



Discussion Paper: *Member communication and engagement*

May 2017

The Insurance in Superannuation Working Group

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ISWG FOREWORD

Group insurance in superannuation and particularly its automatic issuance on an opt-out basis has been a successful policy for Australia which has resulted in better risk protection for Australians from all walks of life. It provides a safety net to millions of Australians who would have otherwise not chosen or been unable to take out life and disability insurance individually. These benefits contribute significantly to addressing Australia's underinsurance gap and relieving fiscal pressures on our social security system.

The Insurance in Superannuation Working Group (ISWG) was formed in November 2016 to collaboratively enhance future iterations of policy development. While the current policy settings are fundamentally right, there is industry acknowledgment that changes need to be made to improve the experiences of superannuation fund members.

Members need to be placed in the middle of a complex stakeholder hierarchy with clarity that superannuation funds are advocating on their behalf. Superannuation funds and insurers must work together in order to achieve the most sustainable benefits for members. Accordingly, the ISWG contains superannuation fund, insurer, industry and consumer representatives.

The ISWG believes that: ***The objective of insurance in superannuation is to provide a measure of financial support to members and their families if the member is prevented from working to retirement age by death or ill-health.***

This objective has to be balanced with the broader purpose of superannuation being the provision of retirement benefits for those that do have a full working life, recognising that insurance premiums will erode those sums to some extent. The challenge for superannuation funds is managing these competing objectives and making sure that the balance between meeting needs and affordability is appropriately established and managed into the future.

A key deliverable for the ISWG is a Code of Practice that will apply to superannuation funds. This code will extend on the current Financial Services Council (FSC) Life Insurance Code of Practice by setting standards that ensure a common end to end experience for all classes of life insurance consumers.

This discussion paper is one of several focusing on key issues that need to be addressed by the industry. Feedback received from these discussion papers and other stakeholder consultations will inform the development of the Code of Practice and Good Practice Guidance for superannuation funds.

The scope of this paper – Member communication and engagement – was selected because the ISWG believes it is one of the most important areas where change is required, and where some immediate corrective actions can be implemented by the industry. Further discussion papers address matters relating to: claims handling, benefit design, account balance erosion, duplicate accounts, standardisation of definitions and the better use of insurance data.

Unless stated otherwise, the statements in this paper reflect the views of the ISWG as a collective.

EXECUTIVE SUMMARY

Life insurance via superannuation funds is generally offered on either an automatic (default) or optional basis. Automatic insurance cover is usually provided on an opt-out basis to provide a basic level of cover for members. Members may cancel or apply to adjust their level of cover at any time. Automatic insurance cover is provided without the need for underwriting questions, medical examinations and paperwork that might otherwise discourage some members from accessing it. Policy features are determined by each superannuation fund based on their assessment of the collective needs of members, specific design requests from employers and compliance with MySuper requirements.

The ease with which members can access insurance cover through their superannuation fund has had a positive impact in reducing underinsurance in Australia.¹ However, the complexity of insurance remains challenging for many Australians.

This paper explores the current challenges superannuation funds are focussed on to improve member engagement, and seeks feedback on options available to improve the provision of insurance information to superannuation members, enabling more engaged and informed decisions.

It is recognised that superannuation funds will need to continue to assist members to help understand what insurance products they hold and the impact insurance premiums can have on their retirement savings. It is proposed that simple and consistent processes will be introduced to allow members to easily evaluate and change their level of cover and that superannuation funds will continue to provide guidance to assist members make these decisions.

The proposals outlined in this discussion paper have been developed with the objectives of:

1. Improving understanding of insurance by members through the use of consistent plain language and terminology;
2. Increasing financial literacy in relation to life insurance to help enable better choices, which could include funds using behavioural economics and undertaking consumer testing;
3. Delivery of more timely, targeted and relevant communication to members to ensure members have sufficient information to make informed insurance decisions when they need it; and
4. Providing easy access to insurance information, online resources, tools and education to facilitate member understanding of their insurance, their ability to alter or opt-out of their insurance cover and awareness of potential insurance cover limitations.

It is intended that these principles and proposals inform the development of Good Practice Guidance and an Insurance in Superannuation Code of Practice (Code), in particular, the sections of the Code that would govern superannuation fund communication and engagement standards relating to insurance cover.

¹ Rice Warner 'Underinsurance in Australia 2015' Report

The Code should leverage the standards already put in place via the FSC Life Insurance Code of Practice for insurers and build on the principles regarding policy design and disclosure to inform and assist members throughout the life of their membership with the superannuation fund.

We want your feedback

We invite you to comment on the key questions that have been raised. All submissions on this discussion paper are due by **2 June 2017** and should be sent to the Project Management Office at:

ISWG-PMO@kpmg.com.au

All submissions will be treated as public documents unless you specifically request that we treat the whole or part of your submission as confidential.

SECTION A: DISCUSSION

A.1 Improving financial literacy

An AIA Group Insights (July 2016) survey² showed that just 3 in 10 Australians have an awareness of life insurance within superannuation, with 47 per cent of those respondents having a household annual income of under \$84,000.

Since 2005, most employees have been able to choose their own superannuation fund, but according to a Productivity Commission report³, about two-thirds of employees remain in their default fund, generally chosen by their employer.

