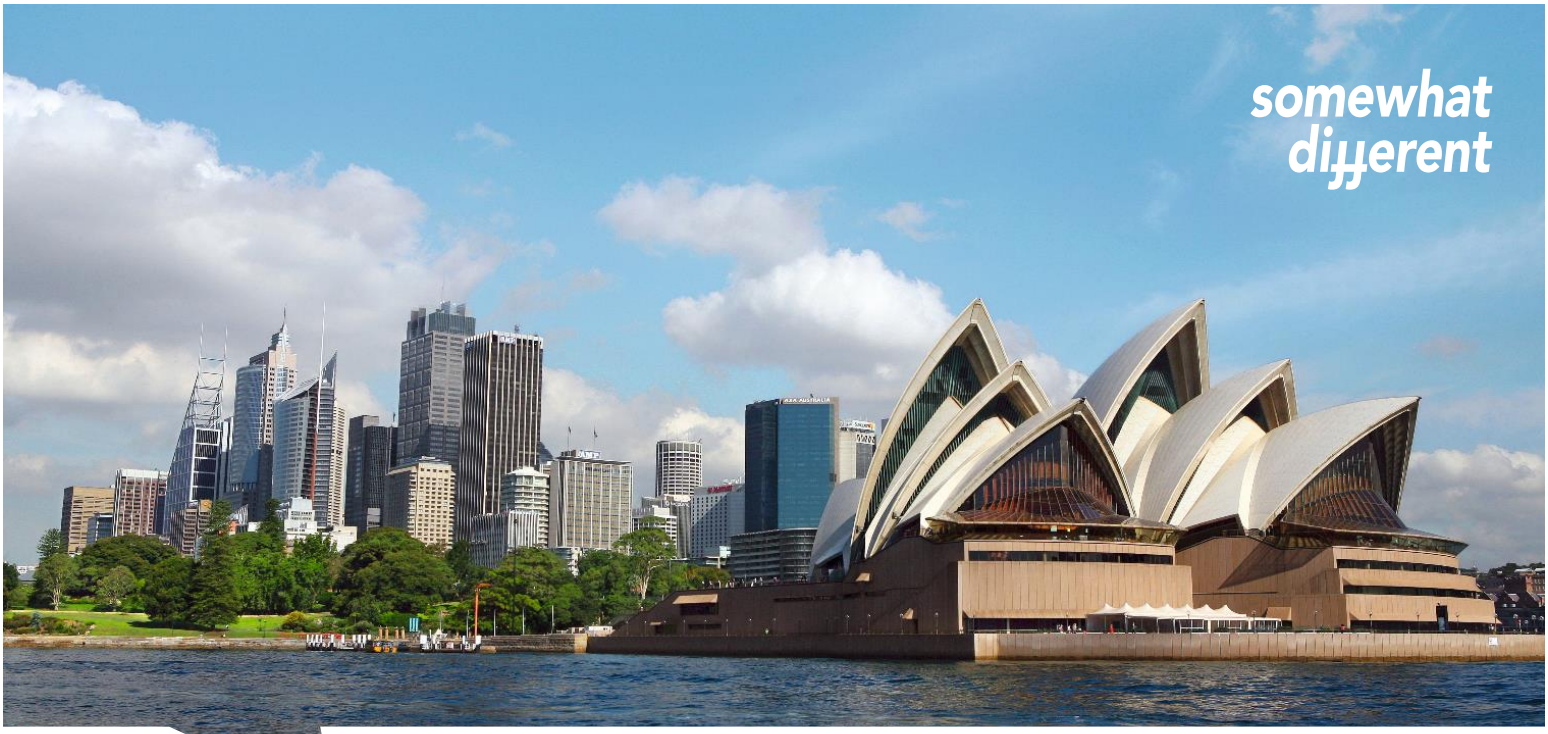


Australia: An important market for group insurance.

Group insurance in Australia

At a glance

Group insurance is cover that is provided to a group of people (where there are more than 250 lives) linked by a common factor such as employees of an employer, members of an association or members of a superannuation fund.

