

Group Risk Insurance Consulting Services

The importance of Group Insurance for funds



Group Risk insurance, which includes Death, TPD and Income Protection, has increasingly become a major focus for superannuation funds. This focus is understandable considering that insurance represents a significant expense (generally the second largest expense after tax) and is a major benefit offering to members.

It is therefore prudent that trustees pay particular attention to the way in which funds manage their insurance arrangements to ensure the best possible outcomes for their members.

Our experience shows that funds who have appropriate insurance management controls in place receive demonstrably superior pricing, benefits, service and terms & conditions.

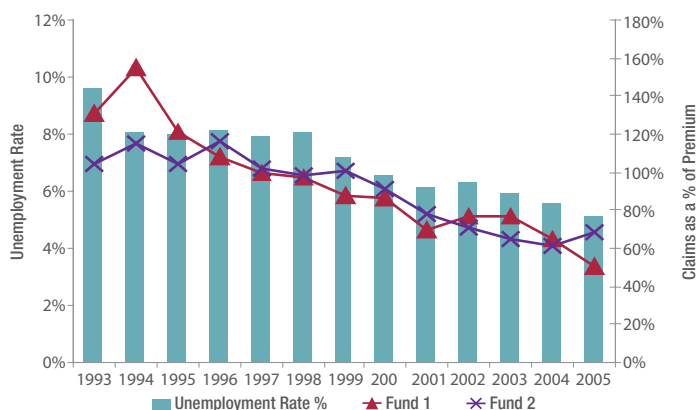
For insurers, the superannuation market represents approximately \$1.87 billion in premium flow (as at December 2007) and continues to increase on the back of superannuation asset growth. In fact, over the last decade, the insurance market has more than quadrupled in terms of premium flow.

A Cyclical Market

The Australian Group Risk insurance market has gone through a period of significant change due to the continued growth of superannuation and increasing competition. However, history tells us that the Group Risk insurance market is cyclical and closely follows the economic cycle.

Our analysis supports the view that the claims experience of the Group Risk insurance industry correlates with certain key economic performance indicators, such as the unemployment rate.

The following graph depicts the claims experience for two major superannuation funds against the unemployment rate over a number of years:



The graph shows that the claims experience of the two funds' Group Risk insurance arrangements and the underlying unemployment rate of the economy are positively correlated - when the unemployment rate is high so is the claims experience, and vice versa. There are obviously many factors at play, but the correlation between claims experience and the unemployment rate is clear.

Historical trends suggest that if there is another economic downturn, which usually results in an increase in the unemployment rate, the claims experience of the Group Risk insurance industry will rise. This increase may require redress resulting in an appropriate review of pricing and terms and conditions by insurers.

A 'hardening' insurance market generally leads to insurers being more conservative in their assessment of risks. This usually leads to higher pricing and more stringent terms and conditions.

Insurance Data Management

The correlation between funds that adopt an effective internal system for monitoring and managing insurance data, and obtaining superior insurance tender outcomes, has never been more obvious.

In the Group Risk area, there are a number of key factors that affect the outcomes of an insurance review, as sought by the trustees of superannuation funds. One of the most important factors for insurers when formulating pricing and other terms and conditions, is the provision of complete and accurate insurance data.

At a minimum, this data includes:

- Membership history and profile
- Claims history
- Premium history
- Historical changes to the fund and its benefit design including fund mergers or roll-ins
- Economic or other events that impact the Fund or its employer sponsors

The assessment of this data by insurers can be a lengthy and a highly involved process, generally taking into account the past 10 years of the fund's history.

Continued over page...

In our experience, the final outcomes offered by insurers in pricing, terms and conditions are a direct reflection of the quality of data they possess. Providing insurers with good quality data will generally lead to sharper pricing and less conservative assumptions.

It should be remembered that for many large funds, a small percentage improvement in premium translates into a substantial cost savings or benefit improvement. For example, a 2% differential in premium outcome may not seem significant, but if you apply this differential to a premium pool of \$20 million, the saving is significant.

