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SUPERANNUATION DATA TRANSFORMATION – PUBLICATIONS AND CONFIDENTIALITY

Thank you for the opportunity to provide comments on the proposed data publication and data confidentiality proposals as phase 1 of the Superannuation Data Transformation project.

We are supportive of greater transparency of superannuation products to allow for comparison between funds and products by consumers, as well as providing benchmarks for RSEs to compare their outcomes relative to peers.

However, there are a number of proposed insurance data points and metrics that will likely mean misleading or inaccurate insights are used for decision making by members about their super and may lead to unfair criticisms of the value of insurance in super by the broader public, media and other commentators. These include:

- comparisons between premiums collected and claims paid
- the value of any premium rebates received
- the cost of default cover

The consultation defaults to a position where all of the data collected is deemed non-confidential, with feedback encouraged where some data should remain confidential. We have set out our concerns in the remainder of this response.

Should you wish to discuss any aspects of our response please contact [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]
[REDACTED]
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1. Comparison between premiums collected and premiums paid

Premiums collected from members (or paid to insurers) and the value of claim paid are proposed to be published in isolation, but also as a ratio that compares them in specific metrics. These ratios could be used to suggest the relative value of insurance in super – that is how much of each dollar of premiums paid did members get back. This ratio is generally referred to as a claims loss ratio and is used extensively by RSEs to determine the value that their insurance benefits are delivering. It is also used, courtesy of APRA's *Life insurance claims and disputes statistics* publication, by media and other commentators as a way to compare the different delivery channels of insurance, for example comparing the loss ratio of advised insurance to non-advised insurance. Such comparisons are reasonable provided they are properly contextualised.

The data points (see table below) that APRA proposes to publish for claims and premiums are on a straight cashflow basis. That is, it compares premiums collected or paid to insurers in one reporting period with the claims paid to the RSE in that same period. While the publications do note the incident year, that is the year the claim incident relates to, and the period that any premiums reported were collected, which offsets some of the timing issues, it does not account for claims that are yet to be paid but are likely to. There is often a delay between the incident date, that is when a claim is incurred such as the date someone ceased work, and when a claim is lodged and ultimately accepted. The premium covering that incident date may have been collected many years before that. It is not uncommon for there to be delays of two or more years for disability claims, particularly for Total and Permanent Disablement claims.

These values are included in proposed publications *Annual Aggregate Publication – Insurance – Table 1a* and *Annual Fund Level Publication – Insurance – Table 2*.

Insurers and RSEs typically assess these claims loss ratios by considering the value of claims that have been paid and are yet (but are expected) to be paid. This requires assumptions to be made about claims that are yet to be paid. For example, a claims loss ratio expressed on an accrual basis (which represents the likely best estimate of total claims to be paid relative to premiums collected) considers the following:

- the value of claims already paid by the insurer
- the value of claims that have been notified and are under assessment (i.e., what % expected to be paid)
- the value of claims that have been incurred but haven't yet been notified (often known as incurred but not reported or IBNR)
- the value of income protection (IP) payments for open claims that are still expected to be paid while the claimant remains disabled

There is a significant risk that the data to be published leads to the claims loss ratio over or underestimating the true position. While some of this 'noise' is washed out at an aggregate industry level, it can become more apparent if published at the fund and product level. We also understand that in some cases these data points could be published at the discrete policy level, where this distortion can be even greater. Aside from the failure to account for the true cost of expected claims, other factors can influence the ratio. Actuaries normalise for these differences by rescaling claims and premiums to provide a like-for-like comparison. These factors include:

- changes in benefit designs – premiums collected are measured against claims paid under a different benefit design
- comparability of insurance types – there are a number of TPD-style benefits that are paid over multiple years, similar to Sunsuper's TPD Assist product. If compared with a traditional TPD benefit which is paid as one lump sum, the full benefit under TPD Assist may be paid over multiple years and this would appear to reduce the ratio in earlier years
- changes in premium scales – claims are measured against premiums paid under a different premium scale, for example if premiums increased this year by 10%, they are compared against claims paid this year based on premiums that were 10% cheaper
- a change in insurer – for policies issued by the outgoing insurer, premiums reported will be Nil or negligible, while claims will reflect those that are lodged after the insurer is off-risk. Vice versa, the policy issued by the incoming insurer will report premiums collected, but for many claim types there will be Nil or negligible claims in early years.

