

SUBMISSION ON POLICY ISSUES RAISED IN ROUND 6

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Submission for: My Self

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With reference to the policy questions arising from module 6, part F item 23 and 25.

These 2 items together are important to deter current malpractice in the sales of insurance within superannuation (example provided below) and potential new exploits, and provide clarity for consumers in the future about what they can expect from the insurance products they are paying for and engage with the insurance provider in a meaningful manner.

Example of current malpractice

From my brief research, 2 out of 3 superannuation providers have been and is ongoing at this point, forcing members to buy death insurance cover amount that is equal in value or higher than the cover value for Total Permanent Disability (TPD) insurance. By extension, ***superannuation members are not allow to have higher TPD cover than death cover.***

This practice effectively ***block members*** from choosing a higher TPD cover than death cover, which has detrimental disadvantages for those who need the insurance support the most, those whose are not able to support themselves and their family due to sickness or injury.

To state this practice in a different way;

1 - I should buy higher insurance cover for the event that I die and have no use for the money myself, except to ***provide for my dependents.***

2 - I should buy lower TPD cover for the event that I can no longer work, where I have to ***provide for myself, my health care costs and my dependents.***

The two situations this malpractice creates is senseless and the average member will not consider its appropriateness until it is too late, when a person is in TPD scenario they will always need more funds to live on as more people and expenses are needed to be provided for, compared to the death scenario. But the superannuations providers are currently forcing their members to do the exact opposite to what is needed in reality.

The only beneficiary of this practice is the superannuation providers and/or their related insurance providers, as they force all members to buy higher death cover in order to have the same cover for TPD, effectively forcing members to over insure for their death or under insure for their TPD.

Superannuation providers researched

1 - MLC (Do not allow higher TPD cover than Death)

2 - HOSTPLUS (Do not allow higher TPD cover than Death)

3 - Australian Super (Allow higher TPD cover than Death)

Further Example

Furthermore, with respect to the theme of universal standards and appropriate rates for insurance, it should be legislated in this area to stamp out these types of malpractices, amongst many others as yet to be uncovered.

In support of my comment regarding potential further malpractices, I offer another example that is actively happening right now, superannuation providers also offer Income Protection insurance (IPI) to members buy automatically opt-in for all new members without taking into consideration for its suitability for the individual member, or whether the

member already have IPI insurance elsewhere. This is picky backing on the automatic opt-in for Death and TPD cover, which is now considered standard practice also. However, without delving too much in to Death and TPD cover here, all insurance offerings should be opt-in not as it currently is an opt-out approach.

However, with respect to IPI cover, it is not a product that is suitable for all members, in particular low income and less than full-time working members, as it make the member significantly worse off in their overall financial situation. This being the fact that I have observed many times, the IPI cover is often costly, where due to the members low income, the IPI premium is as high as their superannuation contribution amount and resulting in most or all of their super contributions are eroded or depleted by costly IPI insurance premiums. This is yet another current practice that needs to be addressed by legislation.

Conclusion

Legislation should require superannuation providers must show appropriateness given consideration to a members circumstances in offering default products to its members, and show that it positively benefits the members overall financial position.

Otherwise, its just members gouging and clearing out members superannuation savings without them knowing.