Superannuation funds recognise the need to continue to educate, inform and provide clearer choices to members and continue to work on improved engagement and education regarding insurance. Improved financial and superannuation literacy is expected to lead to better engagement by recognising that the decisions made now will affect retirement income and lifestyles.⁴

Improved financial literacy and the development of tools will assist members in taking action in relation to life insurance.

A.2 The need for consistent and simpler communications

The Financial System Inquiry (FSI)⁵ acknowledged the ongoing requirement for mandated product disclosure to assist consumers and issuers in detailing the terms of a contract, however saw scope to provide issuers with more flexibility to communicate disclosures to better engage and inform consumers.

Their research found that presenting financial product information in shorter disclosure documents that are better signposted and use plain language and graphics, can improve consumer understanding.

The research also highlighted that consumers are prone to making systematic errors in decisions that involve assessing risk and uncertainty, such as when making insurance or investment decisions. The FSI found that improved disclosure of risk would assist consumers make more informed decisions about financial products.

The Government's response to the FSI⁶ noted that they will remove regulatory impediments to innovative product disclosure and communication with consumers.

² AIA Life Today Study Group Insights, July 2016

³ Default Superannuation Funds in Modern Awards, Productivity Commission Inquiry Report, No. 60, 5 October 2012.

⁴ The Treasury, Submission no. 47 to the House of Representatives Standing Committee on Economics, Finance and Public Administration - Inquiry into improving the superannuation savings of people under 40 (p.34)

⁵ Financial System Inquiry — Final Report, December 2014

⁶ Government response to Recommendation 23 of the Financial System Inquiry, October 2015

The Australian Securities and Investments Commission (ASIC) has also developed Good Disclosure Principles⁷ to assist consumers to understand the purpose of the disclosure. ASIC has emphasised that disclosure is there to help consumers make better decisions and outlines their expectation that it should be 'clear, concise and effective'.

The general insurance sector has explored how customers are using disclosure documents. In 2015, the Insurance Council of Australia (ICA) established the Effective Disclosure Taskforce. The Taskforce concluded that the disclosure regime does not meet its primary objective of helping consumers buy insurance that meets their needs.⁸ The Taskforce was specifically asked to consider the FSI recommendation to improve guidance (including tools and calculators) and disclosure.

Insights can be drawn from this work to address some of the key issues faced by superannuation funds in communicating with members, namely ensuring that:

- Disclosure documents use simple and plain English language with no jargon or technical terms;
- Product Disclosure Statements (PDSs) should be broken down into logical sections;
- Disclosure documents provide clear insights into what is and is not covered in the insurance policy; and
- A summary document is provided to members upon joining the fund.

A.3 Better understanding member needs and preferred communication channels

In order to better engage and improve communication with members, insights into complaints and issues that have created member dissatisfaction relating to communication standards, can help assess areas to improve communication standards.

The Superannuation Complaints Tribunal's 2015/16 Annual Report⁹, indicated that around 45 per cent of complaints received were administrative in nature. Complaints dealing with account balance issues, complaints regarding deduction of insurance premiums, disclosure and provision of information and issues associated with non-claims related insurance cover accounted for 23 per cent of complaints.

By leveraging internal and external complaints data, both superannuation funds and life insurers can improve their communication practices and standards to better meet member expectations. It is proposed that the Insurance in Superannuation Code of Practice and related Good Practice Guidance would set certain minimum standards and/or offer best practice guidance with respect to communication with members, addressing matters such as:

- Informing members of their insured benefits and how these benefits operate - namely exclusions and limitations;
- Informing members of the cost of insurance;

⁷ Australian Securities and Investments Commission (ASIC) Regulatory Guide 168: Disclosure: Product Disclosure Statements and other disclosure obligations, October 2011

⁸ Too Long; Didn't Read – Enhancing General Insurance Disclosure, Report of the Effective Disclosure Taskforce to the Insurance Council Board, October 2015

⁹ Superannuation Complaints Tribunal - Annual Report 2015/16

- Providing timely information regarding opt out options relating to insurance and a simple means to evaluate whether their cover is appropriate for their circumstances;
- Allowing members to understand that most genuine claims will be paid; and
- Helping members understand how their claim will be managed and how it is progressing.

Similarly, by better understanding expected member behaviour, relevant life insurance information, data and tools can be made available to members at the right time. For example, known socio-economic and demographic information could be better used to engage members and keep them informed of their choices to review, alter or cease their insurance cover during their membership with the superannuation fund.

Digital technologies can also help improve the ability of superannuation funds to disseminate more timely and relevant information to members via their preferred communication channel. Digital channels are increasingly becoming the preferred method of communication for members, but despite many endeavours to validate or update member contact information, superannuation funds are often left with incorrect email and telephone numbers primarily associated with previous employment arrangements. This may lead to members not receiving insurance information or not receiving the information in a timely manner.

Digital communication channels, whilst creating additional opportunities to improve engagement and efficiencies, also need to be considered carefully to ensure they deliver on the objectives. For example, in a digital environment, research shows that we process information faster on-screen yet minor changes can affect our level of attention¹⁰ so design decisions need to be made in a way that maximises the way in which members are engaged.

A.4 How has this issue been addressed historically?

Member engagement has historically been centred on a fulsome or complete approach to disclosure, supplemented with education or other tools permissible within the regulatory regime. The rules within the *Corporations Act 2001 (Cth)* concerning disclosure are founded on an assumption that consumers will act in their own best interests using all of the information available to them. This framework seems likely to continue.

