

June 2011

Review of Macquarie Sumo

Macquarie Life

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Table of Contents

1. Background	3
Attachment A Public Report	4
A.1 Executive Summary	4
A.2 Background	4
A.3 Features	5
A.4 Flexibility	11
A.5 Financial Strength	11
A.6 Price	11
A.7 Services to Customers	12
A.8 Suitability to customers	12
A.9 Conclusions	13

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1. Background

Rice Warner Actuaries has been engaged by Macquarie Life to review the revised (2011) Sumo product and comment upon its suitability in the risk insurance market. In particular, we have been asked to consider the types of customers and circumstances when Sumo is likely to be a better option to provide the required cover than alternative products available.

Our report is intended for public use, in particular by dealer groups and advisers. Therefore we have set out a formal report in Attachment A for this purpose.

Whilst we have been remunerated by Macquarie Life for this work, the views expressed are our own independent views.

This report was prepared and peer reviewed for Macquarie Life by the following consultants.

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Attachment A Public Report

Review of Sumo - June 2011

A.1 Executive Summary

Sumo is a unique product in the Australian market. It offers levels of cover which have typically only been available after individual assessment and reinsurance placement by the insurer and, for TPD, Trauma and Income Protection insurance levels which would be declined by most companies.

The benefits for the customer are:

- Access to high levels of cover with relative ease;
- A streamlined application and underwriting process; and
- Timely delivery.

For large sums insured the product offers a unique value proposition to customers, because:

- The client avoids the lengthy and complex process commonly involved in obtaining significant levels of death cover through traditional products; and
- Cover is simply not available elsewhere at high sums insured for TPD, Trauma and Income Protection.

In addition, cover is provided on a Tiered basis, so for cover levels available from other insurers the terms offered are competitive with the market, including Macquarie's own FutureWise product.

Given the high levels of cover available, the market competitive terms for a portion of the cover and a streamlined process to obtain cover, Sumo should be a product of choice for many clients seeking high levels of cover.

A.2 Background

Rice Warner Actuaries is an independent firm of consulting actuaries specialising in advice to life companies and dealer groups on life insurance and wealth management products.

We have been engaged by Macquarie Life to provide our views on the Sumo product and its suitability for clients with a need for high levels of insurance cover.

We consider that the value of an insurance product should be assessed in terms of the overall package offered, including:

- The protection and benefits provided and their cost;
- The financial strength of the insurer, to give confidence that they will pay claims; and
- The level of service provided by the insurer, for example at the time of application and in the event of a claim, ongoing assistance and the timeliness with which services are provided.

We have considered all these aspects in our review of Sumo. We have not considered adviser commissions.

Details of Sumo are set out in the PDS. In summary, it provides the following benefits:

- Lump sums upon death or terminal illness;
- Total and permanent disablement (TPD) - in three tiers of \$5 million each, Own Occupation, Any Occupation and Activities of daily work;
- Trauma events - in two tiers, namely Standard (up to \$2 million) and Sumo (a further \$8 million); and
- Disability Income in the event of total temporary disablement.

Sumo is designed to provide these benefits at significantly higher sums insured than those ordinarily catered for in the market, albeit at a somewhat higher cost (see Section A.6) and with some limitations on the circumstances when claims are paid. These limitations generally only apply to the cover that is not available through conventional channels elsewhere in the market.

Sumo has streamlined the provision of these benefits, ensuring a speedy placement process and certainty regarding the conditions that will be placed on each policy.

A.3 Features

Table 1. Death Cover - Features Comparison at high sums insured

Feature	Typical Product	Sumo
Sum insured	Unlimited	Unlimited
Terminal Illness benefit	The full sum insured is paid	The full sum insured is paid
Underwriting	For sums insured above the reinsurer's specified limit (say \$20 million) individual case assessment is usually required, leading to complexity and delay and often a different pricing structure.	The underwriting process has been designed to deal with high sums insured, so a much smoother underwriting process.
Exclusions	The only exclusion is suicide in the first 13 months. Additional exclusions/restrictions are often introduced for higher sums insured.	The only exclusion is self inflicted acts which is applied: <ul style="list-style-type: none"> ▪ For all of the cover in the first 13 months ▪ For the portion of cover over \$15 million for the duration of the policy.
Indexation	The greater of 3%-5% and CPI	The greater of 3% and CPI
Other Benefits	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ Funeral Advancement ▪ Financial Planning 	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ Funeral Advancement ▪ Financial Planning
Other Options	<ul style="list-style-type: none"> ▪ Waiver of premium ▪ Business Insurance Options ▪ Needlestick ▪ Level Premium Structure ▪ Children's Cover 	No other options are currently available
Interim Cover	Yes but with limited sum insured.	Sumo offers comparative terms with the market.

