

Financial System Inquiry

Second Round Submission

TAL



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26 August 2014

Mr David Murray (AO)
Chairman
Financial System Inquiry
GPO Box 89
Sydney NSW 2001

Dear Mr Murray

Financial System Inquiry – Second Round Submission

I refer to the Financial System Inquiry Interim Report and make this second round submission on behalf of TAL Dai-ichi Life Australia Pty Limited (TAL) and its subsidiaries.

TAL's first round submission highlighted structural changes that were having an impact on the financial system's efficiency, stability, fairness and accessibility. Key observations included:

- Consolidation in the superannuation market, leading to fewer and much larger superannuation funds. Again, we expect the pace of this consolidation will continue;
- Sustained changes in, and adoption of, technology by increasingly sophisticated consumers leading to market pressure for alternate access methods, advice models and higher service levels; and
- Higher levels of insurance coverage, especially default insurance, but there is still evidence of underinsurance amongst Australians.

The Interim Report has clearly reflected the impact of these observations across the financial system and their contribution to broader issues of access, affordability and underinsurance.

TAL welcomes the three principles that the Interim Report puts at the centre of the future of our financial system. As the system continues to grow in size and complexity and consumer requirements become more diverse and underpinned by technology, sustainable and balanced outcomes for all industry stakeholders will only be delivered through an efficient allocation of resources and risks.

As highlighted in our first submission, we are Australia's largest life insurer and already provide products and services to consumers directly, through aggregators, financial advisers and within superannuation funds. Our unique position in the market makes us well placed to understand first-hand the substantial issues raised in the interim report – especially the longevity challenge.

Life insurance plays an important societal role. We contribute and support the lives people create and the future they imagine. We can continue to play this important role with changes within the financial system that strike the right balance between consumer protection and regulatory oversight; enhance advice delivery and effectiveness; and give consumers access to more innovative and contemporary products that better meet their needs through the technology they are using today and new technologies they may use in the future.

Continued...

Acknowledging the priorities outlined in the Interim Report, the focus of the second submission from TAL is on superannuation and its efficiency, consumer outcomes, retirement incomes and the opportunities available through greater use of technology. While issues focused on health and tax are excluded, we believe that certain aspects of these issues are still important for the future of our financial system, and we have restated our position for consideration.

I would welcome an opportunity to discuss this submission with the Inquiry Committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jim Minto', with a stylized, flowing script.

Jim Minto

Group CEO and Managing Director

TAL Recommendations

Consumer Outcomes

Recommendation: The Inquiry gives consideration to the introduction of a key fact sheet (KFS) requirement for life risk products. Additionally, we recommend a life risk KFS should be:

- A standard format;
- Plain English;
- Delivered in hard or soft copy at the option of the consumer; and
- Contain an example of level and stepped premium.

Recommendation: Provide ASIC with powers to issue guidance in relation to product intervention which can only be utilised where:

- A product is targeted at a particular segment of the population or is unsuitable for a segment of the population;
- The population segment identified above is considered vulnerable; and
- The product has features which are unsuitable for the above population segment.

Recommendation: For categories such as funeral plan policies sold to people on government income tested benefits or fixed incomes, only level premiums should be allowed.

Recommendation: The Government should consult with the financial advice industry on a proposal to enhance minimum education qualifications for financial advisers who provide personal advice, with an appropriate transition period.

Recommendation: Adopt a public register of financial advisers.

Recommendation: Enhance ASIC's powers to ban individuals from managing a financial services business.

Recommendation: Support legislative amendments to allow a customer and an adviser to agree, explicitly and up front, to limit the scope of the advice to a particular area.

Recommendation: Website tools and calculators into which consumers input their personal information should be classified as general advice or product information rather than personal advice in order to facilitate the development of this form of customer communication.

Recommendation: To help consumers navigate through the different forms of advice that are available, the advice regime should be renamed to provide greater clarity for customers. Specifically, general advice should be renamed Product Information and scaled advice renamed Product Advice with Personal Advice remaining unchanged.

Recommendation: The regulation of all classes of insurers should be aligned to the greatest extent possible.

Recommendation: Amend the Life Insurance Act 1995 (Cth) to allow insurers to provide ancillary benefits or 'riders', whether general or health insurance, to assist customers to return to health and take an active part in the economy.

Recommendation: Retain the exemptions currently provided in the Disability Discrimination Act 1992 (Cth), which permit insurers to assess risk and make distinctions on the basis of disability.

Recommendation: Allow advice fees to be tax deductible to encourage more consumers to seek financial advice.

Recommendation: Amend section 54 of the Insurance Contracts Act 1984 (Cth) so that it does not apply to late notification in 'living benefit' policies.

Recommendation: The Insurance Contracts Act 1984 (Cth) should be amended to allow life companies to unilaterally amend policy terms where it is in the collective interests of policy owners to do so, subject to:

- Receiving independent actuarial and legal advice confirming that this requirement has been met; and
- The insurer having a process in place which allows them to appropriately deal with cases where a policy owner has been materially disadvantaged by a unilateral change to their policy.

Retirement Income

Recommendation: Encourage retirees to utilise retirement income streams rather than access superannuation lump sums.

Recommendation: Re-classify the purchase of deferred lifetime annuities as an insurance premium. Alternatively remove the requirement to provide a surrender value during the deferred period for deferred annuity products.

Recommendation: Increase the maximum tenure of Commonwealth bonds to 40 years.

Recommendation: Take steps to encourage greater use of corporate bonds to provide an alternative fixed interest investment option to Government bonds.

Technology

Recommendation: Undertake mutual recognition of equivalent privacy regimes.

Superannuation

Recommendation: Retain the three-day portability rules and aspire to one-day portability.

Recommendation: Enhance the compliance regime around enforcement of the three-day rule to improve the efficiency of the superannuation system and minimise potential detriment to members.

Recommendation: Align the rejection error codes for rollovers issued by the ATO with the Superannuation Industry Supervision Regulations (particularly Regulation.6.35), to enable compliance breach reporting to APRA by initiating funds.

Consumer Outcomes

Disclosure

Observation: The current disclosure regime produces complex and lengthy documents that often do not enhance consumer understanding of financial products and services, and impose significant costs on industry participants.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Improve the current disclosure requirements using mechanisms to enhance consumer understanding, including layered disclosure, risk profile disclosure and online comparators.
- Remove disclosure requirements that have proven ineffective and facilitate new ways of providing information to consumers, including using technology and electronic delivery.
- Subject product issuers to a range of product design requirements, such as targeted regulation of product features and distribution requirements to promote provision of suitable products to consumers.
- Provide ASIC with additional powers such as:
 - Product intervention powers to prescribe marketing terminology for complex or more risky products.
 - A power to temporarily ban products where there is significant likelihood of detriment to consumers.
- Consider a move towards more default products with simple features and fee structures.

