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3 June 2022

Quality of Advice Review Secretariat
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: AdviceReview@treasury.gov.au

QUALITY OF ADVICE REVIEW – ISSUES PAPER

AIA Australia welcomes the opportunity to provide a submission to the Quality of Advice Review. As the Issues Paper notes, regulatory reforms over the past decade or so have increased consumer protections but have also reduced accessibility to advice and its affordability. A thriving financial advice industry is critical to serving the needs of Australians, particularly at a time of such global instability. The impact of reduced accessibility and affordability has been a reduction in protection against the financial impacts of death, illness or injury – with the resultant cost transferred to families, the broader community and governments. As one of Australia's largest life insurers, we see the important role that financial advice plays in ensuring Australians have the right protection against these unexpected events. Our recently launched financial advice business, AIA Financial Wellbeing, has been set up to provide everyday Australians with access to affordable, reliable and straightforward solutions for advice on their life and health insurance, superannuation, and wealth needs.

AIA Australia has worked closely with the Financial Services Council and other advice stakeholders on the reforms needed to improve access and affordability to financial advice while still retaining consumer protections. We are supportive of the FSC's regulatory framework for personal advice which proposes:

- the abolition of the safe harbour steps for complying with the best interests duty and amending the Code of Ethics to reflect this change
- the introduction of a technology-neutral Letter of Advice with simplified requirements supported by scalable advice obligations
- redefining advice with a personal advice/general information framework in a manner agnostic of financial product.

Our submission focuses on specific sections of the Issues Paper, namely:

- barriers to the cost-effective delivery of limited scope advice and how these could be improved
- refinement of disclosure obligations and principles that better support more targeted, relevant and understandable disclosure for the consumer
- maintaining the Life Insurance Framework as a consumer funding option for the provision of advice
- how regulatory reforms have contributed to underinsurance and how the removal of LIF would risk increasing this gap.

We have only sought to answer those questions from the Issues Paper where we have a unique perspective or specific detail to include, over and above the content in the FSC submission.

To ensure that more Australians can access quality and affordable advice, the Life Insurance Framework should be maintained, retaining commissions on life insurance sales as an affordable funding option for consumers to access that advice.

In addition, regulatory obligations need to be simplified and streamlined to allow advisers to deliver limited scope advice, including for life insurance, to ensure Australians can access the advice they need, at the time they need it, and at an affordable price.

Should you wish to discuss any aspects of our response please contact Tom Gordon, Head of Regulatory Affairs in the first instance on tom.gordon@aia.com or 0404 059 808.

Yours sincerely

Damien Mu
CEO and Managing Director
AIA Australia and New Zealand

3.1 Quality Financial Advice

1. What are the characteristics of quality advice for providers of advice?
There are several characteristics of quality of advice for providers of advice: • **Appropriateness** – the advice has appropriately addressed the client's needs and considered relevant circumstances, including where advice has been scoped to address specific needs • **Affordability** – providers offer a range of advice solutions that can be produced at a cost that represents value to the consumer • **Scalability** – the level of disclosure in the advice process for every individual client is proportionate to the benefit that this disclosure provides to the client to assist decision-making and build confidence in the advice provided • **Use of professional judgement** – the advice provided is based on the professional judgement of those providing it, and informed by clear and consistent professional standards and principles • **Structure or channel agnostic** – the quality of advice is not impacted by different structures and channels such as technology or digital offerings • **Engaging** – the advice is clear and concise in a way that allows the client to clearly understand the advice and the key actions they should take, and not be confused by excessive disclosure and disclaimers • **Holistic** – the advice considers the client's holistic needs – addressing both financial considerations as well as health and overall wellbeing.

2. What are the characteristics of quality advice for consumers?
Key characteristics of quality advice from the consumer perspective include: • **Improved position** – the advice should empower the consumer to make financial decisions that deliver improved outcomes and an increased sense of financial security, increase their overall wellbeing, give them peace of mind and place them in an improved position • **Value** – the advice is consistent with the consumer's needs and objectives without needing to pay for advice the consumer doesn't need or value. The cost of advice should be commensurate with the benefit obtained • **Affordability** – the advice provided is affordable for consumers; the price of 'single issue' advice is reduced to a level where consumers believe it offers value, and they have options in how they can pay for that advice • **Availability** –consumers can easily seek out and obtain advice via their preferred delivery channel (digital, video chat, phone, or face-to-face) or a combination of these to meet their needs • **Simplicity** – the advice is presented in a manner that is engaging and useful in making decisions. It is easy for consumers to understand and delivered cost-effectively. This means simpler processes, shorter and more effective documentation which can be delivered using multiple channels, and improved ways of delivering simpler advice which.

3. Have previous regulatory changes improved the quality of advice (for example the best interests duty and the safe harbour (see section 4.2))?
Previous regulatory reforms have improved the quality of advice; however, it is questionable whether the consumer benefits delivered are proportional to the impact to the advice industry and the increased cost, complexity and time required to produce advice. This has meant advice is more compliance-focused than consumer-focused. Resetting this balance without eroding consumer protections is critical to ensure a thriving

advice industry.

The introduction of the Life Insurance Framework (LIF) has achieved its objective of improving the quality of advice by reducing the risk of perceived conflicts of interest between insurers, advisers and their clients, identified in ASIC's *Report 413 Review of retail life insurance.*

LIF has achieved these outcomes by addressing misaligned incentives in distribution channels, addressing lapse rates by encouraging greater product retention and through standardising remuneration arrangements. These measures were identified by ASIC as necessary to improve the quality of advice for consumers.

Our response to Section 4.3 Conflicted Remuneration demonstrates how behaviours in the retail life insurance market have changed since the introduction of LIF. Key findings include:

- a significant change in behaviour from advisers evidenced by changes in the new business mix, showing a skew away from the rewriting of new policies for existing clients
- a material reduction in the value of clawbacks caused by rewriting of policies for existing clients
- improved product retention evidenced by a fall in the lapsing rate of policies and an increase in average policy duration.

4. What are the factors the Review should consider in deciding whether a measure has increased the quality of advice?

There are a number of factors that the review could consider. These include:

- **Alignment of interests** – whether the measure has reduced the potential for conflicts of interest, where the interests of the clients would otherwise not have been prioritised
- **Flexibility and adaptability** – whether the measure operates in the most efficient way when balancing the circumstances, the advice provided and considering the clients individual needs
- **Reduced menu of advice** – whether the measure has reduced the appetite of advice providers in providing advice on certain subject matters or to consumers with 'low value' needs, due to time and effort required and uncertainty or risk in meeting compliance with the law and relevant standards
- **Proportionality** – whether the benefit to consumers is proportional to the cost in delivering the measure. There needs to be to be some reconciliation of whether the increase in the cost of advice, arising from the regulatory framework (which has increased eight per cent in the past year and 40 per cent over the past 3 years[1]) is commensurate with the level of consumer protection it offers. There might be incremental improvement in quality with each layer of the regulatory framework, but it will be marginal relative to the cost
- **Implementation** – whether the current framework makes it easier to prepare and implement advice or not
- **Consumer sentiment** – any increase in consumer advocacy for advice leading to greater activity of consumers engaging with financial planners/licensees to seek advice.

[1] "*The Adviser Ratings 2022 Financial Advice Landscape Report* has found the median fees charged to consumers increased from $3,256 to $3,529 a year, representing an 8 per cent spike, or 40 per cent over the three years to December 2021. The estimate includes both limited scope and comprehensive ongoing forms of advice and would be closer to $5,000 a year if restricted to the latter.

3.2 Affordable Financial Advice

11. Could financial technology (fintech) reduce the cost of providing advice?
Yes, greater use of fintech, from fact finding, record keeping, production of disclosure documents or the way advice is presented to clients can assist advisers to cut through the complexity in providing advice and could reduce the cost. Advice firms are already using fintech to reduce the cost of providing advice, for example using online portals as part of new client engagements to boost a client's financial literacy and making the fact find process more engaging. However, there are regulatory impediments that limit a broader adoption of fintech in providing advice.

