House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

Division/Agency: Australian Prudential Regulation Authority
Question No: APRA14QON
Topic: Insurance through superannuation
Reference: Hansard, 23 October 2020, p. 53
Member: Dr Andrew Leigh MP

Question:

Dr LEIGH: You've recently published data on life insurance claims breaking it down, quite helpfully, by those who are individual advised, individual non-advised, group super and group ordinary. I'm struck on those figures by the massive differences across the sector. For example, among individuals who were advised, the claims payback rate is 81 per cent for TPD compared to 91 per cent for group super. In the case of accident, it's as low as 55 per cent among those who were advised. This doesn't paint a great picture for people who go to an adviser and buy life insurance, does it?

Mr Summerhayes: I'm not sure whether that's the right conclusion to draw. Adviser products are typically fully underwritten products, usually the largest sums of money and require medical underwriting in most instances. So that's why on those products you would see higher payout ratios than the products that are bought directly which you refer to, which in some cases are underwritten at the point of claim where you have to substantiate issues as opposed to being fully underwritten at the point of underwriting.

Dr LEIGH: But if I look at, say, your claims paid ratio and I go through group super, I get an 85 percent claims paid ratio; individual advised, 42 percent. It does suggest that getting your life insurance through superannuation is a way better deal than doing it through an adviser, doesn't it?

Mr Summerhayes: The number you're quoting—and I'm happy to look at it—I'm unfamiliar with and, intuitively, it doesn't sound right to me.

Dr LEIGH: I'm quoting numbers from your reports: the claims paid ratio by cover type and channel for the 12 months to June 2020. And in the case of TPD there's a similar difference: group super has a claims paid ratio of 95 per cent; individual advised policies have a claims paid ratio of 49 percent. So you're getting back almost a dollar in the dollar when buying TPD through group super, and you're getting back about 50c in the dollar buying it on the open market via a financial adviser. It does seem that this is a significant difference between the sectors.

Mr Summerhayes: Dr Leigh, I haven't got those figures in front of me. I don't doubt what you're saying. I'm very happy to take that on notice and give you a fuller explanation in writing.

Answer:

Insurance policies obtained through individual financial advice and policies obtained through superannuation are not directly comparable. There are pros and cons of purchasing life insurance through both 'Individual Advised' and 'Group Super' channels, as they are designed to suit different needs. APRA sees the value in both group and individual policies, and notably, APRA urges caution in interpreting the claims paid ratio information in our statistics as a measure of consumer value or product profitability.

There are two primary reasons why the claims paid ratio, for both Death and TPD cover types, is higher through ‘Group Super’ than ‘Individual Advised’. Put simply:

- Individual advised policies have higher reported premiums than group super policies owing to higher acquisition costs. This means that individual advised claim payments are a lower percentage of the premium, and therefore the claims paid ratio is lower.
- Group super insurance premium revenue has reduced significantly over the last year, whereas the claim payments continue to relate to a proportion of historic claims (when insurance cover was significantly higher). This results in a higher claims paid ratio.