AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

5 March 2021

Mr. [redacted]
General Manager, Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

By email to: [redacted]

Dear Mr. [redacted],

Consultation on APRA Prudential Standard SPS 250 Insurance in Superannuation

In brief: AIST acknowledges the further clarity and guidance APRA has provided in this iteration but calls on APRA to seek mandatory SuperStream insurance data fields to better promote member insurance interests. AIST also calls for further guidance on independent certification arrangements, timing, and process; and to clarify expectations for members leaving employer supported insurance arrangements.

The Australian Institute of Superannuation Trustees (AIST) is responding to the updated proposed revisions to SPS 250, and the proposed revisions to Prudential Practice Guide SPG 250 Insurance in Superannuation (SPG 250).

AIST notes that APRA has responded to feedback on the previous round of consultations by amending its proposals in revised draft SPS 250. AIST thanks APRA for its responsiveness to many of the comments made in the previous consultation. This has limited the areas of concern in this submission.

We note that APRA requests that submissions provide information on the compliance impact and costs of the proposed changes, and this submission addresses these in relation to each topic below.

AIST recommendations

- For APRA to engage with the Government, ATO, the superannuation industry and employer associations about amending optional insurance fields to become mandatory in SuperStream.
- For APRA to maintain an online listing of persons and firms able to undertake independent certification similar to the registered auditor framework with self-managed super funds.
- For the Prudential Practice Guide to make it clear that independent certification can be provided as part of a policy rerate or tender process.

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- For the Prudential Practice Guide to provide further particulars of the implications for a fund of being unable to obtain an independent certification stating that the insurance arrangements is in the best interests of the beneficiaries
- For the Prudential Practice Guide to provide further details about the process and timing to be followed where independent certification of related party insurance arrangements is not obtained.
- For the Prudential Practice Guide to explicitly address APRA's expectations in circumstances where a corporate employer pays for default insurance.
- For the Prudential Practice Guide to explicitly address APRA's expectations in circumstances where a member pays for default insurance specifically offered by a corporate employer for their employees.

Occupational profiles and work status

The compliance impact of the proposed changes to the Prudential Practice Guide in relation to occupational profiles and work status is significant in that it suggests an approach funds are unable to readily comply with for regulatory reasons.

A change to the SuperStream data standard would address and resolve this problem[1].

AIST agrees that it benefits the development of insurance strategies to understand the occupational profiles of a fund's members. However, there is no recognition in the Prudential Standard or the Prudential Practice Guide that there are fundamental systemic limitations on a funds ability to obtain this information, and that the recent changes to the proposed Prudential Standard have made this more difficult.

The "sound practice" recommended in paragraph 33 of the previous iteration of the Practice Guide was unreasonable in requiring "occupational profiles", and this has been made more so by extending this to "work status" including part-time, casual and unemployed workers. It is unreasonable to have a Practice Guide stating that funds should collect such data without addressing the challenges that the system or individual funds have in sourcing complete or accurate data that is not currently accessible.

1 A July 2017 paper from the Insurance in Superannuation Working Group identified this problem and outlined proposals to enhance member insurance outcomes by improving access to timely and relevant information. The recommendation in this submission again advocates for the same solution. The ISWG discussion paper on insurance data management can be accessed at: https://www.aist.asn.au/Media-and-News/News/2017/ISWG-fourth-discussion-paper-Data-management

This capacity issue is not a function of resourcing or technology but is a consequence of regulatory restrictions and structural limitations associated with SuperStream; this can have serious and adverse consequences for super fund members.

AIST supports super funds having access to this information that can then be stored and kept up to date in their systems, but most super funds, and especially large multi-employer default funds do not receive this information from employers, nor are employers obliged to provide it.

The introduction of SuperStream greatly increased the transactional efficiency of superannuation. However, it also had the consequence of constraining the ability of funds to readily obtain specific information to support insurance. This was compounded by many of the insurance-related SuperStream-related data items being provided by employers being voluntary. This means that funds have to derive this information using best available information which may not be as accurate or up to date.

Multi-industry funds may not have a detailed appreciation of the occupational profile of their members, and funds often are not made aware when their members cease work with an employer, or their members employment type.

This could be remedied by requiring employers to notify funds of commencement and termination and would both assist funds in ensuring members had appropriate insurance cover, and help funds better understand the work status of their members. Of course, if this was also extended to providing information about occupations, this would be of further benefit to funds and their members.

In parallel with the ongoing implementation of both SuperStream and Single Touch Payroll has also been the increasing development and sophistication of payroll systems. This may assist with availability and quality of these data elements, while reducing any administrative burden on employers.

Rather than suggesting this as an increased requirement on funds, *AIST recommends that APRA engage with the Government, ATO, the superannuation industry and employer association about amending these optional fields to become mandatory in SuperStream*.

