



18 October 2019

Manager
Financial Services Reform Taskforce
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Financial Services Reform Taskforce

Removal of the exemption for funeral expenses policies

Social Ventures Australia (SVA) welcomes the opportunity to respond to the exposure drafts of legislation and regulation for removal of the exemption for funeral expenses policies.

SVA is a not-for-profit organisation that works with partners to overcome disadvantage in Australia, which requires great education, sustainable jobs, stable housing and appropriate health, disability and community services. SVA has a vision for Australia where all people and communities thrive and believe that this will be achieved when all Australians are empowered, have a voice in decisions that impact them, have a sense of belonging and experience social inclusion. SVA believes that belonging for all Australians requires, and is enabled through, specific recognition and respect of First Australiansⁱ knowledge and cultures.

SVA is not a traditional service delivery organisation. We work at the intersection of government, social purpose organisations and the business sector. We seek to influence the way systems operate by providing funding; advising on strategy and evaluation; and making investments in partner organisations to significantly increase their social impact. We advocate for more effective programs and policies, and we convene unlikely coalitions to build support for system wide solutions.

Of relevance to this review is an increasing body of work we are conducting on financial wellbeing – in particular, financial hardship resulting from the cost of funerals. In 2018, 158,493 families farewelled a loved one,ⁱⁱ with the average cost for funerals being between \$7,000 and \$8,000.ⁱⁱⁱ Consumer research has shown that one in four people aged over 50 are still facing financial challenges a year after paying for a funeral.^{iv} As a consequences of high funeral costs, Australia sees significant use of funeral financial products by vulnerable Australians. Many of these products may be inappropriate for the consumer. For example, ASIC reported that financial insurance sold to Indigenous consumers had a much younger age profile (50 per cent aged under 20) than the general population. A higher proportion of Indigenous consumers also have their policies cancelled for non-payment of premiums.^v

Given the potential harm faced by vulnerable consumers from poor sales practices of funeral expenses policies, SVA supports the removal of the exemption within the *Corporations Act 2001* for funeral expenses policies (described as funeral expenses facilities) and the clarification in the *Australian Securities and Investments Commission Act 2001* that its consumer protection provisions apply to funeral expenses policies.

Social Ventures Australia

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SVA supports the proposed *Financial Services (Improved Consumer Protection) (No. 1) Bill 2019: funeral expenses facilities* and the *Financial Services (Improved Consumer Protection) (No. 1) Regulations 2019: funeral expenses facilities*. These proposed legislative and regulatory amendments remove the exemption within the *Corporations Act 2001 Section 761A* and the *Corporations Regulations 2001 Regulation 7.1.07D* for funeral expenses policies/facilities as well as make clear in the *Australian Securities and Investments Commission Act 2001 Section 12BAA*, that funeral expenses facilities are not funeral benefits as defined by the Act. SVA is supportive of these changes being made as soon as possible.

In our experience as a social purpose organisation working within the financial wellbeing space, SVA is acutely aware of the impact that certain funeral financial products can have on already vulnerable consumers. Sales practices of funeral expenses policies/facilities by some providers has led to significant numbers of consumers holding inappropriate policies, such as selling aimed at children and young people who have a low likelihood of requiring them. Equally, sales practices have contributed to inaccurate consumer expectations of capital preservation in a fund, rather than an expense policy. We expect the proposed changes to reduce the incidence of these sales practices.

We are pleased to see the distinction being clearly made between funeral expenses facilities (described above) and friendly society funeral products (often known as funeral bonds) – the latter providing consumers with an accessible saving mechanism for future funeral costs. In line with ASIC's National Financial Capability Strategy 2018, SVA welcomes any contribution that industry can make to Australians gaining control over their financial lives. One in five Australians is unable to raise \$2000 in an emergency – so by creating a small savings buffer, consumers can protect themselves or their families from the impact of funeral costs in the future. From our consultations, we have noted significant interest from consumers and consumer bodies in being able to put savings aside to cover future funeral costs. Ensuring that funeral bonds remain accessible will support consumers to do this without the pressure of a lifetime of premium payments for a funeral policy.

SVA recognises that these legislative and regulatory changes could be disruptive for some current providers, with significant potential impact on existing customers of funeral expenses facilities. For broader and future consumer benefit, SVA does not believe that concerns about this temporary disruption should stand in the way of the proposed amendments. However, SVA encourages the government to work closely with consumer representative organisations to carefully consider options to prepare and respond to affected consumers, some of whom may be the most financially vulnerable and marginalised in our society.

We thank you for the opportunity to respond to these exposure drafts. We would welcome the opportunity to further discuss the insights summarised here, should the Taskforce be interested.

Yours sincerely

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ⁱ The term First Australians is used here to refer to Aboriginal and Torres Strait Islander peoples.

ⁱⁱ ABS (2019) *Deaths, Australia, 2018*. Cat. no. 3302.0

ⁱⁱⁱ R. Laycock (2018) *The cost of a funeral in Australia* Finder <https://www.finder.com.au/funeral-insurance/cost-of-a-funeral>

^{iv} Australian Seniors (2019) *The Australian Seniors Series: Cost of Death Report*.

^v ASIC (2015) *Funeral insurance: A snapshot*. Report 454