

KeyInvest Ltd

ABN 74 087 649 474

('KeyInvest')

Executive Summary

Proposed changes to KeyInvest Benefit Fund Rules

(Restructure of AFS Funeral Benefit Fund (Non-Assessable) and AFS Funeral Benefit Fund (Taxable), closure of Diversified Funeral Benefit Fund, additional product feature rules, cooling off changes, investment allocation changes)

31 March 2023

1. Introduction

It is proposed that the KeyInvest Benefit Fund Rules ('Rules'), administered by KeyInvest, be amended for the following purposes:

- 1.1 **(Restructure)** to contemplate the proposed restructure of the AFS Funeral Benefit Fund (Non-Assessable) and AFS Funeral Benefit Fund (Taxable) administered by KeyInvest under 'Australian Friendly Society – Rule E – The Funeral Benefit Fund Rules' (the '**Transferring AFS Funds**' and the '**Former AFS Rules**' respectively), whereby Policies referable to the Transferring AFS Funds are proposed to instead become referable to the KeyInvest Funeral Bond Fund administered by KeyInvest under Division 1 (General) and Division 6 (KeyInvest Funeral Bond) of the Rules (together, the '**Restructure**');
- 1.2 **(Closure of Diversified Funeral Benefit Fund)** the closure of the Diversified Funeral Benefit Fund, administered by KeyInvest under the Former AFS Rules, which are currently annexed to KeyInvest's Constitution (the '**DFBF Closure**');
- 1.3 **(Product Feature Rules)** the addition of new 'product feature' rules in connection with the Restructure, to ensure consistency with historical operation of the Transferring AFS Funds on and from completion of the Restructure as well as provide those product features to existing KeyInvest Members, as follows:
  - 1.3.1 **(Trustee Application)** enable a person to make an Application as trustee for the benefit of another person to be the Life Assured under the Policy;
  - 1.3.2 **(Assignment Revocation)** require a Member to obtain the express consent of an assignee Funeral Director on the revocation of the assignment by the Member;
  - 1.3.3 **(Funeral Director Nomination)** enable a Member of a Funeral Fund to nominate (and revoke such nomination of) a Funeral Director in respect of a Policy;
  - 1.3.4 **(Separate Life Assured)** enable a Member, subject to Relevant Law, to nominate a separate person as a Life Assured in respect of a Policy, including in respect of a Funeral Fund; and

1.3.5 **(Member)** recognise the Life Assured in respect of a Policy as a Member, as the case requires in the context in which the term is used in the Rules,

(together, the **'Product Feature Rules'**); and

1.4 **(Cooling Off Changes)** to amend the cooling off periods of Policies that are referable to certain unitised Funds administered by KeyInvest (the **'Cooling Off Changes'**); and

1.5 **(Investment Allocation Changes)** to change the minimum investment allocation permitted in respect of the Cash asset class in the Pre-Arranged Funeral Fund and the KeyInvest Funeral Bond Fund (the **'Investment Allocation Changes'**).

## 2. Interpretation

Capitalised terms used and not otherwise defined in this Executive Summary have the meaning given to those terms in the Rules.

## 3. Restructure

### 3.1 Background

3.1.1 On 31 October 2022, KeyInvest merged with Australian Friendly Society Ltd ABN 29 087 648 851 (**'AFS'**) by way of a voluntary total transfer of business under the *Financial Sector (Transfer and Restructure) Act 1999* (Cth) (the **'Merger'**). In connection with the Merger, AFS transferred the benefit funds it administered (being the Transferring AFS Funds and the Diversified Funeral Benefit Fund), and all assets and liabilities referable to those benefit funds, to KeyInvest.

3.1.2 On and from completion of the Merger, the Transferring AFS Funds were closed to new Members and intending Applicants who select a Capital Guaranteed Fund will join the KeyInvest Funeral Bond Fund.

3.1.3 KeyInvest wishes to undertake the Restructure to improve operational efficiency and reduce operating costs in respect of its ongoing administration of the Transferring AFS Funds and the KeyInvest Funeral Bond Fund under the Rules (as amended).

3.1.4 KeyInvest also proposes to amend the Former AFS Rules to recognise the effect of the Restructure, such that all Policies under and Members of the Transferring AFS Funds will be referable to the KeyInvest Funeral Bond Fund.

### 3.2 Effective Date

It is proposed that the Restructure, and therefore the consequential amendments to Division 1 (General) and Division 6 (KeyInvest Funeral Bond) of the Rules, will come into force on 31 March 2023.