Within the bounds of these obligations, superannuation funds have been focussing on improving member disclosure and communication. This includes access to relevant information via digital channels, more focus on plain English documentation, increasing use of consumer testing and member education tools.

These traditional communication channels were predominantly through mail or telephone interactions, and whilst being repeatable and reliable means of communication, may not have been aligned with a member's preferred communication channel.

10 ASIC and behavioural economics: Regulating for real people - Speech by Peter Kell, Deputy Chairman (ASIC) at The Impacts of Behavioural Economics on Financial Markets and Regulation Symposium, 18 October 2016

Superannuation funds have increased the frequency and range of communication channels through which they communicate with members on the importance of insurance and whether automatic insurance cover meets their current and future needs. There is also increasing awareness by superannuation funds about the importance of how they communicate with members, not just what they communicate. Optimising well-designed digital sources of information and tools should ensure that members are provided with a more personalised engagement experience.

One of the greatest challenges in member communications, whether for legal, education or marketing purposes is *how* to engage members. Creating interest in life insurance, engaging them and inspiring them to care about their risks and insurance cover, is critical to achieving better member outcomes.

SECTION B: PROPOSALS

B.1 Incorporate plain language and consumer testing

The FSC Life Insurance Code of Practice requires insurers to improve disclosures to customers, provide greater transparency in communications and higher standards regarding disclosure.

The standards introduced by the FSC Code require regular review of insurance information and documentation, incorporation of plain language principles, provision of specific key information upon purchase of a policy, and consumer testing the level of understanding (clause 3.4 and 3.5 of the FSC Life Insurance Code of Practice).

While the FSC Code is binding on life insurers, these requirements generally do not impact on the insurance disclosures provided by superannuation funds to their members.

Accordingly, where insurance is provided through a superannuation fund, there are no consistent plain language or consumer testing principles in place to ensure that insurance disclosures are effective and adequately explained to members.

It is recommended that all proposals outlined in this discussion paper will incorporate plain language principles and undergo consumer testing where appropriate.

B.1 Feedback questions

INCORPORATE PLAIN LANGUAGE AND CONSUMER TESTING

1. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to insurance in superannuation communications?
2. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to all superannuation fund communications?
3. Should these requirements apply just to the PDS and Key Facts Sheet (KFS) only, or to all material containing insurance related information?
4. Should all insurance in superannuation communications be consumer tested?

B.2 Develop a standard Key Facts Sheet

Key Facts Sheets (KFSs) or critical information summaries, have been used in Australia for several years to improve consumer understanding of important aspects of otherwise complex products distributed by the banking, general insurance and telecommunications sectors. These summaries are designed to allow consumers to assess and compare products quickly to ascertain whether they meet their individual circumstances.

KFSs use consistent, simple language used by all providers so consumers can focus on the costs, benefits, and risks that they may need to consider regarding their insurance policy and can readily compare products.

For example, in response to the Queensland flood events in 2011, the Government introduced an additional legislative requirement for the disclosure of a KFS for home building and contents insurance products (refer to Appendix B – Current Home Building Insurance KFS). The Government has stated that the decision to introduce the KFS was to address the fact that many consumers fail to fully read (or read at all) their PDSs prior to entering into insurance policies. The *Insurance Contracts Amendment Act 2012 (Cth)* introduced a prescribed KFS disclosure framework intended to increase access to key information (such as flood coverage) and to facilitate comparison across products. This change combined with innovation from insurers has led to improved risk cover.

It is proposed to develop a standard KFS for members who obtain automatic insurance in superannuation so that they have a user-friendly guide to clearly explain what they are covered for. The KFS will contain mandatory fields and others will be editable to allow the superannuation fund to specify their respective insurance options and terms.

The purpose of the KFS is to contain fund specific information focused on insurance provisions, terms and limitations associated with the insurance offering, to provide consistent information to members regarding their insurance cover and to provide a way for consumers to compare insurance offerings available through superannuation funds.

The proposed KFS will only fulfil its purpose if alignment of insurance terminology and language proposed in Section B.4 of this discussion paper is agreed to and implemented. It is suggested that each superannuation fund's MySuper product dashboard is enhanced to reference and provide a direct link to the respective fund's KFS.

A prototype of the proposed KFS that may be adopted by superannuation funds is provided at Appendix C of this discussion paper.

B.2 Feedback questions

DEVELOP A STANDARD KEY FACTS SHEET

5. Would consumers benefit from a simplified statement about the insurance offering a superannuation fund provides, and if so, when should it be provided to them?
6. Would the introduction of a KFS assist consumers in comparing the insurance offerings between superannuation funds?
7. How can funds encourage members to consider the full PDS when making a decision relating to their insurance?
8. What key pieces of summarised information should be contained in the KFS? Should the KFS be consistent with respect to content and format across the industry? If so, what sections should be consistent?
9. Should the KFS include *member specific* information or be limited to *fund specific* information?

B.3 Introduction of an Insurance Welcome Pack

Currently when a member joins a new employer, in most cases, they are provided with the opportunity to elect their preferred superannuation fund for Superannuation Guarantee (SG) contribution purposes. However, due to apathy, lack of knowledge or a belief that an employer chosen fund will meet their needs, members will often join the default fund provided by their employer. When starting a new job, a member's key focus is generally not on their insurance cover and due to bundled superannuation information, insurance details are often ignored or overlooked.

