

ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 02 9264 8824
w: www.superannuation.asn.au

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General Manager
Personal and Retirement Income Division
The Treasury
Langton Crescent
Parkes ACT 2600

chsuper@treasury.gov.au

Dear General Manager,

SUPERANNUATION CLEARING HOUSE AND THE LOST MEMBERS FRAMEWORK

Attached please find a response from the Association of Superannuation Funds of Australia to the Government's discussion paper on a superannuation clearing house.

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation industry and Australian fund members. Our members which include corporate, public sector, industry and retail superannuation funds, account for more than 5.7 million member accounts and over 80% of superannuation savings.

ASFA notes that the discussion paper has two themes: Reducing red tape and costs for small business in the processing of contributions to chosen funds, and stemming the growth in both number and dollar value of lost accounts on the Lost Members Register. ASFA commends the Government for stimulating debate in these areas.

ASFA has long been concerned with both processing efficiency in the superannuation industry and lost member issues. A central policy focus for the superannuation industry is 'being easy to do business with'. ASFA considers that the industry will be unable to achieve this goal without support by Government in a range of areas. Many of the suggestions to achieve this goal, which is consistent with the government's priorities, are included in our response to the discussion paper.

ASFA considers that putting in place a clearing house arrangement only for chosen fund contributions and implementing auto consolidation of accounts, while being of some assistance, will not of themselves solve the fundamental issues that employers and the industry face.

ASFA's policy position is that, the industry should deliver a central, mandatory superannuation data exchange. This exchange would support a number of contribution collection methods including existing clearing facilities. It would enable all funds to link in at their "back end" in order that all data across the can be centralised. This will help employers provide choice of fund as they

will not have to set up a direct relationship with a fund, it will also enable the industry address the lost member and unwanted multiple account issue.

One of the most important elements we believe it will deliver is a way in which the superannuation industry can effectively begin to address administration costs across the industry.

ASFA is putting together a fulsome proposal and aims to have it to government within 2 months.

The attached ASFA response aims to address the broader issues.

Pauline Vamos

Chief Executive Officer

Summary of Recommendations

PART A: SUPERANNUATION CLEARING HOUSE MEASURE

R1. The current multi collection provider model should be retained, supported by an industry owned and operated central database of superannuation fund member information. Existing clearing houses and payroll systems should be permitted to perform their current functions, but with reference to the industry database. All existing relationships between employers and their default funds and collection agents should be permitted to continue.

R2. A provider of a clearing house service should be required to meet a minimum set of standards including:

Be the holder of an AFS licence

Be able to accept contribution information from employers in an industry standard electronic format

Be able to deliver contribution information and payments to superannuation funds in an industry standard electronic format

Be able to process SG, salary sacrifice and voluntary contributions to an employee's chosen fund and the contributing employer's default fund

Be able to meet minimum processing (service) standards

Be able to provide complete data/money reconciliation

R3. The clearing-house provider model should be supported by: -

A requirement that, to be a chosen fund, a fund must be able to accept contributions information in an industry standard electronic format

A requirement that a clearing house cannot accept an employer's chosen fund contributions unless the employer has first advised the clearing house of their default fund arrangement for the employee so that the clearing house, acting as an agent of the employer, can redirect a failed chosen fund transaction to the employer's default fund.

A requirement for every fund to provide information about the fund and its members to a central database, and to maintain currency of that information.

Choice of fund

R4. The fundamental SG compliance obligation should remain with the employer.

Superannuation guarantee obligations

R5. The current position whereby an employer's SG obligations may be only met by providing SG contributions to a superannuation fund or by paying the SG Charge should be retained.

R6. The time limit for making SG contributions should remain at '28 days from the end of the quarter'.

- R7. Proposals that would further delay the delivery of employee SG contributions to a superannuation fund should be rejected.

Regulatory framework

- R8. An entity providing a clearing house service for superannuation contributions should be required to hold an AFSL.
- R9. Providers of superannuation clearing house services should be subject to the SG Act, required to have adequate financial resources and be subject to a formal disputes resolution process.

Funding arrangements

- R10. ASFA recommends that, rather than subsidising small employers' clearing house transaction costs, some form of direct support should be provided to encourage adoption of electronic processing capabilities by small employers.
- R11. Clearing houses should not be required to exchange information with the ATO.

