ZURICH

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Quality of Advice Review Secretariat
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To Whom It May Concern

QUALITY OF ADVICE REVIEW – ZURICH SUBMISSION

Zurich Financial Services Australia (**Zurich**) welcomes the Quality of Advice Review (**Review**).

Zurich is the local operations of Zurich Insurance Group, whose head office is in Zurich Switzerland. We provide wealth and insurance solutions for our customers. Our products comprise of both life and general insurance, as well as investments. Our customers include individuals, small businesses, mid-sized and large companies, and multinational corporations. Zurich employs approximately 1,600 people in Australia and New Zealand. On 1 June 2019, ANZ's life and consumer credit insurance businesses, OnePath Life Limited and OnePath General Insurance Pty Ltd (**OnePath**), were formally acquired by Zurich. The transaction created one of Australia's largest life insurers.

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Zurich recently announced the decision to establish an internal advice capability through a new life insurance advice business, to be called Zurich Assure. Zurich Assure will focus on providing life insurance advice to existing retail life insurance customers, including life insurance held in superannuation funds. At this stage we do not envisage the provision of comprehensive / holistic personal advice and will instead refer out to other appropriately licensed advice businesses where a customer seeks or requires such advice.

The barriers to accessible and affordable quality advice to Zurich customers

Zurich supports the Review's focus on improving the quality, accessibility and affordability of advice. Advice is essential to how Zurich serves its customers and distributes its products, whether it be delivered by independent financial advisers, superannuation funds, our partners, Zurich Assure as mentioned, or directly from our customer service staff.

Barriers to quality of advice impacting Zurich customers

Customers have different needs	I need advice and I am willing to pay for it	I can do it myself, my needs are simple	I'm calling my insurer to enquire about my policy and perhaps make changes	I have high levels of debt, an average income and a young family
Service gaps under current advice regime	Advice becoming affordable only to the wealthy Statement of advice long and impenetrable Looking for simple advice, why is my adviser asking me all these questions?	Where to find specific information tailored to my needs? Can't be that hard Online tools e.g., needs calculators tell me what I need but no where to get it from	Kids are grown and I've reduced my mortgage, do I still need this level of cover? Found a policy with lower premiums, but my current insurer is hesitant to assist my understanding I feel like cancelling my insurance, but do I still need it?	Just got a $600,000 home loan. Lender says I can afford it, but what if something happens to me?
Barriers to quality of advice	• Advisers leaving the market • High cost of advice • Rising compliance costs • Low innovation investments	• Solutions limited by ASIC Class order limitations, on learning customer personal information • No recognition or incentives to better serve self-directed consumers	• Insurers find providing simple advice prohibitively expensive • Especially when there are questions to ask and actions to suggest	• Lenders are risk averse due to anti-hawking and deferred sales reforms • Difficult to have meaningful protection conversations with borrowers, leaving them exposed

As a provider of life insurance products, Zurich is keen to ensure that customers have an appropriate level of cover that meet their needs. Increasingly, however, we are encountering barriers to providing quality advice and/or service that undermine this objective (refer also to infographics above). We describe some of our impacted customers below and the barriers faced:

1. ***Advised customers*** are being serviced by a diminishing number of qualified advisers, many of whom have left the industry. This trend has accelerated over recent years. Advisers are being increasingly selective in the customers they choose to serve (to meet their own profitability hurdles) and advice is fast becoming the domain of the wealthy.

2. ***Self-directed customers*** that undertake their own research regarding insurance and retirement needs do not currently have access to efficient online tools and helpful guides, such as calculators or dynamic scenarios. The industry is reluctant to provide such tools in the fear of straying into personal advice. These tools therefore have remained overly generic and not that useful to individuals seeking more guidance.

3. ***Existing insurance customers*** seeking information or guidance about their level of cover often contact our customer service operators who are unable to provide simple advice or guidance about whether the level of their Zurich cover is still broadly appropriate or whether they should make certain changes to their policy. The current regulatory settings or the interpretation of those settings make it difficult for providers to know how far that guidance can go before being in personal advice territory, resulting in poor consumer outcomes.

4. ***Highly indebted Australians*** are no longer having a conversation about their life insurance needs with their lenders. Lenders (particularly the large banks) are highly risk averse and very concerned about any conversation their bankers might have with a customer that might in any way be interpreted as suggesting a customer should have life insurance in place.

In this submission, we explore some solutions to allow better quality advice to be provided accessibly and affordably. We are a strong supporter of the Life Insurance Framework (**LIF**) and we are concerned that reducing or removing LIF will make advice even less affordable and accessible. Zurich is a supporter of the digital platforms and emerging technology for life insurance advisers and the role it plays in reducing the cost of advice.

We also consider customers that approach Zurich about its own products. We explore the potential benefits of online calculators for super fund members and self-servicing customers actively engaging about their insurance and retirement needs. We are interested in expanding the conversations at our customer service centres, at Zurich Assure and as providers of intra-fund advice to better service customers using less costly limited scope advice. Finally, we reflect on the huge debts taken on by Australians to buy and invest in homes, and the risks they are exposed to as a result.

