



Friendly Societies of Australia

13 July 2016

The Hon. Victor Dominello MP
Minister for Innovation and Better Regulation
52 Martin Place
Sydney NSW 2000

By email: Stephanie.Matti@minister.nsw.gov.au

Dear Minister

Funeral Funds Regulation – request to remove unnecessary duplication of obligations imposed on friendly societies

I am writing to you to request amendments to the *Funeral Funds Act 1979* to remove unnecessary duplication of obligations imposed on friendly societies that provide funeral bonds and funeral plans.

Friendly Societies of Australia (FSA) has previously brought this matter to the Government's attention through consultation undertaken by NSW Fair Trading on its regulation impact statement on proposed funeral funds regulation. We have been advised by your Department that we should raise this matter directly with you.

FSA is the industry association representing Australia's friendly societies regulated by the Australian Prudential Regulation Authority (APRA), the majority of which are member-owned mutual organisations.

FSA members provide financial services and products (e.g. funeral bonds), health care, retirement living, aged and home care services to some 800,000 members. Collectively, our sector manages around \$7 billion in funds, and in 2015, paid out more than \$675 million in benefits. Australia's largest friendly society is Lifeplan Australia Friendly Society with funds under management of almost \$2 billion and 169,000 customers. The smallest is NobleOak Life Limited with about \$25 million funds under management, serving approximately 40,000 customers.

Amongst other products and services, FSA members provide funeral bonds and funeral plans. These products allow people to set aside funds for their future funeral expenses and give bond holders the peace of mind knowing that their needs will be met while saving family members the burden of arranging and paying for their funeral.

Friendly societies are regulated and closely supervised by APRA, under the *Life Insurance Act 1995*, and by the Australian Securities and Investment Commission (ASIC) as Australian Financial Services Licensees and companies under the *Corporations Act 2001*. Friendly societies that operate in NSW and offer funeral bonds and funeral plans are also regulated by NSW Fair Trading under the *Funeral Funds Act 1979*.

This situation has led to some friendly societies operating in NSW being subject to regulatory duplication and overlap, with two sets of regulatory requirements for the same business imposed by the federal and state regulators. Often these requirements are inconsistent. These inconsistent requirements include:

- industry participant registration;
- rule amendments;
- yearly returns;
- supplying information;
- actuarial investigations; and

- independent auditing.

Friendly societies are already more than sufficiently regulated by APRA. The regulatory regime imposed by APRA is intended to ensure that friendly societies can meet their obligations and that bond holders and policy holders are adequately protected. As an example, APRA's prudential standard CPS 220 means that friendly societies are required to have systems for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks that may affect its ability to meet its obligations, which includes those of friendly society funeral products.

Further, in 2013 APRA implemented an enhanced suite of prudential standards that all life insurers have to comply with. The list of prudential standards that friendly society funeral fund providers must comply with includes:

- LPS 100 Solvency Standard
- LPS 110 Capital Adequacy
- LPS 112 Capital Adequacy: Measurement of Capital
- LPS 114 Capital Adequacy: Asset Risk Charge
- LPS 115 Capital Adequacy: Insurance Risk Charge
- LPS 117 Capital Adequacy: Asset Concentration Risk Charge
- LPS 118 Capital Adequacy: Operational Risk Charge
- CPS 220 Risk Management
- LPS 310 Audit and Related Matters
- LPS 320 Actuarial and Related Matters
- LPS 340 Valuation of Policy Liabilities
- LPS 360 Termination Values, Minimum Surrender Values and Paid-up Values

Regulation of friendly societies by NSW Fair Trading is unnecessary duplication of requirements that are already imposed by APRA on friendly societies. This additional red-tape increases costs for friendly societies without any providing any additional benefits for consumers. For a mutual company, regulatory compliance costs ultimately are borne by its customers because the customers own the business.

Furthermore, friendly societies operate funeral funds that are used nationwide, hence creating larger pools of members, which makes it difficult to take a NSW-only perspective to regulation on subsets of the funeral funds. This situation creates further unnecessary costs.

The FSA requests a permanent carve out from the *Funeral Funds Act 1979* where an obligation is already imposed on a friendly society by APRA. The FSA is confident, given the robust reserving requirements and compliance arrangements imposed by APRA on friendly societies that such a carve-out will not result in NSW consumers being negatively impacted. Implementing the carve-out would be quite straightforward by applying it to 'a friendly society regulated by APRA' under the *Life Insurance Act 1995*.

The FSA understands that there is currently a process underway for a 'spring clean' to repeal outdated and obsolete bills as part of the Government's ongoing commitment to reduce red tape and unnecessary regulation. Including our proposal as part of this process would facilitate a timely resolution of this matter.

I would be very happy to discuss this matter with you or your advisers. Alex Thrift is the relevant contact on this matter he can be contacted on (02) 8035 8447 or by email, athrift@coba.asn.au.

Yours sincerely



Matt Walsh
FSA President