### 3.3 Proposed Rule Amendments

#### 3.3.1 Division 6 (KeyInvest Funeral Bond) of the Rules

Division 6 contains rules which apply to KeyInvest Funeral Bond Fund. In respect of the Members who transfer from the Transferring AFS Funds in connection with the Restructure, the proposed amendments to Division 6 are as follows:

- (a) a new rule 3 is included to set out the meaning of defined terms used in connection with the proposed amendments to Division 6;
- (b) a new rule 4 is included to establish the framework for the Restructure, whereby with effect on the Division 6 Restructure Date, being the later of the 31 March 2023 and the date APRA approves the amendments to the Rules:
  - (i) the Transferring AFS Funds which were governed by the Former AFS Rules cease to exist and are replaced by or referable to the KeyInvest Funeral Bond Fund;
  - (ii) the Members of the Transferring AFS Funds will become and continue as Members of the KeyInvest Funeral Bond Fund;
  - (iii) the Members of the Transferring AFS Funds with an interest in the investments of those Funds will be taken to have an equivalent interest in the KeyInvest Funeral Bond Fund; and
  - (iv) certain transitional arrangements for the Annual Fee chargeable by KeyInvest to existing Members of the Transferring AFS Funds shall apply; and
- (c) a new rule 11.3 is included to address the declaration of bonus rates and the valuation of the KeyInvest Funeral Bond Fund to ensure consideration is given to the separate revenue accounts to be maintained by KeyInvest for each of the Division 6 Member Groups, on the advice of KeyInvest's Actuary to achieve equity between the different Division 6 Member Groups.

#### 3.3.2 Dictionary of the Rules

The Dictionary contains defined terms used throughout the Rules. A new definition of APRA is included as this defined term is used in the transitional provisions set out in rule 4 of Division 6 (KeyInvest Funeral Bond Fund), as well as elsewhere in the Rules.

#### 3.3.3 Former AFS Rules

The Former AFS Rules contain rules which govern the administration of the Transferring AFS Funds prior to the Restructure. In respect of the Members who transfer from the Transferring AFS Funds in connection with the Restructure, the proposed amendments to Division 6 are as follows:

- (a) a new rule 3 of the Former AFS Rules is included to establish the framework of the Restructure, whereby with effect on the 'Restructure Date', being the later of 31 March 2023 and the date APRA approves the amendments to the Former AFS Rules:
  - (i) the Transferring AFS Funds which were governed by the Former AFS Rules cease to exist and are replaced by or referable to the KeyInvest Funeral Bond Fund; and
  - (ii) the Members of the Transferring AFS Funds will continue as Members of the KeyInvest Funeral Bond Fund; and
- (b) the substantive rules which otherwise govern the administration of the Transferring AFS Funds prior to the Restructure are deleted.

#### 4. DFBF Closure

##### 4.1 Background

- 4.1.1 Before the Merger took place, AFS established the Diversified Funeral Benefit Fund.
- 4.1.2 AFS had intended to actively market the Diversified Funeral Benefit Fund as a new unitised fund option for its members. However, when AFS commenced negotiations with KeyInvest in relation to the Merger, AFS determined to cease all marketing activities in relation to the Diversified Funeral Benefit Fund.
- 4.1.3 As described in **paragraph 3.1.1** of this Executive Summary, KeyInvest acquired the Diversified Funeral Benefit Fund on 31 October 2022 in connection with the Merger.
- 4.1.4 The Diversified Funeral Benefit Fund currently has no assets, liabilities or Members, there are no Policies referable to it, and KeyInvest has not and does not intend to open the Diversified Funeral Benefit Fund to any new Members. Accordingly, KeyInvest wishes to close the Diversified Funeral Benefit Fund as it serves no current or future purpose.

##### 4.2 Effective Date

It is proposed that the amendments to Former AFS Rules, annexed to KeyInvest's Constitution, will come into force on 31 March 2023.

##### 4.3 Proposed Rule Amendments – Former AFS Rules

The Former AFS Rules contain rules which govern the administration of the Diversified Funeral Benefit Fund prior to its proposed closure. To give effect to the closure of the Diversified Funeral Benefit Fund, the proposed amendments to the Former AFS Rules are:

- 4.3.1 a new rule 4 of the Former AFS Rules is included to establish the framework of the closure, whereby with effect on the 'Closure Date', being the later of 31 March 2023 and the date APRA approves the amendments to the Former AFS Rules, the Diversified Funeral Benefit Fund will cease to exist; and

- 4.3.2 the substantive rules which otherwise govern the administration of the Diversified Funeral Benefit Fund prior to its closure are deleted.