Superannuation funds currently provide a large amount of superannuation information to their members upon entry into the fund. According to research, it is clear that many consumers do not read PDSs largely because they are lengthy or too complicated to understand.¹¹

The implication of this research is that members risk potentially paying for multiple insurances; insurance they may not need or that may not be specifically appropriate for their needs.

In order to address these issues, it is proposed that minimum standards are introduced to ensure that consistent information about insurance, including the impact of insurance cost on their account balance, is delivered to members upon joining a superannuation fund.

The purpose of the Insurance Welcome Pack is to give members greater awareness, better information and ownership of the insurance cover that they automatically receive through their superannuation fund. The Insurance Welcome Pack will promote greater engagement, active learning and greater understanding of the type of cover, inclusions and exclusions, and the value of cover provided by their fund.

The Insurance Welcome Pack will:

- Be in easily understood language;
- Contain *member specific* insurance information (e.g. cover type and amount);
- Be consistent across the industry in terms of content to allow members to readily understand their insurance cover;
- Contain wording that highlights to members the risks and benefits of changing or opting out of insurance cover, along with the implications on their insurance cover when employer contributions cease or other circumstances occur (e.g. contribution inactivity, low account balance etc);
- Include prompts to a range of options (such as online and telephone) to enable the member to opt out of or reduce cover if they wish to do so; and
- Provide information on the options available and the importance of nominating beneficiaries.

¹¹ Too Long; Didn't Read – Enhancing General Insurance Disclosure, Report of the Effective Disclosure Taskforce to the Insurance Council Board, October 2015

B.3 Feedback questions

INTRODUCTION OF AN INSURANCE WELCOME PACK

10. Will an Insurance Welcome Pack increase member engagement and improve understanding of their insurance cover?
11. Should the Insurance Welcome Pack be sent with or separately to the Superannuation Welcome Pack?
12. In what format should the Insurance Welcome Pack be delivered to members?
13. How can superannuation funds ensure the Insurance Welcome Pack is delivered to members via their preferred communication channel?

B.4 Introduction of standardised language and terminology

The use of jargon and terminology is generally recognised as being a barrier to consumer understanding of financial services and products.

Easy to understand language and consistency in terminology across insurance terms and benefits will improve consumer awareness. For example, 'Income Protection' (IP) can also be referred to as 'Salary Continuance Insurance' (SCI) or 'Group Salary Continuance' (GSC). Similarly, exclusions relating to pre-existing conditions can be referenced as 'limited cover', 'new events cover' or 'pre-existing conditions'. A non-insurance expert would struggle to understand what the acronyms stand for and what protection this cover typically offers.

It is therefore proposed that:

- Standard industry accepted naming conventions are developed for different insurance covers and benefits, to improve member understanding of insurance concepts and cover types and facilitate product comparison;
- The industry develop and agree on a transition timeframe for implementation of any terminology changes; and
- An industry standard definition of members who are 'Automatic Insurance Members' versus 'Choice' insurance members is developed. This is set out in the ISWG's first discussion paper titled 'Account balance erosion due to insurance premiums'.

B.4 Feedback questions

INTRODUCTION OF STANDARDISED LANGUAGE AND TERMINOLOGY

14. Should the industry develop standard language and terminology to assist members to better compare products?
15. Would standardised terminology reduce the risk of members failing to understand a product or policy's key features and limitations?

16. What are the main terms and language that industry should focus on to lift consumer understanding?
17. What period of time should the industry be given to implement changes?
18. Should the standard terminology only apply for insurance terms and benefits available to automatic insurance members or should it apply to all insurance products offered through superannuation?

B.5 Develop a member education website and/or develop minimum education requirements for superannuation fund websites

Improved financial literacy is crucial to better informed and protected members.

ASIC and the ICA have each developed websites as financial literacy initiatives with a key focus to empower consumers and businesses to make well informed decisions about their insurance needs. The 'Understand Insurance' website (ICA's financial literacy initiative) was first launched on 28 November 2013. Since launch, it has had around 1 million visitors¹² with approximately a third of the visitors using a search engine to access the website. The site is often referred to in press articles about insurance issues. ASIC's MoneySmart also attracts significant visitors with traffic directed to the site from search engines and many popular news and information websites.¹³

One option for insurance in superannuation is for the creation of a standalone member education website containing information and tools that will aid members and employers to select products that suit their needs and offer them the appropriate protection. A further option is to also develop minimum standards with respect to educational material and tools made readily available on superannuation fund websites to further support the increase members' insurance literacy. Member engagement programs need to solve real problems that clients have, as well as being accessible and scalable to each member's needs.

If either option is developed, implemented and promoted appropriately, it could be a much needed and invaluable community resource. The educational material will guide members to understand their insurance cover, costs and the long-term impact of insurance fees.

Complementing the educational material will be tools and calculators aimed at a high level to assist members to evaluate their insurance needs and inform them about the claims and complaints handling processes.

Development of a member education website and/or development of minimum education requirements for superannuation fund websites is proposed to:

- Increase member awareness and understanding of the insurance cover they hold;
- Provide online solutions containing a range of educational modules supported by calculators and other educational and explanatory tools;

¹² Alexa Website Traffic Report, UnderstandInsurance.com.au, March 2017

¹³ Alexa Website Traffic Report, Moneysmart.gov.au, March 2017

- Allow members to evaluate their superannuation insurance needs and facilitate comparability across insurance products; and
- Support members evaluating adequate and appropriate levels of cover in a simple, easy to access way.