This change to SuperStream would involve minimal cost to employers and super funds (given the substantial investment in SuperStream and STP), leverages off other technological innovations, improve fund understanding of and design of solutions to better meet member needs, and improve fund compliance.

Within a fund's insurance data management strategy consideration should then be required for the design of products that use the mandatory SuperStream fields, as the basis for determining when cover is provided, and the appropriateness of cover.

Independent certification requirements

AIST notes APRA expectation in the new paragraphs 24-27 of the Prudential Practice Guide that independent certifications will likely be provided by qualified and experienced persons associated with audit firms, actuarial firms, legal firms and the like , and expects that appropriate external resources of expertise will be sought where relevant.

AIST suggests that it would be useful for APRA to maintain an online listing of persons and firms able to undertake independent certification similar to registered auditors for self-managed super funds. Access to such a listing would both increase confidence in the independent certification process and reduce the cost impact of the proposed changes.

AIST also recommends that the Prudential Practice Guide make it clear that the independent certification can be provided as part of a policy rerate or tender process. If a fund uses a consultant to conduct the tender for its insurance arrangements, can the independent certification be provided as part of this process? A consultant would ordinarily provide recommendations to the fund on the basis of key selection criteria and their Insurance management framework. This would also increase confidence and reduce cost.

The new certification requirements could be challenging in a situation where a fund needed to renew its arrangements at short notice (e.g. regulatory change such as PMIF) but it may be impractical to meet the independent certification requirements that the arrangements or renewal of the arrangements is in member best interests without testing the market.

- **Failure to obtain certification**

AIST recommends that the Prudential Practice Guide provide further particulars of the implications for a fund being unable to obtain an independent certification stating that the insurance arrangements is in the best interests of the beneficiaries.

For example, paragraph 46 states: "That assessment should have regard to the totality of the insurance arrangement and all relevant circumstances at the time of making the assessment". While this is reasonable, it should also be made clear that this assessment should have regard to the implications of not being able to obtain certification and the state of the insurance market at the time the assessment is made. A decision to terminate an insurance policy or renegotiate/review the insurance arrangements can have significant operational and cost implications to the fund and its members.

AIST also recommends that the Prudential Practice Guide provide further details about the process and timing to be followed where independent certification of related party insurance arrangements is not obtained.

Corporate insurance arrangements

- **Employer-paid corporate arrangements:**

AIST recommends that the Prudential Practice Guide should explicitly address APRA's expectations related to circumstances where a corporate employer ('corporate employer') pays for default insurance, as these members are exempt from the Putting Members Interest First requirements about cessation of insurance cover. This is because there are significant insurance implications when an employee leaves that employment relationship.

The implications of this include:

- Where a member leaves the corporate employer and is under age 25, cover needs to be removed due to PMIF. This often occurs many months after the termination date due to date of notification by the corporate employer, resulting in backdating of cancellation. Even where this has been well communicated and explained, this can disappoint and upset a member.
- Where a member leaves an employer and the balance is under $6,000 cover also needs to be removed due to PMIF. This often occurs many months after the termination date due to date of notification by the employer, resulting in backdating of the cancellation. Even where this has been well communicated and explained, this can disappoint and upset a member.
- Where a member leaves an employer and is aged over 25 and has a balance over $6,000, the member keeps cover. However, the member assumes responsibility for the insurance premiums from the date of termination. This often occurs many months after the termination date due to the date of notification by the employer, resulting in backdating of premiums. Premiums may also increase from the corporate rates. This can confuse members even where this has been well communicated and explained.

- **Member paid corporate arrangements**

AIST recommends that the Prudential Practice Guide should explicitly address APRA's expectations related to circumstances where a member pays for default insurance specifically offered by a corporate employer for their employees.

The characteristics of these arrangements are typically:

- May have lower specialised corporate premium rates based on the specific employer occupation and experience profile
- Formula based using a % of salary to age 65
- Multiple of salary
- Fixed insurance amount

- Can have income protection as part of the default
- Rules around these arrangements
- Member is subject to PMIF rules

When members leave the corporate employer, cover is generally transferred from a formula amount to a fixed amount (based on sum insured on the date of termination). This often occurs many months after the termination date due to the date of notification by the employer, resulting in backdating of the sum insured calculation and premiums payable.

In these circumstances, members' premium rates generally convert to the fund's standard premium rate table resulting in an increase in insurance premiums. This often occurs many months after the termination date due to the date of notification by the employer. This may result in the backdated recalculation of premium rates and are often higher than the corporate rate. Even where this has been well communicated and explained, this can disappoint and upset a member.

Consideration could be to revert members back to the fund's standard default arrangements but this would normally result in members having a reduction in the insured amount - in some instances this could be substantial. Due to the late notification of employment termination, this would often be backdated. Guidance should be provided by APRA about their expectations in relation to such circumstances.

For further information regarding our submission, please contact AIST [redacted]

Yours sincerely,

[redacted]

Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $1.4 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.