



ASIC
Australian Securities &
Investments Commission



Insurance in Superannuation 2019–20: Industry implementation of the Voluntary Code of Practice

Report 646 | December 2019

About this report

This report provides background to our work in insurance in superannuation. It also examines industry progress on the implementation of the Insurance in Superannuation Voluntary Code of Practice.

It is the first in a series of short reports we intend to release in the 2019–20 financial year that look at the superannuation industry's progress on improving insurance outcomes for consumers.

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About ASIC regulatory documents

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Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations. Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Introduction

This report is the first in a series of short reports on insurance in superannuation that ASIC is releasing in the 2019–20 financial year. It outlines key features of insurance in superannuation, potential consumer harms, and our regulatory focus and expectations in this area. This report also examines industry progress on the implementation of the Insurance in Superannuation Voluntary Code of Practice (Code).

In this series of reports we are challenging trustees to focus on their fundamental duty to act in the best interests of members in relation to their insurance offerings.

We recognise that the regulatory regime in which insurance in superannuation is delivered is in a dynamic phase. The Australian Government, regulators and industry are all responding to the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) and Productivity Commission's inquiry into superannuation.

Note: Royal Commission, [Final report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry](#), January 2019, and Productivity Commission, [Superannuation: Assessing efficiency and competitiveness](#), January 2019. See also Parliamentary Joint Committee on Corporations and Financial services, [Life insurance industry](#), report, March 2018.

We invite industry to see this period of change as an opportunity to step up by building systems and processes to promote the interests of their members. Trustees have a crucial role to play in building trust and confidence in a superannuation system that meets the retirement income and life insurance needs of Australians. To meet this goal, meaningful change is needed.

Our focus this year is on the default life insurance attached to superannuation products, in part because decisions made by trustees in this market segment most powerfully shape outcomes for members. Life insurance attached to default superannuation products also now costs more than superannuation itself; however, many consumers are not even aware that they are paying for this insurance, and those who are aware may find product features, terms and conditions, and pricing too difficult to understand or inappropriate for their circumstances.

The premiums on the insurance attached to MySuper products (just over \$5 billion in 2017–18) represent a significantly higher cost to funds than the superannuation product itself (combined investment and administration expense was \$3.8 billion) and have risen faster since 2014, at 21% p.a., than either assets or combined investment and administration expense, at 17% p.a.

Note: See Australian Prudential Regulation Authority (APRA), [Annual MySuper Statistics June 2018](#), released December 2018.

The Code

The Insurance in Superannuation Voluntary Code of Practice is industry's response to the developing perception in preceding years, including in Government, that insurance in superannuation was not meeting community expectations. The industry bodies that own the

Code have a responsibility to make the Code as effective as it can be for members.

The Code gives effect to guiding principles on appropriate and affordable design, member communications, and claims and complaints handling services. It includes provisions relevant to all members with insurance, but has more extensive consumer protections for members with default life insurance cover.

We are examining take-up of the Code to inform our own judgement on whether further changes are required to achieve necessary industry uplift.

Our work and engagement with the Code is not a substitute for proper oversight of the Code by a properly resourced code administrator that would have powers to investigate breaches and to sanction funds if breaches were not remedied.

The Government, in responding to the Royal Commission, has committed to introduce legislation by 30 June 2020 to make contraventions of 'enforceable code provisions' in ASIC-approved codes a breach of the law. This may have potential implications for industry in relation to the Code.

ASIC's work in this space builds on previous work including from two published reports: [Report 591](#) *Insurance in superannuation* (REP 591, September 2018) and [Report 633](#) *Holes in the safety net: A review of TPD insurance claims* (REP 633, October 2019). Report 633 highlighted issues with restrictive definitions of disability, the importance of claims handling processes for members and ongoing issues with inadequate data on the population of covered members.

Note: See also ASIC's article '[Lifting the bar](#)', *Superfunds magazine*, June 2019, pp. 16–18, which deals with ASIC's work to improve the handling of insurance claims by superannuation trustees.

Summary of findings on Code implementation

Adoption of the Code is contributing to a promising uplift in, and standardisation of, processes and services – but adoption is not universal or entirely consistent.

We have identified a number of inconsistencies in implementation, some relating to fundamental aspects of the Code. These inconsistencies relate to which members are covered by the Code, the controls around balance erosion, and the calculation of claim timeframes.

We encourage superannuation trustees to take the opportunity represented by widespread adoption of the Code to:

- › review frameworks, policies and governance of insurance matters in order to support improved outcomes for members
- › strengthen data collection and analysis in order to support product design that meets member needs with minimal account erosion
- › play an active role, alongside insurers and administrators, in ensuring a good claims experience for members.

Few trustees are proactively reaching out to vulnerable consumers

Trustees could be more proactive and systematic in how they identify and engage with vulnerable consumers.

