AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
[redacted]

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Committee Secretary
Economics Legislation Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

TREASURY LAWS AMENDMENT (PUTTING MEMBERS' INTERESTS FIRST) BILL 2019 – INQUIRY

The Australian Prudential Regulation Authority (APRA) welcomes the opportunity to assist the Senate Economics Legislation Committee (the Committee) with its Inquiry into the Treasury Laws Amendment (Putting Members' Interests First) Bill 2019 (the PMIF Bill).

APRA supports the policy intent of the measures contained in the PMIF Bill, which were formerly part of the *Treasury Laws Amendment (Protecting Your Superannuation Package) Act 2019* (the PYSP Act). Consistent with the policy intent of the PYSP Act, the PMIF Bill measures are aimed at improving member outcomes by reducing the inappropriate erosion of members' retirement savings. Specifically the PMIF Bill measures are aimed at ensuring that the retirement savings of members with low account balances under $6,000 and new members under 25 years of age are not inappropriately eroded due to the provision of unnecessary insurance. APRA notes, however, that the PMIF Bill measures are likely to have a material impact on the business operations of a number of entities operating within the superannuation industry.

As APRA previously indicated in relation to the PYSP Act, to implement the PMIF Bill measures superannuation funds will need to work closely with their administrators and insurers to ensure the required system changes and amendments to their insurance offerings are in place. Insurance arrangements will need to be reviewed and re-priced (taking into account actuarial input), underwriting processes reviewed and contractual arrangements re-negotiated accordingly. These processes can be highly complex and time consuming for individual funds, and will be even more so when the industry as a whole is impacted. Superannuation funds will also be required to ensure that members impacted by the measures are made fully aware of the changes to enable them to appropriately consider their insurance needs and the consequences of not opting-in to insurance.

APRA considers the PMIF Bill measures, together with the PYSP Act, represent a significant shift in the provision of insurance to superannuation fund members, with members with balances of under $6,000 and new members under 25 years of age only being offered insurance on an opt-in basis. While the precise impact of the measures is difficult to assess at this time, one likely impact that will result from the removal of low balance account members and new members under 25 from "default" insurance pools, will be upward pressure on premiums for remaining insured members.

As outlined above the PMIF Bill measures were formerly part of the PYSP Act, however prior to the passage of the PYSP Act they were excised and subsequently reintroduced in the PMIF

Bill in their original form. Consequently, the PMIF Bill measures are proposed to apply at the product level. Recently, the Government indicated that it will progress amendments to address concerns regarding the PYSP Act's product level application. However, at this time it is not clear whether the proposed amendments will also apply to the PMIF Bill measures. APRA's view is that it is important that there is alignment in the application of the PMIF Bill measures with the PYSP Act. Hence if the PYSP Act is amended to address concerns regarding application at the product level, similar amendments should be made to the PMIF Bill measures.

The PMIF Bill measures are also proposed to commence from the day after the date of Royal Assent, with the PYSP Bill measures applying on or after 1 October 2019 to members with balances under $6,000 and new members under 25 years of age. Requiring superannuation funds to implement the changes in the required timeframe will pose significant challenges for industry, particularly given the extent and complexity of the changes that will need to be undertaken, and current legislative uncertainty around the product level application.

Recognising the nexus between the PMIF Bill measures and the PYSP Act, the product level application of the PMIF Bill measures must be addressed consistent with proposed amendments to the PYSP Act. Further, it is critical that the PMIF Bill provides for appropriately targeted transitional arrangements that provide superannuation funds with sufficient time to take the necessary steps to implement the reforms in a manner that minimises any unintended consequences, particularly for members. APRA considers an appropriate implementation timeframe would be, at a minimum, 6 months but preferably 12 months from the finalisation of both the PMIF Bill and proposed PYSP Act amendments. Taking this approach will ensure that the policy intent of the PMIF Bill and the PYSP Act are achieved.

APRA is happy to answer any questions the Committee may have in relation to this submission.

Yours sincerely,

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Helen Rowell

Deputy Chairman