12. Are there regulatory impediments to adopting technological solutions to assist in providing advice?
While the use of technological solutions has the potential to enhance the speed with which compliant advice is prepared and reduce the costs, innovation has not been widespread across the industry because of the complex regulatory model. In part, this is driven by a multi layered regulatory model that pushes many advisers to produce advice that looks and feel like comprehensive advice because of legislative instruments and regulatory guidance that is open ended or prescriptive or the rigid approach to enforcement for technical breaches and a lack of materiality or significance considerations. The other challenge over recent years has been the pace and volume of regulatory change, with delays in finalising legislation and accompanying guidance meaning that compliance projects to deliver that change are compromised in their delivery. A recent example was the publishing of regulatory guidance on breach reporting on 7 September 2021 ahead of a compliance date of 1 October 2021. While ASIC had consulted on proposed guidance, it does create significant uncertainty over what the final guidance would look like. The subsequent recognition by ASIC of the effects of breach reporting, while unintended, is a reflection of condensed implementations. This can mean a focus on people and process rather than technology given the greater leads times necessary. While many would intend to 'go back and fix things' later, the volume of regulatory change over the past decade has made that challenging. The upfront costs to implement technological solutions is often prohibitive with a long time horizon needed to realise the benefits. The cost of retrofitting these solutions into current processes and technology means solutions are not always viable. The uncertainty that the regulatory framework will remain stable for a reasonable period also casts doubt as to future investment needed for significant updates to technology to comply.

3.3 Accessible Financial Advice

14. In what circumstances do people need financial advice but might not be seeking it?
The complexity of providing advice leads to relatively high costs and extended timeframes. This means that many consumers aren't seeking advice or opt out of the advice process early because there is a misalignment between the advice they seek and what the adviser has to provide to be satisfied they have met regulatory obligations. Advice practices are increasingly not servicing consumers with less complex needs. Instead, practices prioritise the provision of comprehensive advice, primarily to support the economic viability of the practice. This means that there are consumers who need advice, but don't see a viable avenue in which to seek it. One area we observe that is underserviced is the home buyer market. New homebuyers almost exclusively purchasing their first home with a mortgage making up a large portion of the purchase price. The introduction of the deferred sales model for add-on insurance and the implementation of the hawking prohibition has reduced the appetite of lending institutions to engage consumers in a conversation about protecting the debt risk that now exists. Further, although these consumers have a genuine and clear need for advice, given the cost of providing personal financial advice and the challenges with providing limited scope advice, many do not end up seeking that advice. AIA Financial Wellbeing, our advice service, was launched to deliberately serve lower to middle-income Australians with relatively simple advice needs, for example, life insurance, superannuation and simple investment needs. However, the complexity in meeting obligations to ensure appropriate advice scoping, including giving consideration to the client's current and likely future circumstances, often leads to the cost of the service becoming too high. It can also mean that the scope of the advice the adviser needs to provide to meet their regulatory obligations is broader than what the client is genuinely seeking, making the advice more costly than the consumer anticipated or wants to pay. Licensees will often decline to provide advice in these circumstances. This is not the best outcome for consumers.

15. What are the barriers to people who need or want financial advice accessing it?
There are a number of barriers to those who need or want advice: • **Affordability** – most consumers are not prepared to pay more than $500 for financial advice[2] despite the cost in providing advice being many multiples of that • **Accessibility** – as noted in our response to Question 14, a focus on servicing consumers with more complex, comprehensive advice needs means that many consumers who need or want advice can't access it • **Supply of advisers has reduced** – higher education thresholds, a general lifting of professional standards and challenges in continuing to provide advice under the current regulatory model has contributed to a reduced number of financial advisers • **Time poor** – due to the complexities in process, data collection, advice production and preparation of disclosure documents, the time it takes to provide advice can often exceed four weeks. Consumers are generally seeking quicker responses, particularly to what are deemed simple inquiries, which can often result in them not proceeding with advice at all • **Value** – the value of the advice can be difficult for consumers to quantify without an immediate return. For example, with life insurance, consumers might not be able to comprehend the likelihood of experiencing the life events that insurance policies could protect against • **Difficulty in scoping** – satisfying the safe harbour steps and the obligations under Standard 6 of the Code of Ethics can mean that there is a disconnect between the scope of advice the adviser feels they must deliver to be compliant and what the consumer wants • **Overwhelm** – a consumer seeking advice on a fairly simple topic such as personal insurance might be

[2] Page 11. Future of Advice Report, Rice Warner. Source: https://www.fsc.org.au/policy/advice/future-of-advice-report#:~:text=On%2020%20October%2C%20the%20FSC,and%20its%20future%20in%20detail.

overwhelmed with the level of questioning and information required to complete an understanding of their insurance needs and determine appropriate structural considerations for their advice needs. There is further risk of overwhelm with the complexity and length required for advice documentation such as the FSG, fact finding documents, education documents and the advice disclosure itself.

16. How could advice be more accessible?

There are a number of ways in which advice could be more accessible.

1. Increase the supply of advisers

One of the solutions is to increase the supply of advisers, which includes encouraging new entrants to the industry as well as retaining those that may have considered existing.

Lower adviser numbers mean that advice practices can meaningfully service fewer clients, often resulting in clients with lower incomes or wealth being 'fired' by their adviser as they are unable to continue to service them. This is particularly problematic when you consider that less-established clients are often those who have the greatest advice need due to their developing wealth situation (e.g., likely accumulators) and potentially lower levels of financial literacy than those with higher wealth who continue to be serviced.

The latest Adviser Ratings' Landscape Report has revealed advice affordability has led to 100,000 consumers no longer receiving advice compared to 12 months earlier due to the reduction in adviser numbers.

Licensees also face challenges in supporting a new adviser's professional year, with many practices not setting up this pathway for new advisers due to the cost (both actual and opportunity) and a lack of guarantee that they will retain the adviser to repay the investment. For many practices, the return on investment is uncertain and questionable. To reduce this uncertainty, the Federal Government may want to consider providing a subsidy to firms who invest in the professional year, similar to subsidies provided to firms who employ apprentices. Alternatively, a 'transfer fee' may be considered where a newly qualified adviser leaves the firm that has supported their professional year training within a defined period.

2. Improve financial literacy

Feedback from consumers notes that low levels of financial literacy mean many lack the confidence to seek advice, for fear of being perceived as uneducated. The work that ASIC has undertaken via its Moneysmart.gov.au website is an important tool for improving literacy and engendering greater confidence in consumers. The challenge is to amplify the use of these types of services to lift literacy amongst those that recognise they need advice but are otherwise not seeking it.

Greater certainty on the distinction between personal advice and general information, as proposed by the FSC, would allow providers to deliver more content that is intended to educate rather than be a personal recommendation.

3. Reducing the cost of providing advice

In addition, as noted earlier, reducing the cost of providing advice, through a combination of greater use of fintech and reduced regulatory costs would mean that the existing pool of advisers would be able to service more clients more affordably.

The FSC's White Paper on financial advice[3] released in 2021, noted that by adopting their proposed reforms which included abolition of the safe harbour steps, introduction of a technology-neutral Letter of Advice with simplified requirements supported by scalable advice obligations, and redefining advice with a personal advice/general information framework, the cost of providing advice could be reduced by more than 30% allowing advisers to service more clients more affordably.

The disconnect between what consumers are willing to pay and what personal advice costs to deliver also reduces the accessibility. Where the gap is relatively small, advisers can engage consumers and justify the value that their advice will cost. Where the gap is material, as the current situation suggests, this gap is much harder to bridge and would see many consumers seeing it as something for the wealthy and outside of their

[3] *FSC white paper on financial advice 2021* https://www.fsc.org.au/policy/advice/white-paper-advice

consideration.

17. Are there circumstances in which advice or certain types of advice could be provided other than by a financial adviser and, if so, what?

As noted in our response to Question 16, clearer demarcation between personal advice and the provision of general information will provide greater certainty. This would enable more providers to provide general information, which greatly improves financial literacy and meets the needs of many consumers. Currently, this uncertainty pushes many consumers into personal advice when what they are seeking is guidance.

Financial counsellors play an important role in assisting vulnerable consumers experiencing financial hardship. However, there is a general lack of awareness of financial counsellors and their function, which often means consumers are forced into a personal advice pathway that is more than they need. There may be opportunities to better facilitate introductions from advice practices to financial counsellors for vulnerable consumers.