## 5. Product Feature Rules

### 5.1 Background

- 5.1.1 In connection with the Merger and subsequent proposed Restructure, KeyInvest identified that Policies in respect of the Transferring AFS Funds, administered under the Former AFS Rules, had access to the additional Product Feature Rules over and above those attributable to the Policies in respect of the KeyInvest Funds administered under the Rules.
- 5.1.2 KeyInvest wishes to amend the Rules to implement the Product Feature Rules to:
- (a) preserve and maintain the rights of Members of the Transferring AFS Funds and ensure consistency with the historical operation of the Transferring AFS Funds for those Members; and
  - (b) offer existing Members of KeyInvest Funds greater flexibility and enhanced product features, on an equal basis with the Members of the Transferring AFS Funds, through the introduction of the Product Feature Rules.
- 5.1.3 The Trustee Application Product Feature Rule enables a person to make an Application on behalf and for the benefit of another person, that person to be the Life Assured in respect of the Application and resulting Policy, providing more flexibility in the management of their affairs and estate, while ensuring consistency with the historic operation of the Transferring AFS Funds. Trustee Applicants will be treated as Members under the Rules, provided that the Life Assured in respect of the Policy will have the rights of Members as set out under KeyInvest's Constitution.
- 5.1.4 The Assignment Revocation Product Feature Rule will require Members who wish to revoke an assignment made in respect of a Policy to Funeral Director to obtain that Funeral Director's express consent to the revocation in order for it to be of effect under the Rules. This Product Feature Rule enshrines KeyInvest's existing policy and practice in relation to assignment revocations in the Rules, while also ensures consistency with the historical operation of the Transferring AFS Funds.
- 5.1.5 The Funeral Director Nomination Product Feature Rule will allow a Member of a Funeral Fund to make a nomination (and revoke such nomination) in respect of a Policy to a Funeral Director, with the effect that the benefits payable by KeyInvest under that Policy on the Policy Maturity Date are paid to the nominated Funeral Director and with any surplus not applied to the Member's Funeral Expenses being paid to the Member's Estate Representative (or if that is impractical or impossible, to the Member's Estate Representative alone). This Product Feature Rule ensures consistency with the historical operation of the Transferring AFS Funds, and practically allows for Member's who have chosen a Funeral Director but not yet entered into a Pre-Paid Funeral Contract with that Funeral Director or

assigned the Policy to that Funeral Director, to ensure that their benefits payable under the Policy are made out to that Funeral Director without further action of the Member or Member's Estate Representative.

- 5.1.6 The Separate Life Assured Product Feature Rule will enable Members (of all Funds and not just the Supersaver Bond Fund or the Life Events Bond Fund under the existing Rules), to nominate one or more persons as separate Life Assureds (in addition to the ability to nominate additional Life Assureds under the existing Rules). This Product Feature Rule ensures consistency with the historical operation of the Transferring AFS Funds, and provides Member's with greater flexibility in the management of their affairs.
- 5.1.7 The Member Product Feature Rule recognises the Life Assured in respect of a Policy as a Member, as the case requires in the context in which the term is used in the Rules. This Product Feature Rule recognises those existing Members of the Transferring AFS Funds under the Former AFS Rules as Members under the Rules, preserving the rights of those persons in respect of their Policies, while also ensuring that KeyInvest may practically administer Policies under the Rules following the introduction of the Trustee Application and Separate Life Assured Product Feature Rules.

## 5.2 **Effective Date**

It is proposed that the introduction of the Product Feature Rules, and therefore the consequential amendments to Division 1 (General), Division 6 (KeyInvest Funeral Bond) and Division 7 (KeyInvest Funeral Bond Unitised Fund) will come into force on 31 March 2023.

## 5.3 **Proposed Rule Amendments**

### 5.3.1 **Division 1 (General) of the Rules**

Division 1 contains rules which apply generally to all Funds under the Rules. The Trustee Application, Funeral Director Nomination and Separate Life Assured Product Feature Rules have been included in new rules 7.1.2, 10 and 12.1 respectively, although the Funeral Director Nomination Product Feature Rule is limited to Policies in respect of Funeral Funds only. The Member Product Feature Rule has been included by amendments to the definition of Member in the Dictionary. The proposed amendments to Division 1 are:

#### *Rule 7.1.2*

- (a) A person may make an Application as trustee for the benefit of another person. Where a person makes such an Application as trustee, that trustee must specify the identity of that beneficiary, who will be the Life Assured in respect of the Policy resulting from the Application. The person that is designated as the Life Assured will be deemed to be the Member in respect of the relevant Policy in lieu of the trustee but only in respect of any rights to receive notice of, attend and vote at general meetings, receive reports provided to Members and participate in a winding up as a Member of KeyInvest in accordance with its Constitution. The trustee

Applicant shall otherwise be the Member for the purposes of the Rules.

*Rule 10*

- (b) A Member of a Funeral Fund may make a nomination in respect of a Policy to a Funeral Director.
- (c) A nomination in favour of a Funeral Director will not constitute them becoming a Member.
- (d) That nomination may only be revoked by the Member by written notice to KeyInvest.
- (e) Under a Policy in respect of which a nomination has been made and not otherwise revoked, any surplus benefits payable that have not been applied to that Member's Funeral Expenses shall be returned to the Member's Estate Representative as the case requires.

