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18 February 2014

Manager
Superannuation Policy
Australia Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Email: superannuation.policy@apra.gov.au

Dear Sir/Madam,

Consultation on proposed Modification Declaration – SIS Regulations regarding self-insurance

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission to APRA in relation to the proposed Modification Declaration to modify sub-regulation 4.07E(8) of the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) in relation to the self-insurance arrangements of RSE licensees.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

ASFA's comments on the proposed Modification Declaration

ASFA welcomes the consultation by APRA on this proposed Modification Declaration and supports the aim of enabling an RSE licensee to receive a successor fund transfer (SFT) of members of defined benefit (DB) funds with self-insurance arrangements, subject to an application to APRA to vary Condition B.1 of the RSE licence.

That being said, we provide below a number of comments in relation to the proposed wording of the Modification Declaration which we believe are worthy of consideration:

1. The Modification Declaration, as currently drafted, does not allow the continuation of self-insurance arrangements where more than one SFT takes place. For example, if self-insured DB Fund A SFTs to Fund B that did not self-insure on 1 July 2013, Fund B could use the draft Modification Declaration conditions to continue the self-insurance of transferring Fund A

members; but if Fund B then SFTs to Fund C (that did not self-insure on 1 July 2013), Fund C could not continue the self-insurance arrangement because Fund B (the original fund in this second SFT) would fail the conditions of draft (8A)(d) as it did not self-insure on 1 July 2013. With the pace of fund consolidation taking place, ASFA considers that the occurrence of such a situation is a distinct possibility.

2. The Modification Declaration appears to preclude self-insurance where there has been a change of category of an existing DB member who moves, for example, from a category without a temporary disability income benefit to a category with a self-insured temporary disability income benefit. ASFA considers that the wording of the Modification Declaration should be amended to specifically address this circumstance.
3. Whilst it does not affect the Modification Declaration, we note that the footnote to the letter to all RSE licensees dated 5 February 2014 indicates that RSE licence Condition B.1 states: "*If the RSE licensee undertakes to provide any benefits that are life insurance (including disability) benefits to members, those benefits must be wholly determined by reference to life policies issued to the trustee from a company registered under the Life Insurance Act 1995.*"

This does not appear to be in accordance with the decision to permit disability insurance to be provided by general insurers, as reflected in paragraph 6(a) of Superannuation Prudential Standard SPS 250 – Insurance in Superannuation, which refers to insured benefits being provided via "*insurance acquired by an RSE licensee from a life company registered, or taken to be registered, under section 21 of the Life Insurance Act 1995 or a general insurance company or Lloyd's underwriter authorised, or taken to be authorised, under the Insurance Act 1973*".

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I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

If you have any queries or comments regarding the contents of our submission, please contact ASFA's Senior Policy Adviser, Jon Echevarria, on [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED].

Yours sincerely



Fiona Galbraith
Director, Policy