The Code could go further in detailing how trustees should do this, and in embedding a consumer-centric approach to vulnerability.

Further work

In the 2019–20 financial year, our work in insurance in superannuation, including public communications, will focus on:

- › the implementation of the *Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019* and *Treasury Laws Amendment (Putting Members' Interest First) Act 2019* (the 'Protecting Your Superannuation Package reforms')
- › occupational risk categories in insurance in superannuation – models for their use, default category selection, the data and analysis used to inform these choices and the disclosure of these aspects of the product
- › value for money in insurance in superannuation – analysis of how the industry evaluates value between products and between cohorts.

We anticipate that our work will assist in understanding the progress of the industry's efforts to improve outcomes for consumers in relation to insurance in superannuation, which will include follow-up work in relation to the expectations of trustees and insurers that are outlined in [REP 633](#).

We plan to work with industry in its development of more practical guidance on how trustees can better meet the needs of vulnerable consumers. We also remain engaged with relevant law reform initiatives of Government impacting on insurance in superannuation.

ASIC recognises the crucial role superannuation trustees play in the delivery of life insurance to their members. We are committed to working with industry to ensure insurance design, delivery and claims processes meet the needs of consumers.

Default life insurance in superannuation

Life insurance helps to manage the risk of considerable financial detriment that can arise following premature death or temporary or permanent disability. It does this by pooling the risk across many consumers and charging consumers a regular premium.

Life insurance includes a range of products including:

- › **life cover** (also known as ‘death cover’), which pays a set amount of money when the insured person dies
- › **total and permanent disability (TPD) cover**, which pays a set amount of money towards the costs of rehabilitation, debt repayments and the future cost of living if the insured person is totally and permanently disabled
- › **income protection** (also known as ‘temporary disability’ and ‘salary continuance cover’), which replaces the income lost through an inability to work for a specified period due to injury or sickness
- › **trauma cover** (also referred to as ‘critical illness cover’ or ‘recovery insurance’), which provides cover in the event of a diagnosis of a specified illness or injury, such as cancer or stroke.

Default life insurance has been a longstanding feature of Australia’s superannuation system. Before compulsory superannuation, public sector and corporate funds customarily offered life cover and TPD cover as well as retirement benefits. Retail superannuation was largely delivered by life insurance companies, and the products typically came with life insurance.

In the 1980s, life insurance became a part of workplace superannuation as this was adopted in industrial agreements. In 1992, insurance in superannuation was recognised in law when compulsory superannuation was introduced. Finally in 2013, as is discussed below, authorised workplace default (MySuper) products were required to offer death and TPD insurance by default, on an opt-out basis.

Note: Life cover, TPD cover and income protection cover are the typical default life insurance products offered through superannuation.

We have chosen to focus on default life insurance for our work in 2019–20 because:

- › it is the largest category of life insurance attached to superannuation
- › trustees face particular challenges when choosing appropriate insurance-product designs that accommodate members with diverse needs, for which data is often limited
- › outcomes in this segment are largely shaped by decisions made by trustees.

For default life insurance to be valuable, it needs to suit consumers’ needs and deliver on the promise of support by paying out appropriate claims. On the other hand, it should not be so expensive that it unreasonably erodes retirement savings.

Duties of superannuation trustees

Superannuation trustees have certain duties in relation to insurance under the *Superannuation Industry (Supervision) Act 1993* (SIS Act). They must:

- › provide default life cover and TPD cover for MySuper members (see s68AA)
Note: There is also a requirement to provide minimum levels of life cover based on age: see reg 14 of the Superannuation Guarantee (Administration) Regulations 2018.
- › ensure that insured benefits for members who joined the fund on or after 1 July 2014 are consistent with the conditions of release in the Superannuation Industry (Supervision) Regulations 1994 for life, terminal medical condition, permanent incapacity or temporary incapacity cover (see reg 4.07D)
- › ensure that the insurance fee is charged on a cost-recovery basis for MySuper members (see s29VC)
- › only offer insurance that does not inappropriately erode the retirement income of members (see s52(7))
- › act in the best interests of their members, including in relation to insurance (see s52(2)(c)).

Further, trustees are required to develop and implement an insurance strategy that must address a number of factors including the kinds of benefits to be offered, the costs and levels of those benefits, and the basis on which an insurance design is chosen—having regard to the demographics of the fund’s membership and the method of choosing an insurer: see Prudential Standard [SPS 250 Insurance in superannuation](#).

In many instances, this means that product design must accommodate the diverse needs of a broad member group.

