Munich RE

Committee Secretary
Senate Economics Committee
Department of the Senate
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09 July 2018

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Dear Committee

TREASURY LAWS AMENDMENT (PROTECTING YOUR SUPERANNUATION PACKAGE) BILL 2018

Munich Reinsurance Company of Australasia Limited ("MRA") is a core subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in Munich ("Munich Re"), the world's largest reinsurer with approximately €28 billion reinsurance premium and approximately €47 billion total gross premium.

MRA focusses on reinsurance in the Australian market and relevantly, has significant re-insurance liabilities in the Australian Superannuation segment. MRA has been present in Australia for over 60 years, and its success is built on anticipating risks and delivering needs-based solutions to clients.

This submission is made by MRA on the Treasury Laws Amendment (Protecting your Superannuation Package) Bill 2018 ("Bill"), which was referred to the Senate Economics Committee on 21 June 2018.

MRA supports the objectives which the Bill seeks to achieve through its proposed amendments to the Superannuation Industry (Supervision) Act 1993, the Superannuation (Unclaimed Money and Lost Members) Act 1999, the Income Tax Assessment Act 1997 and the Taxation Administration Act 1953. MRA recognises the need to protect the erosion of low balance superannuation accounts through fees, charges and cost of insurance, and to provide the Australian Taxation Office with the ability to proactively return the balances of inactive accounts, along with existing unclaimed superannuation monies, to their rightful owners through automatic balance transfers.

There are however three matters of detail that MRA wishes to raise in relation to the Bill.

Members who have obtained insurance benefits through underwriting or making an election to modify cover

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The first concern is the drafting of the Bill, specifically, regarding the circumstances in which a member (Non-Qualifying Member):

(a) with an inactive account;

(b) with a low-balance account; or

(c) under 25 years old,

would be taken to have elected to have a benefit provided to or in respect of a member by taking out or maintaining insurance through a fund.

MRA is concerned about the wording of the relevant provisions which deal with elections made by members. References to member elections are made in many sections within the legislation[1]. For example, a trustee of a regulated superannuation fund must ensure that a benefit is not provided by the fund to, or in respect of, a member of the fund under a choice product or MySuper product held by the member by taking out or maintaining insurance if the relevant qualification is not met, and the member has not elected under the relevant subsection that the benefit will be provided to, or in respect of, the member under the product by taking out or maintaining insurance.

MRA views that because of the way these provisions are worded, members who have previously actively sought insurance which has been accepted by the insurer, either by undertaking an underwriting process or by making elections to modify insurance cover within a superannuation fund, will **not** be treated as having made an election. MRA is concerned that under the legislation, these clear and active elections made by an individual, do not amount to an election in writing to the trustee of the fund.

Underwriting is complex and can be a lengthy process requiring a member to complete numerous forms or medical examinations. MRA is concerned that these members have *already* made an election to take out insurance coverage and there is no benefit in contacting them again. Furthermore, the following disadvantages arise:

- for members who subsequently apply for cover, some will be unable to obtain cover due to changing health or personal circumstances.
- in the case of members who can't immediately be contacted, or who fail to respond, cover will cease unintentionally
- additional expenses

MRA considers this to be a drafting issue. It could be rectified by simply providing that for the purposes of those provisions, a member will be taken to

[1] For example, clause 68AAA(1)(b) and (2), 68EEB(1)(b) and (2) and 68EEC(1)(b) and (2).

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have elected that a benefit will be provided to, or in respect of, the member under the product by taking or maintaining insurance if they have:

(a) undergone an underwriting assessment by the insurer providing the cover for the fund; or

(b) previously requested an increase or modification to the level or type of cover which is made available to the member as a benefit through the fund.

MRA believes that for members in these circumstances, elections should be enduring and not affected by the proposed changes in respect of the Bill.

In-active and low-balance accounts

The second issue that MRA wishes to raise is the requirement for members to opt-in to insurance cover if they have an account balance which is less than $6,000 or an inactive account (but not both).

MRA views that this is not in the consumers' best interests. We are concerned about the adverse impact on members who find themselves without cover in circumstances where they have been actively contributing to their fund, or where they have accrued sufficient account balances to justify the on-going payments for insurance premiums. MRA recognises that there is a balance to be struck between protecting members from the erosion of their account balances by insurance premiums, and ensuring that fund members, in particular those who are likely to have low incomes, to automatically have the benefit of insurance which is offered through their superannuation funds.

MRA handles many claims from members of superannuation funds who would likely not have cover under the new proposals. In an environment where it is well recognised that many superannuation fund members are not engaged with their superannuation accounts, it is likely that many of the members affected by the changes will never take the active step to opt into the default level of insurance cover which is available through the fund of which the person is a member.