Are there other potential roles for the clearing house?

- R12. ASFA recommends that, in the absence of a single clearing house model coupled with a mandatory requirement for all employers to use the clearing house for all contributions, clearing houses should not be permitted to initiate consolidation of lost and inactive accounts.
- R13. The *Superannuation Guarantee (Administration) Act* (SG Act) should require an employer to be in possession of a minimum amount of information about an employee and the *Superannuation Industry (Supervision) Act* (SIS) should require a trustee of a superannuation fund to be in possession of a minimum set of information about a potential member before it may issue an interest in the fund. (Suggested minimum information should be the member's full name, TFN, date of birth and an address for delivery of mandated disclosure documents.)

PART B: IMPROVING THE LOST MEMBERS FRAMEWORK

- R14. Superannuation funds should be able to use the TFN as a search key.

The definition of a lost member

- R15. The lost members register should include details of all fund members who are uncontactable (this would include uncontactable active accounts).
- R16. The lost members register should not include details of inactive accounts that are not lost.
- R17. Consideration should be given to reframing the definition of a lost member to tie it in with say a specific Corporations Act requirement to provide a member with specific information such as an annual report by any means, including electronically.
- R18. A fund transferring a member to another fund or ERF should be required to advise that fund whether or not the member is 'lost'.

Information sharing and reporting

R19. There should not, at this stage, be a mandatory annual re-report of lost member data.

Member protection

R20. The current member protection arrangements of only protecting accounts with balances of less than \$1,000 should be retained.

Trustee obligations

R21. Trustees should be required to take reasonable steps to identify new members when opening accounts on behalf of an employer;

R22. APRA should make clear, through a Prudential Practice Guide, that it is a part of the trustee duty to seek out addresses for lost members

R23. Any rules relating to lost members should apply equally to all superannuation entities. Self managed superannuation funds should report lost members, but only an exception basis. That is an SMSF should not be required to lodge a lost member report for each period.

A lack of engagement by members with their superannuation

R24. To ensure engagement of all members from the enrolment stage, it should be mandatory for a fund trustee to have a postal, or valid email, address for a member prior to enrolling a new member.

R25. An account consolidation process should be facilitated that would enable a member to consolidate accounts by providing a single set of proof of identity documents to their preferred fund. This process would permit that fund to advise other funds of what parts of the member's identity have been verified, when and how without the need to provide the original documents to the other fund.

R26. Should a new portability protocol be developed in line with recommendation R 23, a fund receiving such a request should, on reasonable grounds, be able to refuse to comply with the roll over request.

R27. The discussion paper's three suggested strategies to further rationalise the LMR should be adopted. That is:

Lost accounts with less than \$200 should be paid to the unclaimed monies register so that the ATO can put proactive steps in place to return these monies to the members concerned;

Lost accounts that are clearly in false names or where provider records are insufficient to ever identify the ownership of the account should be transferred to the unclaimed monies register; and

A member, or a provider acting on their behalf, should be able to electronically request the consolidation of their lost accounts through an ATO or industry based portal.

AUTOMATIC CONSOLIDATION OF LOST ACCOUNTS

R28. Automatic consolidation of accounts should only operate on an opt-in basis. That is, the member should be advised of their 'lost' or multiple accounts, the proposed centralised

account and be required to select and advise the consolidator fund of which accounts are to be consolidated.

- R29. Insurance cover should only cease automatically where the member is on notice of the rule and the circumstances that may give rise to automatic termination of cover.
- R30. The member protection rules should not differentiate between inactive or lost accounts that cannot be readily consolidated and other inactive or lost accounts.

SUPERANNUATION CLEARING HOUSE AND THE LOST MEMBERS FRAMEWORK

Introduction

Within Australia's compulsory superannuation system there are three fundamental elements:

Employers

Employees

Superannuation funds and retirement savings account providers (RSAs)¹

Employers have the responsibility of making superannuation contributions in respect of their employees as provided for in the *Superannuation Guarantee (Administration) Act 1994* (SG Act).

By arrangement, employers may also pay salary sacrifice and post-tax voluntary contributions to a superannuation fund on behalf of an employee.