18. Could financial advisers and consumers benefit from advisers using fintech solutions to assist with compliance and the preparation of advice?

There are opportunities to consider which parts of the advice process can be automated and where standardisation can help.

Simple solutions such as information automation prevents duplicate entry and accessing systems multiple times – this is a solution utilised in many practices to save time and help to ensure all information remains consistent throughout

Document templates also allow for the production of relatively simple advice to be delivered efficiently. The introduction of the best interests duty and the need to evidence compliance with the safe harbour steps have seen practices move away from using these templates, in favour of bespoke SOAs to ensure there is comfort that the advice has been delivered compliantly.

Advice firms are already using fintech to reduce the cost of providing advice, for example using online portals as part of new client engagements to boost a client’s financial literacy and make the fact find process more engaging; however, there are regulatory impediments that limit a broader adoption of fintech in providing advice as noted in our response to Question 12.

4.1 Types of advice

20. Is there a practical difference between financial advice and financial product advice and should they be treated in the same way by the regulatory framework?
While there are practical differences between strategic financial advice and financial product advice, our view is they should be regulated the same. However, the disclosure obligations should operate on a sliding scale giving consideration to the individual consumer's circumstances and complexity of advice as is proposed by the FSC's framework.

21. Are there any impediments to a financial adviser providing financial advice more broadly, e.g., about budgeting, home ownership or Centrelink pensions? If so, what?
Our experience in providing advice to bank clients has revealed that there is a lack of understanding of what financial advice is and for whom it is appropriate. There is a perception that financial advice is for the wealthy – those with higher income and assets levels – and does not cover simpler topics such as cashflow management to support improvements in a consumer's future wealth position. In addition, the challenges in providing limited scope advice in relation to simpler topics (which we explore in more detail in Question 32) can often mean the cost of delivering what is perceived as relatively simple advice isn't seen as value-for-money because of the time and effort required of both the consumer and the adviser. Compounding this is the intangible benefit of some types of advice, as with other services, which means it is difficult to meaningfully demonstrate the value that advice will provide. As noted in our response to Question 16, a clearer demarcation between personal advice and the provision of general information will provide greater certainty, as will scalable disclosure obligations, proposed by the FSC in its advice framework, that would allow advisers to use their professional judgement about how much information a client needs in order to understand the advice being provided. This would enable advisers to provide advice on relatively simple advice topics that have no clear link to the sale of a product but meet genuine consumer needs.

22. What types of financial advice should be regulated and to what extent?
All personal advice which has taken into account an individual's circumstances and provided a personal recommendation should be regulated in a consistent but scalable manner. Different labels are often used to describe advice that is other than comprehensive, for example limited advice or intra-fund advice; however, we are supportive of the FSC's proposed advice framework which simplifies this to personal advice and general information. What should be scalable is the degree to which the adviser needs to consider the client's broader circumstances or can agree to limit them to particular circumstances (which is often what the client wants) and the degree of disclosure needed. The adviser and the client should be able to agree the scope of the advice, and the adviser should be able to use their professional judgement as to the disclosure needed to explain the advice. Permitting varying degrees of regulatory requirements for different types of personal advice runs the risk of behavioural bias towards advice that is not aligned with the client's needs, e.g., inappropriate subject-matter scoping to meet requirements more easily.

23. Should there be different categories of financial advice and financial product advice and if so for what purpose?
Advice will not, in all circumstances, include recommendations about specific products or classes if products and where this is the case, should be subject to lower levels of disclosure obligations determined using the professional judgement of the adviser guided by their obligations under the best interests duty and the Code of Ethics. In practice, there is a difference between financial advice that does not refer to products/classes of product; for

example, cashflow maximisation compared with advice that refers to a financial product. The former should not be subject to the same disclosure requirements as financial product advice, as no product knowledge is required.

The ability to limit scope, akin to intra-fund advice, that allows the provider to limit the advice to that specific product, should be extended to all providers. While advice providers can limit the scope of the advice they provide, meeting their obligations under the best interests duty and satisfying the broader obligations under the Code of Ethics (as noted in our response to Question 33) adds to the cost and complexity of providing that advice.

For example, where consumers are seeking advice on existing products, the advice providers and the consumer should be able to agree that the scope of the advice that is provided is limited to that product – if this is what the consumer wants. In limiting the scope, the advice providers would be expected to be clear about the scope of the advice and any limitations.

26. How should alternative advice providers, such as financial coaches or influencers, be regulated, if at all?

Financial coaches and influencer activity, particularly where they are providing a financial service and taking into consideration a consumer's circumstances, are already subject to regulation to ensure they are compliant with the law. There are questions surrounding the monetary and non-monetary benefits these alternative advice provides receive, as these are in many ways akin to conflicted remuneration (albeit not relating to personal financial product advice).

We recognise recent work that ASIC has undertaking to address this sector which should reduce the risk they pose in further eroding trust and confidence in the advice industry and devaluing the services that licensed financial advisers provide.

Limited Scope Advice

32. Do you think that limited scope advice can be valuable for consumers?

Yes, we believe that limited scope advice is extremely valuable for consumers. Most consumers, particularly those that are younger and many years from retirement have relatively simple advice needs. Often this advice is about one or two topics.

Seeking advice early, even if only for relatively simple topics such as budgeting or cashflow or at key life events such as when buying a house or starting a family, embeds financial advice as an important service that consumers will come back to, meaning they will be better prepared for unexpected events or as their focus turns towards retirement.

The ability for advisers to provide limited scope advice, and to do it at a cost-effective price point is integral to addressing the accessibility issues that face many Australians. However, there are regulatory barriers that prevent this.

At its extreme, you have a situation where the response to a question from a client could be delivered in a short conversation, but advisers instead are required to go through a lengthy process including the writing of an SOA to answer that question. Finding an appropriate middle ground is a key imperative that might mean someone with simple needs can speak to an adviser, have a 30-minute meeting, receive the advice that's important to them, and then leave. The current regulatory framework doesn't allow this.

33. What legislative changes are necessary to facilitate the delivery of limited scope advice?

One of the main issues with the provision of limited scope advice is the disconnect between what the Corporations Act requires when scoping and scaling the advice, relative to what the Code of Ethics requires of advisers.

Section 961B(2) of the Corporations Act requires advisers to have considered a client's relevant circumstances as part of the safe harbour test. This is supported by ASIC's RG 175 and Info Sheet 267 which states that

scoped advice (as it's described in the Info Sheet) can be delivered if consideration is given to the client's objectives and what they want advice on. However, Standard 6 of the Code of Ethics requires advisers to have considered a client's broader circumstances and likely future circumstances.

Conflict arises due to these inconsistencies. In practice, where there are inconsistencies, licensees require advisers to satisfy the higher threshold - in this case considering not only the relevant circumstances but also the broader circumstances and likely future circumstances.

Applying this to a life insurance advice scenario, this means advisers need to understand the client's situation to determine appropriate types and levels of cover. Practically, it is highly likely that there are other advice needs identified through the process undertaken by the adviser in seeking to meet their obligations that will require further engagement with the client. What that means in practice is that in seeking to provide advice that is consistent with the client's request, the adviser is required to consider broader and future circumstances that may be unrelated to the scope of the request. In determining whether they can be eliminated from the scope or need to be included (requiring further information from the client), the time, cost and complexity of the advice is pushed to a level beyond what the client was seeking.

This is all occurring before any advice is given, meaning there is no such thing as a simple insurance scenario any longer because the complexity of considerations within insurance advice, overlaid with the regulatory framework noted above, means that it is far from simple, and can lead to a very prolonged and frustrating process for the client.

This increases the likelihood that the adviser is unable to provide advice within the scope requested by the client, leading to increased cost, complexity and time due to the expanded scope which becomes necessary through the scoping and scaling process. In some cases, advisers have to decline to provide advice to the client if the agreed scope can't be agreed. Alternatively, after satisfying these scoping and scaling obligations, the adviser may be comfortable that the scope of the advice can be limited to life insurance only (the client's objectives), but it has taken a long time and increased the cost of delivery to get to that point.

