



 **APRA**

PRUDENTIAL PRACTICE GUIDE

SPG 250 – Insurance in Superannuation

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Disclaimer Text

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About this guide

Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations, or APRA's prudential standards, but do not themselves create enforceable requirements.

Prudential Standard SPS 250 Insurance in Superannuation (SPS 250) sets out APRA's requirements in relation to making insured benefits available to beneficiaries. *Prudential Standard SPS 160 Defined Benefit Matters* (SPS 160) sets out APRA's requirements in relation to self-insurance for defined benefit funds. This PPG aims to assist an RSE licensee in complying with those requirements and, more generally, to outline prudent practices in relation to insurance in superannuation.

For the purposes of this guide, and consistent with the application of SPS 250 and SPS 160, 'RSE licensee' and 'registrable superannuation entity (RSE)' have the meaning given in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Subject to the requirements of RSE licensee law, an RSE licensee has the flexibility to structure its business operations in the way most suited to achieving its business objectives. Not all practices outlined in this PPG will be relevant for every RSE licensee and some aspects may vary depending upon the size, business mix and complexity of the RSE licensee's business operations.¹

Under section 52(2)(c) of the SIS Act, an RSE licensee is required to act in the best financial interests of the beneficiaries. Under the reverse evidentiary burden of proof, an RSE licensee is required to ensure that its decisions, and the reasons for its decisions, are supported by strong analysis and evidence. As such, an RSE licensee will need to be able to clearly demonstrate that the best financial interests of beneficiaries have been prioritised when entering into, managing and monitoring insurance arrangements on behalf of the beneficiaries.

¹ Refer to the definition of RSE licensee law in section 10(1) of the SIS Act.

Introduction

1. SPS 250 sets requirements with respect to making insured benefits available to beneficiaries. This PPG provides guidance for an RSE licensee with respect to the requirements of SPS 250, regardless of how the RSE licensee chooses to undertake this activity.

Insurance management framework

A robust insurance management framework will set out a clear insurance strategy for making insured benefits available to beneficiaries and will promote effective management and oversight of risks related to insurance.

2. Under the SIS Act, an RSE licensee is generally required to provide death benefits and permanent incapacity benefits to all MySuper beneficiaries on an opt out basis.² An RSE licensee can also make certain types of insured benefits available to choice members.³
3. For the purposes of this PPG and consistent with SPS 250, 'insured benefits' means benefits that are made available to beneficiaries via insurance acquired by the RSE licensee from an insurer or insurance offered under an RSE licensee's self-insurance arrangements.
4. An RSE licensee is ultimately responsible for insured benefits that are made available to beneficiaries within its business operations.
5. An RSE licensee's insurance management framework encompasses all aspects of the RSE licensee's business operations that affect insured benefits made available to beneficiaries. APRA expects an RSE licensee to develop its insurance management framework in a way that pays particular attention to factors that could adversely affect these insured benefits.
6. It is common for parties other than the RSE licensee to have roles and responsibilities in relation to making insured benefits available to beneficiaries, including with respect to managing the risks relating to insurance. These parties can include, but are not limited to, insurer(s) and administrator(s). APRA expects an RSE licensee would ensure that it understands the roles and responsibilities of all such persons and documents these appropriately as part of the insurance management framework.
7. An insurance management framework supports the identification and monitoring of risks relating to insured benefits and encompasses all aspects relating to the management of those benefits. An RSE licensee's policies relating to the management of insured benefits would normally deal with risks including, but not limited to:
 - a) the administration of insured benefits, regardless of whether it is undertaken by the RSE licensee or an external party. This may include risks arising from underwriting

² Refer to section 68AA of the SIS Act.

³ Refer to regulation 4.07D of the *Superannuation Industry (Supervision) Regulations 1994*.

terms and their practical application, the management of eligibility for cover and granting of cover, claims management and assessments of eligibility to claim and risks associated with communication with beneficiaries including where the communication does not accurately reflect the terms of the insurance policy;

- b) the roles and responsibilities of the RSE licensee where it makes insured benefits available to beneficiaries by way of individually underwritten insurance arrangements;
 - c) holding or having access to adequate data to assess the performance of an arrangement that makes insured benefits available and to support ongoing management of this arrangement;
 - d) risks related to the due diligence and selection of an insurer; and
 - e) risks relating to the appropriate transfer of insurance risk to and between insurers including the possibility of self-insurance.
8. An RSE licensee's approach to the management of insured benefits is not expected to duplicate the policies and practices of an insurer providing insured benefits. An RSE licensee would instead be expected to understand the underwriting, claims and premium deduction and remittance processes of the insurer and other parties involved in the management of insured benefits and to have considered how the insurer's approach and processes align with the RSE licensee's expectations and understanding.
9. An RSE licensee's insurance management framework would normally include specific consideration of how the RSE licensee will ensure compliance with the requirements in the *Insurance Contracts Act 1984*, specifically obligations to act in utmost good faith in its relationships with insurers.⁴

