 195 claims, totalling **over $28.5million**. Fifteen of those claims were assisted pro-bono, assisting colleagues or family members of clients where other advisers or lawyers have failed.

CRA is based in Melbourne's CBD. It is one of only five financial advice practices (the only risk specialist practice) in Australia accredited with the ISO 9000 'Quality Management Systems' and GB 222 Quality Management Systems in Australian Financial Planning Standards, certifications.

Nettie is Authorised Representative, No 295854, of Bombora Advice Pty Ltd.

CRA is a foundation partner of Bombora.

Bombora Advice Pty Ltd is a Risk Specialist AFSL, AFSL no 439065, was established in July 2013.

Scandals in the life insurance industry - Please explain!

Media reports about life insurance (LIF) 'reforms' usually include comments like 'an attempt to mend the scandal-ridden sector' or 'enormous' or 'lucrative' upfront commissions – presented as a truism without any mitigating exploration of context or truth.

Members of the Life Insurance Customer Group (LICG) argue that - if there is crisis of confidence in the insurance sector it is because of the Financial Services Council (FSC), Minister Kelly O'Dwyer, and journalists constant hyping of 'churning', and 'scandalous' upfront commissions.

It is these allegations, unproven and unjustified, that are scandalous.

The FSC and Minister O'Dwyer consistently state that LIF reforms will improve consumer confidence and produce 'significant consumer benefits'. No one has articulated one single benefit and members of the LICG have looked at what is causing the lack of confidence and ask: **Please explain.**

Blaming the wrong party (advisers) for the 'crime', means the real perpetrators (insurers and the FSC) get away with profiteering. The consumer loses and poor outcomes continue unchecked. The economic and social wellbeing of all Australians remains compromised because our massive under-insurance problem is ignored.

LICG members have checked the facts.

As pointed out to the FSC and the Minister in our recent 'Open Letter to the FSC' (copy on LICG website), every negative report relates to financial service providers or insurers. **Not a single headline was about independent insurance advisers.**

Every institution responsible for a failing <u>was a member of the FSC.</u>

Did the FSC castigate members as required in their 'Code of Conduct'? Has the FSC attempted to tell consumers who was responsible for each 'scandal'? No wonder consumers are lacking in confidence.

Then there were the horrors exposed by Adele Ferguson in *4 Corners* exposés.

In the program, "Money for Nothing", Mr Kessel was denied the full value of his insurance contract because of outdated policy definitions.

Mr Kessel's contract was 20 years old. With the benefit of an experienced, competent adviser Mr Kessel would have known of the deficiencies in his contract definitions and an attempt made to upgrade.

The Catch 22 in this is that by upgrading the adviser would have been accused of 'churn'. As the FSC has not defined 'churn' we don't know whether insurers would consider this a good enough reason to replace the policy.

However the intent in the program was not to show the value advisers bring to their clients, it was to display lack of credibility of an insurer with allegations of impropriety and claim "avoidance".

The other consumers in this story were disadvantaged by insurers AND trustees of the superannuation or employer funds. <u>Those responsible for these scandals were FSC members</u> not advisers.

No advisers and no commissions were involved. However, without context or relevance, Ms Ferguson felt compelled to add: "life insurance is *a highly troubled industry*, dominated by commission payments of up to 130%", then said ASIC research found a "massive 37% of product advice was in breach of the law", implying advisers caused all the *'troubles'*.

Her story was almost exclusively about 'group' insurance, insurance inside super funds or other group plans. The ASIC research covered 'retail' advice and was not related to her story.

The earlier 4 Corners program, 'Banking Bad', was an exposé of a client denied a claim due to non-disclosure. As Ms Ferguson rightly pointed out, the client had an existing policy which would have almost automatically paid a critical illness claim.

Unfortunately, this unsuspecting customer was identified via data-mining. He became a **target for his transactional bank** to convince him to change insurance. A bank-aligned 'adviser', with only one bank-owned product to sell, convinced the customer to change to his bank's offer. This adviser did not adequately explain a client's 'Duty of Disclosure', or warn of losing the 'safety' of the 3 years plus existing policy.
It wouldn't have mattered how the bank-aligned adviser was paid. The problem was not commission but a consequence of the "share of wallet" and "sales" culture that ASIC has identified in vertically aligned and other institutional businesses. These bank 'advisers' are not independent advisers that can look across all insurance distribution channels. <u>All aligned advisers are linked to FSC members.</u>

Most life insurance complaints accepted by the Financial Ombudsman Service (FOS) are about insurers (870 of 873 in FOS 2014-2015). <u>Insurers are FSC members</u>. <u>Many insurers are owned by other FSC members</u>. Who is looking at insurer behaviours???