It is a single policy that covers all members and – as they are collectively assessed as a group – cost savings and advantageous product features are generally available to all members.

Group insurance considers the characteristics of the group as a whole to determine pricing, eligibility and applies principles of underwriting to reduce selection risk and mitigate costs.

Group insurance has a number of special features which distinguish it from individual or retail insurance: automatic acceptance levels, continuation options, premium experience rebate, rate guarantees, guaranteed renewable, simplified administration and takeover terms.

Products covered

Most group life insurance products include:

Death cover: Cover in the event of death during the policy term.

Terminal illness cover: Cover where during a policy term, a member is diagnosed with a terminal illness that is likely to result in their death within 24 months from that date that they are diagnosed.

Total and Permanent Disablement cover (TPD): Cover where during a policy term, a member suffers an injury or illness and they are totally and permanently disabled and unlikely ever at any time in the future to resume work in an occupation for which they are reasonably suited by education, training or experience. For TPD cover generally includes:

a) An 'any occupation' or alternatively an 'own occupation' definition
b) An 'activities of daily working', which includes the inability to undertake a number of specified activities such as walking, rising/sitting, dexterity, communication and eyesight
c) A permanent impairment definition
d) A cognitive loss definition
e) A loss of use of definition (limbs or sight)

Market segments

There are generally several market segments within the group life market:

Industry funds are 'not for profit' superannuation funds, which deliver all profits back to members. Industry funds are multi-employer funds, owned by a single trustee entity. They primarily offer services to members of a specific industry, such as retail workers, hospitality workers or builders, although many funds are now open to the general public.

Master trust funds are generally retail superannuation funds and known as 'for profit' funds and deliver profits to shareholders or owners of the policy; they are owned by a single trustee entity. Retail superannuation funds are often run by financial institutions and are open to members of the general public including individuals and groups.

Corporate funds are generally only open to people working for a particular employer and in some organisations membership is made available to ex-employees or relatives of existing employees. They may be linked to superannuation or they may simply be created to provide insurance cover.

Brokers vs direct

Group insurance contracts are normally written via two distinct channels:

Brokers/consultants: Will be engaged to help design and tender a group policy and may be used for this service on an ongoing basis to provide administration support, where they liaise between the policy owner, the member and the insurer. They may co-ordinate the initial requirements for a member to lodge a claim, collect and pay premium to the insurer and provide membership data to allow the insurer to undertake the appropriate review of the group insurance policy. They usually provide general advice at a fund level that is not member specific.

Direct channel: The owner of the policy will co-ordinate the tender and liaise with the insurer directly for all aspects of the group insurance policy. They may manage administration functions internally but more often they appoint an external administrator for administration support and to liaise with the member.

Brokers usually provide advice at a fund level

Super vs ordinary

There are two classes of life insurance policies:

Superannuation: These policies are maintained for the purpose of retirement and are owned and controlled collectively by fund Trustees. Whilst benefits are payable at the discretion of an insurer, benefits are controlled under a strict regulatory basis. Funds must offer a MySuper product with a default, low cost and simple superannuation product which is operated under a strictly regulated environment and subject to audits by government regulators.

Ordinary or 'non-superannuation': These are all policies other than superannuation policies (listed above) and are owned by the policy owner (i.e. an employer). Benefits are payable at the discretion of the insurer and the policy owner.

There are generally some product differences (more so under income protection policies) between the products sold as part of each class of policy, the major differences arise in the control of ownership, when a member has access to benefits and how that benefit is taxed.

Benefit design

Under a group policy, members are not generally able to choose their amount of insurance. The cover is determined by the policy owner and this cover is often referred to as default cover. There are different design types that are common for an agreed benefit:

Multiple of salary: This is an agreed benefit linked to a multiple of salary (i.e. 4 x salary).

Formula: This is an agreed benefit calculated by a formula (i.e. 15% of salary x years of future service to age 65).