The Review should consider whether an adviser can limit the level of enquiry based on scope and scale of advice – regardless of the complexity of the client's relevant circumstances. Currently the need to adjust the level of enquiry based on the complexity of the client's relevant circumstances makes limited scope advice unaffordable.

Consistent with the advice framework proposed by the FSC, and addressed in our response to Question 43, the safe harbour provision within the Corporations Act should be repealed or the obligations simplified by removing subsection 961B(2)(g), which while well intentioned is vague and difficult for advisers to understand in practice. We also suggest winding back the ASIC record keeping class order that requires advisers to document evidence that they have demonstrated compliance with the safe harbour steps.

The Code of Ethics should be amended to reflects the principles the underpin the safe harbour steps.

ASIC's RG 244 should also be updated to provide greater clarity in RG 244.71 and 244.72; for example, amending RG244.72 to read "*In general, as the* ***complexity of the advice*** *being provided increases, it is likely that you will need to expand the scale of your inquiries*" and including additional examples of how to provide limited scope advice in a life insurance context. The change to RG244.72 recognises that it's the complexity of the advice, determined by the clients' request which dictates whether to expand the scale of enquiries.

34. Other than uncertainty about legal obligations, are there other factors that might encourage financial advisers to provide comprehensive advice rather than limited scope advice?

In practical terms, we understand that many advisers will gravitate towards comprehensive advice rather than limited scope advice because of the value that this delivers to the consumers. Since the cost in delivering limited scope advice is relatively high, it is easier to demonstrate the value to consumers if the adviser is providing comprehensive advice rather than limited scope advice.

Digital Advice

35. Do you agree that digital advice can make financial advice more accessible and affordable?
Yes, digital advice can make financial advice more accessible and affordable. Digital advice will enable greater reach to segments of the market who not seeking advice, or unable to access advice. It also has the potential to make advice more affordable, either by reducing or removing the human element. However, there are barriers that limit the adoption of digital advice, which are addressed in our response to Question 40.

36. Are there any types of advice that might be better suited to digital advice than other types of advice, for example limited scope advice about specific topics?
Digital advice is likely to be more suited to consumers with simpler advice needs, for example limited scope advice about specific topics. In order to meet best interests duty obligations and satisfy the safe harbour steps, advisers need both qualitative and quantitative information. This level of information is not always easily ascertainable using digital solutions. One of the challenges in the use of technological solutions in providing advice is reconciling the use of algorithms and the need for professional judgement. The lack of regulatory certainty for advisers means that fintech hasn't been adopted as much as it could be as it often requires many exit points in the digital process that require human intervention. This doesn't lead to an optimal experience for consumers.

37. Are the risks for consumers different when they receive digital advice and when they receive it from a financial adviser?
Take-up of this service is often limited by concerns about the client experience. There are many parts of the advice journey that require an overlay of professional judgement, which is often difficult to do digitally. This often means having to exit clients from the digital advice process and engage in human intervention, where that professional judgement is needed. This exit is often abrupt and disrupts the process, often resulting in some clients electing not to continue with the advice. In other cases, the increased cost of face-to-face advice means that it is no longer affordable. This creates a risk that the advice needs remain unmet.

38. Should different forms of advice be regulated differently, e.g. advice provided by a digital advice tool from advice provided by a financial adviser?
All forms of personal advice should be regulated in the same way. The risk of regulating differently is that it may drive behaviours that seek to narrow the scope of the advice to suit the adviser's objectives rather than focusing on what the client needs. Consistent with the FSC's recommendations, the introduction of a technology-neutral Letter of Advice with simplified requirements supported by scalable advice obligations would support digital delivery of advice.

39. Are you concerned that the quality of advice might be compromised by digital advice?
If done well, the quality should not be compromised. The requirements for quality and relevance of advice should be the same. The medium of delivery is not a substitute for adequacy or quality of the advice offered.

40. Are any changes to the regulatory framework necessary to facilitate digital advice?

The existing regulatory framework imposes similar obligations in providing digital advice as applies to that delivered by an adviser. To support advice needs via digital means, obligations would need to be proportionate to the complexity of advice being provided. Less complexity around the provision of ongoing digital advice would make advice a more conducive channel for servicing the ongoing simple advice needs of consumers, further underlining the imperative for reform.

There are a number of barriers created by regulatory uncertainty, that would be removed or reduced by adopting the FSC's personal advice framework:

- a lack of confidence when taking an initiative to market, that it will comply with the range of obligations advisers have, including any future changes that may apply. This deters innovation and competition in solutions because there is less certainty these initiatives comply and continue to apply where future changes are made without significant ongoing investment
- ASIC Regulatory Guide 255 – *Providing digital financial product advice to retail clients* issued in 2016 in relation to the delivery of digital advice. The guidance is very prescriptive, particularly in relation to algorithm development and testing. This creates a barrier for advice practices to embrace more technology solutions to provide advice as they must consider capacity to support and maintain these tools
- while the law is broadly technology-neutral, in practice the industry is risk averse as a result of the enforcement approach and changes to regulatory obligations. This has inhibited widespread low-cost alternatives to providing advice beyond standard paper-based disclosure and a face-to-face advice process.

Many of the barriers may be, in part, due to the industry perception rather than regulatory intent. To address these perceptions, the Review could recommend that ASIC produce and publish a report on its experience with the provision of digital advice that gives the advice providers greater certainty on how to meet regulatory obligations.

41. In what ways can digital advice complement human-provided advice and when should it be a substitute?

Digital advice can complement human-provided advice in many ways. In its simplest form it can be used to build the financial literacy of the client seeking advice. It can also collect and validate information needed as part of the fact find. It might also provide suggested actions the client takes in preparation for their face-to-face meeting, e.g., articles to read or questions the adviser is likely to ask. It could also assist in the scoping of the advice. This 'pre-work' is likely to reduce the time needed for human intervention or increase its effectiveness.

Digital advice should not be a substitute for human-provided advice but should be used to complement it. There are areas of advice that may be better suited to digital advice as noted in Question 36, given relatively low complexity, but the client should be in the driver's seat and able to access the method of their desire, or switch between methods as they navigate the advice process.

4.2 Best Interests and Related Obligations

43. Do you consider that the statutory safe harbour for the best interests duty provides any benefit to consumers or advisers and would there be any prejudice to either of them if it was removed?

We believe the safe harbour steps in Sections 961B(2) of the Corporations Act can be removed, providing significant benefits for consumers and advisers, without eroding consumer protections. The prescriptive safe harbour steps for meeting the best interests duty conflict with the principles-based Code of Ethics, limiting the capacity of the advice industry to deliver limited scope advice for consumers. The safe harbour steps should be abolished to better support advice to be provided in different ways and cater to different needs while conforming with the same principal obligation that is the best interests duty itself.

Removal of the safe harbour steps would have several benefits:

- flexibility to apply a principles-based approach to different factual scenarios
- moving away from a mechanical tick-a-box mentality which tends to result in disclosure/documentation that is compliance-focused, rather than client-focused
- recognition that adopting rigid processes does not in and of itself result in a better quality of advice for consumers.
- significant cost savings estimated by KPMG to be at least 9 per cent of current advice costs[4]

The Code of Ethics should be strengthened to ensure that advisers satisfy the principles that underpin the safe harbour steps in order to meet their best interests duty.

If the Review does not recommend abolishing the safe harbour steps, it should consider several alternatives that will simplify the provision of advice:

- removal of subsection 961(B)(2)(g) of the Corporations Act requiring advisers to take any other step, that at the time of the advice being provided would reasonably be regarded as being in the best interests of the consumer – while well intentioned, this is vague and difficult for advisers to understand in practice
- amending the best interests duty to have regard for the “scope and nature” of advice, which could support limited scope advice with greater confidence and certainty of compliance
- amending ASIC’s class order on record keeping, which requires advisers to document evidence that they have demonstrated compliance with the safe harbour steps.