The Inquiry seeks further information on the following areas:

- What evidence is there on the effectiveness of financial literacy strategies in enhancing consumer confidence and decision making at particular points in time, and in achieving increasing literacy over the long term?

TAL supports a review of the policy options for disclosure obligations. We believe the review should focus on options for layered disclosure, presenting information in a format easily digestible by consumers and ensuring the regulatory environment supports the use of new technologies to inform consumers.

The current disclosure regime fails to provide information to consumers in a format they are willing and able to use. In our research customers expressed views that 'the current PDS legal document is a behemoth' and 'it was difficult finding the relevant information'¹. TAL believes it is appropriate to retain the current PDS regime, as the PDS plays an important role in detailing the terms of the insurance contract. However it is apparent that the PDS document fails when it comes to enhancing consumer understanding and ability to compare products.

In recent years there have been reforms to financial services disclosure which aim to improve consumer understanding. Specifically a requirement to provide a key fact sheet (KFS) was introduced for home loans and credit cards as well as home and contents insurance policies.

¹ Proprietary consumer quantitative research (3,000 respondents) conducted July 2014

While the general insurance KFS differs in content from the home loan and credit card KFS, both enable consumers to compare products by putting the fact sheets side by side. We submit consideration should be given to the introduction of a similar KFS requirement for life risk products.

In particular we believe such a disclosure document would add value in enabling consumers to understand and compare stepped and level premium products. Similar to the home loan KFS, which shows interest paid over the life of the loan relative to each \$1 borrowed, a life risk KFS could show an example of the total stepped versus level premium structures over various time intervals in order to assist consumers choose the right premium structure.

We submit a life risk KFS should be:

- A standard format;
- Plain English;
- Delivered in hard or soft copy at the option of the consumer; and
- Contain an example of level and stepped premiums.

Electronic delivery of disclosure documents is crucial to meet consumer needs and keep compliance costs down. The rapid adoption of technology continues to change the way consumers access and consume information. Our consumer insights² research shows that not only is adoption of new technology high, usage of digital technology is heavy, with usage several times a day for laptop/desktop, smartphone and tablets at 62%, 37% and 33% respectively. Additional proprietary research³ conducted by TAL clearly shows that consumers are looking for seamless access to information and customer support. More than ever, consumers are turning to digital channels early in the research phase of product purchase. Customer feedback on the life insurance category includes:

- There are too many sources of information;
- There is too much information; and
- Language used is not plain English.

Additional research⁴ shows that customers are moving from using a single channel through the insurance purchase process to using multiple channels. In fact, nearly 50% prefer online for research and purchase; then a majority of customers shift to phone, email or face-to-face to manage their policy.

TAL believes that policy options to improve disclosure should reflect the new channels that customers are using for direct interaction with financial services providers. While some customers will still prefer direct contact through channels including face-to-face and telephone, technology is introducing new forms of direct contact for consumers such as Web Chat. Already we are seeing that 2% of customers are stating a preference to use web chat when they are researching and buying a product⁵.

TAL believes that these new and emerging channels are an opportunity to enhance consumer understanding and can work alongside the traditional disclosure model to improve the customer experience. Furthermore, because of their digital nature it is much easier to accurately record and audit a consumer's interactions.

Recommendation

- The Inquiry gives consideration to the introduction of a key fact sheet (KFS) requirement for life risk products. Additionally, we recommend a life risk KFS should be:
 - A standard format;
 - Plain English;
 - Delivered in hard or soft copy at the option of the consumer; and
 - Contain an example of level and stepped premium.

² Proprietary consumer quantitative research (3,000 respondents) conducted July 2014.

³ Proprietary consumer ethnographic research (17 interviews) conducted July 2014.

⁴ Proprietary consumer quantitative research (3,000 respondents) conducted July 2014.

⁵ Proprietary consumer quantitative research (3,000 respondents) conducted July 2014.



Product Design Requirements

We support providing ASIC with additional product intervention powers as a tool to improve consumer confidence and to be utilised where:

- A product is targeted at a particular segment of the population or is unsuitable for a segment of the population;
- The population segment identified above is considered vulnerable; and
- The product has features which are unsuitable for the above population segment.

Where the above criteria are met, TAL supports ASIC having the ability to issue guidance to the industry as to suitable product features and distribution requirements. We support the power to issue guidance rather than black letter regulation as it provides greater flexibility to respond to changing conditions while still providing consumer protection and transparency.

An example of a product feature which meets the above criteria is stepped funeral insurance premiums sold to individuals on income tested government benefits or fixed incomes. A clear body of evidence demonstrates that consumers on fixed incomes are experiencing adverse outcomes from the stepped premium structure as prices rise beyond their affordability levels and that these consumers may be better off under a level premium arrangement. Yet yearly renewable (or 'stepped premium') insurance dominates funeral insurance in the Australian market. This type of product is characterised by premiums that increase over time, meaning that while premiums may be low for younger people or earlier in a contract duration, they increase significantly over time. At older ages, particularly post-retirement, the increase in the premium year on year can become prohibitive at a time when the individual is no longer working and least able to afford the increase.

With funeral policies TAL has changed to provide only level premium products. However many in the industry continue to offer both stepped and level premiums. There has been adverse media coverage and challenges to life insurers from ASIC and consumer groups in relation to the unintended consequences of stepped premium products for people on fixed incomes. TAL agrees with these views. We submit stepped premium funeral insurance sold to consumers on fixed incomes would meet the criteria outlined above and is therefore a suitable candidate for ASIC intervention by way of guidance.

Recommendation

- Provide ASIC with powers to issue guidance in relation to product intervention which can only be utilised where:
 - A product is targeted at a particular segment of the population or is unsuitable for a segment of the population;
 - The population segment identified above is considered vulnerable; and
 - The product has features which are unsuitable for the above population segment.
- For categories such as funeral plan policies sold to people on government income tested benefits or fixed incomes, only level premiums should be allowed.