Communication to beneficiaries

10. APRA expects that an RSE licensee would have in place a process that supports clear and timely communication to beneficiaries about the insured benefits to which they are, or may become, entitled.
11. An RSE licensee's communications would be expected to assist members in making decisions about all matters related to their insured benefits including, but not limited to:
- a) the type and level of cover provided;
 - b) the premium charged for the cover;

⁴ Refer to section 13 of the *Insurance Contracts Act 1984*.

- c) the terms and conditions related to the cover, including standard and non-standard insurance conditions such as any restrictions, limitations, exclusions such as occupational exclusions, benefit offsets, special conditions or premium loadings on the cover;
 - d) matters related to the cessation and reinstatement of cover; and
 - e) the nomination of beneficiaries.
12. Under SPS 250, an RSE licensee is required to have a process in place to enable beneficiaries to easily opt out of insurance cover and for this process to be communicated to beneficiaries. APRA considers the process of enabling members to easily opt into and opt out of insurance is critical for ensuring that members are able to give effect to their decisions regarding their individual insurance needs.
13. A prudent RSE licensee would promote a number of straightforward processes for facilitating member opt-out to reduce barriers to members taking action, including providing assistance to members to cancel their insurance where they have decided to do so. The appropriateness of these processes will be informed by an RSE licensee's membership base including factors such as their English language literacy, financial literacy and access to, and use of, technology. Technological processes for opting out of insurance would be expected to be subject to adequate security controls, including ensuring the identity of the member or beneficiary is verified.
14. APRA expects an RSE licensee's processes for facilitating member opt-out may include:
- a) website information on how a member can opt-out or cancel their insurance cover, including relevant website links;
 - b) a direct, personalised link to a pre-populated opt-out form that is easily accessible and the facility for pre-populated hard copy forms to be sent to members;
 - c) the ability for members to use electronic communication methods such as email to make an election to cancel their insurance;
 - d) consistency in the communication processes for opting out of insurance. For example, if a member is provided with information on opting out of insurance by email, better practice would ensure the member is also able to use email or any other method for acting on that information; and
 - e) clearly identifiable naming conventions for any forms that relate to a member's ability to opt-out of insurance.
15. It would be sound practice for an RSE licensee's communication to members relating to opting into and out of insurance to clearly set out the benefits and the cost to members of the insurance cover provided. Effective communication would ordinarily include matters such as the advantages of default cover, the impact to the member and their beneficiaries of opting into and out of cover, the likely processes to obtain cover in the future, any restrictions on claiming benefits, and the implications and potential drawbacks in having multiple insurance policies.

Data management

16. SPS 250 requires an RSE licensee to maintain or have access to records of at least five years' duration about the claims experience for each RSE within its business operations. This information is important to support the tender process and orderly transition where an RSE licensee enters into an agreement for an insurer to provide the insured benefits. Accurate claims records also support the identification, monitoring and management of the risks associated with making insured benefits available to beneficiaries.
17. Whilst an RSE licensee may, as part of its contractual arrangements with an insurer or administrator, allocate specific responsibility for the maintenance of claims data to that other party, the RSE licensee is ultimately responsible for complying with the requirements in SPS 250.
18. A prudent RSE licensee would maintain accurate and up-to-date records of resolved claims and ongoing claims including, but not limited to, claim experience information related to the following:
 - a) event type i.e. the reason behind the claim being lodged;
 - b) the date of the event giving rise to the claim;
 - c) the date on which the claim was notified by the beneficiary to the RSE licensee, and the date on which the claim was notified by the RSE licensee to the insurer;
 - d) the details of insurance cover disclosed to the member on taking up the cover, and any subsequent changes to the member's cover;
 - e) the date that the claim was admitted for each death and permanent incapacity and terminal illness claim and the dates that payments started and ceased for each temporary incapacity, or the date the claim was denied;
 - f) disputed claims and the reason for the dispute;
 - g) the date(s) the claim was paid by the insurer to the RSE licensee, and the date the claim was paid by the RSE licensee to the beneficiary; and
 - h) the amount of the claim.
19. Whilst SPS 250 makes specific reference to data of five years' duration, APRA considers that a prudent RSE licensee would maintain information, over time, that covers as long a period as possible. APRA expects an RSE licensee would ordinarily consider the historical run-off pattern of claims when determining the longevity of records maintained. APRA considers it good practice for an RSE licensee to continue to maintain insurance data beyond the expiry of insurance risk, and until the last claim payment is made. Data transferred under a successor fund transfer is expected to be sufficient so that an RSE licensee of a successor fund is able to effectively administer the insurance

arrangements and report insurance data, including historical data, to APRA in accordance with the requirements under the superannuation reporting standards.⁵