Table 2. Total Permanent Disablement Insurance - Features Comparison

Feature	Typical product - at low sum insured	Sumo - at low sum insured	Typical product - at high sum insured	Sumo - at high sum insured
Sum insured	\$5,000,000	\$5,000,000	\$5,000,001 to \$15,000,000	\$5,000,001 to \$15,000,000
TPD definition	<ul style="list-style-type: none"> ▪ Majority offer Own occupation cover for the full \$5m, with a three month waiting period ▪ Some policies only offer own occupation up to \$3m - with either no further cover or an extra \$2m available on an ADL/Modified definition 	Own occupation, with a three month waiting period.	Product not available	Standard Tier \$5m: Own occupation with three month waiting period; Sumo Tier - the next \$5m: Any occupation, which is education, training or experience, with a three month waiting period; Sumo Tier Remainder: Activities of daily working.
Exclusions	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts. ▪ Insurrection (a few insurers only) 	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts ▪ Other exclusions only apply to the Sumo Tier of cover 	Product not available	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts For the Sumo Tier Only: <ul style="list-style-type: none"> ▪ Drug Abuse ▪ Alcohol abuse or alcohol dependence ▪ Mental illness ▪ Fatigue syndromes
Stand alone cover	Yes	No	Product not available	No
Buy back option	Yes - capped at \$5m	Yes - capped at \$5m	Product not available	Yes - capped at \$5m
Indexation	The greater of 3%-5% and CPI	The greater of 3% and CPI	Product not available	The greater of 3% and CPI
Other Benefits	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ TPD Advancement ▪ Financial Planning ▪ Continuation of cover past age 65 to 70 	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ TPD Advancement ▪ Financial Planning ▪ Continuation of cover past age 70 	Product not available	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ TPD Advancement ▪ Financial Planning ▪ Continuation of cover past age 70
Other Options	<ul style="list-style-type: none"> ▪ Waiver of premium ▪ Business Insurance Options ▪ Needlestick ▪ Level Premium Structure ▪ Children's Cover 	No other options are currently available	Product not available	No other options are currently available

Table 3. Trauma Insurance - Features Comparison

Feature	Typical product - at low sum insured	Sumo - at low sum insured	Typical product - at high sum insured	Sumo - at high sum insured
Sum insured	\$2,000,000	\$2,000,000	\$2,000,001 ¹ to \$10,000,000	\$2,000,001 to \$10,000,000
Medical Conditions Covered.	Simple or comprehensive packages.	The first \$2,000,000 covers a comprehensive list of conditions, including partial payments.	Product not available	Excess sum insured above \$2,000,000 only covers 5 key conditions.
Exclusions	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts. ▪ Some conditions are excluded in the first 90 days. 	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts ▪ Some conditions in the first 90 days. ▪ Any known pre-existing conditions 	Product not available	<ul style="list-style-type: none"> ▪ Intentional self inflicted acts ▪ Some conditions in the first 90 days. ▪ Any known pre-existing conditions <p>For the Sumo Tier Only:</p> <ul style="list-style-type: none"> ▪ Drug Abuse ▪ Alcohol abuse or alcohol dependence
Other Benefits	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ Financial Planning 	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ Financial Planning 	Product not available	<ul style="list-style-type: none"> ▪ Future Increases (may be capped) ▪ Financial Planning
Other Options	<ul style="list-style-type: none"> ▪ Waiver of premium ▪ Business Insurance Options ▪ Needlestick ▪ Level Premium Structure ▪ Children's Cover ▪ Trauma Reinstatement 	No other options are currently available	Product not available	No other options are currently available
Buy back option	Yes - capped at \$2m	Yes - capped at \$5m	Product not available	Yes - capped at \$5m
Indexation	The greater of 3%-5% and CPI	The greater of 3% and CPI	Product not available	The greater of 3% and CPI

¹ With the exception of Asgard which covers up to \$2.5 million.