Financial Advice

Observation: Affordable, quality financial advice can bring significant benefits for consumers. Improving standards of adviser competence and removing the impact of conflicted remuneration can improve the quality of advice. Comprehensive financial advice can be costly, and there is consumer demand for lower-cost scaled advice.

TAL believes strongly in the value and importance of advice for Australians. While the industry has a responsibility to continue to create simpler and more easily understood products, as already outlined, the reality is that most Australians will seek advice as part of the process of buying life insurance or when making changes to their existing arrangements.

The issues of access and affordability remain significant barriers to many Australians receiving the advice they need to structure their financial affairs appropriately. This is particularly relevant in ensuring that Australians have appropriate levels of life insurance, and cover that meets their individual needs, lifestyles and circumstances.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Raise minimum education and competency standards for personal advice (including particular standards for more complex products or structures, such as SMSFs) and introduce a national examination for financial advisers providing personal advice.

- Introduce an enhanced public register of financial advisers (including employee advisers) which includes a record of each adviser's credentials and current status in the industry, managed either by Government or industry.
- Enhance ASIC's power to include banning individuals from managing a financial services business.

While there has been much discussion about raising the entry level standards into financial planning, the competency required to become RG146 qualified has not changed and is still below what TAL would consider a minimum education requirement for financial advisers.

Until standards improve and financial planning becomes a profession, planners will continue to be seen in poor light by the public, media and policy makers. TAL continues to promote the professionalisation of the advice industry, and believes advisers should conform to high standards in the quality of their education/qualifications and ethics. TAL has actively promoted this view through its dealer group Affinia.



We therefore support in principle:

- Increasing the Continuing Professional Development points required yearly;
- Consideration of raising minimum education standards to an appropriate degree qualification, noting that this option would need to be implemented with a significant lead time to enable transition and skilling of existing advisers and to ensure the continued availability of advice during this period. A lead time of at least five years would be required;
- Introducing a requirement for all advisors to belong to an industry body with membership requiring adherence to a suitable code of conduct; and
- A national public register for financial advisers to enable consumers to quickly and easily access the necessary information to give them confidence in the qualifications and competence of their chosen adviser.

In relation to the proposal for a public register of advisers, we submit it would need to:

- Be maintained by ASIC;
- Disclose the advisers' work history and qualifications;
- Disclose the areas of authorisation – in a manner that is meaningful for customers;
- Disclose the name of the professional association(s) in which the adviser is a member, and the designation(s) held; and
- Disclose the ultimate owner/holding company of the licence holder, in which the adviser is an authorised representative.

We note there would be costs to ASIC and the industry were a national public register to be developed and issues around maintenance of that register would need to be carefully thought through. Nevertheless we believe the benefits to be gained in consumer confidence outweigh these costs.

Finally, as an additional measure to promote consumer confidence in the advice industry, TAL supports the enhancement of ASIC's powers to include the ability to ban individuals from managing a financial services business. This measure accords with similar bans for directors of companies.

Recommendation

- The Government should consult with the financial advice industry on a proposal to enhance minimum education qualifications for financial advisers who provide personal advice, with an appropriate transition period.
- Adopt a public register of financial advisers.
- Enhance ASIC's powers to ban individuals from managing a financial services business.



The Inquiry seeks further information on the following areas:

- What opportunities exist for enhancing consumer access to low-cost, effective advice?
- What opportunities are there for using technology to deliver advice services and what are the regulatory impediments, if any, to those being realised?
- What are the potential costs or risks of this form of financial advice, and what measures could be taken to mitigate any risks?

Enhancing access to low-cost advice

Since the introduction of the Financial Services Reform Act 2001, advice has been regulated. While this has undoubtedly led to higher standards with respect to the quality of advice, it has also made advice more costly to deliver (thus creating affordability barriers for most consumers) and limited the access that Australians have to advice.

If the high cost of advice is a deterrent to consumers seeking it, it follows that lower cost service models should be facilitated. This could include greater utilisation of scaled advice or a similar framework.

While the guidance provided in RG244 and the amendments to the best interests duty guidance (RG175) have assisted, we have still not seen widespread take-up of scaled advice. For many Australians, general advice will provide important information, but may not be sufficient to assist them in determining their needs and the appropriate solution. On the other hand, full personal advice is costly and access is an issue. TAL believes scaled advice or similar is an appropriate middle-ground option which will

help Australians receive the level of advice they need, and allow the industry to create more capacity to deliver it, in a manner which is affordable.

The primary barrier to the delivery of scaled advice is the amount of work required to investigate a client's broader circumstances, even in instances where advice is only being sought on a single or restricted number of matters. TAL supports the proposed scaled advice amendments to FOFA that permit a customer and an adviser to agree, explicitly and up front, to limit the scope of the advice to a particular area (for example insurance). TAL believes amendments must clarify the ability of advisers to receive instruction from clients with respect to scope of advice and explicitly deal with the obligations under best interests duty for the adviser to make enquiries of their client.

Scaled advice, or similar, represents an appropriate middle-ground option which will help Australians receive the level of advice they need, and allow the industry to create more capacity to deliver it, in a manner which is affordable.

Recommendation

- Support legislative amendments to allow a customer and an adviser to agree, explicitly and up front, to limit the scope of the advice to a particular area.

Technology

As noted above, our consumer insights⁶ research shows that not only is adoption of new technology high, use of digital technology is widespread, with usage several times a day for laptop/desktop, smartphone and tablet. Consumers are turning to technology to deliver both disclosure and advice services.

⁶ Proprietary consumer quantitative research (3,000 respondents) conducted July 2014.



It follows then that the advice regulatory framework should as a minimum be technology neutral and ideally facilitate the use of technology to deliver advice. Industry would benefit from certainty around online tools and calculators being classified as 'general advice' or 'product information', reflecting the role they play in the consumer process of buying insurance.

Recommendation

- Website tools and calculators into which consumers input their personal information should be classified as general advice or product information rather than personal advice in order to facilitate the development of this form of customer communication.

The Inquiry seeks further information on the following areas:

- Is there a case to more clearly distinguish between independent and aligned advisers, and what options exist for doing this?
- Would consumers be likely to understand the difference between aligned and independent advisers and, if so, to what extent would this be likely to factor into a consumer's decision to take the advice?
- Would consumers be likely to be sensitive to differences in the price of independent or aligned advice?

TAL believes the focus of advice should be on ensuring it is high quality and appropriate for the client. The measures discussed above in relation to education and competency standards and a public register of financial advisers are appropriate measures to support this goal. Provided consumers are getting advice which is appropriate to their needs, alignment is and should be irrelevant.