*Rule 12.1*

- (f) Former sub-rule 1, which limited its application only to Division 2 (Supersaver Bond Fund) and Division 3 (Life Events Bond Fund), has been deleted to extend application of rule 12 to the Funeral Funds.
- (g) New sub-rule 1 of this rule allows any Member, not just a Member that is a Life Assured in respect of a Policy, subject to Relevant Law, to nominate a one or more natural persons to be added as a separate Life Assured under that Policy.

**5.3.2 Division 6 (KeyInvest Funeral Bond) of the Rules**

Amend rule 13.1 to enable KeyInvest, in respect of a Policy on the Policy Maturity Date, to make payment of the Member's Accumulation Benefit, for the purpose of meeting Funeral Expenses of the deceased Member, to the Funeral Director, where a nomination has been made by the Member in favour of that Funeral Director. Provided that in respect of any payment to a Funeral Director under rule 13.1.2 or 13.1.3, if KeyInvest determines that making such payment is impractical or impossible, it must make such payment to the Member's Estate Representative on the terms and conditions it deems fit.

**5.3.3 Division 7 (KeyInvest Funeral Bond Unitised Fund) of the Rules**

The proposed amendments to Division 7 replicate the amendments in respect of Division 6 as described in **paragraph 5.3.2** of this Executive Summary, except as relating to rule 16.1.

**5.3.4 Dictionary of the Rules**

The definition of Member is amended to include the Life Assured, as the case requires in the context in which the term is used in the Rules.

## 6. Cooling Off Changes

### 6.1 Background

6.1.1 KeyInvest has identified in the course of administering its unitised Funds (being the Life Events Bond Fund and the KeyInvest Funeral Bond Unitised Funds administered under Divisions 3 and 7 of the Rules respectively) that at certain times at the end of a Fund Period there is the potential for delays between the date KeyInvest receives an Application and the date on which a Policy is issued by KeyInvest in respect of an Application, due to accounting and administrative challenges in determining a strike price for units in the relevant Fund when financial reports are being prepared in respect of that Fund Period.

6.1.2 KeyInvest wishes to amend and extend the cooling off periods in respect of such unitised Funds to ensure that Members are entitled to a fair and equitable period to cancel a Policy after it has been issued.

### 6.2 Effective Date

It is proposed that the Cooling Off Changes, and therefore the consequential amendments to Division 3 (Life Events Bond Fund) and Division 7 (KeyInvest Funeral Bond Unitised Fund), will come into force on 31 March 2023.

### 6.3 Proposed Rule Amendments

#### 6.3.1 Division 3 (Life Events Bond Funds) of the Rules

Division 3 contains rules which apply to the Life Events Bond Funds. The proposed amendments to Division 3 relate to rule 21, as follows:

- (a) changing the commencement time of the period during which the Member may cancel the Policy from the earlier of the time that the Member receives written notification that KeyInvest has accepted the Application or five days after the commencement of the Member's Policy, instead to the date of the written notice provided by KeyInvest to the Member notifying that KeyInvest has issued the Policy in respect of the Member's Application; and
- (b) changing the duration of such period from 14 days to 30 days from the commencement time as described in **paragraph 6.3.1(a)** of this Executive Summary.

#### 6.3.2 Division 7 (KeyInvest Funeral Bond Unitised Fund) of the Rules

Division 7 contains rules which apply to the KeyInvest Funeral Bond Unitised Fund. The proposed amendments to Division 7 replicate those described in respect of Division 3 in **paragraph 6.3.1** of the Executive Summary, except as relating to rule 18.



## 7. Investment Allocation Changes

### 7.1 Background

KeyInvest wishes to change the minimum investment allocation permitted in respect of the Cash asset class in the Pre-Arranged Funeral Fund and the KeyInvest Funeral Bond Fund (administered under Divisions 5 and 6 of the Rules, respectively) to provide greater flexibility in the management of the investments in the Funds and enhance the investment returns to Members.

### 7.2 Effective Date

It is proposed that the Investment Allocation Changes, and therefore the consequential amendments to Division 5 (Pre-Arranged Funeral Fund) and Division 6 (KeyInvest Funeral Bond Fund), will come into force on 31 March 2023.

### 7.3 Proposed Rule Amendments

#### 7.3.1 Division 5 (Pre-Arranged Funeral Fund) of the Rules

Division 5 contains rules which apply to the Pre-Arranged Funeral Fund. The proposed amendment to Division 5 is, in rule 3.3, to change the Minimum percentage showing in the table against the Cash asset class from 20% to 0%.

#### 7.3.2 Division 6 (KeyInvest Funeral Bond) of the Rules

The proposed amendment to Division 6 replicates that described in respect of Division 5 in **paragraph 7.3.1** of this Executive Summary, except as relating to rule 5.3.