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15 July 2019

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Via email to: economics.sen@aph.gov.au

Dear Committee Secretary

Treasury Laws Amendment (Putting Members' Interests First) Bill 2019

MetLife Insurance Limited (**MetLife**) is pleased to provide this response to the Committee's inquiry into the *Treasury Laws Amendment (Putting Members' Interests First) Bill 2019* (the **Bill**).

MetLife is a specialist provider of life insurance to Australians via superannuation funds, employers and advisers. MetLife has expertise in designing and executing insurance programs for partners' customers and insurance solutions to meet the needs of specific member groups. The primary focus of our business is group life through superannuation funds. MetLife is currently the third largest insurer in group life insurance and protects about 2.6 million Australians. We have been a provider of life risk insurance products in Australia since 2005.

Globally, MetLife protects customers in over 40 countries, and leads the market in corporate insurance solutions in the US, Japan, Latin America, Asia, Europe and the Middle East. MetLife manages over USD 590b assets worldwide. Over USD13b of these assets are invested in Australia in a range of securities, including infrastructure, fixed interest and property.

Our submission on the Bill is enclosed. Please contact [redacted] whose details have been provided separately, should you have any queries regarding this submission.

Yours sincerely

[redacted]

Richard Nunn
Chief Executive Officer, MetLife Australia

Treasury Laws Amendment (Putting Members' Interests First) Bill 2019 (the Bill)

MetLife Submission

MetLife

Navigating life together

1. General comments

MetLife supports measures to reform the superannuation system that puts better control in members' hands and which support retirement savings.

Life insurance fulfils an important purpose in our society, assisting those who are experiencing debilitating health conditions or bereavement. Recent data published by the Australian Prudential Regulation Authority (**APRA**) demonstrates that[1]:

- 92% of finalised claims across the life insurance industry were paid in the first instance in the year to 30 June 2018;
- Group life in superannuation had slightly higher claims acceptance rates than claims outside of superannuation in the same period;
- 78% of claims were finalised within 2 months and 92% were finalised within 6 months;
- Across the industry, more than $10 billion was paid for death, TPD, trauma and income protection claims;
- the claims ratio, meaning the proportion of claims to premium paid, for superannuation in group life was over 80%[2].

MetLife was a key participant in the Insurance in Superannuation Working Group which proposed in the Voluntary Insurance in Superannuation Code that default insurance should cease:

- For lump sum cover, when the account has been inactive for 13 months and the balance is less than $6,000;
- For income protection, when the account has been inactive for 13 months.

MetLife supported these measures, which we believe are a proportionate response to address the issue of erosion of accounts due to insurance premiums.

The debate about insurance in superannuation focuses on the cost of insurance, and not the benefits that it can provide. In this context, MetLife has concerns about the following aspects of the Bill:

1 The impact on younger members, especially those in high-risk occupations

2 The impact on new members whose account balance has not yet reached $6,000

3 The proposed implementation date of 1 October 2019 and the associated transitional provisions

4 The impact on members who have applied for voluntary cover between 1 July and 1 October 2019 but who have not made an election using the form of words specified in the legislation, including those who may have completed an election in respect of inactivity.

These are elaborated as follows.

1. APRA, *Statistics: Life Insurance Claims and Disputes*, June 18, issued March 2019
2. APRA Quarterly Life Insurance Statistics

2. Younger members

MetLife has previously expressed concerns about removing the ability to provide opt-out insurance to members under 25 and has argued that trustees should have more flexibility in this regard.

One of our concerns is that younger members who are in high-risk or hazardous occupations may find it difficult to obtain insurance on an opt-in basis. Many insurance policies have limitations in relation to members who seek to obtain cover if they are engaged in heavy manual occupations such as mining, scaffolding and forestry.

In addition, while younger people may be less likely to have dependants relying on them in the event of early death, they are more likely to engage in risk-taking activities and suffer debilitating injuries as a result. As life insurance provides disability benefits to people for incidents even if they are unrelated to the workplace, it is important for young people to have opt-out insurance to cover them for total and permanent disablement and income protection.

If there is to be an age established in the legislation, it should be the age of 21 years. This is because many young people in blue collar occupations and in rural and remote regions engage with the work-force earlier and become household heads at an earlier age[3]. According to ABS statistics, 40 per cent of employees under 25 are working on a full-time basis.

Setting the age at 25 years seems to be predicated on the assumption that younger people are engaged with tertiary education and do not participate in full-time employment until their mid-twenties. This may be common in urban, higher socioeconomic areas, but it is by no means typical across all socioeconomic groups.

We are of the view that insurance, especially disability benefits via opt-out insurance, provides good value to younger members. The case study below illustrates this.

MetLife recommends that the age at which opt-out insurance may be provided is 21 years of age.

CASE STUDY

The member is 20 year-old arborist who experienced a traumatic amputation of several toes, multiple complex fractures and extensive soft tissue injuries in December 2017. The accident was not work-place related. The member has ongoing issues with pain and reduced function and will not be able to return to his pre-disability role which involves constant standing/walking and climbing trees. We are currently providing him with vocational assistance to allow him to obtain work more aligned to his long term functional restrictions.

3. New members

MetLife has concerns in relation to new members who do not become eligible for opt-out insurance until they have an account balance of $6,000. We are of the view that members with an active account should be eligible for opt-out insurance from their first day of work.

It is inequitable to propose that some members will benefit from receiving lower cost, opt-out insurance soon after they commence a role simply because they are on a higher salary, or because they are working full-time rather than part-time. It is particularly inequitable to women, who typically have lower salaries than men[4].