In the formulation of premiums, insurers will have particular regard to the distribution of age, gender and sum insured for the fund's membership. Occupational data for members in particular can assist insurers in the assessment and analysis of risk.

Generally, in the absence of member specific occupational data, insurers will make assumptions of the fund's profile by taking into account the industry or industries that it represents. This may lead to a conservative estimation of the occupational profile of the fund. On the other hand, funds that have installed a process to capture occupational data are in a better position to secure more competitive arrangements as a result of insurers being able to determine the fund's true occupational profile.

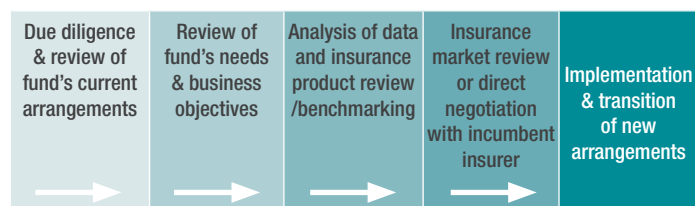
Data management should also extend to fund mergers, special employer transfer arrangements, special member offers and benefit design changes. In doing so, and from a corporate governance perspective, funds are better placed to fulfil their duty of disclosure and minimise the opportunity for future disputation.

From an insurance perspective, IFS Insurance Broking has always advocated that the management of data should be a primary consideration and focus for funds. The old adage in the insurance industry that '*data is king*' will always hold true.

The Importance of Strategy

Although insurance represents a major expense, as well as a major benefit offering to members, it has a significant capacity to cause disputes and complaints. It is therefore important that funds have in place a strategy that aligns their insurance offering to their broad business objectives.

At IFS Insurance Broking, we use the following process when developing a strategy for our clients:



This is a structured and analytical approach to strategy development and one that is designed to ensure that the final insurance outcomes are aligned with the needs and business objectives of our clients. It also ensures that our client's insurance arrangements are integrated with their marketing, communication, compliance and risk management strategies at all times. To help clients understand their needs, we advocate that they:

- Understand the financial performance of their insurance arrangements including the underlying claims experience and trends

- Know the key performance indicators of the current arrangements including service delivery
- Review member needs in respect of adequacy and seek input from key stakeholders
- Strengthen or implement controls for better insurance data management
- Know how their product offering stacks up in the market and with their key competition

In addition, our approach to strategy development will result in a range of options for our clients to consider and pursue. These options may include a major review of product development initiatives in the broader market or direct negotiation with their current insurer.

We advocate the development of long-term strategies with respect to the management of Group Risk insurance arrangements. This will assist in ensuring sustainable insurance arrangements via the ongoing review of the fund's risk profile, product development, risk management framework, financial performance and key processes that improve member experience.

Our Services in Support of Funds

IFS Insurance Broking is at the leading edge of the Group Risk insurance market in respect of product review, strategy development and tender services.

We can provide funds with the following consulting services:

- Due diligence and strategy development services to assist funds in aligning insurance to business objectives including member retention and new member growth.
- Insurance product review and product development including contract review, service development and identification of key areas of improvement.
- Financial performance analysis of insurance arrangements including analysis of claims experience.
- Benchmarking of insurance arrangements against competitor funds.
- Best practice insurance processes including data management, claims and underwriting.
- Tender management services including tender preparation, negotiation, placement and the implementation of new arrangements with fund administrators.
- Insurance management services including implementation of service agreements, review of claims, insurer performance and administration effectiveness and ongoing compliance with contractual obligations.

Our approach to client advocacy is embedded in our culture and is the driving force of our business. Such a focus, coupled with the capability of our staff and leverage in the market, means that IFS Insurance Broking is well positioned to achieve outstanding results for funds.

For more information please call: **03 9923 7171**
or visit: **ifsib.com.au**

Casselden Place
Level 31, 2 Lonsdale Street
Melbourne VIC 3000