44. If at all, how does complying with the safe harbour add to the cost of advice and to what extent?

KPMG estimates the advice process to cost over $5,300. By removing the safe harbour steps and using the Code of Ethics as a tool to support compliance, the removal of the safe harbour steps would reduce the cost of advice to under $4,900 – a 9 per cent reduction.[5]

45. If the safe harbour was removed, what would change about how you would provide personal advice or how you would require your representatives to provide personal advice?

Advisers would be empowered to use their professional judgement that they have met their best interests obligations.

We expect that advisers would adopt a more principles-based assessment of their best interest duty, anchored by the Code of Ethics – moving away from a check-box, prescriptive approach to evidencing each of the safe harbour steps and instead focusing solely on how the client is placed in an improved position as a result of the

[4] KPMG: *Cost profile of Australia’s financial advice industry research paper* – August 2021
[5] KPMG: *Cost profile of Australia’s financial advice industry research paper* – August 2021

advice.

It would also reduce the need to constantly reinforce that every decision made was in the best interest of their client – reducing the evidentiary burden in documenting the advice.

46. To what extent can the best interests obligations (including the best interests duty, appropriate advice obligation and the conflicts priority rule) be streamlined to remove duplication?

Currently all three obligations operate in a somewhat standalone manner. This means that when advice is audited for compliance, each of these obligations is considered as an individual obligation and expected to be evidenced as such.

Yet all of these obligations intend to achieve the same outcome which is to ensure the client is prioritised and improved by the advice. Considering the intentions of these obligations are aligned, it would be beneficial to incorporate them into the overarching proposition so that appropriate advice and conflicts priority are considered as attributes within the best interests duty, rather than as separate concepts.

One area where there is significant confusion and which often means increased complexity, time and cost in providing advice, is the obligation to ensure that the client is in a better position as a result of the advice. In practice, driven by past experience with file audits, complaints and judgements, this is often viewed as being the best position. Greater clarity on this point, perhaps by using ‘improved’ rather than ‘better’ would provide greater certainty for advisers, ensuring that they can provide advice that improves the client’s position using their professional judgement based on the clients request and the enquiries undertaken.

47. Do you consider that financial advisers should be required to consider the target market determination for a financial product before providing personal advice about the product?

No. It is more important to have considered the client’s circumstances and objectives when recommending a product solution. In practice, advisers will have considered the target market determination to identify any red flags that might impact suitability, but this should not need to form part of any evidencing requirements in meeting the best interests duty.

4.3 Conflicted Remuneration

Our response to this section focuses on the Life Insurance Framework (LIF) and the responses to Questions 48 to 55 should be read and considered in that context.

The introduction of LIF has achieved its objective of improving the quality of advice by reducing the risk of conflicts of interest between insurers, advisers and their clients, identified in ASIC's Report 413 *Review of retail life insurance*.

LIF has achieved these outcomes by addressing misaligned incentives in distribution channels, addressing lapse rates by encouraging greater product retention and through standardising remuneration arrangements. These measures were identified by ASIC as recommendations to improve the quality of advice for consumers.

The FSC engaged NMG Consulting to undertake detailed analysis[6] of the retail life insurance market to understand how behaviours have changed since the introduction of LIF. More detail about NMG and their approach to this analysis is included in the FSC submission.

The analysis points to key findings that contrast the pre and post LIF experience:

- a significant change in behaviour from advisers evidenced by changes in the new business mix showing a skew away from the rewriting of new policies for existing clients
- a material reduction in the value of clawbacks caused by the rewriting of policies for existing clients
- improved product retention evidenced by a fall in the lapsing rate of policies and an increase in average policy duration
- LIF has contributed to underinsurance, and the possible removal of the exemption on the ban on conflicted remuneration for life risk insurance products would further increase underinsurance.

The use of the term "commission" is often used in a pejorative sense, despite its use as a remuneration option being well established in other jurisdictions with well-developed financial advice regimes. Instead, commissions should be recognised as a valuable option to assist consumers to fund the cost of advice for life insurance; they are critical to ensure this area of advice remains accessible and affordable.

Further insight is provided in response to the following questions.

48. To what extent has the ban on conflicted remuneration assisted in aligning adviser and consumer interests?
The introduction of LIF has assisted in a better alignment of adviser and consumer interests. This is evidenced by the significant shift in the experience of existing policyholders and new business trends (i.e., new-to-market policyholders). The key features of LIF include: • the introduction of a standardised and capped remuneration structure, which has reduced any incentive to recommend the policy issued by the insurer offering the highest commission rates when it is not otherwise in the best interests of the client • extended clawback responsibilities to two years, which have also changed the persistency of policyholders and increased product retention. Key insights on behavioural change evidenced: 1. NMG analysis observed a **significant reduction in the lapsing of policies** within two years of issue, decreasing from 22% in 2017 to 10% in 2021. The average duration of policies held has increased from 7.9 years to 8.7 years as a consequence. See Image 1 – appendix. 2. **no material changes in the lapse rate following the end of the clawback period -** prior to LIF, 23% lapsed before Year 4. In 2021, this is down to only 13%, with no material spike evident in the third year. The expiry of the clawback responsibilities isn't triggering a material increase in lapsing. See Image 2 – appendix.

[6] Australian Life Insurance Market Research Report, NMG Consulting, 2020 along with updated analysis from NMG for this submission to Quality of Advice Review.

3. The mix of new business has also changed significantly in the period prior to and after the introduction of LIF. The proportion of **reissued policies for existing clients has decreased** from 58% in 2017 to 43% in 2021. See Image 3 – appendix.
4. At an individual adviser level, NMG's analysis shows that the number of new-to-market clients that were provided advice each year has remained steady (at 11 per adviser) while the number of **existing clients who have been advised to replace their policy each year has halved** between 2017 and 2021 (from 16 to 8 per adviser). See Image 4 – appendix.
5. Further supporting this change in behaviour is a **reduction in the value of commission subject to a clawback (**where policies were cancelled or reduced during the responsibility period). This has reduced by 40% from $111m in clawbacks in 2017 to $67m in 2021. See Image 5 – appendix.

These changes in behaviour are evidence of better alignment between adviser and consumer interests and an improvement in the quality of advice.

49. Has the ban contributed towards improving the quality of advice?

ASIC's Report 413 *Review of retail life insurance* identified a number of recommendations that would improve the quality of advice for consumers. The introduction of LIF has improved the quality of advice by reducing the risk of conflicts of interest between insurers, advisers and their clients.

LIF has removed misaligned incentives in distribution channels that had previously contributed to poor advice and recommendations that clients change their insurance arrangements that were driven by financial gain for the adviser rather than improving their client's position.

50. Has the ban affected other outcomes in the financial advice industry, such as profitability of advice firms, the structure of advice firms and the cost of providing advice?

We believe that LIF provides the right balance. It has clearly changed adviser behaviour, reduced conflicts of interest and led to better consumer outcomes.

However, LIF together with the continued increase in the cost of providing advice (which is impacted by current regulatory settings) has made the delivery of life risk advice unprofitable for some advisers. Removal of the exemption (for life risk products) to the ban on conflicted remuneration or a reduction in the LIF commission caps would further increase the cost of advice as this would directly translate to payment for life risk product advice under a fee for service model.

LIF has also contributed to changes in the structure of advice firms, with many advisers departing the market, with those remaining tending to focus on fewer, high-net-worth clients. The NMG analysis provides more insight on this in Question 53.

Improving accessibility to advice is highly dependent on reducing the cost to produce it, with significant cost savings anticipated by the advice framework proposed by the FSC.

51. What would be the implications for consumers if the exemptions from the ban on conflicted remuneration were removed, including on the quality of financial advice and the affordability and accessibility of advice? Please indicate which exemption you are referring to in providing your feedback.

In relation to LIF, our view is that the conduct that was the driver for introducing this has been eliminated. Increasing the adviser responsibility period and subjecting them to clawback of commissions for two years and standardising the level of upfront commissions across all life products has removed any benefit that led to policies being replaced for reasons other than prioritising the consumer's best interests.

Commissions remain an important option in funding the cost of advice. Unlike wealth products, where there is no additional cost of investing in the product, a consumer taking out a life insurance policy is required to pay the cost of the premiums, in addition to any cost of the advice. Additionally, unlike other wealth products such as investments where the value is understood, consumers don't attribute a present value to life insurance. This

increases the challenge in charging for advice. Commissions provide a method of funding the cost of advice and removing this option would make seeking advice on life insurance unaffordable or unattractive for most consumers.