Under the *Corporations Act 2001* (Corporations Act) superannuation trustees are obliged to make disclosures about superannuation products, including insurance provided through superannuation: see Pt 7.9. Superannuation trustees who hold an Australian financial services (AFS) licence are also subject to the obligations under s912A(1) of the Corporations Act. These obligations include that an AFS licensee do all things necessary to ensure that financial services are provided ‘efficiently, honestly and fairly’.

Effect of MySuper on default life insurance

MySuper product authorisation was introduced in 2013. Trustees providing MySuper products must generally include life cover and TPD insurance on an opt-out basis. Trustees may also offer income protection insurance by default or on an opt-in basis.


Of the 15.6 million Australians with superannuation, an estimated 12 million hold life insurance in their superannuation, of which **9.6 million – 80%** – have some form of default insurance: see Figure 1.

Note: See Productivity Commission, [Superannuation: Assessing efficiency and competitiveness](#), January 2019, p. 369. These figures will have been impacted by the implementation of the Protecting Your Superannuation Package reforms.

Figure 1: Number of Australians with some form of default life insurance

15.6 million Australians 
have superannuation

An estimated **12 million** 
hold life insurance in their
superannuation

Of these people, an estimated 
9.6 million – 80% – hold some
form of default life insurance.

Note: An accessible version of the information in this figure is contained within the text.

Some industry participants consider that the Australian workforce is underinsured: see, for example, Rice Warner's [Underinsurance in Australia 2017](#) report (December 2017). These participants note that this problem would be even more acute in the absence of default life insurance. Default life insurance can help to keep the costs of insurance down by reducing adverse selection (where higher-risk consumers choose to take out insurance, making the product more expensive for all).

Consumer awareness of default life insurance

Notwithstanding these benefits, many members who have default life insurance have low engagement with their superannuation and, by extension, the life insurance it provides.

Industry research shows that less than 50% of all fund members have ever read the annual statements from their superannuation fund. For younger people – those aged 18–34 – this figure is less than 40%. Further, less than 20% have tried comparing the benefits of their current funds against alternative funds.

Note: See Investment Trends, Member Sentiment and Communications Report: Industry Analysis, May 2019

It is not surprising, therefore, that a significant proportion of consumers who have life insurance through their superannuation are not even aware that they have such cover.

Note: See Productivity Commission, [Superannuation: Assessing efficiency and competitiveness](#), January 2019, p. 259.

MySuper product design decisions made by trustees have a powerful effect on members because most members do not take active steps to select a provider or product, or later engage with the trustee in relation to the insurance attached to the superannuation product.

Potential consumer harms and default life insurance

Despite sound motivations for default life insurance, several major reports over the last 24 months have identified potential consumer harms related to insurance in superannuation.

Note: See Parliamentary Joint Committee on Corporations and Financial services, [Life insurance industry](#), report, March 2018; ASIC [REP 591 Insurance in superannuation](#), September 2018; Productivity Commission, [Supplementary paper: Fiscal impacts of insurance in superannuation](#) (PDF 607 KB), October 2018; Productivity Commission, [Superannuation: Assessing efficiency and competitiveness](#), January 2019; Royal Commission, [Group life insurance: Background Paper 28](#) (PDF 391 KB), August 2018; Royal Commission, [Life insurance: Background Paper 29](#) (PDF 862 KB), August 2018; and Royal Commission, [Final report: Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry](#), January 2019.

These potential harms include:

- › poor member-engagement hindering members' understanding of their insurance cover and their ability to make timely and appropriate decisions to suit their circumstances
 - › members paying premiums for insurance they may not need – for example, because they hold multiple superannuation accounts
- Note:** This concern led to recent legislation to remove default insurance from inactive and low-balance accounts, and for most members aged under 25: see *Protecting Your Superannuation Package* reforms.
- › trustees applying default settings – such as smoker status or high-risk occupational categories – that may not be appropriate for many members
 - › members paying premiums for insurance they are ineligible to claim on – members may be ineligible because of their

employment status, pre-existing conditions or because they hold multiple policies

Note: Default life insurance will often include a number of broad exclusions if members do not meet certain eligibility conditions (e.g. 'at work' requirement). However, the exclusions are typically applied for only a set period of time (e.g. one-year limited cover) with full cover applying thereafter.

- › members finding it difficult to change their cover (due to bundling of life cover by some trustees, or variation in automatic acceptance limits) or to opt out of insurance
- › substantial variation in claims processing (e.g. significant delays and onerous and/or opaque processes) and variation in decline rates across the industry (e.g. denials based on overly-technical interpretation of policy terms)
- › substantial variation in key terms and definitions across the industry, increasing market complexity and limiting even engaged members' ability to compare products – variations over time can negatively impact the value of insurance for members, including recent changes across industry to tighten eligibility for insurance.

Note: See APRA's letter to all direct insurers and reinsurers in relation to group insurance – [Group Insurance – APRA](#) (PDF 431 KB), 18 May 2015.