Table 4. Disability Income Insurance - Features Comparison

Feature	Typical product	Sumo
Max Monthly benefit	\$60,000	\$60,000
Income Replacement Ratio	75% of first \$320,000 50% of next \$240,000 20% of remainder	75% of first \$320,000 50% of next \$240,000 25% of remainder
Total disablement definition	Unable to perform one or more of the duties of the person's usual occupation	Unable to perform one or more of the duties of the person's usual occupation
Waiting period	14, 30, 60, 90, 180, 365 or 720 days	60 or 90 days
Benefit Periods - For the first \$30,000 cover	1, 2, 5 and 10 years and to age 55, 60, 65 or 70	1, 2, 5 and 10 years and to age 65
Benefit Periods - For cover over \$30,000	2 years	1, 2, 5 and 10 years
Other Benefits	Additional benefits not available in Sumo are: <ul style="list-style-type: none"> Day 1 accident cover GFI 	Sumo offers: <ul style="list-style-type: none"> Partial Disability Recurrent Disability Specific Injury Benefit Death Benefit Waiver of Premium (for disability and unemployment) Bed confinement Home Care Benefit Rehabilitation Expense Benefit Accommodation benefit Overseas return benefit Claims escalation Cover extension Trauma Benefit Indexation (before claim)
Exclusions	<ul style="list-style-type: none"> Intentional self inflicted acts Normal pregnancy Elective surgery in first 6 months War Criminal acts 	<p>For all Cover</p> <ul style="list-style-type: none"> Intentional self inflicted act Normal pregnancy Elective surgery in first 6 months War Refusal to undergo rehabilitation Whilst the insured is in jail <p>After a benefit has been paid for 24 months cover is capped at \$40,000 per month for claims caused by or attributed to;</p> <ul style="list-style-type: none"> Drug abuse Alcohol abuse or alcohol dependence Mental illness or fatigue syndromes
Offsets	<ul style="list-style-type: none"> Standard offsets (sick leave/social security/ worker comp etc). 	<ul style="list-style-type: none"> Standard offsets (sick leave/social security/ worker comp etc.).

A.3.1 Overall Features Comments

Sumo competes very well on standard definitions and terms at the levels of cover normally available in the market. However, Sumo offers levels of cover well above the market for TPD and Trauma, albeit that the additional risk is managed through some tightening of policy terms as the sum insured increases.

Of particular note are the alcohol abuse, alcohol dependence and drug abuse exclusions. It is rare to find these exclusions in the retail products currently on the market. However, they only apply where there is an established pattern of problem drinking that has health consequences and/or social problems, so it will not apply to those who use alcohol responsibly. This only affects levels of cover not easily available elsewhere in the market.

Indexation is available, but offers marginally less inflation protection than other products. Sumo provides indexation of the greater of CPI and 3% compared with the greater of CPI and 5% for competing products.

The product is designed for an environment where the level of cover is either regularly reviewed or in place to cover quite specific needs. In either case the need for indexation is either limited or can be predetermined and accounted for in the original levels of cover sought.

Sumo offers the majority of ancillary benefits offered more broadly in the market, including Financial Planning Benefit, Advancement benefits for death and TPD, Guaranteed Future Increases and Life buyback. However, Sumo does not currently offer many of the optional benefits available in the market such as level premium, children's cover and waiver of premium on TPD. These are all 'extra cost' options in the market so Sumo is no less competitive as a result, other than through the options not being available.

A.3.2 Death Cover

For death cover most products, including Sumo, provide unlimited levels of cover.

Sumo currently matches the ancillary benefits provided under other products.