Fixed level of cover: All members get a fixed level of cover (i.e. AUD 50,000).

Units of cover: This is an agreed benefit provided in units of cover that changes with the members' age (i.e. 2 units of cover as an example below):

Age next birthday	Agreed benefit (one unit of cover)
16 to 35	AUD 100,000
36 to 45	AUD 75,000
46 to 55	AUD 50,000
56 to 60	AUD 20,000
61 to 65	AUD 5,000

Premium rating structure

An insurer will rate a group scheme, taking into consideration the plans past membership exposure, any past claims experience, the demographics of members (i.e. age, gender and occupation), consideration to any particular risks associated with an employer (i.e. hazardous occupations, location of employees, overseas members or the level of casual members). This analysis will determine a pricing basis for the policy:

Unit rated premiums: Under this method, an average premium per unit is determined by the insurer, based on full information including age, occupation, gender and sums insured (this effectively determines a premium rate for an 'average member'). This basis is normally used for funds with a larger number of members.

Age rated premiums: This method provides a specific premium rate for each member depending on their age and the insurer will produce an age related premium rate table. The rates are more often unisex but sometimes gender based. There may be different rates for death and TPD, and occasionally smoker/non-smoker rates but this is not common for group policies.

Takeover terms

When a policy owner changes insurers, the new insurer usually agrees to take over the current levels of insurance cover on the same or similar terms as the previous insurer. Although an insurer may try to align the product, it does not mean that the cost of the cover and terms must be the same, simply that the takeover terms outline which insurer will be liable for claims with treatment consistent across the industry by using industry standard terms.

Automatic acceptance level

Providing insurance cover without individual underwriting is known as automatic acceptance. The maximum amount of insurance that an insurer will provide without underwriting is known as the automatic acceptance level (AAL), however the amount of cover automatically allocated to a member may be less than the AAL.

Example

An insurer may provide an AAL for a policy of AUD 750,000, however if the agreed benefit design used to calculate the member's death and TPD benefit provides AUD 450,000 of cover; their cover under automatic acceptance is AUD 450,000.

If the benefit design is based on a formula (i.e. 4 x salary) and the member's salary increases, no underwriting will be required, provided their cover remains under the AAL. Members are generally elect to opt out of cover at any time. It is also common to offer members the option to increase their cover soon after joining (i.e. within a window, say 90 days) within defined limits without any requirement for underwriting. Late applications received, where cover exceeds the AAL or ant voluntary cover will be subject to

underwriting and will commence from the date that the insurer advises.

Below is a sample of industry AALs. Under this basis, you apply the lower of the multiple-of-average sum insured and the maximum:

Number of lives	Multiple-of-average sum insured	Maximum
0 – 19	0	AUD 0
20 – 49	3	AUD 500,000
50 – 99	4	AUD 750,000
100 – 499	5	AUD 1,000,000
500 – 999	6	AUD 1,250,000
1,000+	8	AUD 1,500,000

Commencement of cover

In order to minimise risk and adverse selection, members will be provided with cover subject to certain commencement criteria. A member is generally first eligible for cover and cover will commence when they commence employment or when they are eligible to join a fund.

Cover available is generally cover up to the AAL for members provided that they are actively at work and undertaking the usual duties of their occupation, cover is granted in accordance with the agreed level, in conjunction with the member having not being eligible for or having previously claimed a TPD or terminal illness benefit.

Underwriting

Where cover is in excess of the AAL or is voluntary cover, an insurer will ask for evidence of health. There are often several different stages of underwriting, members have a duty of disclosure, to answer all questions honestly and disclose any medical condition(s) or history of which they are aware that may be relevant to an insurer in determining their assessment of risk.