We note that a significant proportion of complaints to trustees are about insurance. Some are eventually considered by the Australian Financial Complaints Authority (AFCA), previously the Superannuation Complaints Tribunal (SCT), and some involve costly legal representation.

Our ongoing work in relation to insurance in superannuation is informed by the aforementioned potential consumer harms. This is an area where we see the limits of disclosure in achieving the right outcomes for consumers.

Note: See ASIC's report on the limitations of disclosure in [Report 632](#) *Disclosure: Why it shouldn't be the default* (REP 632).

For insurance in superannuation offered through Choice rather than default superannuation products, the new design and distribution obligations commencing on 1 April 2021 will be important.

Our work on setting new requirements for internal dispute resolution should improve the complaints handling processes of trustees and encourage a better, systemic understanding of consumer concerns about insurance in superannuation.

Note: See [Consultation Paper 311](#) *Internal dispute resolution: Update to RG 165* (CP 311).

There is other ongoing work by the Government and APRA that is also seeking to address these potential harms.

Insurance in superannuation is an area where we see the limits of disclosure in achieving the right outcomes for consumers.

Insurance in Superannuation Voluntary Code of Practice

The Code was developed by industry in response to community concerns that industry was not efficiently meeting consumers' needs in relation to insurance in superannuation.

The Code aims to improve practices in three key areas:

- › **Benefit design:** Trustees must ensure appropriate and affordable cover is provided to Automatic Insurance Members by assessing their needs against the types and/or levels of insurance cover trustees are providing.
- › **Claims handling:** Trustees must take an active and visible role in claims handling.
- › **Communication:** Trustees must ensure that members are making informed decisions in relation to insurance in superannuation through clear, timely and understandable communications.

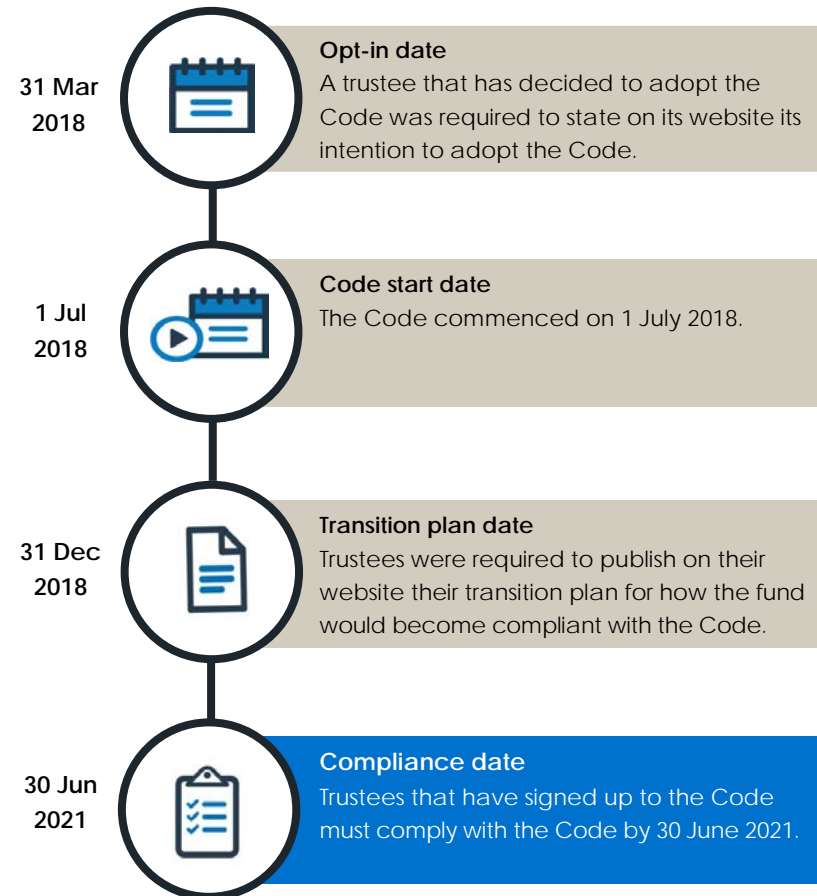
Released in December 2017, it became effective in July 2018 but full compliance is not required until July 2021: see Figure 2.

The Code owners are three industry bodies: the Association of Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST) and the Financial Services Council (FSC). The Code owners support their respective members in the Code's implementation.

There is currently no formal enforcement mechanism for the Code. Signatories are obliged to publish a compliance report each year on their websites. At the time of writing, very few trustees have met this obligation, although most have published a transition plan mapping their planned path to compliance.

The Government has committed to introduce legislation by 30 June 2020 to give ASIC the power to enforce parts of ASIC-approved industry codes: see the Australian Government's [Financial Services Royal Commission Implementation Roadmap](#).