B.5 Feedback questions

DEVELOP A MEMBER EDUCATION WEBSITE AND/OR DEVELOP MINIMUM EDUCATION REQUIREMENTS FOR SUPERANNUATION FUND WEBSITES

19. Do you support the development of online member education tools focused on improving financial literacy, including education on insurance?
20. Who would be the best provider of information? Should government sites such as ASIC's MoneySmart be further developed? Should existing superannuation fund websites be further enhanced or developed?
21. What tools would be useful to give you confidence in understanding and evaluating your insurance and the options available to you?

B.6 Develop standard event based communications

Superannuation funds are required to inform their members of their balances and changes to the fund at certain times in writing. Members currently receive annual statements and other correspondence from their funds. Most disclosure requirements are contained in Part 2 of the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) and Part 7.9 of the *Corporations Act 2001* and *Corporations Regulations 2001*.

According to SIS Regulation 2.03, the information must be given in writing and worded in a clear and effective manner and there are timings imposed with respect to their disclosure. ASIC Regulatory Guide 252¹⁴ sets out in a useful table format the various events, prescribed details, 'triggers' and timelines that apply to the disclosure obligations under SIS Regulations 2.37 and 2.38.

The ISWG considers that the current events that trigger member communications are too limiting and do not promote increasing member engagement. The current requirements are more aligned to events that impact the wider membership group, however it is proposed that triggers be developed to increase member engagement during such events such as ceasing work with an employer or after periods of account inactivity. These key events are recognised as being situations where a member should be re-evaluating the appropriateness of their cover. It is therefore proposed that:

- Industry standards are developed to define events that require superannuation funds to actively reach out to members to encourage them to review their insurance arrangements;
- A prescribed set of minimum standards should be followed by superannuation funds in communicating with members to keep them informed of their choices to alter, review or cease their insurance cover throughout their membership with the fund; and
- Superannuation funds should explore and adopt new forms of electronic disclosures that enable information to be delivered in more relevant and personalised ways.

¹⁴ ASIC Regulatory Guide 252 – Keeping superannuation websites up to date, June 2014

The ISWG's first discussion paper titled 'Account balance erosion due to insurance premiums' released in March 2017 also included a number of proposals relating to member communications at pages 15 to 16. These proposals included communicating to members in advance of and following the cessation of insurance cover, providing information on the consequences of continuing insurance cover including but not limited to the impact of premiums on their retirement savings, and outlining the options open to members.

Options regarding welcome calls for new members including those who have been identified as holding multiple insurance cover as well as the benefits of key fact sheets to members, were also briefly discussed in the first discussion paper at page 19.

B.6 Feedback questions

DEVELOP STANDARD, MEMBER FOCUSED EVENT BASED COMMUNICATIONS GUIDANCE OR RULES

22. Should the industry define the key events that will trigger the requirement for superannuation funds to actively communicate with members about their insurance arrangements?
23. If so, what should these key events be (e.g. entry into the superannuation fund, exit, when employer SG contributions cease or other events)?
24. Do you foresee any other challenges with requiring superannuation funds to communicate to members following certain key events?
25. Should minimum standards apply across multi-channel communication or should they be limited to paper only initially?

SECTION C: FURTHER CONSIDERATIONS

C.1 Claims communications

This paper is focussed on general member communications prior to a member lodging an insurance claim. In recognition of the separate ISWG work stream and discussion paper on 'Claims Handling' released in April 2017, any minimum standards to be set out in a Code, or any other Good Practice Guidance to be developed for superannuation funds relating to communications with claimants will be dealt with by that stream.

C.2 Standardised definitions

Recent regulatory scrutiny and consumer feedback on insurance claims demonstrates a need for the insurance and superannuation industries to develop consistent standard definitions for common terms such as 'Total and Permanent Disablement', 'pre-existing conditions' and 'reasonable treatment and re-training'.

Alignment of common definitions where possible across the industry would further improve member awareness and understanding of their insurance arrangements in superannuation. Extensive consultation across the insurance and superannuation industries would be required in the design phase to ensure that any policy constraints are addressed by each superannuation fund and adequate timing is provided to accommodate the review of insurance policies and arrangements to align with policy renewal timeframes.

C.3 Benchmarking member engagement and member experience studies

Measuring member engagement and awareness of insurance inside superannuation and benchmarking this data between funds could be an effective way of tracking consumer understanding and the value they place on insurance. Minimum standards could be created at an industry level to allow superannuation funds to begin measuring levels of understanding and engagement after the Code changes are introduced.

Typically, superannuation funds have used varied management tools to gauge the loyalty and strength of their relationships with their members. Traditional member satisfaction research, such as net promoter scores or member experience studies, provide superannuation funds with insights into member engagement and satisfaction. Minimum standards could be introduced compelling superannuation funds to develop a means of capturing member satisfaction and utilising the outputs to drive changes to member education, member communication strategies and process improvement opportunities.

C.4 Member data and maintaining contact details

Improved data and the use of that data, to lift the way in which members are engaged by superannuation funds, offers an opportunity to increase engagement between funds and consumers.

Lifting the completeness, accuracy, timeliness and sharing of information between superannuation funds, insurers and members is likely to assist in providing timely, targeted communications and deepen industry understanding of member needs.