However, we believe the ownership relationship should be disclosed to the consumer. TAL currently adopts this approach with Affinia, clearly stating that it is 'backed by TAL' on its logo.

We do not believe consumers are sensitive to differences in the price of independent or aligned advice. Customers appear to be very sensitive to the cost of advice, in the absence of a compelling value proposition, but we are not aware of any evidence to support the notion that price sensitivity is linked to the independence of the adviser.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options:

- No change to current arrangements
- Rename general advice as 'sales' or 'product information' and mandate that the term 'advice' can only be used in relation to personal advice.

TAL believes that all Australians should have access to a fair and trustworthy advice regime which facilitates consumers taking prudent actions with confidence. In order to provide this, TAL believes that a tiered framework governing the provision of information and guidance to consumers should be retained but renamed to improve consumer understanding.



First Tier: Product Information

TAL agrees with the suggestion that the term 'general advice' should be renamed to enhance consumer understanding. Given that the financial services community continues to debate the boundaries between general and personal advice, it is not reasonable to expect the average consumer to understand the distinction.

TAL believes that general advice should be renamed as 'product information' as this better describes the information provided to the consumer. Renaming general advice as product information would also highlight to consumers the value that financial advisers provide as it is evidence the advice is not personal to their circumstances but that this level of advice can be obtained.

Second Tier: Product Advice

This tier would encompass the provision of basic single product advice issued at the point of transaction. Many consumers who buy directly from TAL, via a phone call or online, indicate they would like the licensee to recommend an appropriate level of cover or provide some guidance on appropriate product options. The solution is not necessarily for the licensee to get personal advice authorisation, because these customers are typically not seeking or prepared to participate in a full personal advice process (such as that required for an advisor to make reasonable enquiries, give appropriate warnings and provide a Statement of Advice). Consumers are often simply seeking a quick response about what cover they may need.

TAL suggests product advice would service these customers' need for specific information and an assessment based on needs at time of purchase. This tier would also be an important factor to ensure that consumers have access to affordable advice. As noted above, regulatory changes are recommended to increase the availability of scaled or 'product' advice.

Third Tier: Personal Advice

This third tier would encompass the existing comprehensive personal advice regime.

Recommendation

- To help consumers navigate through the different forms of advice that are available, the advice regime should be renamed to provide greater clarity for customers. Specifically, general advice should be renamed Product Information and scaled advice renamed Product Advice with Personal Advice remaining unchanged.

Underinsurance

Observation: Technological developments have the potential to reduce insurance pooling. This will reduce premiums for some consumers; however others will face increased premiums, or be excluded from access to insurance. Underinsurance may occur for a number of reasons including personal choice, behavioural biases, affordability, and lack of adequate information or advice on the level of insurance needed.

TAL agrees that the causes of underinsurance are varied and we have taken steps to enhance our understanding of the issue.

Now in its second year, the TAL Australian Financial Protection Index, in conjunction with Galaxy Research, tracks and analyses perceptions of underinsurance across the four major forms of personal life insurance. More than 1,200 Australians are surveyed on the types of life insurance they hold, and on whether they believe they had enough cover if they or their partner can no longer work. The results are modelled to calculate a score from 0 to 100, where 100 indicates that people have a form of life insurance and believe they have adequate coverage.

The most recent results of the study suggest that while the majority of Australians still do not believe they have enough financial protection, the gap is slowly closing.

Age group	2013 Protection Index	2014 Protection Index
18-24 years	17.6	19.5
25-34 years	24.5	27.4
18-34 years Gen Y	22.2	24.5
35-49 years Gen X	25.3	39.7
50-69 Years Baby Boomer	25.2	36.9
All ages	24.2	33.5

Household income p.a.	2013 Protection Index	2014 Protection Index
More than \$90k	31.7	42
Between \$40k and \$90k	22.8	29
Less than \$40k	16	19
Children living at home		
Yes, under 18 years	27	39.0
No children at home	22.7	29.5
Yes, 18 years plus	21	37.7
Marital status		
Married / de facto	28.1	38.3
Unmarried	17.7	23.0
Risk profile		
Risk taker	34.7	42.4
Take some risk	26.9	38.1
Avoid risk	20.4	24.7

	2013 Protection Index	2014 Protection Index
Home ownership status		
Own with a mortgage	32.2	39.8
Own freehold	27.2	38
Renter	14.1	21.9
Work status		
Full time	27.4	37.9
Part time	21.6	29.3
Not working	20.5	27.7
State		
NSW/ACT	22.7	33.1
Vic/Tas	23.9	31.9
Qld	27.4	35.2
SA	22.8	35
WA	24.6	34.9
Life in state capital city		
Yes (city)	24.4	33.5
No (rural/regional)	23.9	33.6
Household income type		
Single person	20.8	31.4
Equal earners (couple)	22.7	31.3
Family (one main earner)	26.1	36.8

Of all the demographic groups researched, Generation X (aged 35-49), higher income earners, those with children at home, those with mortgages and those who declare themselves as risk takers scored the highest index results at around 40 out of 100. These results clearly indicate that the level of life insurance cover is improving but not to the point where we could confidently say that underinsurance is no longer an issue. These numbers also indicate that the rate of improvement in cover is primarily evident among those with high incomes, suggesting that affordability is still a key factor in underinsurance as the largest improvements are seen in those in the higher age brackets.

The last question in the survey focuses on confidence in adequacy of cover and reflects the key issue for underinsurance. While take-up of insurance, directly or through superannuation, has increased, the scores on the final question indicate there is still a substantial gap between the level of cover that people think they need and the cover they actually have. Increasing the number of consumers holding life insurance products is not enough to solve the underinsurance problem. The financial services system also needs to ensure consumers feel confident that their product holdings are enough.

The challenge for the industry is to convert awareness of the problem into action to address the issue. There is no silver bullet. However many of the recommendations in our submission – focused on advice, disclosure and the provision of contemporary products – will contribute to addressing the causes of underinsurance and meet the three principles outlined in the Inquiry's Interim Report.

The Inquiry seeks further information on the following areas:

- Does Australia have a problem with underinsurance that warrants some form of policy response? Specifically:
- How does Australia compare internationally on adequacy of insurance coverage?
- Has the issue of underinsurance been increasing over time?
- What evidence and data are available to support a conclusion about our level of underinsurance?
- What evidence and data are available to assess whether more granular risk-based pricing will lead to exclusion or further underinsurance?
- If warranted, what are possible approaches to lessen the existence of, or mitigate the impact of, underinsurance?