Figure 2: Implementation of the Code



Note: See Table 2 in the appendix for the information in this figure (accessible version).

ASIC's engagement in relation to the Code

Since the start of 2019, ASIC has been engaging with industry – trustees, administrators, industry bodies and APRA – on progress and challenges associated with implementation of the Code. Although we have been exploring how trustees are implementing the Code, our work is not intended to and does not replace monitoring of compliance with the Code by an appropriately resourced Code-monitoring body.

We have been interested to learn how much benefit will be achieved for consumers from a voluntary code, noting that the Code was created by the industry itself, is implemented over a multi-year timeframe and partial compliance is permitted on an 'if not, why not' basis.

An important goal of ASIC's engagement was to help inform ASIC's view, given these factors, on whether further changes are required to achieve needed uplift in industry outcomes in insurance in superannuation.

We started by reviewing the website disclosures of more than 100 trustees. We analysed their intentions and their disclosed progress concerning implementation of the Code. The Code requires trustees to publish their transition plan on their website and we reviewed 73 transition plans published between 1 January 2019 to 30 July 2019.

We also conducted a desk-based 'mystery shopping exercise'. This involved reviewing superannuation websites and making calls to 100 superannuation hotlines to better understand the disclosures, processes and services offered by trustees to members, particularly the types of support services offered to vulnerable members.

We also surveyed a number of trustees (including those who have not signed up to the Code) to understand whether the Code was having an impact on claim timeframes.

Finally, we met with a range of industry stakeholders including 18 trustees, mostly those who identified themselves as early adopters of the Code in their transition plan. We also met with two major superannuation administrators and the Code Owners – ASFA, AIST and FSC.

Figure 3: Our assessment of industry progress – What we did



Note: An accessible version of the information in this figure is contained within the text.

Our key observations

Adoption of the Code is not universal

An important consideration when assessing the impact of a voluntary code, is the breadth and depth of adoption by industry.

At the time of writing, over two thirds (77) of trustees regulated by the Australian Prudential Regulatory Authority (APRA) have signed up to the Code: see Figure 4. This includes more than 90% of trustees authorised to provide MySuper products.

However, we found some signatories (13) have committed to only partial compliance with the Code, and trustees' anticipated timetables to full compliance varies widely.

Some trustees that have signed up to the code are listed on the Code Owner websites: see [ASFA members](#) and [AIST members](#).

Note: The FSC does not have a public list of its members who have signed up to the Code.

In terms of trustees' Code implementation, only four transition plans indicated that they would achieve full compliance by 30 June 2019. A much larger number – 29 – do not expect to be fully compliant until the final cut-off date of 30 June 2021.

We have also seen some early adopters meet key milestones in their transition plans later than expected. As noted above, one contributing factor to these delays was regulatory change, including the Protecting Your Superannuation Package reforms, which diverted trustees' resources and attention.

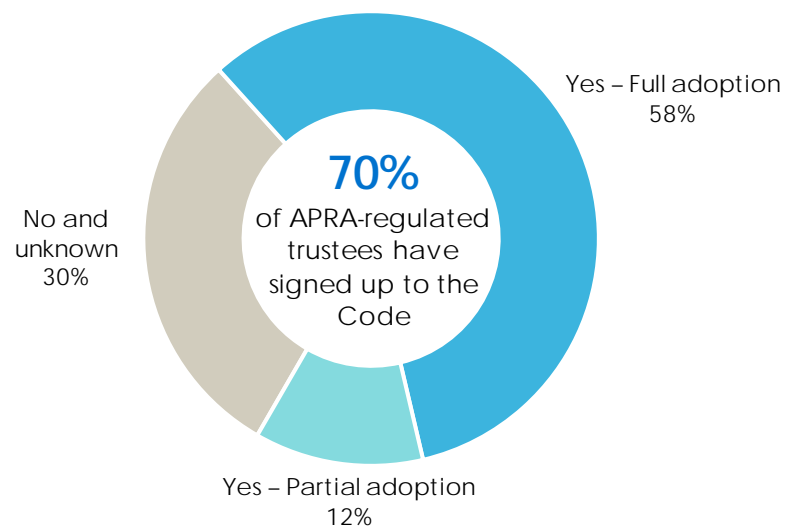
In terms of the level of trustee commitment to the Code, of the 77 signatories, 64 have suggested that they will adopt the Code in full, while 13 have indicated they will adopt the Code in part. These

trustees have indicated that the sections they opted out of would not be in the best interests of their members.

Some of the reasons for partial compliance provided by signatories under the 'if not, why not' approach include that:

- › premium caps in high-risk plans would not be in the best interests of their member base
- › they do not offer default insurance and, therefore, some sections of the Code do not apply.