Whilst superannuation funds have an existing obligation to communicate with their members on at least an annual basis, this obligation could be extended to develop protocols for funds to validate the accuracy and completeness of their member contact information.

There are opportunities to work with the government and leverage the information collected by the Australian Taxation Office (ATO). Legislative change may be required to allow superannuation funds to use the SuperMatch service without member consent, as well as allowing them to confirm a member's most up to date address and email details.

C.5 Transition arrangements

Some proposed solutions will require an appropriate transition period to allow superannuation funds and insurers to develop capability. In addition, to minimise impacts to the broader membership, changes to policy terms and conditions may need to be undertaken at the next scheduled review of insurance arrangements or at the expiry of any rate guarantee period.

Submissions in response to this discussion paper are encouraged to consider what transition arrangements are necessary, if any, and how long any transition should be. Submissions should also consider transition arrangements for current members and new members with instances of multiple automatic insurance cover.

C.6 Launching the Insurance in Superannuation Code of Practice

Upon completion of the Insurance in Superannuation Code of Practice, consideration could be given to developing an industry funded and supported campaign to launch the Code and the value of insurance. The campaign should highlight the introduction of new material, tools and websites available to members. The Code 'roll out' campaign could be delivered through various channels and mediums to maximise reach and consumer awareness.

SECTION D: OBSERVATIONS AND CONCLUSIONS

Considering that superannuation is becoming a major financial asset of most Australians, it is essential that members understand how important superannuation is, how their asset is performing and what insurance is offered within their superannuation fund.

Whilst prudential requirements necessitate superannuation funds communicating with members at prescribed times and key events throughout their membership with the fund, it is evident that any opportunity to communicate with members should be undertaken in a timely and accurate manner that can be easily comprehended.

As noted in the previous ISWG discussion paper on Claims Handling, superannuation funds operate in a highly regulated environment and the current desire to improve communication activities does not necessarily point to any failing in the regulatory framework. The improvements that are proposed in this paper are available for the superannuation industry to make without any change to the legislation or regulations that currently govern the industry.

The community expects high standards to be applied by each superannuation fund in managing the retirement savings of its members. The growing importance of insurance as a significant benefit accessed by superannuation members means these expectations flow through to how members are engaged in their preferred communication channels.

Many superannuation funds are already operating to these high standards, however there is currently no consistent guidance in relation to the manner in which funds communicate with members. The proposals put forward in this paper aim to remedy this by providing minimum standards where appropriate, and good practice guidance where it would not be feasible to impose specific requirements.

SUMMARY OF CONSULTATION QUESTIONS

Your feedback is invited

We invite you to comment on the key questions that have been raised. All submissions will be treated as public documents unless you specifically request that we treat the whole or part of your submission as confidential.

B.1 Feedback questions

INCORPORATE PLAIN LANGUAGE AND CONSUMER TESTING

1. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to insurance in superannuation communications?
2. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to all superannuation fund communications?
3. Should these requirements apply just to the PDS and KFS only, or to all material containing insurance related information?
4. Should all insurance in superannuation communications be consumer tested?

B.2 Feedback questions

DEVELOP A STANDARD KEY FACTS SHEET

5. Would consumers benefit from a simplified statement about the insurance offering a superannuation fund provides and, if so, when should it be provided to them?
6. Would the introduction of a KFS assist consumers in comparing the insurance offerings between superannuation funds?
7. How can superannuation funds encourage members to consider the full PDS when making a decision relating to their insurance?
8. What key pieces of summarised information should be contained in the KFS? Should the KFS be consistent with respect to content and format across the industry? If so, what sections should be consistent?
9. Should the KFS include *member specific* information or be limited to *fund specific* information?

B.3 Feedback questions

INTRODUCTION OF AN INSURANCE WELCOME PACK

10. Will an Insurance Welcome Pack increase member engagement and improve understanding of their insurance cover?
11. Should the Insurance Welcome Pack be sent with or separately to the Superannuation Welcome Pack?
12. In what format should the Insurance Welcome Pack be delivered to members?
13. How can superannuation funds ensure the Insurance Welcome Pack is delivered to members via their preferred communication channel?

B.4 Feedback questions

INTRODUCTION OF STANDARDISED LANGUAGE AND TERMINOLOGY

14. Should the industry develop standard language and terminology to assist members to better compare products?
15. Would standardised terminology reduce the risk of members failing to understand a product or policy's key features and limitations?
16. What are the main terms and language that industry should focus on to lift consumer understanding?
17. What period of time should the industry be given to implement changes?
18. Should the standard terminology only apply for insurance terms and benefits available to automatic insurance members or should it apply to all insurance products offered through superannuation?

B.5 Feedback questions

DEVELOP A MEMBER EDUCATION WEBSITE AND/OR DEVELOP MINIMUM EDUCATION REQUIREMENTS FOR SUPERANNUATION FUND WEBSITES

19. Do you support the development of online member education tools focused on improving financial literacy, including education on insurance?
20. Who would be the best provider of information? Should government sites such as ASIC's MoneySmart be further developed? Should existing superannuation fund websites be further enhanced or developed?
21. What tools would be useful to give you confidence in understanding and evaluating your insurance and the options available to you?