The ASIC research for Report 413 was directed by a Phase1 exercise of working with insurers to explore what would influence the 'quality of retail advice'. Examples of failures to meet the law provided in the ASIC Report 413 could be easily explained by a lack of competence and lack of Licensee supervision, but (at insurer direction?) ASIC only looked for a very specific targeted sample and only a commission correlation. Insurers are members of the FSC, <u>therefore the ASIC research was directed by FSC members</u>. No advisers were invited to participate, so there were no 'checks and balances' in the research methodology.

So where are the scandals with commissions? There is no real evidence for them. The 'scandals' about commission are the flimsy 'evidence' provided in a fundamentally flawed ASIC report and negative ideologies peddled by the FSC. The adviser remuneration elements of the LIF Bill are not about addressing any of the real scandals. They are to do with the FSC further reducing scrutiny of their behaviours by threatening the viability of adviser businesses.

The true scandal in this - our Government allowing the FSC, with scandal-perpetrating members who don't have to answer to anyone, to control a process for 'industry reform'. This is not good leadership or good policy. **Please explain.**

Issued by Life Insurance Customer Group (LICG) Website: www.licg.com.au
Contact us at: action@licg.com.au

APRA shows that a Life Insurance Productivity Commission is needed

Members of the Life Insurance Customer Group (LICG) could not disagree more with recent comments from CEO of the Financial Services Council (FSC) Sally Loane that a Royal Commission would kill life insurance reform.

We argue that there is no proper life insurance reform on the table to kill, and if we are to rebuild the trust and confidence of Australian consumers, some sort of comprehensive Commission into the life insurance industry is vital.

The observation should be: why have all the previous enquiries not achieved what they set out to?

Comments from APRA member Geoff Summerhayes, following the completion of the inaugural APRA life insurance 'stress test', could not lend stronger support for a call to:

- Immediately establish a comprehensive Life Insurance Productivity Commission to conduct a thorough review, **across all distribution channels, especially Industry Super Funds and vertically aligned distribution models**, so that the interconnection of all facets of the industry are taken into account before any 'reforms' are implemented. The methodology and approach of the current Superannuation Productivity Commission is a good example.
- Establish a permanent authority/entity to whom the FSC is accountable, that encompasses the regulatory objectives of ASIC, APRA and the ACCC and includes the dispute resolution findings and objectives of FOS and SCT. It should have the power to ensure findings from enquiries are properly implemented. All disputes reported against the FSC Code of Practice and the mooted Life Insurance Code of Practice should be registered and actioned there. The New Zealand Financial Markets Authority (FMA) would appear to be a good model.

Summerhayes recently reported "*The life insurance industry is under considerable pressure, facing significant issues, many of which, with the benefit of hindsight, have been quietly festering.*"

He went on to say:*"…insurers should not just think about adverse events arising from elsewhere; they should also ask the more uncomfortable question: "**what if we are at the heart of the problem**?"*

It is evident that *issues* need not have been '*quietly festering'* at all.

APRA has been very clearly reporting on issues year on year, Insight Report after Insight Report.

They have raised many concerns like:

- a lack of quality data, and lack of proper data management,
- too much emphasis on getting new business rather than retaining existing business,
- group life pricing standards, and
- governance practices underpinning the rapid growth in the directly marketed risk products.

Back in 2014 APRA also raised concern that the immediate response of life insurers affected by poor claims experience has been to lift premiums sharply to redress the losses. They go on to say: "not only has this lead to adverse outcomes for superannuation fund members, *it does not address the structural problems that caused the situation*." And, *"despite a number of warnings from APRA, group risk insurers have been slow to accept that significant price reductions combined with the softer underwriting practices and enhancements to benefits would ultimately affect profitability."*

These are <u>not</u> weak signals of *quietly festering* problems.

Where is the leadership that should have risen from within the self-regulated life insurance industry to coalesce and interpret this kind of important information from APRA, ASIC, FOS, the SCT and anyone else? That is the kind of leadership required to ensure that industry wide objectives, such as consumer's interests and long-term sustainability, are met.