Employees, in certain circumstances, have the right to determine the fund to which their superannuation contributions are made. Additionally, by arrangement with their employer, salary sacrifice contributions and post tax contributions may be deducted from their salary and wages and forwarded to a superannuation fund.

Super funds accept contributions from employers. These may be accepted under either of the following arrangements:

A chosen fund arrangement

An eligible choice fund (default fund) arrangement

Under a **chosen fund arrangement** the employee is a member of the fund and the fund has advised the employee that they will accept contributions from the employee's employer.

Under a **default fund arrangement** the fund has agreed to accept contributions from the employer in respect of any employee of the employer who has not nominated a chosen fund.

Fundamentally the process is not complicated, particularly to those working within the superannuation industry.

What complicates the process is:

1. A lack of knowledge by employees on how to correctly make a chosen fund nomination
2. A lack of knowledge by employers about what makes a chosen fund nomination a valid nomination
3. The absence of a standardised method for employers to pay contributions to chosen funds

¹ For the purposes of this paper superannuation funds and RSAs are collectively covered by the term 'super funds'

4. The absence of a standard method for funds to receive contributions

The last issue is perhaps the easiest to solve.

The third issue can be solved, in part at least, through the involvement of an intermediary to handle the contributions on behalf of the employer. (The intermediary can 'verify' at both ends.)

The first and second issues can be solved at the 'front end' through education of employees and employers, or at the 'back end' through a range of measures.

In the following sections the questions posed by the discussion paper are addressed. In doing so, suggestions are made regarding approaches that may be adopted to introduce processing efficiencies and overcome the above and other problems identified as barriers to achieving the industry goal of being easy to do business with.

PART A: SUPERANNUATION CLEARING HOUSE MEASURE

Single clearing house provider versus multiple provider model

As the discussion paper correctly notes, there currently exists in the market place a range of clearing house providers.

Unfortunately the level of service delivered and the capabilities offered vary greatly between providers.

Fundamentally, the introduction of a single clearing house will not of itself resolve the current wide range of processing issues faced by both employers and the existing clearing houses when dealing with superannuation funds.

ASFA's initial preference is for retention of the current multi clearing house provider model supported by a range of changes that would address existing system deficiencies such as the myriad of contribution formats and lack of electronic contribution arrangements.

A key part of the change would be a set of minimum requirements on both clearing houses and superannuation funds and the creation of a central database of information about funds and fund members and contributing employers. Without these requirements being in place potential efficiencies would not be gained.

ASFA considers that, in the interests of employers, fund members and the industry as a whole:

- All superannuation funds should be required by law to provide to the Central database information about their fund and the individual members of their fund, and to ensure the information remained current
- All entities providing a clearing house service should be required to validate all choice transactions through the central data base prior to executing a choice transaction

As a minimum the superannuation Industry exchange would provide a facility where all superannuation funds can link in their "back end" in order that data on members, employers and funds can be updated and maintained. This will ensure that in the event an employee changes jobs

and wishes to retain their current fund, it will be easier and more efficient for the new employer to validate that the employee's choice is valid and that the employer may contribute to the fund.

Over time, each clearing house may choose to pass all contributions and data through the industry owned Superannuation Industry Exchange (SIX) rather than merely use it for transaction validation. Were this to occur then this "industry solution" would evolve into a service that combined the central database with a clearing hub that could receive and clear contributions, validate chosen fund nominations and pre-verify transactions.

Ultimately, this centralised mechanism could act as a single pipe for contribution flows between clearing houses and funds.

For a single clearing house solution to achieve the Government goals of auto-consolidation of lost accounts and multiple member accounts it would be necessary for Government to mandate for every fund to provide information to the central database.

ASFA's preference is for retention of the current multi clearing house provider model supported by the centralised mechanism described above. However, for such a model to achieve the Government goals of reducing employer SG compliance costs it would be necessary for both providers of a clearing house service and superannuation funds to meet a minimum set of standards.

