

Mandatory or not, Code of Practice is a big step forward

By Eva Scheerlinck (<https://investmentmagazine.com.au/author/eva-scheerlinck/>) | 13/03/2018



OPINION | It is no secret that the release of the Insurance in Superannuation Voluntary Code of Practice late last year drew a mixed response.

As one of four industry bodies involved in establishing the new Code of Practice, the Australian Institute of Superannuation Trustees (AIST) is confident that it will produce many positive changes around the group insurance offerings provided via superannuation funds.

The code is a first for the industry and sets much higher standards. It provides greater understanding, clearer accountability and consistency of delivery across the super industry. It will require some funds to overhaul their insurance offerings completely, from both a design point of view and with regards to claims handling.

Yet there is no escaping the fact that some commentators were disappointed that the code was not mandatory.

While it is certainly the case that the code's owners – AIST, the Association of Superannuation Funds of Australia and the Financial Services Council – initially supported a mandatory code, expert legal opinion raised critical questions about the ability to force trustees to adopt such a code.

The code is structured similarly to the 'if not, why not' model of the ASX Corporate Governance Guidelines. Super funds will be expected to have a rigorous process in place to determine the trustees' position regarding each measure within the code and the rationale for that decision.

Strong incentives

The issue of whether an industry code is voluntary or mandatory is relatively minor compared with whether the code is widely adopted and drives the desired outcomes. Moreover, there are plenty of examples where best practices set out in voluntary industry codes eventually become mandatory or codified in law.

AIST expects that our member funds – which include industry, public sector and corporate funds – will subscribe to the code. There are strong incentives to do so.

Ratings agency SuperRatings – which had previously raised concerns about the cost of insurance offerings in superannuation – has strongly endorsed the code, noting it provides a uniform framework for insurance design and disclosure and has the potential to lead to more efficient engagement strategies and operational processes, with better understanding from members.

In a competitive market where industry awards from ratings agencies are highly valued, most funds will find it hard to ignore the marketing advantage in subscribing to the code.

Regulatory threat

The threat of mandatory regulation is another incentive for funds to get on board.

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The Productivity Commission, a royal commission, and a separate Parliamentary inquiry are each considering the pros and cons of insurance offerings in superannuation. The spotlight on insurance will only get brighter.

Arguably, a lack of support for the new industry code from funds and insurers could lead to more radical policy reform. The current government has mooted moving to an opt-in model for insurance, something AIST and others in the industry strongly believe would be in the best interest of neither members, nor the wider community of taxpayers.

Change afoot

Super funds have been asked to indicate their intention to subscribe to the code by the end of March. Many AIST member funds have confirmed that the code is high on their agenda for the first round of board meetings this year.

Even before its release, a number of funds were already working to improve their insurance offerings to members. Industry funds like AustralianSuper (<https://investmentmagazine.com.au/2018/03/make-the-protection-fit-the-cohort/>) (the first signatory to the code) and Cbus Super (<https://investmentmagazine.com.au/2017/07/cbus-cuts-group-insurance-premiums-by-25/>) have already made changes to help address account erosion for key member cohorts.

AIST is confident that many more funds will follow suit and deliver improved insurance outcomes for their members.

Eva Scheerlinck is chief executive of the Australian Institute of Superannuation Trustees.

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