

Tuesday, 4 August 2020

FSC CORRECTION TO ABC NEWS REPORT

The Financial Services Council (FSC) wishes to correct the record on a report published on [ABC News](#) on Wednesday 29 July titled 'Superannuation's default disability insurance highlights trustee failings' (ABC Report) which relied heavily on ASIC Report 633.

1. Incorrectly presenting out-of-date findings as current

Throughout the ABC Report the historic findings in ASIC Report 633 are presented as current issues. For example, by:

- using the present rather than the past tense to describe the findings; and
- failing to state that the findings in ASIC Report 633 were based on data dating back to the start of 2016 through to the end of 2017.

When presenting a fair and balanced view to consumers, it is the FSC's view that ASIC should also take into account the more recent data, which is available to both the FSC and ASIC (and APRA). The more recent data shows material improvements in both 2018 and 2019, for example, in claim decline rates.

2. Activities of Daily Living (ADL) decline rate

Statement in ABC Report: "...nearly two-thirds of applications are rejected."

FSC Correction: "...nearly two-thirds of applications **were** rejected **in 2016/17 whereas more than half of applications (57 per cent) were accepted in 2019.**"

FSC Response: The proportion in the ABC Report is derived from ASIC Report 633 stating the ADL decline rate was 60 per cent for ADL claims for the 2016-2017 period. The most recent FSC-KPMG data for 2019 shows the ADL decline rate at 43 per cent.

The FSC notes that ASIC Report 633 includes a headline on page 41 that: "Not all ADL claims had a high declined rate". It goes on to cite an example which had "positive consumer outcomes for ADL claims" (86 per cent accepted). Once again, when presenting a fair and balanced view to consumers, it is the FSC's view that ASIC should not imply that ADL based schemes are "basically junk insurance" when the report itself states that this is not true.

3. Default insurance in Superannuation

Statement in ABC Report: "The policies are automatically attached to superannuation funds for people aged 25 and over, and the money only stops if they actively decide to cancel."

FSC correction: The policies are automatically attached to **active** superannuation funds **with balances over \$6,000** for people aged 25 and over, and the money only stops if they actively decide to cancel **or if the account has become inactive for 16 months.**

FSC Response: This Statement ignores three key eligibility and cancellation criteria for default insurance in superannuation under important, recent legislative reforms that increase consumer protections and occurred after the data included in the ASIC report was collected, the Protecting Your Super (PYS) and Putting Members Interests First (PMIF) legislation.

4. **Estimated number of Australians with Group Total and Permanent Disability (TPD) cover based on an Activities of Daily Living (ADL) definition**

Statement in ABC Report: "...is one of around half a million Australians with a TPD policy...", "nearly half a million people"

FSC Response: The "half a million Australians" estimate that ASIC relied on is factually incorrect, and the correct estimate is around ***three hundred thousand***.

The estimate of "around half a million Australians with a TPD policy" is derived from ASIC's unsourced incorrect assertion in ASIC Report 633 in para 20 on page 8 that there were 12 million Australians with group TPD cover in superannuation. Based on information available from APRA, ATO and the Productivity Commission, the FSC believes this number to be incorrect. See footnote below.¹

The FSC estimates the actual number based on APRA and ATO data to be 306,000. Any estimate derived from the incorrect and unsourced 12 million number, including the 480,000 Australians quoted by ASIC (and rounded up to "around half a million"), is flawed.

Consumers should always ask their superannuation trustee about their life insurance cover if they are not clear on what is covered.

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- **¹APRA & ATO 2018 data:** APRA data shows the number of superannuation accounts with TPD (not Australians) to be 12 million. Using ATO data on multiple accounts is a more accurate way to derive the number of individuals. According to ATO data, each Australian held 1.57 superannuation accounts during this period. This puts the number of Australians with Group TPD in superannuation at 7.6 million, not 12 million.
 - **The Productivity Commission data:** In its [December 2018 Report](#) on page 19 the Commission stated: "About 12 million Australians have insurance (life, total and permanent disability and/or income protection cover) through their super". This reference to 12 million includes both individual and group insurance, not just group, and/or also people with life and/or income protection, but not TPD. The actual number of Australians with group TPD cover in superannuation is not stated, but is clearly significantly less than the 12 million total.