20. APRA expects that an RSE licensee would maintain records of sufficient detail, currency and accuracy to support both the management and assessment of the provision of insured benefits and the associated risks. This information would usually include complaints data, take-up rates of opt-in and opt-out arrangements and requests for additional cover and their outcome. Where this information is maintained by an insurer or outsourced service provider (such as an administrator) on behalf of the RSE licensee, APRA expects that the RSE licensee would receive periodic reporting on and/or have access to relevant insurance information.
21. APRA expects that an RSE licensee would have in place mechanisms for the regular review of the processes of each outsourced service provider that plays a role in making insured benefits available and of the processes of the insurer. This review can support the accuracy of premiums charged, underwriting processes and claims information over time.
22. APRA also considers it good practice for an RSE licensee to maintain a history of the design of insured benefits and membership in each type of insurance made available to beneficiaries. Much of this information would be retained by maintaining insurance policy documents and recording any amendments to these documents over time. This would ordinarily include:
 - a) changes in the type and level of insured benefits made available, as well as pricing and associated advice to beneficiaries regarding changes to their cover;
 - b) significant groups of beneficiaries joining or leaving the RSE, such as those employed by a particular employer that enters or leaves the RSE, or successor fund transfers;
 - c) information relating to cohorts or classes of beneficiaries that are required to be treated in a particular way under the SIS Act, for example, where the member's account is inactive, the account balance is less than \$6000, the member is under the age of 25 years, or where the dangerous occupation exception applies, or where the RSE licensee determines specific treatment(s) to be applied to a cohort or class of beneficiaries⁶;
 - d) changes to insurance processes, e.g. changes to administration systems, changes in marketing methods, bulk adjustments, special offers to alter the terms of insurance or changes that result in claims being reported earlier or later; and

⁵ Refer to *Reporting Standard SRS 251.0 Insurance* (SRS 251.0).

⁶ Refer to sections 68AA, 68AAA, 68AAB, 68AAC and 68AAF of the SIS Act.

- e) changes in automatic acceptance limits.

Data and member outcomes

23. SPS 250 requires an RSE licensee to maintain records of sufficient detail to comply with its obligations under the reporting framework. Given the requirements for member outcomes assessments set out in the SIS Act and *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515), a diligent RSE licensee would also ensure it collects and maintains extensive data on members' insured benefits so that it is able to support differences in benefit and pricing structure across the insured membership and make effective assessments of member outcomes. Under SPS 515, an RSE licensee must establish different cohorts of beneficiaries; APRA expects an RSE licensee would therefore ordinarily collect and maintain data on members' insured benefits at the relevant member cohort level.⁷
24. APRA considers that data required for member outcomes assessments may include, but is not limited to, data on:
 - a) actual and target premiums and claims payment ratios for different cohorts (including those members receiving default and non-default insurance) and different types of insurance;
 - b) claims handling procedures and processing times;
 - c) benefit payment durations (for temporary incapacity claims);
 - d) the extent and cause of any reduction in benefits paid for a member, for example, benefit offsets for temporary incapacity benefits;
 - e) claims withdrawal rates;
 - f) claims decline rates;
 - g) underwriting data, where relevant;
 - h) fees and costs including insurance fees;
 - i) data on disputes lodged and resolved; and
 - j) appropriate benchmarks and comparison factors for MySuper products and choice products and/or for default and non-default insurance.

⁷ Refer to sections 52(9) – (11) of the SIS Act, SPS 515, *Prudential Practice Guide SPG 515 Strategic and Business Planning* and *Prudential Practice Guide SPG 516 Business Performance Review*.

25. In conducting annual outcomes assessments, APRA expects an RSE licensee would evaluate all the elements of the insurance covenants and to be able to demonstrate how each of the elements impact on the overall outcomes achieved for members. For example, sound practice would include consideration of claims experience, the cost of the insurance cover offered measured against the expected needs of the relevant cohort of members, including their demographic composition and risk profile, the likelihood of these members needing to claim, and the comparative impact on these members of having a different level and/or type of insurance cover.