If the exemption from the ban on conflicted remuneration was removed, there are a number of consequences for consumers:

- advice will become more expensive as they will be required to fund both the cost of the advice together with the cost of the premium. Insight from AIA Australia's broad network of advice partners indicates that many may cease to provide life insurance advice if they were no longer permitted to fund advice through the payment of commissions. In their view, the hurdle of convincing clients to pay for the advice will be too high
- it is also likely to reduce accessibility to advice. There has already been a material contraction in the number of financial advisers over the past decade. While this was anticipated, given higher education and professional standards, it has also contributed to fewer consumers being able to access advice. This impacts not only existing clients (Adviser Ratings' Landscape Report revealing that 100,000 consumers are no longer receiving advice compared to 12 months earlier due to the reduction in adviser numbers) but also clients seeking advice for the first time.

The payment of commissions on life sales therefore remains an important tool in ensuring that financial advice on life insurance products is both affordable and accessible.

52. Are there alternatives to removing the exemption to adjust adviser incentives, reduce conflicts of interests and promote better consumer outcomes.?

Our view is that instead, commissions should be recognised as a valuable option to assist consumers to fund the cost of advice for life insurance, as they are critical to ensure this area of advice remains accessible and affordable.

53. Has the capping of life insurance commissions led to a reduction in the level of insurance coverage or contributed to underinsurance? If so, please provide data to support this claim.

In recent years, the number of risk advisers has decreased as advice has become less affordable. Consumer research undertaken by NMG has also shown that the level of underinsurance has been trending upwards, particularly among younger cohorts. A summary of this analysis is included in the FSC submission. While the causes of underinsurance are varied and complex, reduced affordability and accessibility of advice has contributed to underinsurance.

Any reduction in the LIF commission caps or removal of the exemption will further significantly undermine the affordability of advice in circumstances where LIF has delivered on its policy intent of removing conflicts and placing the client's interests first.

1. Adviser numbers contracting with a shift in focus to high-net-worth

Whilst commissions provide a valuable option to pay for access to life risk product advice, the time, cost and complexity of producing advice more broadly has contributed to advisers departing the market, with those remaining tending to focus on fewer, high-net-worth clients.

The halving of overall adviser numbers since 2017, with about 50% of the remaining advisers classified as actively providing life risk advice (active risk writers), has led to a reduction in the number of consumers who can access advice despite having a need for life insurance. **See Image 6 – appendix**.

2. Reducing pool of lives insured

APRA publishes information[7] on the number of policyholders each half year. Across all cover types, the number of lives insured has reduced materially between 2018, when APRA commenced this publication, and 2021 – with 4.17m lives covered in H2 2021 compared with 4.92m lives in H2 2018 (a 16% reduction). The

[7] APRA – *Life insurance claims and disputes statistics* database June 2018 to December 2021

reduction in the number of lives insured for death cover is greater – down by over 20% in 2021 compared with 2018. **See Image 7 – appendix**.

3. Current LIF settings should be retained to guard against further underinsurance

LIF has not occurred in a vacuum with many other regulatory settings contributing to a reduced level of life risk advice being provided. The uncertainty created by the recent case against Westpac means it is more difficult for consumers to get the assistance they need under a general advice model. The disappearance of life insurance distributed to bank customers following the Banking Royal Commission, coupled with anti-hawking measures, have decreased the uptake of life insurance, particularly for those who are commencing or increasing mortgages. Recent superannuation reforms[8] have reduced the levels of life insurance among some younger and lower income groups.

The high cost of advice under current policy settings is already reducing the flow of new life risk clients and increasing the level of underinsurance. Advisers must already absorb many regulatory costs when providing advice to consumers. If commission caps were reduced further or removed completely, this would have an adverse effect by decreasing the accessibility of consumers receiving life risk advice.

NMG analysis[9] has projected that if the current exemption from the ban on conflicted remuneration was removed, or the caps reduced, this will most likely lead to a detrimental effect on underinsurance levels across all age groups. **See Image 8 – appendix**.

It's estimated that by 2026, the number of advised life insurance policies is expected to reduce by 17% based on current regulatory settings, which includes further projected reductions in adviser numbers. If the exemption to conflicted remuneration under the LIF arrangements was removed, this underinsurance gap would subsequently increase to 28% by 2026.

Addressing underinsurance levels is an important step in ensuring financial security of all Australians, particularly younger families starting on their financial journey of owning a home. With adviser numbers decreasing, and underinsurance growing disproportionately in younger Australians, the FSC recommends adopting recommendations that reduce the complexity and cost of providing advice.

If recommendations are adopted that reduce the cost of providing advice, the FSC believes they will both protect Australian consumers by increasing their accessibility to the advice system and encouraging take up of life insurance products.

55. What other countervailing factors should the Review have regard to when deciding whether a particular exemption from the ban on conflicted remuneration should be retained?

The voice of the consumers should be considered in making any decision about the continuation of the exemption for life insurance products under the LIF arrangements.

The strong anecdotal evidence from advisers is that consumers overwhelmingly want to see commissions retained, as it provides them with an option to fund the cost of receiving advice on life risk products. Given life insurance needs often increase at the time that many household budgets are under significant strain, for example when buying a home or starting a family, options that provide flexibility to consumers seeking advice should be encouraged.

[8] Protecting Your Super (PYS) and Putting Members Interest First (PMIF)

[9] Australian Life Insurance Market Research Report, NMG Consulting, 2020 along with updated analysis from NMG for this submission to Quality of Advice Review

4.4 Charging arrangements

56. Are consent requirements for charging non-ongoing fees to superannuation accounts working effectively? How could these requirements be streamlined or improved?
In our experience these arrangements are not working effectively. In practice, we see differing requirements between superannuation providers with different limits being imposed on the amount that can be charged, and the scope of the advice that can be charged. This situation has evolved due to differing views on how to comply, including interpretations of the sole purpose test. The effect of the current framework has been to expose consumers to multiple forms that effectively are required for each product, which is inefficient. The FSC submission sets out how these requirements might be streamlined or improved.

4.5 Disclosure Documents

65. To what extent can the content requirements for SOAs and ROAs be streamlined, simplified or made more principles-based to reduce compliance costs while still ensuring that consumers have the information they need to make an informed decision?
We support the disclosure reforms proposed by the FSC in their submission.

66. To what extent is the length of the disclosure documents driven by regulatory requirements or existing practices and attitudes towards risk and compliance adopted within industry?
One of the biggest barriers for industry is the level of disclosure that has become accepted as necessary to meet the evidentiary burden required to satisfy the safe harbour steps. In practice this means documenting how the advice and recommendations have satisfied each of the safe harbour steps – often numerous times throughout the documents. While regulatory requirements don't require disclosure documents to be in written form, it is often difficult to be satisfied that you have met the relevant evidentiary burden if the disclosure is not in writing. This is reinforced by how advice files are audited in practice and how complaints are dealt with as part of external dispute resolution. As part of any reform, there should be a collective acceptance by regulators and AFCA about how advisers can satisfy their disclosure obligations. This is likely to reduce instances of disclosure creep 'just in case' an advice file is audited, or the client makes a complaint. Advisers should be able to satisfy the evidentiary burden without having to document everything in the SOA.

67. Are there particular types of advice that are better suited to reduced disclosure documents? If so, why?
In our view, limited scope advice would be better suited to reduced disclosure documents. However consistent with the FSC's scalable obligations, this would be determined by the circumstances of the advice being provided to individual consumers. In addition, where a client has an existing product and is seeking additional advice, reduced disclosure would be more appropriate, given existing knowledge, without negatively impacting their ability to make an informed decision. The Letter of Advice as proposed by the FSC's framework, supported by scalable advice obligations, will deliver an overall simpler and more relevant consumer experience. This would complement the benefits of a more streamlined regulatory framework in which the safe harbour steps are abolished, with the Code of Ethics guiding the conduct of advice providers when providing limited advice offerings. The process would be scaled up or down in accordance with the individual consumer's circumstances.