The whole industry is well aware that the Life Insurance 'reform' Bill cannot possibly fix the detriment that consumers are currently experiencing, or the loss of trust and confidence we have seen in our industry, **because adviser remuneration is not the problem**.

Insurer choices and behaviours are the problem.

Continual premium hikes and 'scandals' around claims not being paid, especially in super funds, are the problem. In the near future, scandals about insurance purchased through 'Direct' channels will be the problem.

Fiddling with TPD definitions and 'rehabilitation benefits' will not fix the problems with group insurance inside super. A comprehensive review of product features, pricing and conditions is needed for long-term sustainability for the industry and security for all Australians.

None of these hugely important consumer issues are being properly addressed.

Advisers are out there every day trying to defend the poor reputation of the industry brought about by the breadth of poor, short-sighted, commercially-based decisions of insurers over many years, yet advisers became the easy target.

Advisers have not been targeted because there were consumer complaints about what they did and how they are paid. They have been targeted because some industry leaders wanted to blame someone else for industry *ills* **caused**, as APRA points out and with the benefit of hindsight**, by their focussing too much on getting new business in any way possible and regardless of where it comes from, rather than protecting and retaining existing business.**

Insurers aren't taking care of their clients who rightly leave to pursue a better outcome. Instead of asking themselves "***what if we are at the heart of the problem?"*** they blamed advisers for exercising their client's best duty obligation. Reducing adviser's remuneration may return some profits to insurers in the short-term but it can't of itself provide any consumer benefit AND ***it does not address the fundamental reason for the insurer not earning or deserving consumer loyalty*.**

And insurers missed the disruption that is the media bombardment to consumers to 'make the switch', and 'get the best deal' for <u>every other commodity in the market</u>. Why would or should life insurance be immune?

The findings presented by Mr Summerhayes provide a valuable insight into the significant limitations of the ability of the FSC to self-regulate in life insurance. Warnings from APRA and other Government authorities in their concerns for both consumer and sustainability outcomes appear to go unheeded in the pursuit of members' own short-sighted commercial interests.

We need a Life Insurance Productivity Commission to understand all the issues in life insurance.

And we need a new Government authority to consolidate all the previous enquiries Ms Loane alluded to, and including this new Life Insurance Productivity Commission, to properly address all the scandals that are being

reported, to set the vision, principles and goals for the financial services industry into the future, and hold the FSC Board and members to account in meeting these objectives.

Issued by Life Insurance Customer Group (LICG) Website: www.licg.com.au

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LIF Bill: Good Policy or Political Manipulation?

There have been some comments in the media along the lines of "why don't members of Life Insurance Customers Group (LICG) and other opponents of the LIF 'reform's' just lay down, adapt, and get on with 'life' in the new world."

LICG members believe that these 'reforms' are completely political, and in the game of politics we have all, our adviser community, our Adviser Associations, and Consumer Groups, been outwitted and outplayed, out-resourced and out-funded, by the FSC. But we would argue that that is not a reason to lay down.

We have accepted the responsibility for fighting back by exposing the lack of integrity and professionalism of the FSC in their process for blaming someone else for the reasons that have created our '*highly troubled*' insurance industry. We continue to provide reasoned, evidence-based, principles-based, explanations for issues that comprise the problems in the industry. Problems that won't go away with the LIF legislation in place.

Many things are broken in the life insurance industry because insurers have been permitted to pursue commercial imperatives in all their areas of distribution with no checks and balances on the impact of their decisions for the long term. No-one was forcing insurers to corrective actions when APRA was identifying potential problems **AND lack of quality data** over many years (beginning at least 2012, refer to APRA Insights Issue 3). The FSC members do not seem to be accountable to anyone, not even Government bodies.

The LICG argue that any 'reforms' should come from an evidence-based review of the whole industry, **across all distribution channels, especially Industry Super Funds and vertically aligned distribution models**, so that the interconnection of all facets of the industry are taken into account. Ordinary Australians are confused by who is responsible for what, they need to believe we are looking at, and fixing, everything.

In ignoring where the real problems lay (with insurer behaviours according to APRA, ASIC, FOS, SCT, reinsurers and other observers), not only to these 'reforms' have nothing to do with addressing the trust and confidence of Australians in the life insurance industry, they have nothing to do with good policy that will serve all Australians for the long term. Refer to recent APRA reports on the 'stress-testing' of the life insurance industry as testimony to that.