Insurance strategy

An insurance strategy is a key component of the insurance management framework and is required to address all the matters set out in the SIS Act including the type and level of insurance that will be offered to beneficiaries. Setting a sound insurance strategy involves a rigorous analysis of membership cohorts to enable an RSE licensee to assess the insurance needs and the effect of insurance costs on the retirement income of the beneficiaries. A well-formed insurance strategy will be targeted appropriately for the RSE's membership and be aimed at providing an insured benefit that is fit for purpose, meets the needs of the beneficiaries and provides value for money in the context of beneficiaries' retirement income.

26. An RSE licensee's insurance strategy, as required by SPS 250, is a key component of the insurance management framework. In addition to section 52(7) of the SIS Act, an RSE licensee's insurance strategy would ordinarily include consideration of:
- a) which beneficiaries are to be provided with insured benefits and at what level, including when insured benefits of a particular type are not appropriate to make available to some groups of members or beneficiaries (e.g. when the best financial interests of casual employees and beneficiaries close to retirement age may not be served by these types of benefits);
 - b) relevant factors in relation to the appointment of an insurer to make insured benefits available to beneficiaries and how the risks relating to this selection are to be managed;
 - c) when insurance cover is to commence and the circumstances under which a member's eligibility for insurance cover would cease;
 - d) the level of underwriting needed for beneficiaries to be provided insured benefits;
 - e) administrative capabilities, including ease of underwriting and claims processes; and
 - f) how, where appropriate, existing insured benefits provided to beneficiaries are to be preserved (e.g. in the situation of a successor fund transfer).
27. In formulating, reviewing and giving effect to an insurance strategy, a key factor to be considered by an RSE licensee is the default insurance offering for members who are unlikely to actively select insurance. A prudent RSE licensee would take steps to obtain as much data on its membership as possible to ensure that the default insurance offering is appropriate for the RSE.
28. Under the SIS Act, an RSE licensee's strategic decisions relating to making insured benefits available to beneficiaries would be made with reference to the collective best

interests of beneficiaries of the RSE as a whole and the requirement to promote the financial interests of beneficiaries with an interest in a MySuper product or choice product(s) offered by the RSE licensee.⁸

29. An RSE licensee would ordinarily consider the membership profile of each cohort or class of beneficiaries within each RSE (or sub-fund) when determining its insurance strategy in relation to that cohort or class of beneficiaries.
30. It would be sound practice to ensure that information maintained on the membership profile would be up to date and would identify any substantial differences in profile between different cohorts of beneficiaries within a single RSE, e.g. the size of the pool insured, and age, gender, occupational profile and work status (including part-time, casual and unemployed workers) of the membership.
31. As a material fluctuation in the number of beneficiaries insured can affect the insurance coverage and the cost of that coverage, an RSE licensee would ordinarily consider in its insurance strategy how it expects to monitor the overall number and profile of beneficiaries covered under an insurance policy. This would include consideration of membership volatility given the insurance profile and risk factors of the insured beneficiaries and/or the circumstances of employer sponsors. This is particularly important in the context of insured benefits made available on an opt-out basis.
32. APRA expects an RSE licensee's desired insurance outcomes would be key factors that drive the formulation and ongoing review of its insurance strategy. This would normally include an assessment of the benefits and the cost to members of the insurance in the context of the expected needs of the membership. A prudent RSE licensee would also consider these factors at the member cohort level, including whether there is any cross-subsidisation between different cohorts of members and, if so, whether this cross-subsidisation is appropriate for the members in the RSE.
33. The insurance covenants in the SIS Act require an RSE licensee to only offer or acquire insurance of a particular kind, or at a particular level, if the cost of the insurance does not inappropriately erode the retirement income of the beneficiaries.⁹ APRA expects an RSE licensee would undertake rigorous analysis to ensure that the kind and/or level of insurance offered or acquired does not inappropriately erode the retirement income of the beneficiaries. This assessment is particularly important where the beneficiaries are MySuper members who are typically disengaged from decisions that affect their superannuation and consequently may be unaware of the adverse impacts of inappropriate erosion on their retirement income. Better practice would include consideration of members who may be adversely affected where their circumstances may change over time. Changing circumstances could include a change in a member's

⁸ Refer to section 52(9) of the SIS Act.

⁹ Refer to section 52(7)(c) of the SIS Act.

employer or employment status that results in the employer no longer paying or subsidising insurance premiums for the member's insurance cover, or a change in occupation category that may impact the member's benefit entitlements and/or insurance needs.