Those standards for clearing houses should include a requirement that the provider be:

- The holder of an AFS licence

- Able to accept contribution information from employers in an industry standard electronic format

- Able to deliver contribution information and payments to superannuation funds in an industry standard electronic format

- Able to process SG, salary sacrifice and voluntary contributions to an employee's chosen fund and the contributing employer's default fund

- Able to meet minimum processing (service) standards

- Able to provide complete data and money reconciliation

The multi provider model, to be effective, must be supported by a range of other measures including:

- A requirement that, to be a chosen fund, a fund must be able to accept contributions information in an industry standard electronic format

- A requirement that a clearing house cannot accept an employer's chosen fund contributions unless the employer has first advised of their default fund arrangement so that the clearing house, acting as an agent of the employer, to redirect a failed chosen fund transaction to the employer's default fund.

- A requirement for every fund to provide information about the fund and its members to a central database, and to maintain currency of that information.

Recommendation R1

The current multi collection provider model should be retained, supported by an industry owned and operated central database of superannuation fund member information. Existing clearing houses and payroll systems should be permitted to perform their current functions, but with reference to the industry database. All existing relationships between employers and their default funds and collection agents should be permitted to continue.

Recommendation R2

Every provider of a clearing house service should be required to meet a minimum set of standards including:

Be the holder of an AFS licence

Be able to accept contribution information from employers in an industry standard electronic format

Be able to deliver contribution information and payments to superannuation funds in an industry standard electronic format

Be able to process SG, salary sacrifice and voluntary contributions to an employee's chosen fund and the contributing employer's default fund

Be able to meet minimum processing (service) standards

Be able to provide complete data/money reconciliation

Recommendation R3

The preferred multi clearing-house provider model should be supported by:

A requirement that, to be a chosen fund, a fund must be able to accept contributions information in an industry standard electronic format

A requirement that a clearing house cannot accept an employer's chosen fund contributions unless the employer has first advised of their default fund arrangement so that the clearing house, acting as an agent of the employer, can redirect a failed chosen fund transaction to the employer's default fund

A requirement for every fund to provide information about the fund and its members to a central database, and to maintain currency of that information

Choice of fund

The discussion paper raises the possibility of transferring the employer choice obligations to an SG clearing house.

It is the employer - employee relationship that gives rise to both the employer's obligations and the employee's rights under the SG legislation.

The fundamental employer obligation is to advise an employee (within prescribed timeframes) where there is a right to choice of fund and, in the absence of the employee making a choice, the details of the employer default fund. However we note here the research that indicates that employees when they change role more often want to stay in their current fund². That is, it is people changing their job that is driving the choice, not people choosing to leave a default fund.

The discussion paper proposes that clearing houses take over the role of employers in the issuing and processing of choice of fund forms.

² *The Super Iceberg. What lies beneath the surface of choice* Ernst & Young 2008

Whether an employee has an entitlement to choose a fund is determined by the contractual arrangements under which they are employed. This is information that is generally known only to the employer and employee. It is difficult to see how the dismantling of such an arrangement by assigning the tasks to a third party would enhance the operation of choice or reduce an employers compliance cost.

ASFA considers that, in the absence of making the use of a clearing house mandatory, the introduction of a third party into the choice process has the potential to further complicate the choice process for the employee. However, it is noted that a centralised database of employees and their funds may facilitate fund members exercising their right to choice.

It is however noted that there is nothing in the current legislation that prevents a clearing house from acting as an agent of the employer in the choice process, should an employer decide that such an arrangement is appropriate for their business. To that extent ASFA supports clearing houses being involved in the choice process but with the fundamental compliance obligation resting with the employer.

ASFA is further concerned that removing employers from the choice process may lower employer engagement with superannuation and have a detrimental impact on employer perceptions about their role in the superannuation system. This may lead to a general decline in SG compliance.

Recommendation R4

The fundamental SG compliance obligation should remain with the employer.

Superannuation guarantee obligations

ASFA does not support the proposal that an employer's SG obligations may be met merely by providing SG contributions to a clearing house.

A fundamental concept of the SG legislation is that contributions should be made to a superannuation fund for the benefit of the employee. Where this does not occur within a prescribed timeframe, or where the employer chooses instead to pay the SG Charge to the ATO, penalties are imposed on the employer. Part of the penalties imposed on the employer flow through to the employee as compensation for diminished fund earnings due to the delay in receipt of the contribution.

To permit the SG obligation to be met merely by paying the contribution to the clearing house has the potential to undermine this fundamental principle of the SG arrangements.