International comparisons of the extent of underinsurance are not helpful. Comparisons generally show Australia to have lower levels of life insurance but internationally life products include elements of investment that increase premium volumes, making comparisons invalid. In Australia the life market has moved to a pure life risk component which is different to many global markets where life insurance includes a substantial savings component.

The main approach to lessen underinsurance should involve continuing to encourage the development of multi-channel offers and innovative products. Moreover, TAL believes that the underinsurance issue can in part be addressed through improved flexibility in the regulatory framework, thus allowing insurers to develop innovative new products and offer a greater range of benefits to consumers. The current regulatory settings segment general insurance, life insurance and private health insurance into separate regulatory

regimes with different legislation. General insurance and life insurance are regulated by APRA while private health insurance is regulated by the Private Health Insurance Administration Council (PHIAC).

In general, life insurers are prohibited from offering benefits that resemble general insurance or private health insurance (and similar converse restrictions apply to general insurers and health insurers).

For example, TAL offers an income protection policy that includes a rider for involuntary redundancy. As this benefit is not classified as life insurance, TAL has partnered with a general insurer to provide this portion of the product. This leads to an administrative cost, which is ultimately borne by consumers, and more complex disclosure.

In addition, as outlined in our first submission, life insurers are prohibited from offering riders that resemble health insurance. This critically affects life insurers' ability to offer true return-to-work services to their customers.

TAL strongly believes in the benefit of return-to-work services and has recently become a signatory to the Australasian Faculty of Occupational and Environmental Medicine's Consensus Statement on the Health Benefits of Work.

The Statement was launched in March 2011, following work by the Australasian Faculty of Occupational and Environmental Medicine which looked at the relationship between health, wellbeing and work both in Australia and internationally including the impacts of being out of work. Being off work for long periods

can significantly reduce the likelihood of an injured person returning to work and can have a negative effect on the person and their family. Working provides structure, social interaction, a sense of purpose and important economic benefits.

Research has shown that people who don't work are at risk of poorer physical and mental health. They are more likely to be socially isolated and experience low self-confidence. They are at greater risk of suicide and death.

If a person is off work for:

- 20 days, the chance of ever getting back to work is 70%;
- 45 days, the chance of ever getting back to work is 50%;
- 70 days, the chance of ever getting back to work is 35%.⁷

As the ability to return to work quickly has a significant impact on long-term health outcomes, we believe a more flexible approach should be taken to the kinds of benefits that the life insurers can offer.

Currently the Life Insurance Act 1995 (Cth) contains provisions under which APRA can determine that a benefit may be offered as part of a life insurance policy, even though it does not satisfy the strict definition of life insurance. In recent years, APRA's policy is to restrict the exercise of this power to very narrow circumstances.

⁷ Realising the Health Benefits of Work, Position statement of the Australasian Faculty of Occupational & Environmental Medicine.



The aims of life and health insurance are often aligned, because life and health insurers and customers have an interest in the maintenance of good health and ready access to services that assist return to health and a productive lifestyle.

Recommendation

- The regulation of all insurers should be aligned to the greatest extent possible.
- Amend the Life Insurance Act 1995 (Cth) to allow insurers to provide ancillary benefits or 'riders', whether general or health insurance, to assist customers to return to health and take an active part in the economy.

Life Cover Channels and Underwriting

Life cover in superannuation is very valuable and should be allowed to continue. The vast majority of Australians access life and disability insurance through their superannuation arrangements. Research conducted by KPMG shows approximately 67% of life insurance and approximately 56% of disability insurance in Australia is held through superannuation⁸. Without this framework, Australia's underinsurance problem would be materially exacerbated with profound social and public finances implications.

While life insurance is based on the concept of pooling, it allows considerable flexibility as to whether customers choose to be part of a wider pooled arrangement or seek individual risk rating. This compares to health insurance where the core principle in Australia is community rating or pooling. There is no evidence that more granular risk-based pricing will lead to exclusion or further underinsurance.

The trend toward individual risk rating is a societal one, where some consumers want to be rewarded for aspects like good health and exercise habits as measured by technology. We see this as an emerging trend that will continue to grow. Our research indicates that 5% of people surveyed state that they are using a fitness/health tracker of some form. Of these users, 18% use the device several times or more a day, 29% daily and 30% a few times per week. In time, this is likely to mean some consumers pay more for life insurance and some pay less as they are individually risk rated or rewarded. Consumers will still be able to find pooled structures if they want. Collective scheme coverage is very efficient for consumers and most offer a right to apply for underwritten top-up cover over and above the default levels. This is a good and efficient model.

Underwriting is the process of assessing risk to determine whether cover should be issued and on what terms. Underwriting is integral to an insurer's business and enables insurers to manage their risks while assisting consumers to obtain the cover that they believe is right for them. In applications for life insurance, understanding the consumers' medical history is a key component of the underwriting process. Under disability discrimination legislation at Commonwealth and State and territory level, it is illegal to discriminate in relation to disability in the delivery of goods and services. Concessions are provided in relation to life insurance and superannuation services, if the discrimination is reasonable and based on statistical and actuarial data.

⁸ KPMG Death and Disability Protection Gap in Australia, 2014



Life insurance is typically ‘guaranteed renewable’, meaning that the policy may not be terminated or varied by the life insurer, even if there is deterioration in the insured’s health circumstances. This distinguishes it from general insurance, where underwriting questions are usually asked on an annual basis, and the risk re-assessed and repriced, or even cancelled.

The long-term nature of the contract is one reason why underwriting prior to commencement of the policy is such a critical step.

For some individuals, this does unfortunately mean that it may not be possible for them to obtain an individually risk rated product, or possibly not at the price or on terms that are acceptable to them. For these people, pooled structures and other products that do not have underwriting criteria may be a better option.

TAL believes that the current legislative settings provide a reasonable balance between the rights of individuals who suffer a disability and the need for insurers to manage risk and provide a range of options to their customers.

TAL therefore recommends that the current disability legislation remain unchanged in relation to its concessions for life insurance and superannuation services.

Recommendation

- Retain the exemptions currently provided in the Disability Discrimination Act 1992 (Cth), which permit insurers to assess risk and make distinctions on the basis of disability.

While the life insurance industry has and will continue to educate consumers on the risk of underinsurance, a number of policy measures could incentivise them to take out suitable insurance.