34. An RSE licensee may decide it is appropriate to enter into arrangements with more than one insurer for making insured benefits available to beneficiaries, for example, to address complexity within its business operations or particular characteristics of cohorts within its membership.
35. Where an RSE licensee uses more than one insurer for a given RSE or cohort of members within an RSE (including sub-funds), APRA considers it good practice for the RSE licensee to address the risks involved in this arrangement in its insurance strategy. This would consider risks related to having multiple parties maintain and communicate complete and accurate member data to the RSE licensee or another party involved in making insured benefits available.
36. In setting its insurance strategy, a prudent RSE licensee would consider the insurer and the type of insurance offering that will be provided as well as the benefits and risks associated with guaranteed renewability and premium rate guarantee periods applicable to the insurance arrangement.¹⁰ APRA expects an RSE licensee would ensure the risks are addressed in its insurance management framework as appropriate.
37. A prudent RSE licensee would require an insurer to provide sufficient notice of proposed renewal terms (or cancellation) so that the RSE licensee can properly assess alternative arrangements if the renewal terms appear to be unacceptable. It would also be better practice for the risks associated with insurance contract renewal to be reflected in the insurance strategy and addressed in the insurance management framework.

¹⁰ Life insurance policies typically have a contract term longer than one year and may be guaranteed renewable (i.e. where an insurer is obligated to continue coverage as long as premiums are paid on the policy. While re-insurability is guaranteed, premiums can rise depending on factors that may increase the risk of future claims). Contracts that are guaranteed renewable generally have a limited and qualified premium rate guarantee period that does not exceed three years. Policies offered by general insurers or Lloyd's underwriters, however, typically have a one-year contract term and are not provided on a 'guaranteed renewable' basis. At the end of the contract, there is therefore a risk of the policy being cancelled, or significant changes being made to the premium rates, terms and conditions.

Selection of insurer

Critical to the selection process is that it is done on an arm's length basis and in the best financial interests of the beneficiaries. The Board is responsible for ensuring that it conducts an objective selection process including a due diligence review for the selection of an insurer. Given the risks associated with conflicts of interest and duty, an independent certification is required for insurance arrangements with connected entities.

38. SPS 250 sets out an RSE licensee's minimum obligations that apply when deciding whether to enter into a new agreement with an insurer. APRA considers a prudent RSE licensee would also consider these factors when determining whether to renew an existing relationship with an insurer.
39. APRA expects that an RSE licensee would, when undertaking a selection or tender process, first consider its criteria for selecting insurers or inviting insurers to tender, based on the RSE licensee's insurance strategy.
40. Where a tender is conducted, APRA considers it good practice for information that is provided to prospective insurers as part of a selection or tender process to be reviewed and approved by the RSE licensee regardless of who provides the information. To support the requirement in SPS 250 that the selection process be conducted at arm's length, APRA considers it sound practice for the RSE licensee to provide the same information to all prospective insurers at the same time.
41. It is important that an RSE licensee conducts its selection processes in a manner that allows sufficient time for prospective insurers to properly assess the risks of providing the requested insurance.
42. When selecting an insurer, a prudent RSE licensee would consider a number of factors to inform the selection process. These factors include, but are not limited to:
 - a) whether the insured benefits under consideration align with the best financial interests of beneficiaries more broadly;
 - b) the appropriateness of the terms and conditions of the insurance cover provided to any given group of beneficiaries, including takeover terms;
 - c) the cost of insurance cover, including the expected stability of these costs over a period of time, and how these costs may be expected to impact the retirement income of beneficiaries;
 - d) the services offered by the insurer under the agreements accompanying the insurance policy, including claims and data management, underwriting and reporting provisions; and
 - e) the insurer's long term viability or sustainability.

43. APRA considers it good practice for an RSE licensee to consider the sustainability of both the insured benefits to be provided by prospective insurers and the insurer itself. This includes consideration of matters such as:
- a) access to capital;
 - b) relevant resources, experience and practice in claims management;
 - c) any additional risks that may be involved in increasing benefits made available to beneficiaries (e.g. increasing automatic acceptance levels and/or life-style increase options);
 - d) tailored service models;
 - e) the rate guarantee period; and
 - f) the terms of any extension or new cover provided after termination of a policy and how this would be managed in relation to notices required to beneficiaries advising them of a change in insurance terms.
44. SPS 250 requires an RSE licensee to give due consideration to claims philosophy when selecting an insurer. In APRA's view, an insurer's claims philosophy reflects the insurer's ability and willingness to assess and pay legitimate claims expeditiously. Claims philosophy includes measurable factors such as the insurer's history of the rate of rejection of claims formally made, the insurer's record of claims decisions being overturned by the Australian Financial Complaints Authority (and formerly by the Superannuation Complaints Tribunal), the reasonableness of claims underwriting requirements and the training and skills of claims assessors. Other information that might be relevant includes details of specific examples of claims paid and claims denied. Claims philosophy also encompasses those processes of the insurer which support procedural fairness for claimants. Examples of how procedural fairness might be supported by an insurer's processes include, but are not limited to:
- a) the insurer having formal service levels for processing claims and reporting against those service levels;
 - b) the insurer having in place a process to ensure that all relevant information has been provided to it and a process that supports the appropriate review of previous decisions when new information comes to light;
 - c) the insurer's process for paying interest on claims; and
 - d) the insurer's awareness of case law that might affect its decision making processes.
45. It would be good practice for an RSE licensee to consider both the appropriateness of continuation options as well as their management to ensure that these options are in the best financial interest of beneficiaries. This includes ensuring that the continuation options are appropriate to the membership cohort and the cost and terms of these options are fair and clearly communicated to relevant beneficiaries.

