

Project Manager
The Insurance in Superannuation Working Group
c/o KPMG
By email to: ISWG-PMO@kpmg.com.au

18 April 2017

Dear Sophie,

IQ Group response to draft discussion paper on account balance erosion due to insurance premiums

The IQ Group welcomes the opportunity to comment on this discussion paper and applauds the insurance and superannuation industry for working collaboratively on this initiative.

IQ Group provides exclusive specialisation in the superannuation and wealth management industries. Building on a solid foundation of specific industry expertise across operations and technology IQ Group delivers:

- *ongoing innovation, preparing for future industry demands*
- *independent professional advisory services*
- *expert project delivery capability*
- *contributions to the industry through thought leadership, research, committees and events*

We have played a key role in facilitating the consolidation of the superannuation industry through managing a large number of data migrations (including the recent transition of Superpartners into Link), the implementation of SuperStream, the establishment of the SuperStream governance body and the carriage of many insurance-related projects.

Overall comments

IQ is not responding to all of the proposals in the discussion paper but is concentrating on those areas where new technologies and better use of data is able to contribute to the better fulfilment of the objective of insurance in superannuation.

However, the framing of data needs must take place through the lens of (1) the purpose of insurance in superannuation, (2) resolution of the inherent tension between providing insurance cover and maximizing retirement benefits and (3) addressing the relationship between complex design/features and cost/premiums. We only know what data we need once we know the purpose of that data.

On the first point, we state the obvious. That insurance in super should directly support the newly stated aims of superannuation, and be clearly articulated. On the second point, the conflict between retirement savings and the cost of insurance premiums should be resolved by recognising the priority of superannuation savings over insurance, in most instances. This is simply to recognise the structure of the sole purpose test in the SIS Act.

This has design and data consequences. For members who are working and have contributions paid regularly, this may not be a significant issue, but it is for lower income members, and those in casual/part-time employment. The exception to the priority of superannuation may be when you look at cover cessation. Where cover lapses and membership cessation is driven by account balance exhaustion, it's due to premiums and account keeping fees. Given that people with such low balances are unlikely to have significant retirement incomes, it may be appropriate to give insurance cover priority in these circumstances. Trying to 'balance' the provision of some cover with some retirement benefits as being of little value to members in this cohort.

On the third point, we are not convinced that any industry-wide prescriptions about the cost of default cover could be suitable for all funds. There would be more value in providing an industry-approved list of considerations regarding default cover design, of which cost is merely one aspect. The fact is that trustees of funds know their members' needs better than an industry-wide standard does, and that going heavily prescriptive in this space will homogenise fund offerings and stifle innovation.

If insurance purpose is about coverage and adequacy, then I view this as being driven by membership cohort analysis, based on individual attributes (age, gender, etc) and employment circumstances (especially employment type of full-time, part-time, casual, contractor, to borrow the taxonomy from the MIG). The paper's discussion about balance and contribution factors are also relevant here too, and I'll make a further point on this below.

Focus on data and technology

As IQ is concentrating on areas where technology and data is able to contribute to the better delivery of insurance in superannuation (and given the structure of the discussion paper), this means that our focus is also more on those solutions that may require regulatory or regulatory change.

While there is a significant element of this in this discussion paper, the IQ Group flags its particular interest in the later discussion paper addressing the better use of technology to enhance efficiency.

The IQ Group has extensive experience in operationalizing new regulatory requirements and technological capabilities, and offers its services to assist the Insurance in Superannuation Working Group (and the data work stream) in the development of practical solutions to improve member outcomes.

Multiple accounts

Section A.4 seeks to identify the main circumstances in which multiple superannuation accounts and hence multiple insurance covers arise, and then (on page 21) also identifies the role of tax file numbers for matching accounts.

The section does not however mention duplicate insurance arising as a result of data integrity issues. This has been and remains an issue, especially in relation to historic data. Data issues have arisen at every stage of transactions, from the collection of information from members and employers, to data entry, and to the use of different taxonomies between providers.

While the incidence of errors arising from data integrity problems should be reducing with the implementation of SuperStream, there are very many errors still entrenched in superannuation records that inhibit appropriate consolidation of accounts.