Tax Deductibility of Advice Fees

Noting that other processes, such as a Tax White Paper, may also consider this issue, we still recommend the Panel consider allowing fees payable for the provision of financial advice to be tax deductible to encourage more consumers to seek advice.

Encouraging consumers to seek advice by making advice more affordable is likely to result in:

- Better superannuation and life insurance outcomes for consumers;
- Consumers choosing a suitable level of life insurance cover; and
- Reduced reliance on Government welfare payments and the age pension.

Recommendation

- Allow advice fees to be tax deductible to encourage more consumers to seek financial advice.

Late Notified Claims

The Inquiry’s Interim Report expressed the view that:

‘The Inquiry considers the financial system needs to satisfy three principles; efficiently allocate resources and risks, be stable and reliable, and be fair and accessible.’

TAL agrees that the financial system needs to satisfy these principles. In relation to life insurance, there are emerging risks which may threaten the sustainability of certain kinds of disability insurance and impact on the affordability of premiums.



One of these emerging risks is the increasing rate of late-notified claims for total and permanent disability (TPD) benefits. Insurers are sometimes being asked to consider claims for TPD benefits up to 10 years (and sometimes beyond) following the illness or injury that led to the claimant leaving work. This leads to the following concerns:

- It is difficult to assess the claim, as the insurer is relying on retrospective and out-dated information;
- Evidence to support the claim may be scant and difficult to obtain;
- Uncertainty created by late notified claims means that it is difficult for insurers to calculate appropriate reserves for 'incurred but not received claims' (IBNR) as assumptions regarding late-notified claims are changing. This uncertainty is a factor in increasing premiums for disability benefits; and
- In superannuation funds, this is leading to a greater proportion of members' savings being spent on insurance.

There is a statutory restriction which impedes life insurers from introducing a notice period for claims. If a life insurer introduced such a notice period, section 54 of the Insurance Contracts Act 1984 (Cth) could be raised by an insured person. Section 54 effectively prevents an insurer from denying claim because of the insured's act or omission. A life insurer can only refuse a claim that is made after the end of a notice period if and to the extent that it has suffered prejudice as a result of late lodgement of the claim.

In determining the question of prejudice, a life insurer cannot argue that the deleterious effect on the IBNR or overall premiums for an insured pool should be taken into account. If the life insured has suffered a genuine injury or illness, then it may be difficult for the life insurer to clearly prove that a failure to notify earlier has caused or contributed to a specific loss which directly results from a particular late claim.

TAL therefore reiterates that the Inquiry should consider proposals for statutory reform in relation to section 54 of the Insurance Contracts Act 1984 (Cth).

Recommendation

- Amend section 54 of the Insurance Contracts Act 1984 (Cth) so that it does not apply to late notification in 'living benefit' policies.



Product Rationalisation of Legacy Product

TAL supports the introduction of a product rationalisation legal framework that is appropriately focused on customer protection and improving industry efficiency.

The financial services sector over the years has introduced a range of products, along with their administrative systems, that have become obsolete as a result of legislative changes and shifts in consumer sentiment and needs.

The continued operation of these legacy products not only increases the cost burden on consumers 'trapped' in out-of-date products, it results in inefficient use of capital in the financial sector. The risks associated with this situation could be mitigated by legislative measures to facilitate the closure of obsolete products and movement of customers into more modern competitive products.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives

- No change to current arrangements.
- Government to renew consideration of 2009 proposals on product rationalisation of legacy products

Under Part 9 of the Life Insurance Act 1995 (Cth), there is a scheme for the merger of the statutory funds of life insurance companies. The wording of Part 9 means the process may only be used where two life companies are involved. In other words, it cannot be used to merge products within one life company's business. This in effect means that in order to rationalise life insurance products, the consent of each policy holder must be obtained, which is simply not practicable. The taxation and financial services legislation should

contain measures to facilitate the closing of obsolete financial service products and move consumers into more modern alternative products which are better suited to their needs.

TAL suggests an Insurer be allowed to unilaterally amend policy documents where it is in the collective best interests of policy owners to do so, subject to receiving independent actuarial and legal advice confirming that the best interests requirement has been met. This would allow the insurer to amend a legacy policy so that it replicates the terms of a contemporary policy, thereby effecting product rationalisation.

Recommendation

- The Insurance Contracts Act 1984 (Cth) should be amended to allow life companies to unilaterally amend policy terms where it is in the collective interests of policy owners to do so, subject to:
 - Receiving independent actuarial and legal advice confirming that this requirement has been met; and
 - The insurer having a process in place which allows them to appropriately deal with cases where a policy owner has been materially disadvantaged by a unilateral change to their policy.



Retirement Income

Australians are living longer and more self-funded retirees run the risk of using up their retirement savings. This represents a challenge to Government and the Life Insurance industry to develop appropriate products which provide sufficient income for retirees in later years.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- A spectrum of options to achieve the objectives of the retirement income system and position Australia to manage the challenges of having an ageing population:
- Maintain the status quo with improved provision of financial advice and removal of impediments to product development.
- Provide policy incentives to encourage retirees to purchase retirement income products that help manage longevity and other risks.
- Introduce a default option for how individuals take their retirement benefits.
- Mandate the use of particular retirement income products (in full or in part, or for later stages of retirement).


Policy Incentives to Encourage Purchase of Retirement Income Products

TAL supports the provision of policy incentives to encourage retirees to purchase retirement income products, particularly lifetime and deferred annuities. We submit this could be done through measures to address the affordability of retirement income products as well as disincentives for lump sums.

Currently there are disincentives for retirees considering purchasing a deferred annuity. If an annuity is in the payment phase then it is treated as an annuity product for tax and other purposes. However, if the payment phase has yet to commence (in the accumulation phase or deferred period) then the purchase price is treated as an investment product rather than an insurance premium. Re-classifying the product as an insurance premium during the accumulation phase would provide an incentive for retirees to take up annuities as tax liabilities and disincentives associated with the means test for the Age Pension would be removed.

Retirement income products could also be made more affordable by reducing the capital required for a life company offering these products. This would also have the effect of encouraging the market to develop products to manage longevity risk. We would welcome the opportunity to review possible changes to the capital requirements with the intention of making these products more affordable and competitive with others currently on the market.

Finally TAL submits that as well as considering incentives for retirees, the Panel should give consideration to disincentives for accessing lump sums. This could be done through limiting access to superannuation lump sums at retirement or higher taxation arrangement for lump sums.