46. A prudent RSE licensee would have in place a formal process for appointing an insurer, including appropriate delegations for appointing the insurer. The Board may choose to delegate elements of the tender and/or selection process, but it would be sound practice for the Board, or a relevant Board committee, to review and approve the selection criteria.

Independent certification

47. SPS 250 requires an RSE licensee to satisfy itself, and demonstrate to APRA, that the engagement of an insurer is negotiated on an arm's length basis and is in the best financial interests of the beneficiaries.
48. Insurance arrangements with connected entities carry a heightened risk that the arrangement may not be in the best financial interests of the beneficiaries. SPS 250 requires an RSE licensee to obtain an independent certification that states it is reasonable for the RSE licensee to form the view that an insurance arrangement with a connected entity of the RSE licensee is in the best financial interests of the beneficiaries.
49. The purpose of the independent certification is to provide independent support for an RSE licensee's assessment that the insurance arrangement is in the best financial interests of the beneficiaries.
50. APRA expects the person providing an independent certification would assess the following criteria, having regard to the totality of the insurance arrangement and all relevant circumstances at the time of the RSE licensee's decision:
- a) on balance, the reasonably expected impact on the beneficiaries of the arrangement relative to arrangements available from non-connected entities;
 - b) whether it reasonably appears that the interests of the beneficiaries are being treated as paramount and placed ahead of the RSE licensee's own interests or those of the connected entity; and
 - c) whether an RSE licensee's decision to enter into, renew, materially alter or keep an insurance arrangement in place is reasonably justifiable as being in the best financial interests of the beneficiaries.
51. Paragraph 18 of SPS 250 sets out the definition of an insurance arrangement. In addition to the primary documentation of the arrangement (generally an insurance policy document or a contract of insurance), an insurance arrangement also includes any agreements between an RSE licensee and the insurer or any other party to the extent that the agreement concerns making available the insured benefits. Examples of other agreements that may fall within this broad definition of insurance arrangement, and would ordinarily be considered as part of independent certification, include, but are not limited to:
- a) insurance services agreements;
 - b) claims handling agreements;

- c) service level agreements;
 - d) premium setting and profit share agreements; and
 - e) agreements with third party service providers such as administrators, where the agreement relates to making available the insured benefits.
52. It is expected that a person providing an independent certification would ordinarily have suitable expertise, experience and knowledge in matters relevant to insurance arrangements including, but not limited to, knowledge and experience of insurance benefit design, underwriting and claims assessment, premium determination, terms and conditions, service levels and delivery models, and general knowledge of the insurance industry and market conditions, in order to effectively assess and evaluate an insurance arrangement.
53. A person that provides an independent certification of an insurance arrangement is required to be independent of the RSE licensee and the insurer, and not otherwise associated with the insurance arrangement. For example, a person associated with the employer, with tendering for the insurance arrangement or involved with the comprehensive review of the insurance management framework, would not be considered to be independent for the purposes of providing an independent certification.
54. APRA considers that independent certifications will likely be provided by qualified and experienced persons associated with audit firms, actuarial firms, legal firms or other firms recognised in the superannuation and insurance industries, and expects that appropriate external sources of expertise will be sought where relevant.

Insurance arrangements

An insurance arrangement must include a number of specific criteria related to making insured benefits available to beneficiaries, including the ability for the RSE licensee to terminate the arrangement.