B.6 Feedback questions

DEVELOP STANDARD, MEMBER FOCUSED EVENT BASED COMMUNICATIONS GUIDANCE OR RULES

22. Should the industry define the key events that will trigger the requirement for superannuation funds to actively communicate with members about their insurance arrangements?
23. If so, what should these key events be (e.g. entry into the superannuation fund, exit, when employer SG contributions cease or other events)?
24. Do you foresee any other challenges with requiring trustees to communicate to members following certain key events?
25. Should minimum standards apply across multi-channel communication or should they be limited to paper only initially?

We want your feedback

We invite you to comment on the key questions that have been raised. All submissions on this discussion paper are due by **2 June 2017** and should be sent to the Project Management Office at:

ISWG-PMO@kpmg.com.au

All submissions will be treated as public documents unless you specifically request that we treat the whole or part of your submission as confidential.

APPENDIX A – SUMMARY OF PROPOSALS

Proposed solution	Is legislative change needed?	Expected effort (High/Medium/Low)	Time to implement (Long/Medium/Short)	Member impact (High/Medium/Low)
1. Incorporate plain language and consumer testing	No	Medium	Medium	High
2. Develop a standard Key Facts Sheet	No	Medium	Medium	High
3. Introduction of an Insurance Welcome Pack	No	High	Long	Medium
4. Introduction of standardised language and terminology	No	Medium	Long	Medium
5. Develop a member education website and/or minimum education requirements for superannuation fund websites	No	Medium	Medium	Medium
6. Develop standard event based communications	No	High	Long	High

APPENDIX B– CURRENT HOME BUILDING INSURANCE KFS

The content of this Key Facts Sheet is prescribed by the Australian Government and is a requirement under the *Insurance Contracts Act 1984*

KEY FACTS ABOUT THIS HOME BUILDING POLICY

THIS IS NOT AN INSURANCE CONTRACT

STEP 1 Understanding the Facts Sheet

This Key Facts Sheet sets out some of the events covered and not covered by this policy and other information you should consider. This sheet does not provide a complete statement of the cover offered, exclusions, conditions and limits that apply under the policy. You should carefully read the Product Disclosure Statement (PDS) and all policy documentation for more details.

STEP 2 Check the maximum level of cover and the events covered

Under this policy the maximum amount payable is the building sum insured you have nominated. We will pay no more than the sum insured unless we have stated differently under any of the Insured Events, Additional Benefits, Optional Covers or Gap Cover as set out in the PDS.

Event /Cover	Yes/ No/ Optional	Some examples of specific conditions, exclusions or limits that apply to events/covers (see PDS and other policy documentation for details of others)*
Fire and Explosion	Yes	Fire - Not covered for fire started with the intention of causing damage by you or a person who lives at your address. Explosion - You are covered up to the sum insured for explosion however, the most we will pay to repair or replace the item that exploded if it forms part of your building is up to \$1,000.
Flood	Yes	Not covered for loss or damage to retaining walls.
Storm	Yes	Not covered for loss or damage by wind, rain, hail or snow which entered your normally enclosed building through an opening not created by the storm.
Accidental breakage	Yes	Accidental Glass Breakage : Not covered for any loss or damage if the breakage is not through the entire thickness of the item.
Earthquake	Yes	Not covered for any loss or damage caused by Tsunami which occurs more than 72 hours after an earthquake.
Lightning	Yes	Not covered for replacing electronically stored data or files.
Theft and Burglary	Yes	Theft or Attempted Theft – Not covered for any loss or damage caused by you or a person who lives at your insured address.
Actions of the sea	No	
Malicious damage	Yes	Not covered for any loss or damage caused by you or a person who lives at your insured address.
Impacts	Yes	Sudden Impact - Not covered for damage to driveways caused by the weight of a vehicle, watercraft, trailer, caravan or aircraft.
Escape of liquid	Yes	Not covered for loss or damage resulting from a faulty shower base.
Removal of Debris	Yes	Demolition and Debris Removal Costs - Not covered for any costs that are not directly related to the damaged part of your building.
Alternative accommodation	Yes	This cover is available under the Residential Home Package only. You are covered if you own the insured address property and have building insurance for the amount we determine is reasonable and appropriate in your particular circumstances, up to a maximum of 52 weeks.

*The Key Facts Sheet is a guide only. The examples provided are only some of the conditions, exclusions and limits in this policy. You must read the PDS and policy documentation for all information about this policy.

STEP 3 other things to consider

Limits

This policy has restrictions that limit your cover for certain events and items, for example under the event 'Explosion' we will pay up to \$1,000 in total for the item that exploded if it forms part of your building. To find out about these limits you need to read the PDS and other relevant policy documentation.

Excesses

If you make a claim the excess is the amount you may have to pay for each incident. A number of different excesses may apply in respect to this policy, for example:

Cover:

- Residential Home Package - A basic excess applies. This is an amount chosen by you or imposed by us and will be stated on your Certificate of Insurance.
- Optional Cover 'Portable Contents' – A fixed \$100 excess applies.

If you have purchased both building and contents cover, where you lodge a claim for loss of or damage to your building and contents caused by the same Insured Event, only the highest excess will apply.

You may be able to increase these excesses to lower your premium. For more details, please read the PDS and other documentation.

Legal Liability

This policy covers your legal liability when you are found to be legally responsible for damage or personal injury to a third party or their property. It is limited to \$20,000,000.

You should read the PDS carefully to determine the extent of this cover.

Cooling off period

If you decide you don't want this policy within 21 days of it being issued and you haven't made a claim, you can cancel it and receive a refund.

