

SUBMISSION

Submission to Treasury — Deferred sales model — class exemptions

30 January 2026

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Dear Sir/Madam

Deferred sales model – class exemptions

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation on whether various class exemptions should continue in regard to the deferred sales model regime for add-on insurance.

About ASFA

ASFA has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

ASFA has a keen focus on matters that impact the outcomes achieved by individuals through the superannuation system, their experiences with the system, and issues relevant to the industry's operational effectiveness.

If you have any queries or comments in relation to our submission, please contact Ross Clare on (02) 8079 0809 or by email rclare@superannuation.asn.au.

Yours sincerely

James Koval

Chief Policy & Advocacy Officer

General comments

The deferred sales model that came into effect in October 2021 introduced a mandatory four-day pause between the sale of a principal product or service and the sale of add-on insurance. The deferred sales model was introduced following a recommendation of the Financial Services Royal Commission (Royal Commission). The Royal Commission found numerous issues in the add-on insurance market, including poor-value products, unfair sales practices and outcomes, and worse claims outcomes than in other insurance markets.

Treasury held a public consultation in January 2021 inviting stakeholders to provide evidence for any classes of add-on insurance products that represent a very high level of consumer value where it would not be appropriate that they be captured by the deferred sales model. Such evidence was provided at that time and it remains the case that superannuation add-on insurance products provide a very high level of consumer value and should not be captured by the deferred sales model.

The purpose in providing an exemption for superannuation-related add-on insurance products is to provide certainty for the superannuation industry for specific types of add-on insurance products sold by superannuation trustees, involving insurance products commonly known as life insurance, total and permanent disability and income protection. ASFA considers that the exemption for superannuation-related add-on insurance products should continue.

Superannuation fund provision of insurance

Most if not all superannuation funds offer life, total and permanent disability (TPD) and disability income insurance (DII) for their members. Typically one or more of these types of insurance is provided on an opt-out basis for members during the accumulation phase up to a specified age. For certain categories of members insurance cover can only be offered on an opt-in basis. TPD insurance cover in superannuation usually ends at age 65. Life cover usually ends at no later than age 70.

The provision of insurance by superannuation funds is strictly regulated with a number of legislative provisions specifically designed to ensure that insurance cover is appropriately provided. There also is an over-riding requirement on superannuation trustees to make decisions in the best financial interests of fund members.

The types of insurance that can be provided through superannuation are limited to insurance types with benefits that are consistent with superannuation conditions of release. There are a very limited number of policies that were in place before July 2014 that pay benefits not necessarily consistent with conditions of release to which transitional arrangements apply. Other forms of insurance provided by life companies such as Funeral, Accident and Trauma are not permitted to be offered by superannuation funds.

Funds generally allow members to dial up the level of their insurance cover either to an age based automatic acceptance level or subject to individual underwriting. Members can also dial down or turn off insurance cover. In some cases financial advice in regard to insurance cover is provided by the fund or an external financial adviser. Funds also make available educational material and online calculators to assist members make decisions about appropriate levels of insurance cover. As will be demonstrated later in this submission, default levels of insurance dominate the market.

Insurance cover is also available on an individual basis outside of superannuation. That cover can be obtained directly from life insurers. In many instances the taking out of insurance follows the receipt of personal financial advice from a financial planner. An old adage is that "insurance is sold not bought". There

are differences in tax treatment of both benefits and contributions between cover through superannuation and cover outside superannuation.

The then Australian Government's Protecting Your Super Package (PYS) came into effect on 1 July 2019. The package was designed to protect Australians' superannuation savings from unnecessary erosion by fees and insurance costs.

Under this law, super funds must cancel insurance on inactive super accounts that haven't received contributions for at least 16 months. In addition, some superannuation funds may have their own rules that require the cancellation of insurance on super accounts where balances are too low.

The Treasury Laws Amendment (Putting Members' Interests First) Act 2019 (the PMIF) requires all RSE licensees to cease the provision of insurance to members on an opt-out basis where:

- a) the member has an account balance below \$6,000 (active low balance accounts); or
- b) the member is a new member who is under the age of 25.

The PMIF provisions build on the PYS changes. Both are intended to protect members' account balances from erosion from insurance premiums for cover that members may not want or need. However, members and/or their dependants may subsequently discover that cover was actually needed after experiencing an adverse life event.

The PMIF reforms also permit RSE licensees to make an election to maintain or take out insurance on an opt-out basis for members employed in a 'dangerous occupation'. The election is required to be made in writing, starts on the day it is submitted to APRA, and must be published on the RSE licensee's website. Only a few funds have made such an election. Where such an election is in place the recent APRA data indicate that there are substantially higher percentages of members with insurance cover.

Trustees in setting default levels of insurance cover take into account the impact of insurance premiums on retirement savings. This leads to default levels of insurance cover being set at relatively modest levels.

The consultation seeks responses on a number of specific matters. ASFA's response to each of these is below.

a. Evidence of consumer value of the class of add-on product, including payout ratio (claims paid to insured party / premium), gross loss ratio, claims acceptance rates; and policy cancellation rates.

The various forms of insurance related to superannuation provide considerable consumer value and on very good terms for the members with such cover.