We also support the increased use of ATO enabling tools. SuperMatch2 and SuperStream are particularly useful in this regard to identify multiple accounts on a mass basis, and to thus facilitate consolidation of accounts. SuperMatch (subject to appropriate controls such as double factor identification of members) should be incorporated into super fund member portals, allowing members to transact with the SuperMatch services.

Following some concerns about the use of SuperMatch 2, the ATO undertook a review last year. This review culminated a letter to trustees dated 18 October 2016, restricting the use of unsolicited emails and SMSs, increasing member authentication requirements and requiring minimum information to be provided to members to support their consolidation decisions.

The IQ Group notes these improvements to the protections provided to users of the service, and recommends to the ISWG that use of SuperMatch be more widely promoted by super funds as a means of consolidating unnecessarily duplicated accounts.

The commentary on page 21 also notes that SuperMatch could be legislatively extended to allow the use of SuperMatch without member consent, but our recommendation could also add value without the need for legislative change. Similarly, we support efforts to increase the visibility and usage of MyGov for superannuation purposes through advertising, especially around Tax Time.

Suggested minimum standards for super funds to contact members

IQ suggests that there is a need for better communication with fund members about their insurance to both protect their cover and to protect their account balances,

A minimum standard for funds to contact default cover members who have ceased work (which the fund should want to do anyway, in order to keep the member) or who may have ceased work. We suggest the standard be 14 days after advice of termination, or 6 months after the last SG. Contacted members have a set period (perhaps two months) to respond that they want to keep cover or to resume SG conts; if they do neither, cover is turned off as at the date they were contacted. If they continue cover, it is considered to be in force throughout the period.

A minimum standard for funds to contact any member whose insurance premiums exceed a certain % of their balance over a certain period (plucking numbers out of the air: more than 2% of current balance over any continuous 3 month period commencing on or after 1 year of membership) and seek confirmation that the member wants their cover to continue.

Suggestions for regulatory change

We suggest more explicit obligations around the provision of both member registration data and termination data from employers, and greater obligations on all parties to SuperStream to support the full suite of XBRL tags in the SuperStream MIG (Message Implementation Guide).

The IQ Group supports the introduction of a mandated requirement under the SuperStream standard for employers to notify super funds of employment termination by a member. This is currently an optional requirement. The design consultations for SuperStream implementation considered a mandatory requirement, and there was widespread support for this. However, this was not proceeded with.

There should also be requirements around the time an employer be given for this, and suggest this time be "no later than the date of remittance of the contribution for the period in which the member left". The standard suggested in the discussion paper (earlier of 30 days or first contribution after termination date) is not workable as it could potentially require advice be given the day after the employee is terminated.

From our experience on client sites, we have noted that not all employers pass on Member Registration Request (MRR) information when they send contributions for new employees. Some payroll providers only support mandatory fields in the MIG and not the optional fields, especially those in the MRR that cover employment related data (commencement date, salary, employment type, occupation category, benefit category). Likewise, we've noted a gateway provider adopting the same approach and only supporting the mandatory fields, and thus not passing on optional fields in the MIG even if submitted to the Gateway. Completion of all fields in the MRR should be made mandatory.

The IQ Group also supports the mandating of the insurance flag through the Member Contribution Statement process – and its successor. This is also currently also a voluntary flag. While this requires a regulatory change, the change required is minimal, and is unlikely to meet opposition. However, its implementation is likely to deliver a significant consumer benefit, and will allow MyGov to show meaningful information about members insurance.

While not expressing a view on the current initiative under consideration to change the frequency of contribution reporting, we note that the 2016 Budget superannuation tax measures require the provision of some member data to the ATO on a more frequent basis than the current annual reporting. This means that more frequent reporting will be required regardless of the consumer benefits or as an initiative to assist with engagement about insurance. This should simplify the introduction of more frequent reporting for ancillary purposes, such as improved insurance reporting.

We hope that this commentary and suggestion are of value, and would welcome the opportunity to discuss them with you further. Please contact me on 03 9225 4006 if you would like to discuss further.

Yours sincerely,



Brian Peters, CEO