55. SPS 250 outlines the minimum requirements that must be included in insurance arrangements. APRA expects that ordinarily, an RSE licensee would also have documented arrangements in place, prior to the commencement of risk, which address matters including but not limited to:
- a) underwriting requirements, including the responsibilities of the insurer, the RSE licensee or any other party with respect to underwriting;
 - b) any reduction in benefits and premium loadings i.e. extra premiums charged to a member or group of beneficiaries based on specific conditions, including how beneficiaries are notified about additional premiums;
 - c) clearly defined conditions for when claims will be admitted or denied;
 - d) procedures for deducting premiums from beneficiaries' accounts and paying premiums to insurers;
 - e) procedures for notifying and paying claims, including the responsibilities of the insurer when communicating directly with beneficiaries;
 - f) continuation options including notification to beneficiaries;
 - g) liability and indemnity where the insurer outsources a material business activity relating to the insured benefits made available by the RSE licensee;
 - h) liability and indemnity where incorrect data has been relied upon; and
 - i) profit-sharing arrangements and experience commission terms, including their consistency with the undertaking provided under s. 29SAC of the SIS Act in relation to members with an interest in a MySuper product.
56. The responsibilities of the RSE licensee and the insurer's service levels would typically be outlined in an insurance arrangement. APRA considers that it would be sound practice for these to cover, at a minimum, the timeframes for:
- a) the provision of relevant member and claims information to the insurer;
 - b) processing claims, including the time taken to undertake the initial assessment of a claim;
 - c) claim decisions once all relevant information has been received;

- d) when admitted claims are paid; and
 - e) processing of underwriting requests and the communication of the outcome of underwriting decisions to beneficiaries.
57. SPS 250 requires that dispute resolution arrangements be addressed in an RSE licensee's insurance arrangements. APRA expects that this would cover the management of disputes between the RSE licensee and the insurer and the use of the RSE licensee's internal dispute resolution processes, as appropriate. The matters that would ordinarily be expected to be covered include, at a minimum, how disputes relating to claims, underwriting, premium payment, renewal, data and service standards are agreed upon, including how a dispute is to be escalated.

Attribution of status to a beneficiary

58. SPS 250 requires an RSE licensee to be satisfied, and to be able to demonstrate to APRA, that the rules for attributing any status to a beneficiary, cohort or class of beneficiaries, in connection with the provision of insurance, are fair and reasonable.
59. APRA considers that 'fair and reasonable' in this context would require that the rules that apply to an RSE licensee or an insurer would be applied in an equitable manner to take into account the financial impact of attributing a particular status to a beneficiary, cohort or class of beneficiaries. This is particularly important where it may affect the premium to be charged for insurance. For example, a status such as occupation class/type of 'blue-collar' or 'white collar', or a 'smoker status', affects the premium to be charged to a beneficiary. In determining whether a rule to attribute a status to a beneficiary is 'fair and reasonable', a prudent RSE licensee would be able to demonstrate that the rules for attributing a particular status to a particular beneficiary, cohort or class of beneficiaries are based on statistically appropriate data, sourced from the RSE's own data where there is sufficient data available.
60. Where an RSE licensee considers that an RSE has insufficient data of its own to provide an appropriate statistical source of data, APRA considers that the RSE licensee may use general industry data as an alternative source of data. It would be sound practice for an RSE licensee relying on industry data to be able to demonstrate that appropriate and comparable statistical sources have been used for the relevant beneficiaries, cohorts or classes of beneficiary.

RSE licensees that are part of a group

61. An RSE licensee that is part of a broader group of associated entities may utilise policies and functions of the group, with respect to making insured benefits available, provided that those policies meet the requirements of SPS 250. For example, an RSE licensee in a conglomerate group may use an established claims management approach used by other entities within the group to meet the obligations in SPS 250.
62. If an RSE licensee relies on documentation relating to making insured benefits available that is developed elsewhere in the broader group, it is important that this documentation be adopted only where it appropriately reflects the insurance management framework of the RSE licensee. The documentation would be expected to provide sufficient clarity to facilitate accountability by those with responsibilities associated with making available insured benefits within the RSE licensee's business operations.

Monitoring the insurance relationship

Effective processes for monitoring the insurer, including its performance under the insurance arrangement, are essential.

63. The resources required to manage and monitor the relationship with an insurer will depend on the complexity of insurance arrangements. Typically, an RSE licensee that maintains a complex insurance management framework with multiple types or sources of insured benefits and/or complicated benefit structures would need closer and more frequent contact with an insurer(s) and other relevant service providers, such as the administrator, than where simple insured benefits are made available to beneficiaries. Whilst APRA does not expect an RSE licensee to have dedicated insurance management resources in place, a prudent RSE licensee would ensure that its business structure allows adequate oversight of the risks related to the ongoing performance of the insurer and the administrator where relevant.¹¹
64. APRA considers that appropriately detailed and frequent reporting between the insurer, the RSE licensee and other parties involved in the management of insured benefits is crucial for managing the risks related to making available insured benefits.