APRA partially accounts for these risks by publishing claims loss ratios in its *Life insurance claims and disputes statistics* publication at the industry aggregate level – by channel. It partially addresses the claim payment structure of IP, where benefits continue to be paid for multiple years, by assuming that IP claim benefits are paid for two years. Publishing at an industry aggregate level, as well as accruing for expected IP payments, means that the distortion is less apparent.

If these metrics are provided at fund and product level, there is significant risk of consumers using them incorrectly to make decisions about their super fund that may not be in their best interests.

On a similar note, it would be highly unlikely that RSEs would use these data points to derive claims loss ratios (including the proposed insurance metrics INS_001 – INS_010) in their decision making. Most would already have access to claims loss ratios developed by their insurers; in many cases RSEs employ their own consulting actuary to form their own opinion. RSEs would be unlikely to base any decision making on benchmarking their own experience against peers using the data and metrics that APRA proposes.

There is also significant risk of these ratios being read out of context and further eroding confidence in the value of insurance in super. It would not be unreasonable to expect that some claims loss ratios would be published at around 50% or lower reflecting the timing delays and other factors. We don't believe these risks can be mitigated by providing greater context.

Reporting Standard e.g. SRS 605.0	Table e.g. Table 1	Item e.g. Column 1	Dimension classification type e.g. where Column 1 = 'Type1'	Public benefit impact	Member Interest Impact	Commercial Interest Impact
SRS 251.2	Table 1	Column 4		Negative impact if this information is reported out of context which erodes confidence in insurance in super (see above for more)	Negative impact due to consumers using data incorrectly to make decisions about their super fund (see above for more detail).	
SRS 251.2	Table 1	Column 5				
SRS 251.2	Table 1	Column 6				
SRS 251.2	Table 1	Column 7				
SRS 251.2	Table 3	Column 7				
INS_005	APRA proposes to use the above data values to generate insurance metrics that compare claim paid to premiums collected or paid to the insurers. Publication of these data points and metrics is likely to increase the risk of misleading or unreliable information being used for decision making, both by members, the broader public including media and other commentators. They would be rendered irrelevant for RSEs themselves given they represent a cashflow rather than an accrual basis.					
INS_006						
INS_007						
INS_008						
INS_009						
INS_010						

2. The value of premium rebates received

In the same way that there are timing delays between the collection of premiums and the payment of claims, the payment of premium rebates can often distort the claims loss ratio if treated on a purely cash flow basis.

The data points below report the amount of premium rebate paid to the RSE and the amount paid to members. Premium rebates are normally paid to RSEs as confidence in the level of expected claims increases. Actuaries refer to this as how well developed the claims experience is. This can mean that premium rebates do not start to flow back to RSEs until years after the initial premiums are paid and claims start to be paid and are typically released over multiple years as confidence grows and claims patterns become more developed. It would not be uncommon for premium rebates to be paid 7 or more years after the initial premiums were collected. This means that an amount paid by an insurer to an RSE in any given year could represent rebates relating to multiple premiums years. Similarly, what is ultimately paid to members may represent premiums paid over multiple years.

A more accurate claims loss ratio would consider the value of premiums collected, the value of claims paid, and the value of any premium rebate returned to the RSE (or member). Including the premium rebate without accounting for the premium year to which it relates to will further diminish the reliability of any ratios that are calculated or published.

These values are published in the proposed *Annual Aggregate Publication – Insurance – Table 2*.

Reporting Standard e.g. SRS 605.0	Table e.g. Table 1	Item e.g. Column 1	Dimension classification type e.g. where Column 1 = 'Type1'	Public benefit impact	Member Interest Impact	Commercial Interest Impact
SRS 251.2	Table 1	Column 6		See commentary in the above table	See commentary in the above table	
SRS 251.2	Table 1	Column 7				

3. Cost of default cover

Many RSEs default members into a standard occupation category regardless of their occupation. In many cases this is because occupation information is unavailable when the members insurance is first created. Some RSEs allow members to nominate their occupation, which can vary the premium or the level of default cover they receive; otherwise, members are charged a standard premium that reflects the predominant occupation category.