Insurance cover provided through group arrangements in superannuation is cost effective, particularly compared to individual advised cover, which has higher distribution and administration costs. Directly distributed non-advised cover tends to have the lowest payout ratios given the distribution costs (advertising, etc) involved.

For TPD and DII through Group Super the claims paid ratio is over 100 per cent, reflecting the good value to consumers of such insurance, along with the low profitability to insurers from such cover.

The claims paid ratio is also high for death cover.

Table 1: Claims Paid Ratio, June 2025 (a)

	Death	TPD	DII
Individual Advised	42%	71%	58%
Individual Non-Advised	36%	44%	108%
Group Super	78%	105%	111%
Group Ordinary	61%	57%	84%

Source: [Life insurance claims and disputes statistics | APRA](#)

(a) Claims paid ratio refers to the dollar amount of claims paid out in the reporting period as a percentage of the annual premiums receivable in the same period. Claims paid ratio for DII is estimated using a 24 month payment period.

As shown by Table 2, claims admitted rates are high for insurance associated with group superannuation. They also are higher than for the other distribution channels.

Table 2: Claims admitted rates, June 2025

Cover type	Individual Advised	Individual Non-Advised	Group Super	Group Ordinary
	% admitted	% admitted	% admitted	% admitted
Death	97%	93%	98%	98%
TPD	83%	70%	92%	85%
DII	94%	86%	96%	97%

In the case of death benefit claims, pre-existing conditions are not relevant to default cover but can lead to claims being denied when there is underwriting, depending of course on the terms of the underwriting and disclosure obligations. In the case of default cover, there are only very narrow exclusions (such as suicide within a 12 month period from cover commencing) or disputes over whether cover had lapsed due to premiums no longer being deducted.

Average admittance rates tend to be lower for TPD as the claimant needs to establish that they satisfy the definition of TPD but they are still high.

Superannuation fund members tend to dial up insurance cover from default levels rather than dial it down, as shown by Table 3.

Table 3: Insurance cover for death benefits relative to the default cover level, June 2024

	Less than default cover	Members with default cover	More than default – no underwriting	More than default – with underwriting
Number	678,220	6,158,300	1,098,190	976,430
Percentage	7.6%	69.1%	12.3%	11.0%

Source: [Annual fund-level superannuation statistics | APRA](#)

b. Relative value of the class of product compared with like products in the stand-alone market.

As indicated by Table 1 above, the claims paid ratio is higher for Group Super in comparison to Individual Advised. This means that a greater proportion of the premiums paid are returned in the form of benefits to those covered. For TPD and DII through Group Super the claims paid ratio is around 100 per cent, reflecting the low profitability to insurers from such cover.

c. Evidence of unacceptable risk of underinsurance or non-insurance if an exemption is not granted/continued.

Default insurance arrangements for new superannuation fund members together with insurance cover put in place in conjunction with superannuation in the context of financial planning lead to much higher coverage rates that would apply in the absence of default cover or the taking out of insurance at the same time superannuation arrangements are advised on by a financial planner.

Opt-out rates are very low when cover automatically applies, and opt-in rates for those not automatically covered are typically under 10 per cent of the groups concerned.

Default insurance arrangements through superannuation also do not have exclusions for pre-existing conditions. Insurance purchased on an individual basis outside of superannuation generally do not have automatic acceptance of new customers and can have exclusions of cover relating to pre-existing medical conditions.

d. Evidence of consumer understanding of the product

A nationally representative survey of Australian residents was undertaken for ASFA in March 2025. Amongst other things the survey sought views on superannuation and insurance.

The survey results indicate that Australians not only trust their superannuation funds, they trust them more than other major institutions. When asked to rank how much they trusted different institutions superannuation funds as the institution they rated highest (ranked first by 35 per cent of voters, in the top three by 67 per cent).

When asked “Does knowing you’re covered for life insurance and total and permanent disability (TPD) insurance through your super provide you with confidence for your financial future?” 76 per cent of

respondents answered either yes-definitely or yes-probably, a 60 percentage point difference from those indicating “no”.

These responses indicate both a high level of consumer understanding of the product and also support for insurance being linked to superannuation.

e. Evidence of any points of difference between the class of add-on insurance and similar products that are sold on the stand-alone market, including any differences in remuneration arrangements.

Default insurance cover through superannuation generally does not involve the payment of commissions to advisers or salespersons.

Similar products sold on the stand-alone market can involve substantial (although capped by law) upfront and trail commissions.

Stand-alone life insurance, TPD and DII insurance generally is underwritten and/or has exclusions for pre-existing medical conditions.

Stand-alone insurance cover often has higher premiums and/or lower payout ratios.

f. Evidence of any key non-regulatory changes in the sector that have occurred since 2021 that may support the continuation or addition of the class exemption.

The decline in the number of licensed financial planners since 2021 reinforces the need for streamlined arrangements which support the arranging of superannuation matters and associated insurance cover in the context of a single interaction with a fund or with a financial planner.

g. Whether, and if so, what conditions should be placed on any continued or new exemptions.

Given the benefits to consumers from insurance cover being linked to superannuation, ASFA does not consider that any conditions should be placed on the continuation of the exemption.