The LIF Bill does not offer 'reforms' that can possibly achieve agreed goals as all good polices should have – in this case addressing our chronic underinsurance problem by earning and rebuilding the trust and confidence in the public. This is earned by honesty, transparency, and doing what you say you will do. The purported goal of the LIF Bill is 'significant consumer benefits', yet not benefit one can be articulated. Why?

The structure of the legislation speaks for itself. See the illustration that follows.

Treasury and the responsible Minister should be embarrassed for presenting such an ill-formed, illogical, untested piece of legislation.

We wonder what advantages or benefits those who support it see?
Or do they not actually understand how it will work?

Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2015

FSC PROPOSITION

(Accepted by Treasury and our Adviser Associations)

The current upfront commission model is the sole cause of the loss of trust and confidence of, and poor outcomes for, Australian consumers.
ASIC Report 413 is evidence of that.

Issue 1
Flawed ASIC report was led by FSC, designed to prove this proposition, specifically targeted 79 advisers and only looking at variable of commission to explain quality of advice.

FSC PROPOSED SOLUTION

(To apply to all advisers for all business, not just replacement business)

Fix remuneration rates at 60/20
(3 year transition)
Increase clawback from 1 to 2 years
(Mechanism – new ASIC instrument – Minister's discretion - can amend remuneration and clawback rates at any time)

Issue 2
Further changes can be made at any time at the Minister's discretion. This is a Government controlled remuneration model.

No evidence for the FSC propositions

No rationale for 'halving' current upfront rates

No base-line data to measure from

No named 'significant consumer benefit'
No benefits articulated at all

Nothing to be measured, nowhere to be measured from.

No data, no transparency.

No mechanism for adviser outcome to influence insurer behaviour.

No ACCC test for misuse of market power, price fixing to the detriment of consumers

Issue 3
No evidence for the proposition or the proposal for 'reforms'. No base-line data, no 'consumer benefit' articulated. **No obligation on insurers to deliver anything**. No possibility for advisers to defend themselves.

Like a union negotiation threatening "accept this or it will be even worse for you", these terms were 'negotiated' under duress, this or an immediate imposition of 20/20 level remuneration.
Under this threat our Associations have agreed to all the above AND

A 'review' inside the transition period

The Minister and the FSC release statements that say 'if consumer outcomes do not improve, the Government has given a clear commitment to implement the Financial Systems Inquiry recommendation of a level remuneration model in 2018'. **What consumer outcome?**
(The FSI merely referred to the ASIC report and Trowbridge process as rationale for a level commission recommendation, no new evidence, no rationale, and no discussion.)
FSC have repeatedly stated that they expect all financial advisers to move to fee-for-service model.
No consumer outcome stated, no data, no measure stated.
Is this good policy for the future of our life insurance industry or a political manipulation to get advisers 'out of the way'?

Issue 4
The final capitulation. With no base-line data, nothing to measure and nothing to measure with - advisers have nothing with which to defend themselves and no time to do anything anyway. FSC are permitted to create the proposition and proposal so far, so there will be no prizes for guessing what the 'review' will find. Who is protecting advisers interests?

Members of the LICG believe that all Australians should be concerned that the FSC has such enfettered influence to pursue their own commercially driven agenda.

We will not merely lay down, adapt, and get on with the proposed 'life' in the new world.

That vision does not serve Australians. For the long term well-being of our life insurance industry, we are prepared stand up and be part of the solution.

When the LIF proposals are seen for what they are, we hope others will join us.

As always, we'd be happy to be corrected on our summary of the legislation or any of the other matters we bring to attention.

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Contact us at: action@licg.com.au

PERERACROWTHER
Financial Services

Example	Superannuation group insurance policy	Retail advised insurance policy	Major disadvantages of superannuation group insurance policy
40 year old, female **Nurse Unit Manager, non-smoker** **$3,400 per month Income Protection (Indemnity), 30 day Waiting Period, Age 70 Benefit Period**	Hesta premium $1,901.12 p.a.	Clearview Premium $1,085.25 p.a.	• Contract not guaranteed to be renewed on current terms and conditions • Capability clause (claims reduction) • Sick leave offsets monthly benefit payable • No built in death benefit • No future insurability benefit
30 year old, male **Carpenter, non-smoker** **$208,000 Life Insurance** **$104,000 TPD Insurance (Any Occupation definition)**	CBUS premium $744.64	TAL Premium $197.01	• Contract not guaranteed to be renewed on current terms and conditions