Mandated Use of Retirement Income Products and Default Options

TAL is of the view that enabling greater flexibility in the way retirement products are structured and offering policy incentives and disincentives (as outlined above) will lead to better take-up of these products.

However TAL does not support the mandating of any particular products in retirement, nor do we support the use of retirement income products as a non-opt-out default option. We believe retirement income products can be an appropriate product for retirees but that it should be the result of a conscious and well-informed decision. Retirees should not be put into a life risk product without their consent or ability to opt out.

Observation: There are regulatory and other policy impediments to developing income products with risk management features that could benefit retirees.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- No change to current arrangements.
- Take a more flexible, principles-based approach to determining the eligibility of retirement income products for tax concessions and their treatment by the Age Pension means-tests.
- For product providers, streamline administrative arrangements for assessing the eligibility for tax concessions and Age Pension means-tests treatment of retirement income products.
- Issue longer-dated Government bonds, including inflation-linked bonds, to support the development of retirement income products.

It is widely recognised that tax payable on deferred lifetime annuity assets during the deferral period is a major impediment to product development in the market. The annuity and pension rules are too inflexible, and the Superannuation Industry Supervision (SIS) Regulations should be broadened to enable a wider range of income-stream products to enjoy tax-free or concessional tax status.

Furthermore TAL supports the streamlining of administrative arrangements for assessing eligibility of retirement income products for tax concession and their treatment by the Age Pension means tests.

While the recent issuance of longer-dated Government bonds is welcome, even longer-dated issues would be needed in order to match the longer liabilities associated with deferred lifetime annuities.

Issuers of annuity products also face challenges in sourcing long-dated investments to back them. We suggest that the Inquiry consider funding for such products and, in particular, increasing the maximum tenure of Commonwealth bonds (currently 20 years) and taking steps to encourage greater use of corporate bonds.



The Inquiry seeks further information on the following areas:

- Would deferred lifetime annuities or group self-annuitisation be useful products for Australian retirees? Are there examples of other potentially suitable products?
- If part of retirees' superannuation benefits were to default into an income stream product, which product(s) would be appropriate?
- Will the private sector be able to manage longevity risk if there is a large increase in the use of longevity-protected products? How could this be achieved?
- Should Government increase its provision of longevity insurance? How would institutional arrangements be established to ensure they were stable and not subject to political interference?
- What are some appropriate ways to assess and compare retirement income products? Is 'income efficiency' a useful measure?

No single product can satisfy the needs of retirees through all phases of retirement; rather, different product features will be appropriate in each phase. Longevity risk products should be used as part of (not the whole of) the post-retirement strategy where the need for longevity protection is the greatest.

Deferred lifetime annuity products are one example of innovative solutions which provide longevity and investment risk management when it is most needed. Once surety is provided against longevity, retirees will have greater certainty and flexibility to manage their financial affairs. Any barriers restricting such innovative solutions should be removed.

As noted above, TAL does not believe that the use of retirement income products should be mandated generally, preferring that a product is chosen by the Trustee with regard to members' best interest. Provided this approach is adopted, we do not believe the private sector will have any issues managing longevity risk.

However, if use of retirement income products is made compulsory, capacity concerns may arise. Only in the event of compulsory annuitisation does TAL support the establishment of a government-backed insurance pool for longevity or an investor protection fund. We do not support the establishment of a government life company.

'Income Efficiency'

In order to appropriately compare retirement income products, stochastic modelling (allowing different probabilities of survival) must be applied. This modelling is currently being used and has the potential to be made into a useful tool for consumers. Stochastic modelling provides a better framework for comparing retirement income products than income efficiency as it better predicts life span and therefore the longevity risk.

Recommendation

- Encourage retirees to utilise retirement income streams rather than access superannuation lump sums.
- Re-classify the purchase of deferred lifetime annuities as an insurance premium. Alternatively remove the requirement to provide a surrender value during the deferred period for deferred annuity products.
- Increase the maximum tenure of Commonwealth bonds to 40 years.
- Take steps to encourage greater use of corporate bonds to provide an alternative fixed interest investment option to Government bonds.



Technology

Observation: Technological innovation is a major driver of efficiency in the financial system and can benefit consumers. Government and regulators need to balance these benefits against the risks, as they seek to manage the flexibility of regulatory frameworks and the regulatory perimeter. Government is also well-positioned to facilitate innovation through coordinated action, regulatory flexibility and forward-looking mechanisms.

TAL agrees with the Inquiry's observation of the impact and potential that is created through technological innovation. As outlined earlier in this submission, consumers are already adopting technology and, as a result, adapting how they engage with the financial services category. When considering technology in relation to regulatory flexibility and policy options, it is important to recognise that technology allows for greater consistency, higher quality and more ability to observe and track information and services provided. It should therefore minimise risks for new policy options and allow for greater flexibility.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- Review and assess the new privacy requirements two years after implementation to consider whether the impacts appropriately balance financial system efficiency and privacy protections.
- Review record-keeping and privacy requirements that impact on cross-border information flows and explore options for improving cross-border mutual regulatory recognition in these areas.

The Inquiry seeks feedback on whether it would be beneficial to review record-keeping and privacy requirements that impact on cross-border information flows and explore options for improving cross-border mutual regulatory recognition in these areas.

Many life insurers, including TAL, are now part of global organisations, which receive services from other global organisations, including reinsurers.

The current privacy settings effectively restrict transfer of cross-border information unless the offshore recipient of the information complies with the Privacy Act 1988 (Cth), the owner of the personal information consents or the offshore recipient is in a jurisdiction which has equivalent legislation⁹.

It would be useful if mutual recognition activities could be undertaken to assist industry in determining which offshore jurisdictions have equivalent privacy regimes. A model for such recognition could be the New Zealand mutual recognition scheme for financial services disclosure.

Recommendation

- Undertake mutual recognition of equivalent privacy regimes.

⁹ Privacy Act 1988 (Cth), Australian Privacy Principle 8.

Superannuation

The Interim Report notes that the high demand for liquidity from superannuation funds may be reducing after-fee returns to members and that the three-day inter-fund portability timeframe may be contributing to higher allocations to liquid assets than required.

The Inquiry would value views on the costs, benefits and trade-offs of the following policy options or other alternatives:

- Review and assess the new privacy requirements two years after implementation to consider whether the impacts appropriately balance financial system efficiency and privacy protections.
- Review record-keeping and privacy requirements that impact on cross-border information flows and explore options for improving cross-border mutual regulatory recognition in these areas.