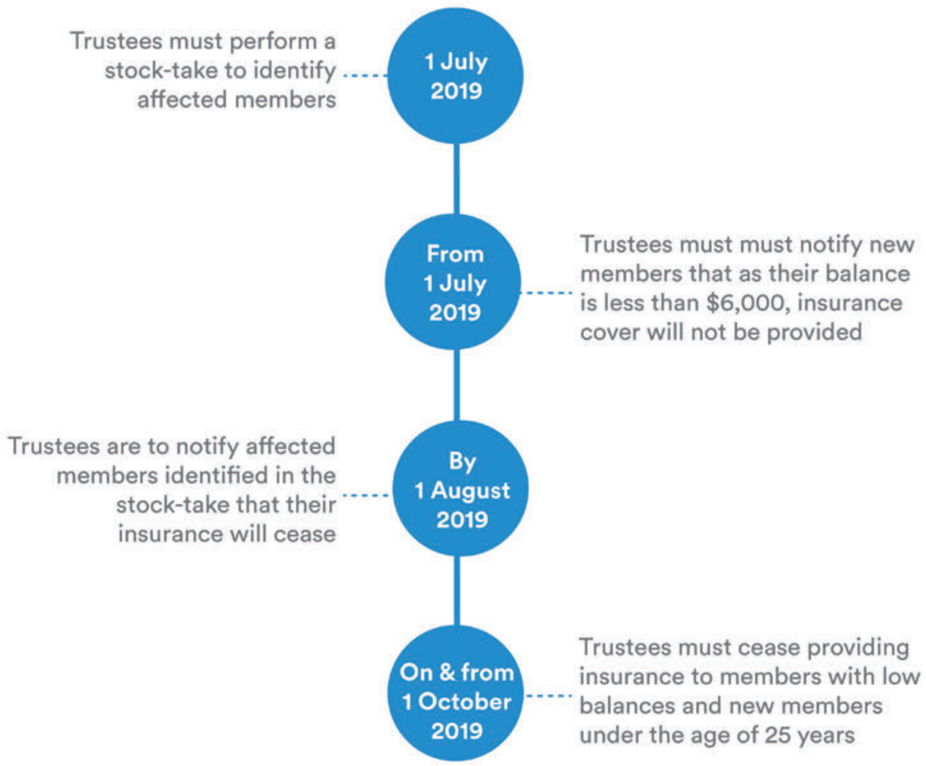
3. ABS – Household Income and Wealth survey 2015-16
4. According to the Workplace Gender Equality Agency (**WGEA**), women are paid on average 14% less than men, see WGEA *Australia's Gender Pay Gap Statistics Factsheet* Feb 2019

Currently members are generally eligible for cover when they are enrolled in a fund, provided that they are engaged in employment. Having cover commence a year or two after enrolment, may lead to more stringent rules regard cover commencement due anti-selection risk, and potentially greater uncertainty regarding commencement of cover.

MetLife recommends that new members to a fund should be able to receive opt-out insurance from the commencement of their employment or enrolment in a fund. In order to mitigate the impacts of premium erosion, insurance could be provided on the basis that trustees notify members that they have insurance and give them a period to opt-out, for example 90 days. If they opt-out during that period, a premium refund would be paid to the date of cover inception.

4. Proposed implementation date

The Bill in its current form has an effective date of 1 October 2019 and has the following transition timetable:



It is clearly not possible for trustees to comply with a timeframe that commences on 1 July 2019, as this date has already passed.

It is also not feasible for trustees to arrange to notify affected members on 1 August, even if the legislation is passed through parliament in late July. Large mail-outs to members take at least several weeks of planning, including drafting the notice and system-mapping. In addition, the detailed notice requirements that are envisaged to be contained in the *Corporations Regulations* 2001 cannot be promulgated until after the passage of the Bill.

Providing notice to members of a change to their insurance from 1 October will cause member confusion, as they have recently received notices required by the provisions of the *Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019* (**PYS Act**), which took effect from 1 July 2019.

The PYS Act requires that trustees notify affected members with accounts that have been inactive for 16 months, that their insurance would cease, unless they have made an election that they wish to maintain their cover. In addition to notifying affected members with inactive accounts, trustees have sent significant event notices to other members about changes to their insurance terms, as required by s1017D of the *Corporations Act 2001*. Major communication campaigns have been run by the industry to ensure that members understand these changes.

To provide a similar communication within a short timeframe to members regarding insurance, but with different messages, will cause confusion to members and lead to an extremely poor customer experience. Confidence in the superannuation system will be negatively impacted by this messaging.

Finally, there are areas of the Bill that are unclear and/or inconsistent with the Explanatory Memorandum. In addition, announced amendments to the PYS Act to clarify the treatment of 'account' and the position for traditional life products, should be enacted. Sufficient time should be allowed for these issues to be resolved and clarified in the Bill.

MetLife therefore recommends that the date of commencement, and the associated transitional provisions, be no earlier than 6 months from the date the Bill receives Royal Assent.

5. Members who apply for cover during the transitional period

Under the transitional provisions, members who apply for cover from 1 July 2019 but who have a low balance account, will have the cover ceased as at 1 October 2019 unless they have made an election in the form of words set out in the legislation[5]. Some of these members may have made an election to maintain their cover under the inactive account rules in the PYS Act. MetLife believes that members who apply for cover are engaged members and intend to have the benefit of their cover even though their account balance is low at the time of making the application. Members may apply for the cover knowing that superannuation guarantee contributions will increase their account balance over time, or they may be intending to rollover funds from another superannuation account.

MetLife therefore recommends members who have made an application for cover prior to the effective date should be deemed to have made an election.

We would be happy to discuss these comments with the Committee.

5. See Schedule 1, Part 2, Item 8 (6)(a)(iii) of the Bill.