ASFA considers it preferable to address the 'timing of contributions' issue by reviewing the arrangements under which a superannuation clearing house can operate.

The key issue is the speed and efficiency with which contributions and particularly choice contributions, are delivered to the chosen fund.

Where a choice form has been properly completed an employer has little difficulty in providing contributions to the nominated fund within the prescribed time frame. However compliance difficulties arise where the information provided on the choice form is incorrect or where the employer incorrectly accepts and acts on an incomplete choice form. Both these may result in a rejection of contributions, significant delays in correcting the problem, and thus non-compliance with the SG rules.

A separate issue is the difficulties employers face in meeting the varying requirements of superannuation funds for the acceptance of contributions.

ASFA proposes that these issues be addressed by:

A requirement that, to be a chosen fund, a fund must be able to accept contributions information in an industry standard electronic format

A requirement that, to be a default fund, a fund must be able to accept contributions information in an industry standard electronic format

A requirement that a clearing house cannot accept an employer's chosen fund contributions unless the employer has first advised of their default fund arrangement.

A requirement that a clearing house receive and forward contribution information and monies electronically in an industry standard format

A rule that permits a clearing house, acting as an agent of the employer, to redirect a failed chosen fund transaction to the employer's default fund

Imposing mandated minimum service standards on a clearing house.

With these rules in place employers would have the opportunity to deal with an employee's chosen fund electronically and in a consistent manner. Where an employer chooses to deal with a chosen fund directly, delays in an employer being notified by the fund of their inability to accept a contribution would be minimised, providing the employer with the opportunity to resolve the issue or redirect the contribution to the default fund.

Similarly, a clearing house would be in the position of being able to deal directly with a chosen fund in electronic format and be able to redirect a contribution to the employer's default fund should that be necessary to meet the SG requirements.

ASFA considers that there should be no change to the current '28 days from the end of the quarter' time limit for making SG contributions.

ASFA considers that should the processing standard for a clearing house be say '7 days from receipt of the contribution information' (effectively 5 working days) then the obligation should rest with the employer to ensure that the information is delivered to the clearing house within 21 days of the end of the quarter.

ASFA would not support a proposal that further delayed the delivery of employee SG contributions to a superannuation fund.

Where an employer suffered a financial penalty through a failure by a registered clearing house the employer should have legal redress against the clearing house.

The discussion paper seeks information on the cost implications for a small employer being required to deal electronically with a clearing house. Without going it to specifics, ASFA considers that once electronic capability is established, it would be significantly cheaper for an employer to process superannuation contributions electronically than through other means. Consideration could be given to providing assistance to small businesses that do not currently maintain their accounts electronically. The assistance could be a small financial contribution towards the establishment of a computerised business records capability. In this regard we note the Ernst & Young research states that employers have spent more than \$50 million on additional tasks related to choice.

As stated earlier, ASFA considers it fundamental to the efficient operation of the superannuation system that any person offering a clearing house service should be required, as part of their licence conditions, to provide a complete service to their employer customers. That is a clearing house should be required to process SG, salary sacrifice and voluntary superannuation contributions.

Central to the efficient processing of contributions is the need for a mandated set of data standards for the delivery and receipt of contributions. Research undertaken by the SuperEC program on behalf of the industry came to the conclusion that the adoption of a set of industry data standards would lead, ultimately, to annual cost savings across the industry approaching \$690 million. ASFA has no reason to believe that these savings are not still achievable.

Recommendation R5

The current position whereby an employer's SG obligations may only be met by providing SG contributions to a superannuation fund or by paying the SG Charge should be retained.

Recommendation R6

The time limit for making SG contributions should remain at '28 days from the end of the quarter' time limit for making SG contributions.

Recommendation R7

Proposals that would further delay the delivery of employee SG contributions to a superannuation fund should be rejected.

Regulatory framework

ASFA considers it essential that any entity providing a clearing house service for superannuation contributions should be required to hold an AFSL.

Bringing superannuation clearing house service providers within the purview of the corporations Act would both enhance the operational effectiveness of that part of the superannuation system and provide users of their services with a means of address on behavioural and non-performance matters.

As proposed in the discussion paper, providers of superannuation clearing house services should be subject to the SG Act. They should be required to have adequate financial resources and also be subject to a disputes resolution process that can deal with situations where the action of or the failure to act by a clearing house contributes to an employer being in breach of their SG obligation.

