Hidden traps in growth of life cover

The late cricketer Tony Greig, whose family is now at the centre of a disputed life insurance claim

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The shortcomings of life insurance policy — notably those from Commonwealth Bank's CommInsure division — have been in the news again this week. It's worth pointing out that under the hood of most super funds is an insidious trap the majority of investors would be alarmed to learn about. This trap is insurance cover in super.

Underinsurance has always been an issue in Australia with less than 4 per cent of Australians holding what the industry describes as "adequate cover". However, automatic insurance cover via a super fund, which seems like a great solution on the surface to the underinsurance problem, can create quite a few surprise outcomes down the track.

Fundamentally, insurance is a complex financial product and any financial product should be understood and entered into willingly with the participant understanding the benefits, risks and the costs entailed. Where insurance in super is concerned this does not appear to be the case in most instances.

There is no better example of the complexity involved with insurance than the recent Tony Greig claim incident where *The Australian* revealed the widow of the late cricket player and commentator is fighting CommInsure over the terms of his policy.

Unfortunately, insurance is not a simple product that providers can empower people to select online with convenience or by providing an inducement. A typical insurance policy has waiting periods, a period of cover option from two years, to age 65,70 or 100, indemnity or agreed cover, policy definitions such as any occupation or own definitions, to name but a few.

So how does the average super fund member know that their policy, which is mostly funded by their employer super contribution, will pay out when they claim and whether it is suitable and sufficient for their needs?

My recent experience involved setting up a super fund for my wife with Virgin Super. I was shocked to find my wife, who works part time as childcare educator, had been automatically provided with Life and TPD (Total and Permanent Disability) cover of $270,000 on a part-time income of $25,000.

Now compared to the employer contribution she received from her employer, this cover was proportionately high. When we tried to disable the cover online, we were directed to the super provider's customer support service.

My wife was far more fortunate than many superannuants, as I made the call to the provider who went on to ask me why I wanted to cancel the insurance and if the cover could be reduced to make it more affordable. I stagger to think how a non-financially educated or experienced person would know what to do.

Insurance arrangements in super are a ticking time bomb. Most Australians do not realise that in order to obtain quality cover that pays when you claim, a medical assessment is necessary as is full disclosure of past and present family and personal medical history. Fail to complete these two critical steps and or to misunderstand the policy definitions and exclusions and you run the risk of having to complete a medical assessment at claim time or the far greater risk of not getting paid on your claim.

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In fact, advances in internet technology and social media as a means of communication, along with disruptive business models, are all working harder than ever to make a complex product appear simpler and easier for the consumer to purchase directly.

Historically insurance was sold to a consumer by an insurance agent or in more recent times, by a financial adviser at no direct cost to the consumer, with the adviser being remunerated by a commission payment paid by the insurer.

For the last 30 years, this model has worked very effectively for the consumer and the insurance company, as the adviser ensures that the clients circumstances are checked against the policy they recommend. Risks are explained and fees are disclosed and, importantly, all advised insurance is medically assessed and disclosure requirements are communicated to the client to ensure that the cover is understood by the client and that the insurer can properly assess the client and approve the cover with or without exclusions ensuring that a claim is paid.

Unfortunately, it seems that opportunism and technology are meeting to improve the take up of insurance, but consumers need to ensure that the cover they select is suitable or that they have some say in the selected cover and that they are informed of the risks and costs. The recent growth in insurance sales has resulted in a probe from ASIC into insurance advice.

After identifying a small sample of adviser files ASIC discovered that systemic churn was prevalent. Though this finding might be true in some cases, the age-old arrangement of commissions for advice has mostly worked to educate and advise the consumer, increase the take up insurance and, importantly, to provide this service at no cost to the consumer.

However, what is far more insidious, costly and dangerous is the growth in super insurance arrangements and the growth of online and direct insurance, all of which provide no advice to consumers, which will result in more cases of failed claims and damage to the reputation of insurers and the insurance sector, which poses a far greater risk of increasing costs and lower insurance growth than the risk of cost increases due to insurance churn.

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