APRA proposes to publish the cost of default cover in the Annual Product Level Publication. There is significant risk of the information being used by consumers and the broader public including the media and other commentators to compare the relative cost, and therefore value between funds. This would be evident in two ways.

In the first instance, a fund that has a skew towards blue collar workers but categorises all members in a standard category will appear to be expensive overall relative to a fund with a white collar skew that uses a standard occupation category. In this case the 'average' occupation rating is materially different which explains the cost difference for default cover. The cost of default cover may also be impacted by other issues including the service model adopted, differences in benefit design (a fund offering a much shorter waiting period on IP or a longer benefit period), and differences in terms and conditions. This risk could be mitigated to some extent if funds were required to provide the 'average' collar rating to be used for comparison as it normalises for occupation mix, but still means that other factors that drive cost haven't been normalised.

In the second instance, a fund that applies a default category for members that covers a range of occupation categories will appear to be relatively expensive for the less risky categories and relatively cheap for the high risk categories. While it may be appropriate for members to nominate their occupation, if the fund allows this, it might encourage members to choose an alternative product. It remains problematic for members to make informed decisions that consider the insurance offering in totality including benefit design and terms and conditions. Many research houses struggle to compare funds, despite their knowledge and expertise.

There is a broader risk to the sustainability of insurance risk pools if the occupation mix is materially altered following publication of misleading information. A fund that is 'heavy blue' on average may see lower risk members leaving the fund. Publishing these costs creates risk that the media and other commentators provide inaccurate comparisons based on headline numbers and may encourage members to exit the fund without considering the relevant factors.

In the absence of greater comparability between insurance benefits, for example via an expanded product dashboard or insurance heatmap, there is significant risk of unreliable information being used to make decisions, which may have significant consequences for individual members and risk sustainability of insurance risk pools.

Reporting Standard e.g. SRS 605.0	Table e.g. Table 1	Item e.g. Column 1	Dimension classification type e.g. where Column 1 = 'Type1'	Public benefit impact	Member Interest Impact	Commercial Interest Impact
SRS 251.3	Table 2	Column 10		Negative impact that creates an unfair perception that a fund is relatively more expensive without presenting all of the factors that are relevant (see above for more detail)	Negative impact due to consumers using data incorrectly to make decisions about their super fund (see above for more detail).	Negative impact due to increased sustainability risk due to a material shift in membership mix (see above for more detail)

4. Recommendation

The publication of data elements that represent the value of premiums collected, claims paid, and the cost of default cover is likely to lead to significant risk of misleading or inaccurate information being used by members in decision making or being misreported by media and other commentators. The information is unlikely to be of any value to RSEs in benchmarking to assess their own outcomes against peers.

We do not believe that the accuracy of the information can be improved by providing contextualisation e.g., noting that claims paid do not account for claims expected to be paid or by assuming that IP benefits are paid for two years. There is limited public benefit in providing this information without significant qualification. However, any qualification is unlikely to then allow the audience to improve the comparability of the information published.

To minimise these risks, we propose that the following data points and metrics remain confidential.

Reporting Standard e.g. SRS 605.0	Table e.g. Table 1	Item e.g. Column 1
SRS 251.2	Table 1	Column 4
SRS 251.2	Table 1	Column 5
SRS 251.2	Table 1	Column 6
SRS 251.2	Table 1	Column 7
SRS 251.2	Table 3	Column 7
SRS 251.3	Table 2	Column 10
INS_005		
INS_006		
INS_007		
INS_008		
INS_009		
INS_010		

To support APRA's objectives of greater transparency, we propose that APRA undertakes more detailed consultation on these insurance-related data points to determine how they can be published. This would allow other data to be published while these issues could be addressed. This may require additional information be provided by RSEs and agreement on how timing issues and comparability between benefit design and terms and conditions can be normalised.