Recommendation R8

An entity providing a clearing house service for superannuation contributions should be required to hold an AFSL.

Recommendation R9

Providers of superannuation clearing house services should be subject to the SG Act, required to have adequate financial resources and be subject to a formal disputes resolution process.

Funding arrangements

It is the industry view that the introduction of an effective, legislated, clearing house arrangement should lead to reductions in both direct and indirect costs for small employer participants.

The proposal to reimburse such employers for clearing house transaction costs would involve the establishment of costly bureaucratic processes for the ATO the clearing house industry and employers.

ASFA considers that the natural benefits flowing to all parties from the implementation of more efficient processing arrangements should provide sufficient recompense for the establishment costs incurred.

The Government's \$17 million could be used for advertising and other 'incentives' for small employers. For example, the Government may choose to provide one-off, direct financial assistance towards a small employer's cost of establishing a capability to deal electronically with the superannuation industry.

ASFA does not consider it necessary for clearing houses to exchange information with the ATO. As the recipient of contributions, and in the absence of a mandated requirement for all employers to use a clearing house, superannuation funds are best placed to provide contribution information to the ATO.

Recommendation R10

ASFA recommends that, rather than subsidising small employers' clearing house transaction costs, some form of direct support should be provided to encourage adoption of electronic processing capabilities by small employers.

Recommendation R11

Clearing houses should not be required to exchange information with the ATO.

Are there other potential roles for the clearing house?

The discussion paper poses the question of the role that clearing houses may play in the consolidation of lost and inactive accounts.

In the absence a single clearing house model coupled with a mandatory requirement for an employer to use the clearing house there would be insufficient information held by any single clearing house that would support appropriate consolidation of lost and inactive accounts.

Any proposal for clearing houses to share data may a range of privacy issues and would diminish Trustees' responsibilities.

In response to the question posed about the role clearing houses could play in dealing with unallocated contribution amounts from employers, the ASFA proposal for mandated minimum data standards is a first step to solving the unallocated contributions problem.

The unallocated contributions problem generally arises from a lack of information about the employee and the employer.

Earlier in this document ASFA recommended that a set of minimum data standards be implemented for the electronic receipt of both chosen and default fund contributions,

This requirement could be complemented by a requirement under the Superannuation Industry (Supervision) Act (SIS) that a superannuation fund must be in possession of a minimum set of information about a potential member before it could issue an interest in a superannuation fund. ASFA suggests that the minimum required information should be the member's full name, date of birth and an address for delivery of mandated disclosure documents.

Recommendation R12

ASFA recommends that, in the absence of a single clearing house model coupled with a mandatory requirement for every employer to use the clearing house for all contributions, clearing houses should not be permitted to initiate consolidation of lost and inactive accounts.

Recommendation R13

The *Superannuation Guarantee (Administration) Act (SG Act)* should require an employer to be in possession of a minimum amount of information about an employee and the *Superannuation Industry (Supervision) Act (SIS)* should require a trustee of a superannuation fund to be in possession of a minimum set of information about a potential member before it may issue an interest in the fund. (Suggested minimum information should be the member's full name, TFN, date of birth and an address for delivery of mandated disclosure documents.)

PART B: IMPROVING THE LOST MEMBERS FRAMEWORK

ASFA agrees with the statement that the current lost member framework doesn't provide an efficient or effective means of preventing superannuation accounts from becoming lost.

There are also shortcomings with the way the register is used to reunite members with their lost superannuation.

The Government has identified shortcomings with the current framework as including the broad definition of a lost account, poor reporting and information sharing, unclear trustee obligations to lost members and a lack of member engagement with their superannuation.

ASFA would suggest that the major contributing factors to the lost member problem are the inability of superannuation funds to search for duplicate accounts using the TFN and the ability of an employer sponsor to enrol a new member in a fund with minimal information. Solving these two problems would, going forward, reduce the growth of lost member numbers and enable the introduction of an efficient process for consolidating multiple accounts.

Recommendation R14

Superannuation funds should be able to use the TFN as a search key.

The definition of a lost member

There are two basic problems with the lost member definition, both of which deal with its comprehensiveness.