Research source: Iress

All contracts are SIS compliant and quoted on a Stepped annual premium

40 year old, male **Carpenter, non-smoker** **$1,008,000 Life and TPD Insurance (Any Occupation definition)**	REST premium $3,150.68	MLC Premium $1,282.80	• Contract not guaranteed to be renewed on current terms and conditions
40 year old, male **Carpenter** **$1,400,000 Life and TPD Insurance** **(Any Occupation definition)**	Australian Super premium $2,992.08	AIA premium $1,925.39	• Contract not guaranteed to be renewed on current terms and conditions
39 year old, female **Clerical assistant, non-smoker** **$3,125 per month Income Protection (Indemnity), 30 day Waiting Period, Age 65 Benefit Period**	Colonial First Choice Employer Super premium $1,417.50	Clearview premium $853.61	• Contract not guaranteed to be renewed on current terms and conditions • More onerous exclusions • Does not cover all injuries or all sicknesses that become apparent after policy start • Sick leave offsets monthly benefit payable • No built in death benefit • No future insurability benefit

Research source: Iress

All contracts are SIS compliant and quoted on a Stepped annual premium

Insurance definition changes impacting BT Lifetime Super – Employer Plan

Issue date: 1 July 2014

The information in this notice details the material changes, effective 1 July 2014, that may impact you and your application for **new** insurance cover. These changes do not impact cover issued before 1 July 2014, or increases to this existing cover.

What are the changes?

As a result of changes to superannuation regulations, the insurance definitions for Total and Permanent Disablement (TPD) and Salary Continuance Insurance (SCI) have been amended for new insurance cover issued within BT Lifetime Super – Employer Plan on or after 1 July 2014. These definitions, along with the other terms of your cover, determine whether you are eligible for a payment from the insurer due to a terminal medical condition or incapacity.

The table below illustrates the changes to these definitions.

Type of cover	Pre 1 July 2014 definition	Post 1 July 2014 definition
Total and Permanent Disablement (TPD)	**Total and Permanent Disablement** You may receive a lump sum benefit for TPD under either of the definitions outlined below. Definition 1 You have suffered the total and irrecoverable loss of use of: ▸ both hands ▸ both feet ▸ one hand and one foot ▸ the sight of both eyes ▸ one hand and the sight of one eye, or ▸ one foot and the sight of one eye. **OR** Definition 2 (a) If you're an Insured Member under age 65 and are working 15 or more hours per week (including Casual employees, Contractors and spouse members): ▸ you are unable to follow your usual occupation by reason of an illness, accident or injury for a period of six consecutive months after the occurrence of the illness, accident or injury, and ▸ in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience. (b) If you are: ▸ an Insured Member aged 65 and above an Insured Member under age 65 and are working less than 15 hours per week (including as a Casual employee, Contractor or spouse member) ▸ a non-working Insured Member (excluding non-working spouse members and non-working personal members) ▸ an Insured Member who has been on employer approved leave for a period greater than 24 months, or ▸ an Insured Member working in a 'Special Risk Occupations'	**Total and Permanent Disablement** You may receive a lump sum benefit for TPD under either of the definitions outlined below. Definition 1 You have suffered the total and irrecoverable loss of use of: ▸ both hands ▸ both feet ▸ one hand and one foot ▸ the sight of both eyes ▸ one hand and the sight of one eye, or ▸ one foot and the sight of one eye and in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience. **OR** Definition 2 (a) If you're an Insured Member under age 65 and are working 15 or more hours per week (including Casual employees, Contractors and spouse members): ▸ you are unable to follow your usual occupation by reason of an illness, accident or injury for a period of six consecutive months after the occurrence of the illness, accident or injury, and ▸ in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience. (b) If you are: ▸ an Insured Member aged 65 and above ▸ an Insured Member under age 65 and are working less than 15 hours per week (including as a Casual employee, Contractor or spouse member) ▸ a non-working Insured Member (excluding non-working spouse members and non-working personal members) ▸ an Insured Member who has been on employer approved leave for a period greater than 24 months, or