A sample of group life underwriting requirements are:

Group life & total and permanent disablement
where less than age 45

Sum insured	Evidence of health
Up to AUD 2,500,000	Personal statement
AUD 2,500,001 – 3,500,000	Personal statement + bloods + GL medical exam
***AUD 3,500,001 – 5,000,000**	Personal statement + bloods + GL medical exam + personal medical attendants report
***AUD 5,000,001+**	Personal statement + bloods + GL medical exam + personal medical attendants report + full blood count + exercise ECG

*Death only cover. TPD & Terminal Illness cover is only available to AUD 3,000,000

Group life & total and permanent disablement
where age 46 and older

Sum insured	Evidence of health
Up to AUD 1,500,000	Personal statement
AUD 1,500,001 – 2,500,000	Personal statement + bloods
AUD 2,500,001 – 3,500,000	Personal statement + bloods + GL medical exam
AUD 3,500,001 – 5,000,000	Personal statement + bloods + GL medical exam + personal medical attendants report
AUD 5,000,001+	Personal statement + bloods + GL medical exam + personal medical attendants report + full blood count + exercise ECG

Bloods include: HIV, Hepatitis B & C Serology, Multiple Biochemical Analysis including Liver Function test, Renal Function test, Fasting Glucose test and Lipid profile. All blood tests can be taken from one sample.

Because of the underwriting evidence provided, the insurer may decide that the member has a greater risk of death or disability that has been allowed for in the standard premium rates. The insurer may either accept or decline the application for extra cover, or impose special terms or conditions (for example a member with a pre-existing back complaint that is excluded from cover) on any amount of cover over the AAL provided by the fund, or any cover that is voluntary cover.

Exclusions

An insurer may exclude claims arising from certain circumstances. Typically, benefits may not be paid where a claim arises as a result of: intentional self-inflicted harm (TPD only cover), suicide (death only cover), acts of war, location in another country that is on the Australian governments (DFAT) website or participation in a criminal act. Income protection policies may also include other exclusions such as normal/uncomplicated pregnancy or childbirth. Exclusions for individual members may also be imposed at an individual level during an underwriting process.

Claims

An insurer must be satisfied that the insured event has occurred under the policy terms. For superannuation policies, the trustee must also be satisfied that the requirements of the policy have been met and in the event of a death claim they must also decide who should receive the benefit (i.e. who are the beneficiaries).

To claim a TPD benefit, the insurer (and for superannuation policies, both the insurer and the trustee) must be satisfied that the member meets the relevant TPD definition – basically, that they are unlikely ever to work again in an occupation for which they are reasonably suited by education, training or experience. This process may take some time and involve some or all of the following:

- Generally, a 3-month wait to allow the diagnosis to stabilise (the period is outlined in the policy and known as the waiting period)
- Lodgement of a claim, including medical evidence from the member's treating doctors and/or specialists and statements from both the member and their employer
- Attending medical examinations with the insurer's independent doctors
- Assessing capability for other employment by attending interviews with an occupational physician, workplace vocational assessment specialist or rehabilitation consultant

Claims management requires specialist expertise

Some policies also include a rehabilitation and early intervention program which may include a return-to-work program to allow recovery, restore and optimise wellness.

Administration

Administration of group life plan may include:

- Managing the installation of a new policy and possibly the transfer of cover from one insurer to another
- Payment of premium to an insurer
- Advice to the insurer of any new member that requires underwriting or where cover for a member is in excess of the AAL
- Co-ordination of regular information to the insurer including members requiring underwriting, members who wish to lodge a claim and collation of membership information which will be provided to the insurer to undertake the annual review

These administration functions may be outsourced to a specialist administrator or may be undertaken by the policy owner.

Premium adjustment mechanisms

Premium adjustment mechanisms enable a fund to benefit when the claims experience is better than expected by the receipt of a rebate from the insurer at the end of the agreed period. Three types may be available:

Self-experience: Is usually available only to large funds (i.e. a minimum of 1,000 members or more). Under this basis the fund's profit share thus depends on its own experience.

Multinational pooling: Companies which have overseas operations may choose to pool the group life experience of their operations in different countries. This can be arranged using multinational group life pools. Any multinational dividend payable will be in addition to any premium experience rebate payable within each country under the agreed policy.

