

9 July 2017

Mr Mark Fitt  
Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Fitt

### **Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018**

The Financial Services Council (FSC) appreciates the opportunity to provide its views to the Senate Economics Legislation Committee on the Treasury Laws Amendment (*Protecting Your Superannuation Package*) Bill 2018 (Bill), and would be pleased to discuss these further in person in any future public hearings.

We support the Government's policy intent of protecting Australia's superannuation from inappropriate erosion where possible. However, we urge caution to avoid unintended consequences from these significant changes.

The FSC is broadly supportive of the measures in Schedule 1– Fees changed to superannuation members but continues to have concerns with Schedule 2-- Insurance for superannuation members and Schedule 3—Inactive low-balance accounts and consolidation into active accounts.

The FSC has previously lodged a submission in response to the Treasury consultation on the Exposure Draft Bill, which is available at <https://static.treasury.gov.au/uploads/sites/1/2018/06/c2018-t286292-Financial-Services-Council.pdf>

This submission focuses on the key priorities for consumers and the life insurance industry, in priority order. We also believe that it will be important for the regulations supporting this Bill to specifically carve-out retail insurance in superannuation and contracts where bundled insurance and investment cannot be severed. Crucially, these proposals and carve-outs will not impact the policy intent of the Protecting Your Superannuation Package proposals. However, they will prevent life insurers being forced to contradict their customers' clear intention without their consent.

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely



Allan Hansell  
**Director of Policy and Global Markets**

## Implementation timetable

**Recommendation 1:** The implementation date for the insurance proposals should be changed to 1 July 2020.

The administrative changes required could have significant unintended adverse implications for members without more time for implementation. For example, most group insurance arrangements will need to be re-priced. As part of the commercial arrangements, many have rates locked in for up to three years – which could result in the loss of rate guarantees as part of the contract renegotiations.

Without time for detailed analysis, conservatism will be built into the premium rate. Additional implementation costs will also be incurred for additional staff and outsourcing. **All these are likely to result in additional costs and premium increases to the detriment of members.**

FSC notes that, if the implementation date remains unchanged, for cover to be cancelled from 1 July 2018 after 13 months of no contributions, the 13 month period started on 1 June 2018 – a date which is already in the past. To this extent, we note that the legislation has a retrospective effect.

Trustees will need to:

- Redesign their opt-out insurance (for example, the basis for opting-in) when the legislation and regulations are final
- Consult with employers and members
- Renegotiate insurance contracts
- Take actuarial advice
- Re-write insurance contracts and governing rules
- Roll out new Product Disclosure Statements
- Communicate with members (for example, issue Significant Event Notices)
- Re-design administration systems and processes

Given the usual processes, it is unlikely that the legislation and associated regulations will be finalised before late 2018. After that, trustees would normally need at least 2 years or more for a project of this scale.

The FSC notes that the Insurance in Superannuation Voluntary Code of Practice has a last implementation date of 1 July 2021. However, we understand that the implementation considerations need to be balanced with the urgency the Government is seeking. We therefore propose that the implementation date for the insurance changes should be 1 July 2020.

## The \$6,000 limit for active accounts

**Recommendation 2:** Recommendation: The proposal to cancel, or not offer, insurance for accounts with less than \$6,000 should not apply to active accounts.

By definition, new accounts start with a balance of zero, meaning that trustees would not be able to provide these members with default insurance until their balance reaches \$6,000. However, as soon as regular Superannuation Guarantee payments start, the account is clearly active.

We do not understand the policy rationale for providing default insurance cover to people who are actively contributing to their accounts only when their balance reaches \$6,000. Creating a lag in insurance cover for new members with active accounts appears to be an unintended consequence of the proposals.

Providing active members with cover from the time they join would make it simpler for people to know when their cover starts, and potentially avoid underwriting issues for people choosing to opt-in from the outset. It would also avoid the complexity resulting from linking the start date for insurance to the member's account balance. For example, for some investment options, the balance of the account is not immediately available.

Allowing insurance to remain on an opt-out basis for members with active accounts will provide a simpler and more streamlined approach that prevents people from being inadvertently left without cover. We therefore propose that cancelling, or not offering, insurance for accounts with less than \$6,000 should not apply to active accounts.

### The \$6,000 limit for inactive accounts

**Recommendation 3:** Recommendation: Trustees should not cancel death and TPD insurance for inactive accounts unless the balance is below \$6,000.

The proposals involve cancelling people's cover without their consent. Despite best endeavours by trustees, communications might not reach the affected members, for example, if someone changes their contact details or is not reachable due to parental leave, career breaks or working/travelling overseas.

Some accounts become inactive due to deteriorating health, where members either cease employment or go on extended sick leave. A person with a long-term illness may not yet be eligible to make a Total and Permanent Disability (TPD) or death claim when their account becomes inactive. However, they are unlikely to be eligible to take out individually underwritten insurance for the very reason that they are more likely to make a claim.

The proposal needs to strike a balance between the erosion of superannuation balances and the value provided by an active insurance policy. This balance could be better reached by cancelling Income Protection (IP) insurance for all accounts classified as inactive, but only cancelling death and TPD insurance for inactive accounts where the balance is below \$6,000, as set out in the Insurance in Superannuation Voluntary Code of Practice.

If eligible, a person should have made an IP claim by the time an account becomes inactive (that is within 13 months). However the time between being unable to work and being eligible to make a TPD or death claim could be much longer than 13 months. IP premiums are also higher than for death cover and TPD, so cancelling this cover will materially reduce account erosion.

We therefore propose that Trustees should not cancel death and TPD insurance for inactive accounts unless the balance is below \$6,000.