MRA offers the following examples of cases when the relevant member would, under the new laws, have had their insurance cover cancelled in circumstances which would have caused hardship to them or their families. It is important for the Senate Economics Committee to be aware that these are real life stories. If the Bill as currently proposed was in place, members like those in the case studies below would likely not have cover:

Case Studies

Case 1 Active account, with an account balance of less than $6,000
Joe, a cleaner, joined the fund in September 2015 at the age of 45. Joe had only accumulated $400 in his account by March 2016. In April 2016,

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seven months after joining the fund, he became total and permanently disabled as he suffered from motor neuron disease and he was paid a $212,000 TPD benefit.

Case 2 Active account, with an account balance of less than $6,000
Jane, a community health worker, joined the fund in February 2014 at the age of 52. Jane had only accumulated $4,500 in her account by December 2015. In February 2016, around two years after joining the fund, she became total and permanently disabled as she suffered from breast cancer and she was paid a $122,000 TPD benefit.

Case 3 Inactive account for more than 13 months, with a balance of more than $6,000
John, an accountant, joined the fund in 1997 at the age of 35. John had stopped contributing into the fund's account but has accumulated an account balance of more than $10,000. His account balance at December 2014, December 2015 and March 2016 were $11.500, $12,100 and $11,800 respectively. In June 2016, at the age of 54, John died from cancer and $402,000 was paid to his beneficiary.

In each of these cases, the member or their beneficiary would **not** have received a benefit if their cover had been cancelled as proposed by the Bill in circumstances where the member does not act to take up the default cover offered through the fund. Significant hardship would have been suffered by these members and their families had cover **not** been automatically available through the fund.

MRA considers that a member should **not** cease to qualify for automatic default cover under a fund if:

(c) their account is active, even if the balance is less than $6,000, or

(d) their account is inactive but with a balance greater than $6,000.

There are good reasons why this position can be supported:

- MRA strongly believes that this measure will unfairly discriminate against new and low-income members. The time taken to accumulate an account balance of $6,000 will vary greatly leading to, in some cases, a considerable time delay before a new member to a fund becomes automatically eligible for cover. This delay will result in members being faced with underwriting requirements which will lead to some members being unable to obtain cover or else having to pay a higher price. In other words, the Bill may have the effect of discriminating against younger employees, women and older workers with broken employment histories.

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- Further, MRA believes that more can be done to ensure that members do not have multiple superannuation accounts. If the reason for a fund account being inactive is that the client is contributing to an alternative fund, then it might make sense for default insurance not to be made available automatically through the inactive account. However, if the reason for an absence of activity on an account is, for example, that the member has lost their job or has taken maternity or paternity leave, the member should still be protected from the risk of death or disablement.

Accordingly MRA believes that a combined inactive and low balance test being jointly satisfied will be fairer and more appropriate. The erosion of the small account balances of inactive members will still be prevented, without affecting the cover of the individuals highlighted above. The combined test will ensure that when a member joins a new fund that offers valuable insurance, they will be automatically entitled to cover from day one, without the need to be underwritten in future.

Implementation and transition

The third issue with which MRA is concerned is the proposed application date for the new regime. MRA does not believe the aggressive timetable for implementation is achievable.

To implement the new regime, there will need to be technology changes and testing to ensure that systems will operate as required. A trustee cannot begin to identify those members who will be affected by the changes until after 1 April 2019[2]. A trustee then has an extremely short period of time to complete the analysis called for by the legislation and to give the notices in writing of cessation of cover.

The process for building the relevant technology, to deliver the analysis of member accounts required, seek and record member elections and provide applicable notices, will take many months to complete.

Given the concentration of administrative support within the superannuation industry, the burden will fall on a small number of service providers, which would lead to administrative errors or poor member outcomes.

A very significant number of members will need to be notified across the industry of the change to their insurance arrangements. Where a member is required to respond, they may be given a very short time frame to make an election before the cover is cancelled. MRA is concerned that this may result in unintended consequences, such as correspondence not being acted upon due to unforeseen circumstances.

[2] Clause 3 (Part 2 – Application and Transitional Provisions, application of Section 68AAA).

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MRA strongly recommends deferring implementation by 12 months by altering the references to 2019 in the Bill to 2020 so that the new arrangements are in place by 1 July 2020.

If you have any questions in relation to this submission, please contact myself on [redacted]

Yours faithfully

[redacted]

Andrew Linfoot
Chief Executive Officer
Munich Reinsurance Company of Australasia Limited