On the one hand the definition is too broad. A person can be lost because they are uncontactable or because they are inactive. A person who is uncontactable is 'lost'. However, where a person is

inactive they are not necessarily 'lost'. Thus the breadth of the definition overstates the number of actual 'lost' accounts.

On the other hand the definition is too narrow as it only covers those superannuation fund members whose account was first established under an employer sponsored arrangement.

It is suggested that, should the constitutional power exist, the register should include details of all fund members who are uncontactable.

If necessary a separate register could be established for inactive accounts.

However, should the current arrangement continue ASFA recommends that inactive accounts be only be accessed through a search by an individual. A superannuation fund (or other entity) seeking to consolidate accounts on a bulk basis should not be able to search for inactive accounts.

There is also an issue with the definition of 'uncontactable'. It is such that identical circumstances may result in one fund reporting a member as lost and another fund not reporting the member.

Should consistency in reporting should be a goal, consideration should be given to reframing the definition to tie it in with say a specific Corporations Act requirement to provide a member with specific information such as an annual report.

There should also be a mandatory requirement for a fund transferring a member to another fund or ERF to advise that fund whether the member is 'lost'. Currently this is not required, resulting in a delay in the reporting of such members to the register.

Recommendation R15

The lost members register should include details of all fund members who are uncontactable (this would include uncontactable active accounts).

Recommendation R16

The lost members register should not include details of inactive accounts.

Recommendation R17

Consideration should be given to reframing the definition of a lost member to tie it in with say a specific Corporations Act requirement to provide a member with specific information such as an annual report by any means, including electronically.

Recommendation R18

A fund transferring a member to another fund or ERF should be required to advise that fund whether or not the member is 'lost'.

Information sharing and reporting

For the reporting period ended 30 June 2008 every fund was required to report details of all of its lost members. The purpose of this is to create a more accurate and up to date register.

At this stage, no details are available of the result off this re-report.

It may be that the results are of such variance from those held on the existing register that an annual full report may prove to be the best method of maintaining the register, particularly as this would provide updated information about account balances.

However, at this stage, it is suggested that in recognition of the work done by the ATO in arranging the re-report and in providing the lost member reporting protocol document, that the status quo be maintained while the results of this work is evaluated.

In these days of improved data transfer capabilities it would be feasible for an electronic data exchange protocol to be developed between the ATO and superannuation providers to ensure the timely updating of the LMR. However the ATO would need to be mindful of the impact on the industry on changes to reporting standards.

Recommendation R19

There should not, at this stage, be a mandatory annual re-report of lost member data.

Member protection

ASFA considers that the current member protection arrangements are appropriate.

Recommendation R20

The current member protection arrangements of only protecting accounts with balances of less than \$1,000 should be retained.

Trustee obligations

ASFA would be supportive of a requirement for trustees to take reasonable steps to identify new members when opening accounts on behalf of an employer;

ASFA considers it to be a part of the trustee duty to seek out address for lost members

Where possible, a trustee should also take positive action to identify and consolidate duplicate member accounts within their fund.

ASFA considers that lost members need to be managed in a timely manner to achieve the best results.

Any rules relating to lost members should apply equally to all superannuation entities with the exception of self managed superannuation funds.

Recommendation R21

Trustees should be required to take reasonable steps to identify new members when opening accounts on behalf of an employer;

Recommendation R22

APRA should make clear, through a Prudential Practice Guide, that it is a part of the trustee duty to seek out address for lost members

Recommendation R23

Any rules relating to lost members should apply equally to all superannuation entities. Self managed superannuation funds should report lost members, but on an exception basis. That is an SMSF should not be required to lodge a lost member report for each period.

A lack of engagement by members with their superannuation

Superannuation funds are constantly seeking ways to improve their engagement. Apathy amongst members is a genuine problem and voluntary engagement is an uphill battle.

Being able to provide benefit projection information on annual benefit statements may encourage better engagement.

However, engagement is difficult if a fund is unable to deliver new member information to a member. To resolve this issue it should be mandatory for a fund trustee to have a postal address for a member prior to enrolling a new member.

The method of undertaking a voluntary consolidation of a member's accounts should be reviewed.