Sumo has less ancillary options than other products. There is also an additional exclusion, namely self inflicted injury (suicide) after 13 months for cover over \$15 million. However, the process of obtaining cover at high sums insured under traditional products is usually time consuming and complex, often including individual reinsurance placement and the possibility of restrictions being placed on cover to reflect the sum insured involved, such as equivalent suicide exclusions.

Sumo has an established application and underwriting assessment process, including pre-agreed reinsurance terms, which minimises the time and inconvenience for the customer through the process.

A.3.3 Total Permanent Disability Cover

Sumo is currently the only standard product in the market which offers sums insured over \$5 million with a broad TPD definition. It provides cover on an own occupation basis for the first \$5 million (Standard Tier), an any occupation basis for the next \$5 million and an Activities of Daily work for the next \$5 million (Sumo Tiers), giving a total of \$15 million cover overall. There are no other products available that provide cover over \$5 million.

So, despite the extra exclusions that apply for cover above \$5 million and the more restrictive definition over \$10 million, Sumo is clearly the product of choice for those seeking cover above the \$5 million level.

A.3.4 Trauma Cover

Sumo currently excludes pre-existing conditions. In most cases this will make no practical difference for the client given the disclosure requirements and full underwriting that will occur at these high levels of cover. Pre-existing conditions disclosed at underwriting may result in a premium loading or exclusion of the condition concerned. Nevertheless, there may be instances where the client could have been accepted on standard terms with another insurer but Sumo could refuse a claim due to the pre-existing condition. This is only an issue for the first \$2 million of cover, as there are no competing products above that level.

Sumo has tiers of Trauma cover:

- Standard Tier - which applies for the first \$2 million of insurance, offering a comprehensive range of insured events, comparable with those of competing products and including partial benefits; and
- Sumo Tier - which applies for the remaining sum insured, offering cover for five conditions² only, constituting the majority of claims and thus risk. However, more restrictive claim conditions apply - the cancer definition has seven additional exclusions and the heart attack definition requires that the left ventricular ejection fraction is 40% or less 6 weeks or more after the event, which is a stronger test than typically applies.

Sumo is currently the only standard product in the market which offers sums insured over \$2 million, albeit covering limited trauma events³. So, despite the more limited trauma definitions above \$2 million sum insured, Sumo is clearly the product of choice for that portion of the client's Trauma insurance needs.

A.3.5 Disability Income Cover

Sumo is the only product on the market that will cover over \$30,000 for a benefit period greater than 2 years.

For cover levels **up to \$30,000**, the Sumo minimum, cover is available to age 65 and for 1, 2, 5 and 10 year benefit periods.

Cover **over \$30,000** is available with benefit periods of 1, 2, 5 and 10 years and with an income replacement ratio of 25% of income above \$560,000 per annum of income. This is a distinct advantage compared with other products in the market that only allow cover over \$30,000 on a 2 year benefit period and with a 20% income replacement ratio above \$560,000 per annum of income.

Sumo does not currently offer the range of waiting periods found in other products. However, for Sumo's target market we expect there is little need for a waiting period of less than 60 days, as high net worth individuals generally have better access to cash in the short term. The effect on premium costs of a shorter waiting period at high benefit levels would be quite substantial.

Sumo offers an endorsed agreed value for the first \$40,000 of cover. This is unique in the market in that the agreed value is assessed at underwriting rather than at claim time, as is

² Cancer, paralysis, heart attack, stroke and loss of independent existence.

³ With the exception of Asgard which covers up to \$2.5 million.

usual in the market. This offers extra security that the level of cover applied for will be available at claim time.

Extra exclusions are applied for cover over \$40,000 per annum after 24 months of claim benefits have already been paid. These exclusions assist Macquarie in managing its risk and such clauses would not be unusual when placing such high levels of cover with other insurers.

Given the streamlined application process that Macquarie has developed and the opportunity to place high levels of cover with benefit periods greater than 2 years, Sumo is clearly a product of choice for client's who have disability income protection needs significantly in excess of \$30,000 per month.

A.4 Flexibility

Due to the robustness of Sumo's cover at low levels of cover, Sumo provides a complete risk solution, across the spectrum of sums insured. As such there is no need to write another, more conventional product such as Macquarie Life's FutureWise alongside the Sumo product.

