

7 March 2016

Committee Secretary  
Senate Economics Legislation Committee  
PO Box 6100  
Parliament House  
Canberra ACT 2600

By email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Dr Dermody,

## **AFA Submission – Senate Economics Legislation Committee on Life Insurance Legislation**

The Association of Financial Advisers Limited (“AFA”) has served the financial advice industry for 69 years. Our aim is to achieve Great Advice for More Australians and we do this through:

- advocating for appropriate policy settings for financial advice
- enforcing a code of conduct
- investing in consumer-focused research
- providing professional development pathways for financial advisers
- providing the professional certification of the Fellow Chartered Financial Practitioner (FChFP) designation
- connecting key stakeholders within the financial advice community
- educating consumers on the importance of financial advice

The Board of the AFA is elected by the Membership and all Directors are required to be practising financial advisers. This ensures that the policy positions taken by the AFA are framed with practical, workable outcomes in mind, but are also aligned to achieving our vision of having the quality of relationships shared between advisers and their clients

understood and valued throughout society. This will play a vital role in helping Australians' reach their potential through building, managing and protecting wealth.

We welcome the opportunity to provide comments to the Senate Economics Legislation Committee on *Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016*. The AFA is committed to achieving a strong, trusted retail life insurance sector in Australia and our willingness to be engaged in developing the framework for the future of life insurance has been demonstrated through both the Life Insurance and Advice Working Group that we convened together with the Financial Services Council (FSC), and the subsequent roundtable negotiations with the Assistant Treasurer, FSC and Financial Planning Association (FPA).

### **AFA supports negotiated consensus positions**

The AFA has been consulted on the development of the Life Insurance Framework. We support the negotiated consensus positions that have been represented in the legislation.

### **Ensure sufficient funding and resources for a wide-reaching, representative report**

We seek to ensure that future assessment of the effectiveness of this legislation is fair and transparent. To achieve this, it will be essential that the regulator has access to wide-reaching and representative data, but also have the resources to identify the underlying reasons for policy lapses. Further, it is also essential that cases of compliance failure and cases of client detriment from the advice are separately reported upon. We encourage the government to appropriately resource the research, analysis and reporting activities of ASIC in relation to life insurance so as to be able to undertake a fulsome report with appropriate industry and adviser-association consultation throughout.

### **Industry investment to support advice efficiency**

Financial advisers do more for their clients beyond the statutory Best Interest Duty steps of getting to know and deeply understand the needs and requirements of their clients, recommending solutions and acting in each client's best interests. A large part of financial advisers' time is helping the client navigate the industry jargon and definitions in product documents, complexities in application processes, and the differing handling

of claims. The inefficiencies of the life insurance system are reduced where consumers are supported by expert and professional advisers.

We encourage insurers to invest in technology, product innovation and process improvements to deliver efficiencies for advisers, enabling more cost-efficient delivery of advice. We would expect that productivity improvements in these areas will flow through to premiums, client and adviser experience, and ultimately the sustainability of the sector. A professional, competitive and robust life insurance advice industry is the outcome we are seeking from these reforms.

Compliance requirements and red-tape for advice practices is also an area requiring efficiency improvements. We look forward to engaging with ASIC on the review of scaled advice Statement of Advice (SoA) documents in the second half of 2016. It is essential that the SoA be more efficient to prepare and easier for the client to understand.

### **Consideration for small business to adapt**

It has been recognised time and again that there is an under-insurance problem in Australia. This in turn has social and financial cost implications to the federal government. If more Australians are protected by appropriate life insurance, this will reduce the burden on the government and our community. It is important therefore to ensure that consumers have access to sufficient, qualified financial advisers for the community penetration of quality life insurance to be maintained.

It is critical to foster stability and growth of the advice profession – especially amongst the small business advice practices who are closest to their local communities. We encourage understanding and additional support to be extended to small advice businesses over the coming years as they work through the process of change to adapt their business models to this framework. There are a number of ways that government, regulators and the industry can help these practices transition their businesses to the new system.

### **2018 report to be considered a milestone, not final assessment**

The AFA suggests that due to the timing and transitional staging of the reforms, there will be insufficient information by 2018 to undertake a full analysis of the effects of the

reforms. We suggest that the 2018 report to government be considered a milestone report – indicating the position and trends up to that point in time. For example, the effect of the two-year clawback on clients, advisers and insurers would not yet be measurable as 30 June 2018 will only be the beginning of the second anniversary of policies written on the two-year lapse framework that commences on 1 July 2016. The AFA has committed to work with all stakeholders beyond the 2018 report to ensure that life insurance advice is well regarded and trusted in Australia.

### **Concluding remarks**

The advice industry's cultural shift is well underway with professional association membership growing, and the imminent raising of professional standards. These go hand-in-glove with the life insurance reforms underway. The AFA believes it is critical that fairness and equity be a key aspect of implementing these reforms. Detailed data capture from insurers, licensees and advisers is critical to enable fair assessment of policy cancellation quantum, reasons and trends, thus enabling a fair and transparent assessment into the future.

Sufficient resources need to be provided by government to ensure ASIC can undertake a fulsome and consultative review process in 2018 and beyond. Importantly, policy cancellations where the Best Interest Duty has been followed by advisers with their clients should not be categorised as lapses in the context of being detrimental to the industry, and cases of inappropriate advice must be clearly differentiated from administrative compliance failures.

Insurers are encouraged to compete and collaborate to achieve advice efficiencies. Investment in technology, product innovation, training and support are all areas where insurers can find efficiencies that flow through to the end consumer. Further efficiencies will flow for those insurers who support consumers being properly advised about their insurance needs because history proves those are the policies that are more likely to provide appropriate cover, be affordable and subject to less claim issues and delays.

We encourage and support ASIC to improve the efficiency and effectiveness of Statements of Advice. Our input, together with that from other stakeholders such as licensees and their legal advisers, should assist ASIC to get the format and content right for these important documents. We look forward to being involved later this year.

We acknowledge that the *Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016* will bring about business model change to a significant number of financial advisers in Australia – especially for those that are life insurance specialists, most of who have performed their professional duty with distinction prior to and since ASIC Report 413. It is important to acknowledge their concerns. We will offer these advisers our support, encouragement and business tools to make it through the transitional arrangement and encourage other industry participants – including the life insurers – to do the same.

The roundtable negotiations with the AFA, the Assistant Treasurer, FSC and FPA sought to find the balance between the competing views and demands of each participant whilst taking into consideration consumer groups and all sides of politics. The AFA remains committed to supporting our members and industry to adapt to these changes and achieving quality life insurance advice outcomes for more Australians.

Yours sincerely

Brad Fox

**Chief Executive Officer**

Association of Financial Advisers