Ideally the member should be able to provide one set of proof of identity documents to their preferred fund and that fund should be able to advise other funds of what parts of the member's identity have been verified and how without the need to provide the original documents to the other fund. That other fund should be able to rely on the identification and any declarations made to the preferred fund.

Should a new portability protocol be developed a fund receiving such a request should be able, on reasonable grounds, be able to refuse to comply with the request.

The discussion paper suggests three strategies that could be implemented to further rationalise the LMR:

- lost accounts with less than \$200 could be paid to the unclaimed monies register. The ATO could then put proactive steps in place to return these monies to the members concerned;
- lost accounts that were clearly in false names or where provider records were insufficient to ever identify the ownership of the account could also be transferred to the unclaimed monies register; and/or
- a member, or a provider acting on their behalf, could electronically request the consolidation of their lost accounts through an ATO or industry based portal.

ASFA considers that each of the above suggestions has merit and should be supported.

Recommendation R24

To ensure engagement of all members from the enrolment stage, it should be mandatory for a fund trustee to have a postal, or valid email, address for a member prior to enrolling a new member.

Recommendation R25

An account consolidation process should be facilitated that would enable the member to consolidate accounts by providing one set of proof-of-identity documents to their preferred fund. This process would permit that fund to advise other funds of what parts of the

member's identity have been verified, when and how without the need to provide the original documents to the other fund.

Recommendation R26

Should a new portability protocol be developed, a fund receiving such a request should, on reasonable grounds, be able to refuse to comply with the request.

Recommendation R27

The discussion paper's three suggested strategies to further rationalise the LMR should be adopted. That is:

Lost accounts with less than \$200 should be paid to the unclaimed monies register so that the ATO can put proactive steps in place to return these monies to the members concerned;

Lost accounts that are clearly in false names or where provider records are insufficient to ever identify the ownership of the account should be transferred to the unclaimed monies register; and

A member, or a provider acting on their behalf, should be able to electronically request the consolidation of their lost accounts through an ATO or industry based portal.

AUTOMATIC CONSOLIDATION OF LOST ACCOUNTS

Possible approaches to automatic consolidation

Automatic consolidation is a vexed issue due to the myriad of circumstances that may give rise to a person holding more than one account.

Conceptually, auto consolidation should only occur to an inactive, non-lost, account. That is, an account that is not currently receiving contributions and where the account owner has been clearly identified and a current address located for the member. If this is the basis then any auto consolidation process should only occur after the member has been advised of the details of the consolidation proposal.

This would provide the member with an opportunity to agree to one or all of the proposed rollovers. (That is it should be an account-by-account 'opt-in' process.)

Where agreement was received from the member the rollover could proceed and normal exit fees applied.

Where agreement was not received the member can be assumed to have made a conscious decision to retain multiple accounts.

The question is asked as to whether automatic insurance cover should continue to be maintained for lost accounts.

By maintaining insurance cover on a lost account, the account balance may continue to be eroded, and often to a point where the account is reduced to zero. It is arguable that the only ones who benefit are the insurers or a fund receiving a commission on premiums as the 'lost' member presumably has no knowledge of the insurance cover.

However, there is no guarantee that a lost member does not know where their superannuation is, or that they are not aware of their insurance coverage. To automatically remove insurance cover may be detrimental to the member or their beneficiaries.

For this reason, ASFA would not support automatic cessation of coverage unless members were first on notice of such an arrangement. That is, any such rule should be clearly notified to the member when the insurance cover is first issued or at some point in time before they become 'lost'.

ASFA considers unworkable the proposal for member protection rules to not apply where inactive or lost accounts can be readily consolidated. The addition of an additional layer of complexity to the administration of low value accounts does not make economic sense. The goal of superannuation administration should be to streamline processes and rules and to minimise administration costs.

Recommendation R28

Automatic consolidation of accounts should only operate on an opt-in basis. That is, the member should be advised of their 'lost' or multiple accounts, the proposed centralised account and be required to select and advise the consolidator fund of which accounts are to be consolidated.

Recommendation R29

Insurance cover should only cease automatically where the member is on notice of the rule and the circumstances that may give rise to automatic termination of cover.

Recommendation R30

The member protection rules should not differentiate between inactive or lost accounts that cannot be readily consolidated and other inactive or lost accounts.