Sumo is flexible in terms of the legal structure under which it is written:

- It can be written as superannuation, non superannuation or a combination of the two - including the 'Superannuation Optimiser' for SMSFs. It should be noted that standard restrictions apply to cover written inside superannuation; and
- Flexible Linking - where different beneficiaries can be nominated in respect of different portions of the overall sum insured. For example, this enables the customer's spouse to be nominated as the beneficiary in respect of the \$2 million Standard Trauma cover and their business to be nominated as the beneficiary in respect of the Sumo Trauma sum insured. In this way the spouse has the benefit of the more generous terms under Standard Trauma cover.

A.5 Financial Strength

Recent events in international financial markets have highlighted the importance of placing business with insurers with the financial strength and risk management processes to give confidence in their ability to meet claim payment.

Macquarie Life has an "A" rating from Standard & Poors for both financial strength and insurance claims.

A.6 Price

There is no objective price benchmark against which to compare Sumo prices, since there are no other standard products in the market which compete at the same levels of cover, except for death cover and disability income where, in practice, terms vary depending on individual case assessment.

Competing products are available at the Sumo minimum sum insured but this is not the area of the market where the product is primarily targeted.

Sumo is generally slightly more expensive, per unit of sum insured, than corresponding low sum insured products:

- Life Insurance was generally more expensive than the average premium, but not the most expensive in the market, with prices ranging from 12% to 20% over the market average but being as much as 23% under the most expensive competitor in some cases;
- TPD and Trauma are both offered above the market maximums; at that level it is more expensive than the most expensive competing premium, with prices ranging from 15% to 27% over market average with some premiums being as much as 11% under the market maximum; and
- The Disability Income cover prices for \$30,000 per month are broadly mid-market compared with competing products, with premiums generally between 5% and 12% over market average and some being as much as 15% under the market maximum⁴.

The higher prices reflect the substantial concentration of risk in relation to one individual from Macquarie Life's perspective.

A.7 Services to Customers

There are several features which distinguish Sumo from traditional products available in the market:

- Priority telephone, underwriting and claims services are provided through the adviser;
- A valet service is provided to collect the customer and take them to and from any necessary medical appointments. The customer is then given a copy of all medical reports; and
- A network of forensic and tax accounting experts is used to assist in analysing complex financial structures often employed by high net worth customers.

A.8 Suitability to customers

It is clear from the discussion above that Sumo is a very attractive product for circumstances where high levels of cover are required. Some examples are set out below:

- High earners who wish to ensure that their lifestyle and that of their family is maintained in the event of ill-health or death. This would include professionals, senior executives and high earning employees;
- Individuals with very high levels of personal debt or guaranteeing substantial business debts;
- Key person insurance by companies or partnerships; and
- Shareholder insurance to enable businesses to fund the buy-out of shares upon the death of a shareholder and in conjunction with buy-sell agreements, etc.

The overall risk insurance package can be structured so that some elements are written within superannuation and others outside superannuation.

⁴ This comparison has been based on the 'Plus' or 'Extras' products, never the less features by products are not always comparable.

A.9 Conclusions

Sumo is a specialist risk insurance product targeting the insurance needs of high net worth individuals. It is designed to clearly, quickly and efficiently meet those insurance needs.

Underwriting and claims teams are trained to deal with these clients and pre-agreed reinsurance arrangements are in place to ensure that high levels of cover can be accepted as a matter of routine rather than each case being a “one-off”.

This makes Sumo an attractive product to meet the needs of individuals at the levels of cover that most insurers shy away from.

Other insurers offer death cover and disability income at high sums insured and may do so on terms that are competitive with Sumo. However, they are unlikely to be able to provide the smooth, efficient application and underwriting process or offer guaranteed terms that are already in place for Sumo.

Sumo may be the only option for obtaining substantial levels of TPD and Trauma cover.

Macquarie’s Sumo is a comprehensive insurance package tailored to meet the particular needs of individuals seeking high levels of cover. The product and systems are designed to efficiently process such clients through both underwriting and claim. Sumo compares well against other products in the market, but clearly offers greater levels of cover and service. This makes Sumo a product of choice for those clients seeking high levels of cover.