68. Has recent guidance assisted advisers in understanding where they are able to use ROAs rather than SOAs, and has this led to a greater provision of this simpler form of disclosure?
No, in our view the recent guidance hasn't been helpful. It simply restates the Corporations Act and existing ASIC regulatory guidance, rather than providing greater certainty for advisers. In addition, advisers are still required to be satisfied that they have addressed the safe harbour provisions and have appropriately documented how these have been addressed. With no meaningful time saving, advisers tend to revert to using the SOA template to document their advice. ROA usage is often also avoided due to risk in assessing the significance of changes to client circumstances, again seeing advisers revert to the use of SOAs in practice.

Section 5: Other measures to improve the quality, affordability and accessibility of advice

81. Have ASIC's recent actions in response to consultation (CP 332), including the new financial advice hub webpage and example SOAs and ROAs, assisted licensees and advisers to provide good quality and affordable advice?
While action taken by ASIC is welcomed, the feedback we have received from our advice partners suggests that the actions taken by ASIC haven't addressed the key concerns of advisers. Feedback also indicates that not all advisers are aware of the response to CP 332, suggesting there may be better ways of disseminating this information. While the advice hub brings together the relevant law and ASIC guidance, the cross-refencing between sources makes it challenging for advisers to understand how to comply. Advisers tell us that it is difficult to navigate and that this often means the advice process becomes more complicated as they seek to address what can be competing or contrasting obligations. In relation to the example SOAs, the feedback is mixed; some advisers have found these useful, while others have found that the examples provided are not related to the more common scenarios they face. They fail to provide sufficient clarity on the scoping issues highlighted in our submission. Overall, the feedback we have received from our advice partners is that the response to the consultation has not addressed root cause issues such as inconsistency between legislation, regulatory guidance and the Code of Ethics (noted in our response to Question 33). Consolidating these documents within a hub, while making it easier to find in one location, hasn't improved the ability for advisers to navigate, nor address inconsistencies. In practice, this leads to a more risk-averse approach to providing advice which limits accessibility to some consumers and drives up time and cost in providing advice.

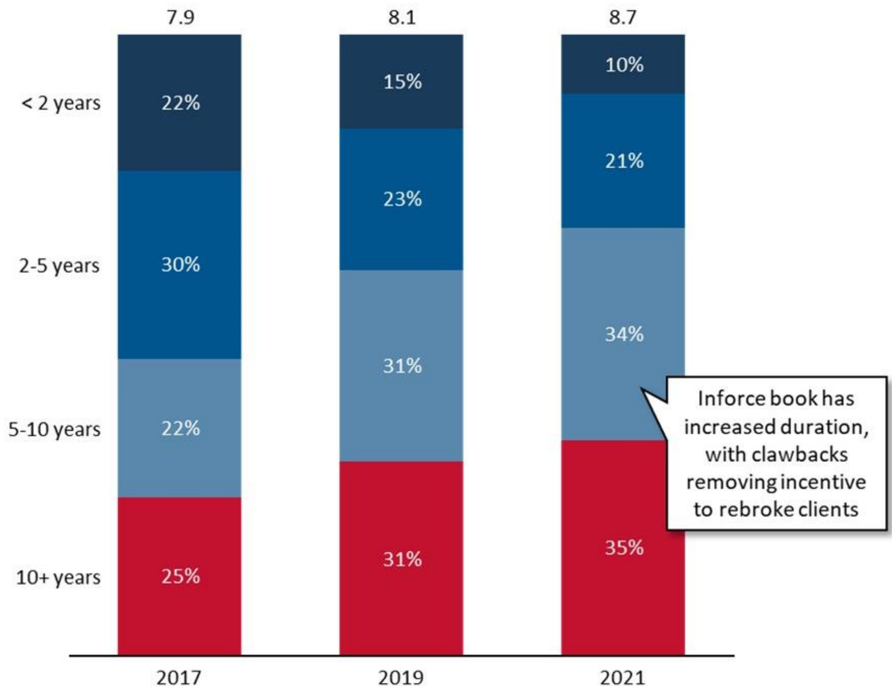
Appendix

Source for Images 1 – 6, 8: *Australian Life Insurance Market Research Report*, NMG Consulting, 2020 along with updated analysis from NMG for this submission to the Quality of Advice Review

Source for Image 7 – APRA *Life insurance claims and disputes statistics database June 2018 to December 2021*

Image 1 - Advised retail life insurance policies by policy duration – (AUD $bn, 2017, 2019, 2021)

Note: rebroke or re-broking refers to the replacement of policies for an existing client



Note: rebroke or rebroking refers to the replacement of policies for an existing client

Image 2 - Advised retail life insurance lapse by policy age – (rolling 12 months, AUD $m, 2017, 2019, 2021)