Figure 4: Percentage of APRA-regulated trustees that have signed up to the Code



Note: See Table 3 in the appendix for the data shown in this figure (accessible version).

Some trustees have chosen not to adopt the Code at all. Their reasons include that:

- › their current insurance strategy already aligns with the Code
- › partial compliance may mislead their members
- › the Code is too onerous for their fund and may not be in their members' best interests.

Progress has been made

In engaging with trustees that are early adopters of the Code, we have seen progress related to implementation across several areas.

Shorter durations for claims and complaints processing

There has been an increase in the number of trustees and their service providers adopting the Code's target timeframes. This has resulted in an overall reduction in the length of time it takes to process claims and complaints.

For example, the Code requires trustees to send an acknowledgement letter to a member if they submit a query about a claim while it is being assessed. The trustee must send the letter within one business day of the member making the query. The trustee must also provide a full response within 10 business days of receiving the member's query (see section 7.17 of the Code).

One of the positive impacts of the Code is that some outlier funds have now introduced target timeframes for claims processing that are consistent with those set out in the Code.

We have also observed that some trustees have increased the number of service-level agreements for insurance issues they have in place with administrators.

Improved communication with members

The Code requires, among others, for trustees to use plain language in its insurance communications, to ensure that the wording of key insurance concepts is consumer-tested for comprehension (see section 5.3 of the Code) and to regularly review insurance communications to ensure they are appropriate and consistent (see section 5.4 of the Code).

We have observed trustees changing communications to make insurance in superannuation more comprehensible to their members. For example:

- › some trustees are now sending separate annual statements specifically for insurance in superannuation or improving their annual statements by highlighting insurance information
- › others have translated their insurance-specific factsheets into languages used by significant cohorts of their membership.

Trustees focusing their attention on how they can do better

We have observed trustees starting to address the complexity and impact on members of insurance in superannuation in various ways. For example:

- › some trustees are now starting to scrutinise their membership at a more granular level (e.g. age, gender, balance, occupational based cohorts and other unique characteristics of their members) to assess the appropriateness of their insurance design and to improve their services
- › a few trustees are now setting up positive insurance monitoring and reporting practices – an example of this is through a heat map showing the distribution of insured members based on account balances and insurance premiums in order to monitor

whether insurance premiums are inappropriately eroding members' account balances

- › some trustees are actively seeking more input from their members (e.g. consumer testing) to help inform future solutions in relation to insurance cover and premium levels.

We have also observed, through our engagements with outsourced service administration providers, that the Code is helping to achieve standardisation and improvement across the industry for claims handling and the administration of insurance in superannuation.

Ample room for improvement

The Code aims to improve practices across trustees to ensure that consumers can benefit from practices that more closely align with community expectations. It articulates better rather than best practices.

While acknowledging that the Code seeks to ensure a minimum standard, we have identified some issues where it is unclear whether the Code will produce optimal outcomes. These issues relate to members becoming ineligible for Code protections, inconsistencies in controls for balance erosion, variations on claim and complaints timeframes, and guidance to industry on vulnerable consumers.

Consumer classification with the strongest protections is easily lost

Certain protections of the Code are only provided to default members, who are defined and classified as 'Automatic Insurance Members' in the Code. The relevant protections include:

- › the types and levels of default cover provided and when cover starts and stops
- › providing default insurance that is appropriate and affordable for members.

Automatic Insurance Members are superannuation fund members to whom insurance is provided automatically. However, if a member engages with their insurance, even in just a very basic way, they could easily lose their status as an Automatic Insurance Member. This is because under current rules a member would not be regarded as an 'Automatic Insurance Member' if:

- › they make an election to maintain their default insurance
- › they apply for cover (including any underwritten cover or having a previous cover reinstated)
- › they make any variation to their default insurance
- › their insurance premiums are paid entirely by their employers (whether through contributions to their superannuation account or otherwise) or are not paid by a deduction from their superannuation account
- › they are a defined benefit member.

In our engagement with industry, it was also a concern to find various interpretations of the term 'Automatic Insurance Members'. Some trustees were seemingly unaware of this defined term and the potential for a significant proportion of members to lose important protections provided by the Code.

On the other hand, we note that some trustees have opted to provide the highest level of protections under the Code to all their members irrespective of their classification. We consider this best practice.

Note: In recent engagement with the Code owners, they have indicated that an updated draft of the Code is under review by trustees. The update proposes to extend the Automatic Insurance Members definition and associated protections to members who make an election to maintain default insurance, as these members will become much more common under the Protecting Your Superannuation Package reforms.

Inconsistent approaches to balance erosion

The Code requires trustees to set premiums for Automatic Insurance Members at a level that does not exceed 1% of an estimated level of salary for the membership generally, and/or for segments within the membership.