Maximum level of cover offered by insurers

Insurers offer different maximum levels of cover in the event of the loss or destruction of the home including where:

- You set the maximum level of cover and your payout is limited to that amount* (Sum Insured)
- You set the maximum level of cover and the insurer may provide you with some agreed extra cover above that amount (Sum insured plus safety net)
- The insurer will cover all the reasonable costs to rebuild your home (Total replacement) *The insurer may provide some cover above this amount.

You should consider which type of cover is best for you.

Failure to adequately insure your home may result in underinsurance.

Warning: This Key Facts Sheet sets out some of the conditions, exclusions and limits in respect to this policy. You should read the PDS and all policy documentation for all the conditions, exclusions and limitations of this policy that limit or exclude cover.

STEP 4 Seek more information

If you want more information on this policy contact us.

For more information on choosing insurance and to better understand insurance visit the Australian Government website: www.moneysmart.gov.au

APPENDIX C – INSURANCE IN SUPERANNUATION KFS PROTOTYPE



When you first become a member of
XYZ Superannuation Fund
 you **automatically** receive life insurance cover provided you meet certain eligibility criteria.

Insurance in Superannuation Key Facts Sheet

Why is this important?

Insurance is about covering life-changing events. It can give you peace of mind and provide financial support, to help protect what's important to you.



Protect your
lifestyle



Protect your
income



Cover your
debts



Protect your
family

Did you know?



Around **70%** of working
Australians hold life
insurance through
superannuation funds.



In 2015-16, more than **72,000**
claims were paid, worth
\$4.9 billion, through
superannuation funds.



The cost of **insurance premiums**
are deducted from your super
balance, reducing the money
available for your retirement but
helps protect you along the way.



You can **opt out** of automatic
insurance cover at any time by
notifying us of your decision.

What automatic insurance cover is included?

	Terminal Illness	Death	Total and Permanent Disablement (TPD)	Income Protection (IP)
	Provides a lump sum payment if terminally ill.	Provides a lump sum to dependents or beneficiaries upon death.	Provides a lump sum payment if not able to work again due to illness or injury.	Provides a replacement income if temporarily unable to work due to illness or injury.
Automatic cover	yes	yes	yes	yes (2-year benefit period)
Cover starts	ages 14 - 60	14 - 60	14 - 65	14 - 55
Cover ends	age 75	75	65	65
Are pre-existing medical conditions covered?	yes	yes	yes must be in Active Employment*	yes
Is cover limited if employer superannuation contributions are not received?	yes contributions must be received within 120 days of starting work or Limited cover** may apply.	yes	yes	yes
Does work status affect cover at date of injury or illness?	no	no	yes must be working at least 20 hours.	yes must be in gainful employment
Is cover provided if a claim has previously been paid under another superannuation fund?	no	yes	no	yes

*Active Employment means an ability to perform or capable of performing all the duties of your normal job on a full time basis on the date that cover starts. Limited cover** applies until in active employment for 2 consecutive months.

**Limited cover means that cover is only provided for an illness or injury that occurs on or after the date cover starts. Any pre-existing medical conditions are not covered.

What are my options?



Do nothing

Keep my automatic insurance cover



Opt out

Choose to opt out of Insurance cover



Tailor it

Change my cover to meet my personal needs

Frequently asked questions



Can cover be cancelled or changed?

Cover can be cancelled in full or in part or you can increase your cover at any time. If you cancel your cover and you decide to apply for cover in the future, you must provide health information that will be assessed by the Insurer.



Nominated Beneficiaries

You can nominate who will receive your insurance benefit if you pass away. Please contact us to receive a nomination form.



Claiming on insurance through super

In the event of illness, injury or death, you or your beneficiaries may be able to make a claim on your insurance. Please contact us for further details about making a claim.



Do I need legal representation to claim?

You do not need a lawyer to make a claim or to have your claim reviewed. We have an internal complaints process and if you are not satisfied with the outcome there is a government tribunal that you can access on 1300 884 111.



When should I review my insurance cover?

Your insurance needs can change over time as your circumstances change. For example, if you change jobs, you start a family, divorce or your financial commitments change. It's important you review your life insurance regularly.



What if I change my Superannuation Fund?

Before switching or consolidating super funds, make sure you can get the death, TPD or income protection cover you need, in your chosen fund. Be particularly careful if you have a pre-existing medical condition or are aged 60 or over.

Circumstances that may change your insurance cover

The following may change your automatic insurance cover:

- Ceasing work with your employer
- No superannuation contributions received after x months
- Transferring funds from another superannuation fund
- Not having worked for a period of time longer than x months
- You are on extended employer approved leave
- Your account balance falls below \$ xxxx

For further information, please refer to the PDS or call us for further information.

Taking action is easy



Have you used our online insurance calculator? Check to see if your automatic insurance cover meet your needs.

Visit xyz.com/calculator



Happy for you to call us if you want to learn more.

2222 2222



Chat with our great team to learn more.

xyz.com/chat



Send us an email to learn more.

email@xyz.com

For more information on choosing insurance and to better understand insurance visit the Australian Government website: www.moneysmart.gov.au

Disclaimer

*The Key Facts Sheet is a guide only. The examples provided are only some of the conditions, exclusions and limitations in this policy. You must read the PDS and policy documentation for all information about this policy. The content of this Key Facts Sheet is prescribed by the Insurance in Superannuation Code of Practice.

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