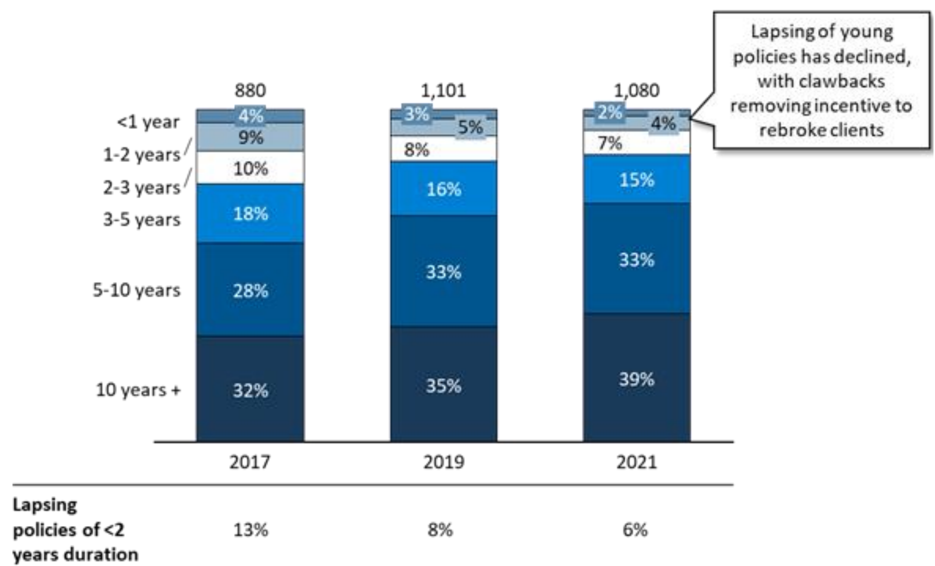
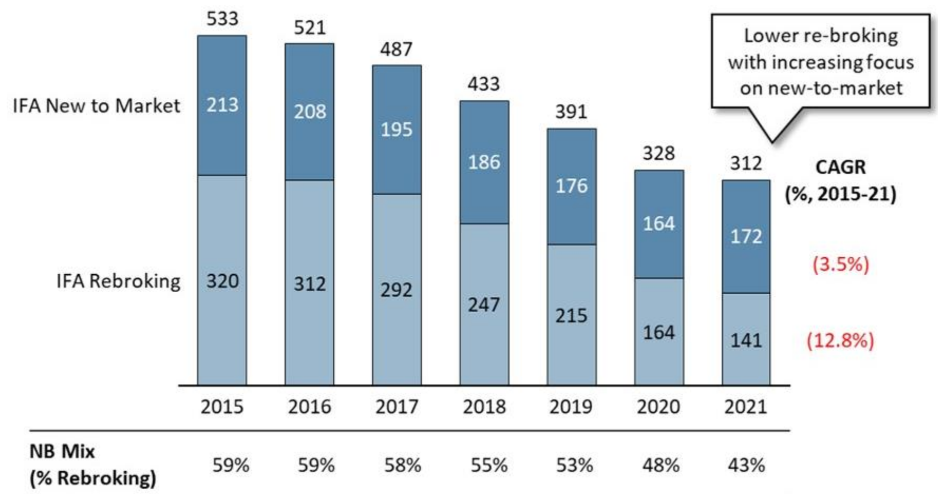
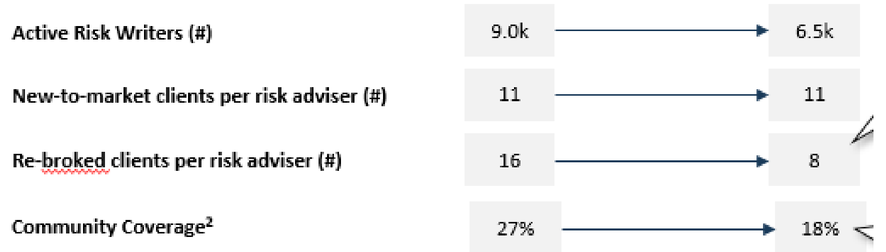
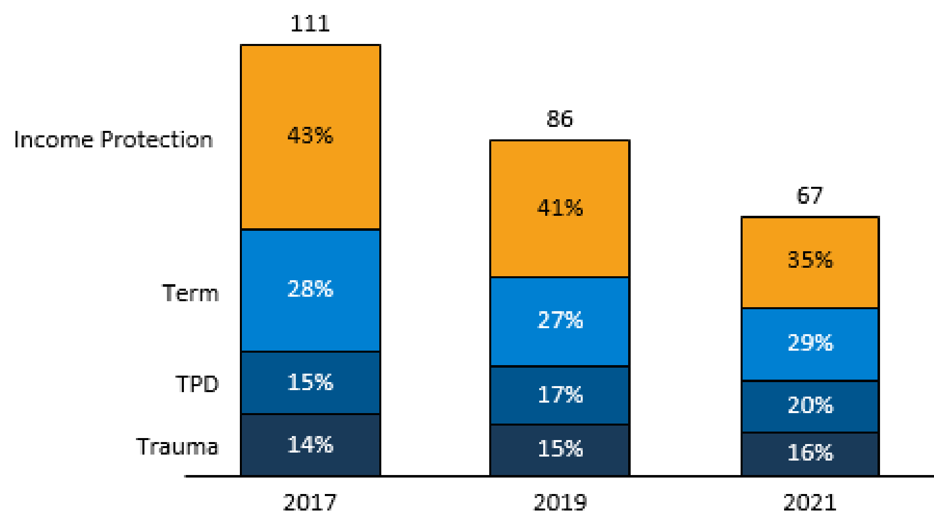
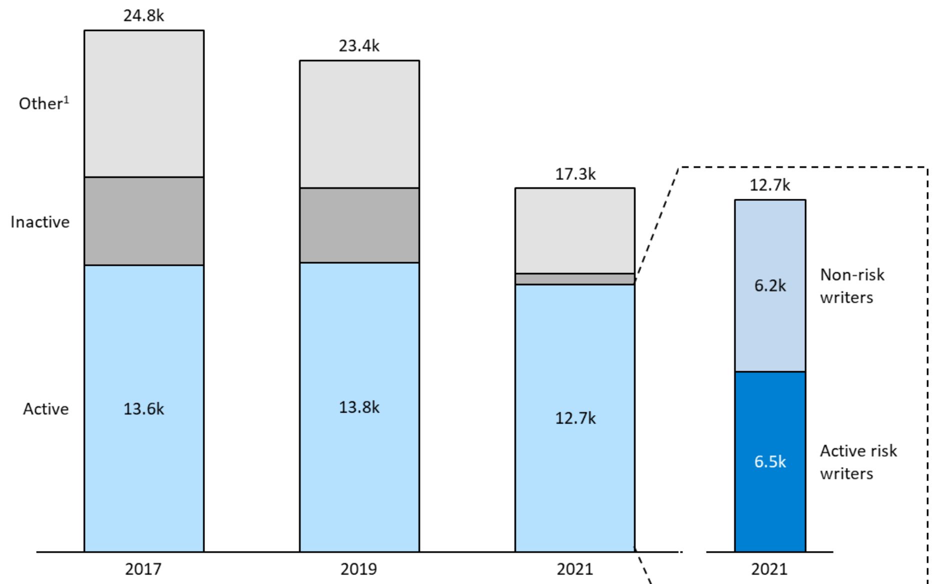
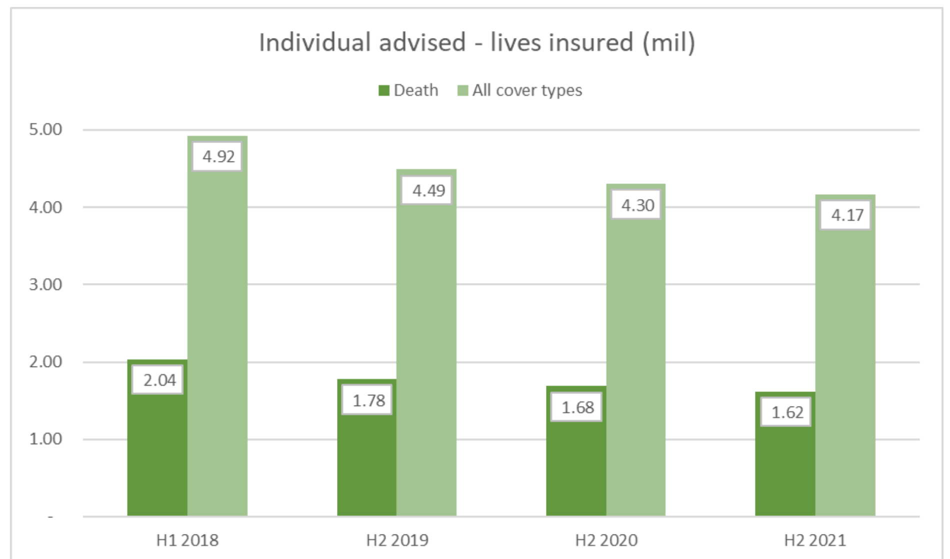


Image 3 - Advised retail life insurance new business premiums by source (rolling 12m, AUD $m, Q4 2015 - 2021)	
Image 4 - Financial advisers (#, 2017 – 2021)	
Image 5 - Advised retail life insurance clawback lapse by product type (AUD $m, clawback lapses, 2017, 2019, 2021)	

² Percentage of financially active population (employed people at end of period), ex-aggregator

Image 6 - Financial advisers (#, 2017 – 2021)	
Image 7 - Individual advised – lives insured ($m’s) - APRA	

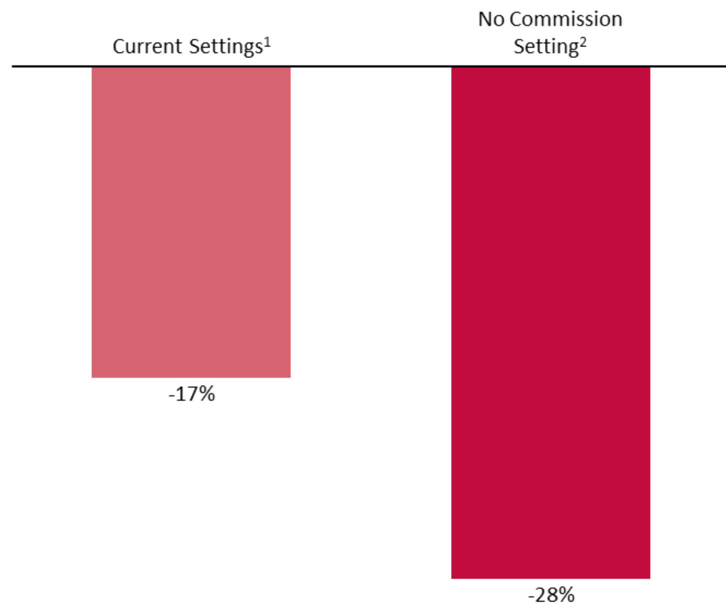


Image 8 - Estimated fall in # advised life insurance policies (December 2021 – 26)

Notes: The estimated fall is the mid-point of a range of outcomes (of potential consumer behaviour) in each scenario with the following characteristics:

1. Current setting projects a bottoming of life risk advised sales in 2022, and then growing at 4%p.a. (with no change in lapse profile).
2. No Commission setting projects a significant decline in advised risk sales due to removal of commissions, and increase in lapses from reduced re-broking and lower partial lapses

Source: NMG Risk Distribution Monitory Study, NMG Market Model, NMG estimates