Type of cover	Pre 1 July 2014 definition	Post 1 July 2014 definition
Total and Permanent Disablement (TPD)	and you're continuously and totally unable to perform at least two of the following Activities of Daily Living, as certified by a Medical Practitioner appointed by the Insurer: ▸ Bathing – the ability to wash oneself either in the bath or shower or by sponge bath, without the standby assistance of another person. ▸ Dressing – the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. ▸ Eating – the ability to feed oneself once food has been prepared and made available, without the standby assistance of another person. ▸ Toileting – the ability to get to and from and on and off the toilet, without the standby assistance of another person and ability to manage bowel and bladder functions through the use of protective undergarments or surgical appliances, if appropriate. ▸ Transferring – the ability to move in and out of a chair, without the standby assistance of another person. (c) if you're an Insured Member under age 65 and are a non-working spouse member or non-working personal member and you're continuously and totally unable to perform at least two of the following 'home duties' as certified by a qualified Medical Practitioner appointed by the Insurer: ▸ Dressing and undressing – the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. ▸ Washing and bathing – the ability to wash oneself either in the bath or shower or by sponge bath, without the standby assistance of another person. ▸ Eating – the ability to feed oneself once food has been prepared and made available, without the standby assistance of another person. ▸ General household duties – the ability to perform day to day household duties, without the standby assistance of another person. ▸ Climbing stairs – the ability to climb stairs, without the standby assistance of another person, without holding a banister and without taking a rest – all within a reasonable period of time. ▸ Shopping – the ability to leave the home, by any means, and to undertake day to day shopping, without the standby assistance of another person. (d) As a result of illness or injury an Insured Member suffers Cognitive loss. 'Cognitive loss' means the insurer has determined a total and permanent deterioration or loss of intellectual capacity that requires the Insured Member to be under continuous care and supervision by another adult person for at least six consecutive months, and at the end of that six month period, they are likely to require permanent ongoing continuous care and supervision by another adult person. The payment of any claim is also subject to the Insurer having received the insurance premiums due in respect of your insurance up to the event giving rise to the claim occurring. We cannot pay outstanding premiums to the Insurer unless sufficient contributions have been made to your account. Where your TPD benefit is less than your Death benefit and you receive a TPD benefit, any Death benefit paid to your beneficiaries will be reduced by the amount paid to you as a TPD benefit.	▸ an Insured Member working in a 'Special Risk Occupations', and you're continuously and totally unable to perform at least two of the following Activities of Daily Living, as certified by a Medical Practitioner appointed by the Insurer: ▸ Bathing – the ability to wash oneself either in the bath or shower or by sponge bath, without the standby assistance of another person. ▸ Dressing – the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. ▸ Eating – the ability to feed oneself once food has been prepared and made available, without the standby assistance of another person. ▸ Toileting – the ability to get to and from and on and off the toilet, without the standby assistance of another person and ability to manage bowel and bladder functions through the use of protective undergarments or surgical appliances, if appropriate. ▸ Transferring – the ability to move in and out of a chair, without the standby assistance of another person and in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience. (c) If you're an Insured Member under age 65 and are a non-working spouse member or non-working personal member and you're continuously and totally unable to perform at least two of the following 'home duties' as certified by a qualified Medical Practitioner appointed by the Insurer: ▸ Dressing and undressing – the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. ▸ Washing and bathing – the ability to wash oneself either in the bath or shower or by sponge bath, without the standby assistance of another person. ▸ Eating – the ability to feed oneself once food has been prepared and made available, without the standby assistance of another person. ▸ General household duties – the ability to perform day to day household duties, without the standby assistance of another person. ▸ Climbing stairs – the ability to climb stairs, without the standby assistance of another person, without holding a banister and without taking a rest – all within a reasonable period of time. ▸ Shopping – the ability to leave the home, by any means, and to undertake day to day shopping, without the standby assistance of another person and in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience.