TAL argues that it is too early to determine whether the three-day inter-fund portability timeframe is (of itself) causing significantly higher allocations to liquid assets, as the new rollover standards only came into full effect from 1 January 2014.

Given the preserved nature of superannuation, liquidity management should be simpler than in banking, where depositors have an unlimited ability to exit.

Furthermore, as more superannuation members move from accumulation into pension phase, liquidity management at a fund level will become critical, and relaxing the three-day portability rule to compensate for poor processes and back-office administration systems is not in the best interests of members depending on the smooth and regular payment of account-based pensions.

We submit that relaxing the three-day portability rules will only hamper the Federal Government's desire to improve the efficiency of the overall superannuation system and make it harder for funds and members to identify and merge duplicate accounts, and reduce the number of inactive and lost accounts across the system. We note that according to ASFA¹⁰, there are approximately 11 million working Australians and more than 33 million superannuation accounts which, by definition, results in duplication in fees and charges and erodes the after-fee returns.

Currently, there remains a relatively high level of non-compliance with the portability rules with around 14% of all rollover requests being rejected within the prescribed three-day timeframe, according to data provided to us from SuperChoice, the SuperStream gateway provider utilised by TAL Life and other industry players¹¹.

¹⁰ The SuperStream Landscape, December 2012, ASFA and IQ Group, at p11.

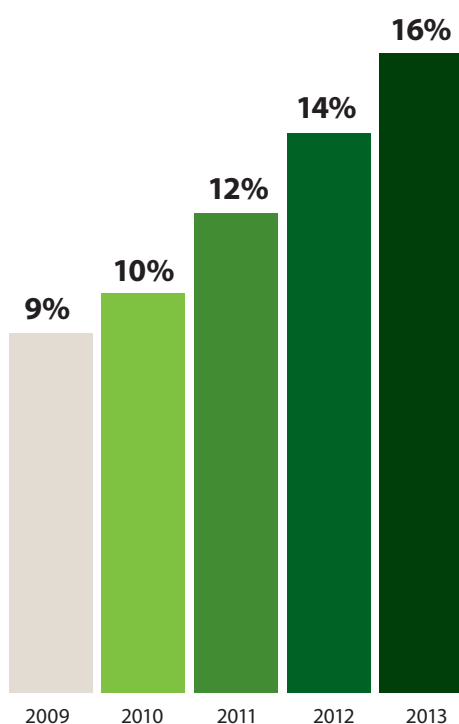
¹¹ 119,000 Initiate Rollover Requests processed between January and July 2014.

Significant Potential Member Detriment

As noted in the Interim Report, insurance can mitigate risks of significant loss for consumers and one of the main drivers of underinsurance in the system is its affordability.

As a result, the industry is experiencing strong growth in demand for insurance structured under superannuation – as illustrated in the chart below, which shows the proportion of retail insurance sales written on Platform (superannuation) over the past four years within the IFA Channel.

New Business Premium under Platform as % Total New Business Premium in IFA Channel



According to the same NMG data, the IFA channel wrote 3% less in stand-alone new business premium in 2013 compared to the year before, as advisers sought to structure more of their customers' insurance under superannuation.

With the introduction of the three-day inter-fund portability rules¹², customers should now be able to own policies within a risk-only superannuation fund, and have their premiums paid via partial rollover from the customer's choice (investment) superannuation fund. This opens up competition and gives customers access to the industry's complete range of insurance products, so they are not forced to buy the limited insurance offering from within the fund. Unfortunately, this limited range is often restricted to one insurance product available on Platform: that of the vertically aligned provider.

Since the introduction of the new three-day portability rules, TAL Life has seen its share of retail sales structured within its risk-only superannuation fund increase from less than 10% of revenues in 2013, to over 16% in the first 6 months of 2014.

The efficacy of this superannuation funding model for insurance is predicated on the assumption that the transferring superannuation fund will comply with the new SIS regulations and process the standard rollover request within the prescribed timeframes. Unfortunately, from the SuperChoice experience above, customers and their advisers could be exposing themselves to significant risks by placing undue reliance in the SIS regulations being complied with by (at least some) transferring funds. At a 14% rejection rate for rollover requests, the probability of a policy

¹² Regulation 6.34A Superannuation Industry (Supervision) Regulations 1994

lapsing under a rollover funding model is more than seven times higher than if the policy were funded via a Direct Debit on a bank account – something many customers don't want.

There are significant potential downstream consequences where funds do not meet the three-day portability timeframes for transfers to other superannuation funds. For transfer to a preferred investment option, the risk is market-related. But for a transfer to risk-only superannuation funds the consequences can be even more severe. Policies can be cancelled, and members can lose valuable insurance coverage if rollovers are delayed and insurance premiums remain unpaid. In addition, members may lose access to future insurance where a policy has lapsed and their current health allows an insurer to deny coverage.

Recommendation

- Retain the three-day portability rules and aspire to one-day portability.
- Enhance the compliance regime around enforcement of the three-day rule to improve the efficiency of the superannuation system and minimise potential detriment to members.
- Align the rejection error codes for rollovers issued by the ATO with the Superannuation Industry Supervision Regulations (particularly Regulation 6.35), to enable compliance breach reporting to APRA by initiating funds.

The Inquiry seeks further information on the following areas:

- Is the trust structure best placed to meet the needs of members in a cost-effective manner?

A significant benefit to members of the trust structure is the flexibility it provides for death benefit payments which would not be available under alternative structures. As Stephen Graham noted in his article in the June 2010 edition of SuperReview:

'... unless otherwise set out in the trust deed, the trustee has a discretion and must decide how best to distribute a deceased member's death benefit between the legal personal representative ... and dependants.'

The decision must also be made in accordance with the trustee's duties to give due and genuine consideration and to exercise reasonable care.'

The current discretion in death benefit payments provides trustees with the flexibility needed to ensure that the most appropriate outcome is achieved through a duly considered claim-staking process.

Procedural fairness is also provided through the trustee's internal dispute resolution procedure and the ability to make a complaint about the trustee's decision with the Superannuation Complaints Tribunal (SCT). This process has significant benefits for members when compared to the process for obtaining a family provision order, as it is cheaper and not adversarial in nature.

The payment of death benefit by the trustee conveys valuable estate planning benefits to the member and their dependents, which takes account of personal circumstances and complexities, thus demonstrating how the trust structure meets the needs of members in a cost-effective manner.



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