However, trustees use different approaches to calculate this estimated salary. For example, they may base it on:

- › salary data the trustee holds for its membership
- › data representative of the industry or demographic of the particular fund (e.g. from the Australian Bureau of Statistics or the Australian Taxation Office)
- › members' estimated average lifetime earnings and average lifetime income.

In the last example, the calculation would allow a trustee to charge premiums that are potentially significantly more than 1% of some members' current salary.

If the Code is to deliver more accountability and consistency, it will be necessary to arrive at a standardised approach to the calculation of the 1% premium-salary threshold and require trustees to be more transparent about how the salary cap is being calculated.

Note: The Productivity Commission recommended that trustees be required to set out and quantify how they have determined that the level of insurance they offer is an acceptable trade-off to any erosion of members' balances. Trustees' annual reports should set out why the levels of cover chosen by the trustee are in members' best interests and their website should include a calculator to illustrate how insurance premiums are affecting members' balances: see Productivity Commission, [Superannuation: Assessing efficiency and competitiveness](#), January 2019, Recommendation 16.

Variations around claim and complaints timeframes

There has been a substantial increase in the number of trustees, insurers and other service providers adopting the Code's target timeframes. These timeframes apply to various aspects of claims processing, which has resulted in improvements to members' experiences.

However, we have seen some trustees calculating time in unique ways that, in our view, undermine the effectiveness of setting standardised timeframes.

One common variation relates to when the clock starts. For example, the Code requires trustees to review an insurer's adverse decision on a claim within 15 business days – Trustee A reviews the adverse decision on a claim within 15 days from receiving the adverse decision by its insurer; Trustee B calculates the 15 days from when its internal Claims Review Committee (CRC) meets.

A problem with Trustee B is the degree of variation of when these CRC meetings occur for each superannuation fund. Some funds have weekly meetings, some quarterly, leading to inconsistencies in members' claim experience across the industry. Depending on the CRC timing, there can be a significant delay from when an insurer's decision is made to when the member is contacted following the trustee's review of the adverse decision.

The timeframes set out in the Code are just starting points. We expect trustees to do better, and design systems and processes that are focused on delivering good outcomes for their members. Delays in processing claims can negatively affect members' experiences and outcomes.

Vulnerable members could be better supported

The Code requires trustees to recognise that some members may have unique needs when it comes to accessing insurance, making an enquiry, claiming on their cover, or making a complaint. It identifies several classes of people as examples of ‘vulnerable members’. However, we consider that the Code could be clearer in recognising that there are different types of vulnerability which can exist at different times for any and all members.

When we asked trustees to tell us who their ‘vulnerable members’ are, almost all responded that they treat ‘all members as vulnerable’. While there is some awareness within the industry of types of situational vulnerability (e.g. exposure to a traumatic life event that leads to an insurance claim), trustees do not have policies and processes in place that reflect this in practice.

It was notable that only a few trustees have policies for vulnerable members, and that these policies are often not well defined. A majority of trustees appear reluctant to engage with vulnerable members in a systematic way, and many were unable to demonstrate a good understanding of their membership and their needs.

This lack of awareness of the needs of their members undermines the acknowledgement that there are groups of consumers that have unique needs.

Our observations and concerns are highlighted in Table 1.

Protecting vulnerable consumers is a regulatory priority for ASIC. We will continue to raise the profile of this issue. Industry should develop concrete best-practice guidance to drive positive conduct in this area.

Table 1: Observations on trustees’ approach to vulnerable members

Observations	Concerns
Trustees too often rely on members to self-identify as ‘vulnerable’	Not all vulnerable members will self-identify as ‘vulnerable’. Some may not realise that they are considered vulnerable.
Some trustees rely on vulnerable members authorising third parties to act on their behalf	There is potential for financial abuse if appropriate controls are not used. This is particularly acute for older people, who often depend on family members and other people for support.
Most trustees have no reference or links on their website to support services (e.g. translating and interpreting services, assistance for members with vision or hearing impairments)	Vulnerable members may not use the support services that trustees offer if the availability of the support is not clear to those who may need it.
Some trustees are too reliant on their call-centre agents to act as interpreters	Diverse workplaces offer considerable advantages. However, without interpreters, support for vulnerable members will depend on the availability of general staff members.

The Code acknowledges that members have a wide range of needs. The Code has explicitly recommended that trustees:

- › take a flexible approach to verifying the identity of members who may lack formal identity documents, in line with guidance from the Australian Transaction Reports and Analysis Centre (AUSTRAC) for identifying customers who do not have conventional forms of identification
- › take into account that people living in remote and regional communities may have limited access to services
- › provide members with access to interpreters and insurance information that has been translated into other languages.