¹¹ Refer to *Prudential Standard SPS 231 Outsourcing* for requirements related to outsourcing of material business activities.

Review of the insurance management framework

The insurance management framework includes a critical review process for ensuring the appropriateness, effectiveness and adequacy of an RSE licensee's framework for making insured benefits available to beneficiaries. A comprehensive review is required to be carried out on a three-yearly basis. A critical component of the review of the insurance management framework is the assessment of whether the insurance arrangements are in the best financial interests of the beneficiaries.

65. SPS 250 requires an RSE licensee to ensure that a comprehensive review of its insurance management framework is conducted every three years to ensure that it remains appropriate and effective with respect to its business operations. It would also be prudent practice for an RSE licensee to undertake an objective annual review of the insurance management framework. A prudent RSE licensee would normally conduct this review in conjunction with the regular review of its risk management framework, as required under *Prudential Standard SPS 220 Risk Management*.
66. In addition to consideration of each component required to be included in the insurance management framework, APRA expects that the periodic review of the insurance management framework would consider whether the risks relating to making insured benefits available outlined in paragraph 7 are adequately addressed by the risk management framework.
67. Under SPS 250, an RSE licensee is required to ensure that the comprehensive review of the insurance management framework considers all matters relevant to making insured benefits available to beneficiaries. This must include consideration of whether there are any conflicts of interest or duty that may impact the arm's length nature of the insurance arrangement and whether the best financial interests of beneficiaries may not have been prioritised. These factors are required to be considered in the context of the RSE licensee's business practices in selecting and monitoring an insurer and the terms and conditions of the insurance arrangement(s) for making available insured benefits for the beneficiaries.
68. APRA considers that business practices that indicate that the best financial interests of beneficiaries may not have been prioritised include, but are not limited to:
 - a) the initial appointment of an insurer where a market tender has not been conducted, and the continuing appointment of an insurer where a market tender has not been conducted for a period of time longer than the industry average;
 - b) restricted access of an RSE licensee to the whole market of insurers and/or reinsurers. For example, tenders being run through a limited market, potentially

just the incumbent insurer or tenders limited to insurers that reinsure with a particular reinsurer; and

- c) tendering practices that advantage an insurer, particularly the incumbent, over other insurers. Practices may include giving an incumbent insurer the right to tender first or last in the tender process, or additional time to respond to a tender. Other practices may include limited tendering periods and the provision of limited data such that insurers other than the incumbent have insufficient time and/or insufficient data to tender effectively.
69. APRA considers that terms and conditions of an insurance arrangement that indicate that the best financial interests of beneficiaries may not have been prioritised include, but are not limited to:
- a) exclusivity rights including:
 - i) where the terms of an arrangement provide an insurer with the ability to exercise its contractual rights to the exclusion of other insurers, or where it is given priority over other insurers, particularly in the tender process. For example, contractual rights to tender first or last in the tender process; and
 - ii) where the terms of an arrangement extend for a period of time longer than the industry average, for example a ten-year period and particularly where a market tender has not been conducted during this period;
 - b) material changes to rates, terms and conditions between market tenders or within rate guarantee periods (other than those required by legislative change);
 - c) where the terms of an arrangement provide an insurer with a unilateral right to vary the terms and where the conditions for variation have not been agreed in advance between the RSE licensee and the insurer; and
 - d) where the terms of an arrangement provide an insurer with the right to assist with, or influence, matters related to making available insured benefits. For example, the right to assist the RSE licensee with the selection process for the insurer.
70. In considering whether the best financial interests of beneficiaries may not have been prioritised, APRA expects an RSE licensee and a person performing a comprehensive review of the insurance management framework would determine if there are any matters of concern, such as those outlined in the above two paragraphs, and evaluate these in the context of the insurance arrangement as a whole.
71. APRA considers that it will be appropriate to identify if there are any compensating factors that may offset an otherwise adverse matter identified. Compensating factors may include, but are not limited to, a premium price reduction, a profit-sharing arrangement or premium adjustment mechanism or an improvement in other terms and conditions of the insurance arrangement. For example, compensating factors for a lengthy insurance arrangement may include a premium price reduction and/or reduced waiting periods for the commencement of an insured benefit. Compensating factors where an insurer with slightly higher premiums is selected may include a more stable

and predictable premium history and/or higher benefits paid, resulting in higher net expected returns to beneficiaries.

72. Where compensating factors are identified, a person performing a comprehensive review of an insurance management framework is expected to assess if the compensating factors are sufficient to offset any matters of concern, and then assess whether the best financial interests of the beneficiaries may not have been prioritised.



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