Pooled: The insurer creates a 'pool' of all the funds which have chosen to participate in the pooled profit sharing arrangement. The insurer determines bonus rates use to distribute this profit. The larger the pool, the more stable the bonus rates from the pool are likely to be. This type of pool is not commonly used for new policies in the Australian market.

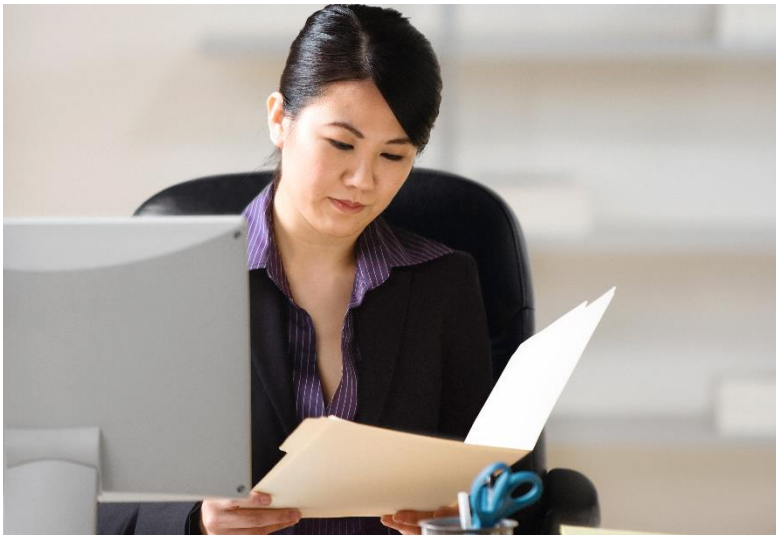
Guarantee renewability

Most group policies are guaranteed renewable policies (or called non-cancellable) where a life insurer is not able to cancel the policy. An insurer is able to alter the policy terms subject to certain criteria within the premium rate guarantee (see below). Outside of this period, they may alter premiums due to poor claims experience, changes in the demographics of members (i.e. age, gender and occupation), changes in legislative requirements or any change having considered the particular risks associated with the policy.

Premium rate guarantees

Subject to agreed conditions, insurers generally maintain premium rates for a certain period (usually up to 3 years), which is known as the guarantee period. At the end of this period, an insurer will reassess the experience and risk factors and may vary rates and product features usually after giving a specified minimum notice period (i.e. 3 months). During the 'rate guarantee period', an insurer reserves the right to alter premium rates and terms subject to certain changes, including:

- Where the number of lives covered fluctuating by an agreed percentage (i.e. 30%)
- Changes in government legislation, reform, charge, taxes or duties
- Changes in rules under which members are admitted or provided cover
- Level of cover or risk factors change
- Where the policy owner invites another insurer to provide alternate pricing or terms & conditions



Reinsurance requires a strong partner

Termination of cover

Cover will generally remain in force until a termination provision has been met. These provisions may include:

- Member ceasing employment
- In the case of a superannuation fund: when the member's account balance is insufficient to meet the next premium that is due
- Member reaching the maximum insurable age under the policy
- End of policy
- Member cancels their cover
- Member is on extended leave or is employed overseas for an extended period of time without the insurers prior approval
- Member commences active duty with the armed forces of any country, except as a member of the Australian Defence Force Reserves whilst performing duties within Australia
- Member dies
- Fraudulent claim
- Member moves to another fund or the fund wishes cover to cease

Where the policy is a superannuation, there are also legislative requirements under which the insurer must turn off insurance where

- a member's superannuation account has not received a contribution for a period of time, i.e. 16 months or
- any minimum legislative requirements instruct the fund to transfer a member's superannuation account to the Australian Taxation Office, i.e. a low account balance of under AUD 6,000.

Some policies may also include an extended cover period (usually where a member ceases employment) and when cover ceases the exiting member may be offered the ability to effect an external continuation option under an individual retail policy subject to certain conditions.

Enquiries

If you have any questions in relation to this paper, please do not hesitate to contact a member of our Marketing team in Australia.

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