We view this as a positive step. The Code also exhorts trustees to better manage the needs of vulnerable consumers. We see some 'green shoots' here, with some trustees making efforts to better understand their member base and how to deliver products to those most in need. However, the advice to industry about vulnerable consumers is general in nature and more practical guidance is needed. We plan to work with industry on this.

Trustees need to understand their membership and the extent of vulnerability within it. With this understanding, they can design products and services that enable a good claims experience and empower members to make better choices for their circumstances.

Example: Case management specifically for vulnerable members

An example of a good approach to dealing with the dynamic nature of vulnerability is having a case management team to deal specifically with consumers with unique needs.

In this model, a case manager works with a vulnerable consumer at the outset. They find out about the consumer's circumstances and note the additional care that the consumer needs in the system. This ensures that the vulnerable consumer receives the type of service they need without having to remind the trustee, insurer, and/or administrator of their circumstances at every point of contact.

The case manager is able to attend to urgent requests that can't be addressed within normal processing timeframes. They can also coordinate access to different products and services that address the complex needs of vulnerable consumers.

We found that the provision of a case management service facilitated empathetic and informed conversations, which minimised consumer effort and stress when navigating complex financial products and services.

Appendix: Accessible versions of figures

Table 2: Implementation of the Code

Date	Description
Opt-in date: 31 Mar 2018	A trustee that has decided to adopt the Code was required to state on its website its intention to adopt the Code.
Code start date: 1 July 2018	The Code commenced on 1 July 2018.
Transition plan date: 31 Dec 2019	Trustees were required to publish on their website their transition plan for how the fund would become compliant with the Code.
Compliance date: 30 June 2021	Trustees that have signed up to the Code must comply with the Code by 30 June 2021.

Note: This is the data shown in Figure 2.

Table 3: Percentage of trustees that have signed up to the Code

Category	Percentage
Yes – Full adoption	58%
Yes – Partial adoption	12%
No and unknown	30%

Note: This is the data shown in Figure 4.

Key terms and related information

Key terms

AFCA	Australian Financial Complaints Authority
AIST	Australian Institute of Superannuation Trustees
APRA	Australian Prudential Regulation Authority
ASFA	The Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
Code	Insurance in Superannuation Voluntary Code of Practice
Code owners	ASFA, AIST and the FSC are the owners of the Code, supporting their respective members to implement the Code
declined claim rate	The percentage of claims declined by an insurer out of total claims paid
default life insurance	Cover provided through group insurance policies that is not individually underwritten insurance cover
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
FSC	Financial Services Council

insurer	The company that issues the life insurance policy as defined in s9 of the Life Insurance Act, excluding investment or annuity-related contracts
life insurance	An insurance policy that pays either a lump sum or income stream payment in the event of death, illness or disability. Life insurance policies can include cover for death, total and permanent disablement, trauma and income protection
member (superannuation)	A member of a superannuation entity, and includes a prospective member
mystery shopping exercise	A method to test the quality of service, or gather specific information about procedures and services, by posing as normal consumers
MySuper product	A default superannuation product provided under Pt 2C of the SIS Act
Productivity Commission report	Superannuation: Assessing efficiency and competitiveness , Report No. 91, issued by the Productivity Commission on 21 December 2018. The Productivity Commission is the Australian Government's independent research and advisory body on economic, social and environmental issues affecting the welfare of Australians

Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
SCT	Superannuation Complaints Tribunal
service-level agreements	An agreement between a service provider and a client, laying out the metrics – quality, availability, responsibilities – agreed between the service provider and the service user.
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
superannuation fund	Has the meaning given in s10(1) of the SIS Act
superannuation trustee	A person or group of person licenced by APRA under s29D of the SIS Act to operate a registrable superannuation entity (e.g. a superannuation fund) (also known as an ‘RSE licensee’)
trustee (superannuation)	The trustee of a superannuation fund
underwriting	The process used by an insurer to decide whether or not to accept a risk by entering into a contract of insurance, and, if the risk is accepted, the terms and conditions to be applied and the level of premium to be charged

Related information

Headnotes

benefit design, claims handling, complaints handling, consumer harm, group insurance, default insurance, Insurance in Superannuation Voluntary Code of Practice, life insurance, members’ best interest, MySuper, product design, Protecting Your Super Package, superannuation, vulnerable consumers

Legislation

Corporations Act, s912A(1)

SIS Act, s29VC, s52(2)(c), s52(7), s68AA

Superannuation Industry (Supervision) Regulations 1994, reg 4.07D

Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019

Treasury Laws Amendment (Putting Members’ Interests First) Act 2019

ASIC documents

[REP 591](#) *Insurance in Superannuation*

[REP 633](#) *Holes in the safety net: A review of TPD insurance claims*

[REP 632](#) *Disclosure: Why it shouldn’t be the default*