



22 March 2019

The Treasury
Financial Services Reform Implementation Taskforce
Langton Crescent
PARKES ACT 2600
FOFAGrandfathering@treasury.gov.au

Dear Sir/Madam

Cbus welcomes the opportunity to provide comments on the Exposure Draft Treasury Laws Amendment (Ending Grandfathered Conflicted Remuneration) Bill 2019 (Exposure Draft) addressing the Government's response to Recommendation 2.4 of the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

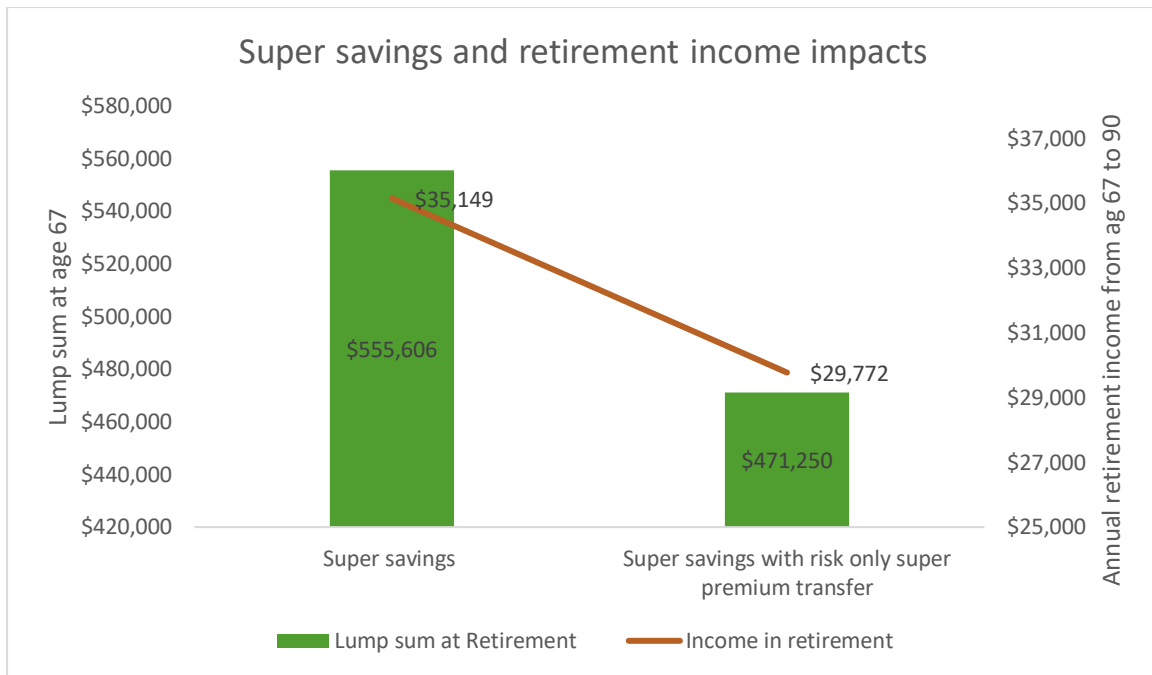
Cbus has provided views on the Exposure Draft to its representative industry bodies. The purpose of this submission is not to replicate their comments but to highlight our concerns over increasing trends in member behaviour that could potentially indicate gaming of current commission exemptions.

Cbus is fully supportive of the abolition of grandfathered commissions as well as any carveouts to the existing remuneration regime. We strongly consider that the start date of 1 January 2021 should be brought forward to an earlier date.

Over recent times, Cbus has observed an increasing trend in members undertaking small partial rollouts to other APRA regulated funds on an annual basis in order to pay premiums for insurance-only superannuation products. These products typically bundle covers of Life, Total Permanent Disablement and Income Protection into a single premium product. The products are generally being underwritten and promoted by the major retail wealth providers with either a subsidiary APRA trustee arrangement or an externally appointed APRA trustee. There has been a 100 per cent increase of partial exits under \$3,000 to these type of products since the 2016/17 financial year. It is important to highlight that in most of these cases the Cbus account is active, continues to receive regular Superannuation Guarantee (SG) contributions and has Cbus insurance cover in place.

Insurance-only superannuation products existed prior to the Future of Financial Advice (FOFA) reforms. However, it would appear that their take up increased from June 2014 when conflicted remuneration became unavailable on superannuation products. We understand that the take up of these products attracts payment of commissions, taking advantage of an exemption in the FoFA legislation which permitted commissions to continue to be available for advice on individual risk products.

We have modelled the possible impact on retirement savings for a member who has established a regular rollover from Cbus to an insurance-only superannuation product. Utilising a conservative average transfer of \$1,656 per annum a 35-year-old member would see their retirement savings reduced by \$84,356 or 15% less retirement savings. This would result in annual retirement income being reduced by \$5,337 per annum (in today's dollars).



Source: Cbus Retirement Income Estimate Calculator 22.03.2019. Assumptions 35-year-old member \$50k starting balance and \$75k annual income and a \$1,656 annual premium transfer and excludes age pension.

Member research conducted on this issue indicates that members take up these products after being provided with advice from a broker or financial adviser, but with limited member understanding of the products purchased. Members demonstrated low awareness of the extent of their existing Cbus insurance coverage and the potential that the cover that they had purchased duplicated existing cover. In addition, there appeared to be a lack of understanding of the detrimental impact on their retirement savings with recurring rollouts to pay premiums and commissions.

We consider that regulatory action is required as this is potentially a mechanism to circumvent the current ban on commission structures on superannuation products by utilising the life risk insurance exemption. As an urgent priority, and to ensure superannuation member interests are protected, we consider that the exemption relating to life insurance products should be removed in its entirety in the draft Bill.

Please do not hesitate to contact Jane Barrett on 03 9910 0339 or jane.barrett@cbusuper.com.au if you have any queries in relation to our submission.

Yours sincerely

Robbie Campo
 Group Executive
 Brand, Advocacy, Marketing & Product