Type of cover	Pre 1 July 2014 definition	Post 1 July 2014 definition
Total and Permanent Disablement (TPD)		(d) As a result of illness or injury an Insured Member suffers Cognitive loss. 'Cognitive loss' means the Insurer has determined a total and permanent deterioration or loss of intellectual capacity that requires the Insured Member to be under continuous care and supervision by another adult person for at least six consecutive months, and at the end of that six month period, they are likely to require permanent ongoing continuous care and supervision by another adult person and in the opinion of the Insurer (after consideration of medical and other evidence satisfactory to it), you're unlikely ever to be able to follow your usual occupation and any other occupation for which you're reasonably suited by education, training or experience. The payment of any claim is also subject to the Insurer having received the insurance premiums due in respect of your insurance up to the event giving rise to the claim occurring. We cannot pay outstanding premiums to the Insurer unless sufficient contributions have been made to your account. Where your TPD benefit is less than your Death benefit and you receive a TPD benefit, any Death benefit paid to your beneficiaries will be reduced by the amount paid to you as a TPD benefit.
Salary Continuance Insurance (SCI)	**Total Disability (for SCI purposes only)** – means disablement resulting from injury or sickness as a result of which the Insured Member, working 15 hours or more per week on average over the three months prior to disability, is: ▸ unable to perform at least one important duty of his or her usual occupation necessary to produce Income ▸ under the regular care, in attendance or following the advice of a Medical Practitioner in relation to the injury or sickness, and ▸ not engaged in any occupation, whether paid or unpaid. An important duty is defined as involving 20% or more of the Insured Member's overall tasks responsible for generating at least 20% or more of the Insured Member's Pre-disability Income. Disablement resulting solely from injury or sickness which occurs while the Policy is inforce and as a result of which the Insured Member, working less than 15 hours per week on average over the three months prior to disability: ▸ remains under the regular care and attendance or is following the advice of a Medical Practitioner in relation to that injury or sickness ▸ is not engaged in any occupation, whether paid or unpaid, and ▸ is continuously and totally unable to perform at least two of the following activities of daily living as certified by a Medical Practitioner. – Bathing: the ability to wash themselves either in the bath or shower or by sponge bath, without the standby assistance of another person. – Dressing: the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. – Eating: the ability to feed themselves once food has been prepared and made available, without the standby assistance of another person.	**Total Disability (for SCI purposes only)** – means disablement resulting from injury or sickness as a result of which the Insured Member, working 15 hours or more per week on average over the three months prior to disability, is: ▸ unable to perform at least one important duty of his or her usual occupation necessary to produce Income ▸ under the regular care, in attendance or following the advice of a Medical Practitioner in relation to the injury or sickness, and ▸ not engaged in any occupation, whether paid or unpaid. An important duty is defined as involving 20% or more of the Insured Member's overall tasks responsible for generating at least 20% or more of the Insured Member's Pre-disability Income. In addition, the Injury or Sickness must have caused you to temporarily cease to be gainfully employed or to temporarily cease receiving gain or reward under a continuing arrangement to be gainfully employed. Disablement resulting solely from injury or sickness which occurs while the Policy is inforce and as a result of which the Insured Member, working less than 15 hours per week on average over the three months prior to disability: ▸ remains under the regular care and attendance or is following the advice of a Medical Practitioner in relation to that injury or sickness ▸ is not engaged in any occupation, whether paid or unpaid, and ▸ is continuously and totally unable to perform at least two of the following activities of daily living as certified by a Medical Practitioner. – Bathing: the ability to wash themselves either in the bath or shower or by sponge bath, without the standby assistance of another person. – Dressing: the ability to put on and take off all garments and medically necessary braces or artificial limbs usually worn, and to fasten and unfasten them, without the standby assistance of another person. – Eating: the ability to feed themselves once food has been prepared and made available, without the standby assistance of another person.

- Gotcha: if member between jobs, (ordaining leave) etc - for (still) no such condition

Type of cover	Pre 1 July 2014 definition	Post 1 July 2014 definition
Salary Continuance Insurance (SCI)	– Toileting: the ability to get to and from and on and off the toilet, without the standby assistance of another person and the ability to manage bowel and bladder functions through the use of protective undergarments or surgical appliances, if appropriate. – Transferring: the ability to move in and out of a chair, without the standby assistance of another person.	– Toileting: the ability to get to and from and on and off the toilet, without the standby assistance of another person and the ability to manage bowel and bladder functions through the use of protective undergarments or surgical appliances, if appropriate. – Transferring: the ability to move in and out of a chair, without the standby assistance of another person. In addition, the Injury or Sickness must have caused you to temporarily cease to be gainfully employed or to temporarily cease receiving gain or reward under a continuing arrangement to be gainfully employed.

What does this mean?

If you wish to apply for **new** insurance cover that will be issued on or after 1 July 2014, please ensure you have carefully read the 'Insurance in your super' section of the Product Disclosure Statement (PDS) issued on or after 1 July 2014 and any relevant disclosure documents to understand the impact of these changes to you before applying.

You can obtain a copy of the updated PDS and any other relevant disclosure documents by visiting bt.com.au or calling BT Customer Relations on 132 135.

Need more information?

Should you require any further information or clarification, please speak to your financial adviser or contact BT Customer Relations on 132 135 between 8.00am–6.30pm (Monday to Friday, Sydney time).