

SUBMISSION

Submission to Treasury —
Review of occupational
exclusions in default
insurance offered
through MySuper
products

15 October 2021

**The Association of Superannuation
Funds of Australia Limited**
Level 11, 77 Castlereagh Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 2001

T +61 2 9264 9300
1800 812 798 (outside Sydney)

F 1300 926 484

W www.superannuation.asn.au

ABN 29 002 786 290 CAN 002 786 290

File: 2021/33

Director
Superannuation, Insurance and Governance Unit
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
Parkes ACT 2600

Email: superannuation@treasury.gov.au

15 October 2021

Dear Sir/Madam,

Review of occupational exclusions in default insurance offered through MySuper products

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to consultation on the review of occupational exclusions in default insurance offered through MySuper products.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$3.3 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 17 million Australians with superannuation.

If you have any queries or comments in relation to the content of our submission, please contact Mr Byron Addison, Senior Policy Advisor, on (02) 8079 0834 or by email baddison@superannuation.asn.au.

Yours sincerely



Julian Cabarrus

Director - Policy Operations, Member Engagement & External Relations

General observations

ASFA welcomes the opportunity to comment on the review of occupational exclusions.

ASFA considers that default insurance in superannuation plays an important part in helping members and their families in the event of illness, injury or death. Stapling, as the consultation paper acknowledges, will over time impact the connection between funds and particular industries or occupations and in these circumstances it is desirable that default cover should be as simple and comprehensive as possible so that confusion among members about eligibility to claim is kept to a minimum. For this reason, of the available options ASFA supports option 4, the ban on occupational exclusions in default insurance, but would like to make a few observations about how it might be implemented and other considerations.

Enforcement

If a ban on occupational exclusions were to be introduced it is important that it apply to all trustees as partial coverage could have anti-competitive consequences and the problem the ban seeks to address would remain for those members of funds who might choose to maintain occupational exclusions. For this reason we recommend that the Government might consider ways to enforce the ban across the entire industry. This could be done through a number of methods such as amending the relevant superannuation legislation or through the regulators, potentially APRA could amend the insurance prudential standard and guidance or ASIC could use its powers relating to 'superannuation as a trustee service'.

Coverage

ASFA does not support a ban on occupational exclusions for all insurance in superannuation products including 'choice' or voluntary insurance as it is appropriate for underwritten insurance to take account of risk measures as determined by the trustee and the product provider. However, the Protecting Your Super (PYS) and Putting Members' Interests First (PMIF) measures have created a class of default members who if they wish to have insurance cover must elect to take up insurance cover, either because they have a low balance account or because they're under 25 (and so do not receive cover automatically). We consider that the Government should consider ways to extend the protections offered by the ban on occupational exclusions to these members in circumstances where they elect to take up default insurance cover, otherwise they could be left with inadequate cover due to the application of an occupational exclusion.

Definition of occupation

As stated earlier ASFA supports the ban on occupational exclusions for default insurance in MySuper and this extends to definitions that may use occupational activities or other definitions rather than occupational classifications alone. In other words if a member has qualified for default cover they should not be excluded for high risk activities that relate to a high risk occupation.

Enhanced access to data for trustees

ASFA considers that giving trustees greater access to member data would have a general benefit for insurance design and pricing. Stapling will have an ongoing impact on the risk profile of funds' membership and specifically with regard to the ban on occupational exclusions we consider it would be of significant benefit for trustees to have a better grasp of the risk profile of their membership.

We acknowledge that there are significant challenges in obtaining detailed, current and quality data however we recommend that the Government explore ways of achieving this. There is a range of mechanisms that could be used including the insurance fields in SuperStream, and Single Touch Payroll. Data from the ATO could also be useful, even if it had to be provided on a deidentified basis for privacy reasons. We also note that the Retirement Income Covenant reforms have highlighted the need for

trustees to gather more member data so that they can better assess the suitability of their products for members in retirement and the mechanisms developed in response to that need may also be useful for the collection of enhanced insurance data.

Pricing impact on premiums

The overall pricing impact of option 4 if it is introduced is difficult to estimate however premium prices are likely to increase for trustees who experience a higher claims rate than before. It is hard to assess this impact without the data which would identify the effect stapling will have on membership risk profiles across the industry.

It should be acknowledged that the increase in premium prices for individual funds could affect the fund's affordability assessments and if they were to be material enough it could lead to the need for product redesign.