Zurich supports the Life Insurance Framework which is shown to be effective

Zurich distributes much of our life insurance products through financial advisers and other intermediaries. We support the LIF and the FSC submission in relation to the retention of LIF. Evidence gathered by the FSC has confirmed that LIF has worked as intended to reduce the amount of re-broking and has improved the duration of policies.

Zurich has observed significant degradation in volumes of retail policies in market. We are concerned to ensure that risk advice remains affordable and accessible to customers and would like to see the LIF retained for the benefit of customers. The FSC submission raises worrying potential impacts arising from the removal of the LIF cap. The modelling presented by the FSC indicates "on current projection by 2026, there will be an overall increase of 17% to underinsurance based on current regulatory settings. If commission arrangements on life risk products were removed, the underinsurance gap would subsequently increase by 28% by 2026"[1].

The number of risk advisers continue to trend downward and the emergence of underinsurance among certain cohorts is increasing[2]. The cost of financial advice continues to rise with Adviser Ratings reporting that the average cost of advice rose by a further $270 in 2021 to $3529, pushing the number of advised Australians below 2 million[3]. Professional advice is becoming affordable only to the wealthy. The FSC submission states:

> "This ongoing decline in total number of advisers, combined with the rational adviser shift to focus on fewer, higher value clients and more frequent reviews will reduce coverage to less than 15% of the financially active population within 3 years.
>
> "The focus of risk advisers will then be servicing only a range of 200 – 300 consumers per adviser with a three year or shorter review cycle. This implies a highly productive, sustainable and high quality 'best advice' model, that narrowly supports informed decisions by only the wealthiest and most financially sophisticated 10% - 15% of the population (with a resulting skew to older ages/more complex cases)." (FSC response to Question 50)

While the cause of underinsurance is complex, we consider that the reduction in adviser numbers, systemic complexity and the growing cost of advice are all playing a material role in this. We note the FSC submission also highlighted the trend of a steady drop in the number of advised policies to support this[4]. Zurich is open to an increase of the LIF caps to ensure advisers are appropriately remunerated for the advice they deliver. We do however believe there is significantly more to be gained by providing much needed clarity and simplifying and automating the process of financial advice to significantly reduce the cost to advice businesses of delivering advice. Furthermore, we believe it should be possible to achieve these things without compromising consumer protections and in fact improving financial outcomes for a greater portion of consumers.

Other reasons for retaining LIF include the number of cases where advice is provided, where the customer do not proceed with cover and no commission is received. Not all clients proceed with cover despite receiving advice. Our record shows that approximately 25% of customers do not proceed with cover. Upfront commissions received for customers that do proceed allow advisers to remain in business, and accessible to do the work for all customers considering and seeking advice about cover. Furthermore, LIF supports an ongoing adviser -

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[1] Page 108, FSC submission to the Quality of Advice Review – Issues Paper. Response to Question 53

[2] Page 101-102, FSC submission to the Quality of Advice Review – Issues Paper. Response to Question 50.

[3] Vickovich, Aleks (Apr 18, 2022). "100,000 quit financial advice as fees jump another 8 pc". Australian Financial Review Retrieved May 31, 2022.

[4] Page 100, FSC submission to the Quality of Advice Review – Issues Paper. Refer to chart titled "Number of Advised Life Insurance Policies".

client relationship to provide other ongoing services, including support at claim time and insurance limits as a client progresses through different life stages.

Zurich strongly supports the retention of LIF. We are open to an increase of the LIF caps to ensure advisers are appropriately remunerated for the advice and services they deliver. However, LIF alone is not a guarantee of affordable and accessible advice, other measures need to be undertaken such as support for technology, broad provision and clarity of limited scope advice and intra fund advice, and seamless engagement with self-directed customers through online risk calculators.

Technology needs to be supported to lower the cost of advice and improve process efficiency

Zurich supports the development of digital platforms to assist advisers to deliver quality and affordable advice to consumers. For example, we are working with LifeBid to support them to develop a 100% digital, end-to-end, industry technology solution, to better address the complexities of the advice process, and deliver a cost-effective compliant advice journey that is adviser led, and technology driven. Zurich is encouraged by the level of support to LifeBid by regulators, licensees and insurers.

Digital platforms have the potential to significantly reduce the cost of providing life insurance advice, increasing the capacity of advisers and insurers to assist customers by simplifying renewals, reviews and new advice processes and automating compliance and administrative tasks.

Self-directed customers should be provided with appropriate online tools such as risk calculators to better engage with their insurance needs and feel confident and empowered to make 'no-regret' decisions

Self-directed customers looking for information about insurance and investment products can access Zurich websites or websites of super funds to seek information.

Under the current advice regime, insurers and super funds are hesitant about developing online tools such as risk and retirement calculators to assist consumers to explore their protection and retirement needs. They are concerned these tools can be construed as personal advice. We believe these tools would enhance customer engagement in their protection and retirement income needs and have a place in increasing confidence and engagement. More clarity and better guidance is needed to give providers the confidence to develop such tools.

Current ASIC Class Order exemption for generic calculators have been provided on condition they do not advertise or promote a specific financial product. For insurers, providing indicative cover, quotes for premiums and product solutions would tip the calculator into personal advice and would not meet the condition of the Class Order. These restrictions mean that the user experience is quite disconnected, separating the process of understanding their insurance needs with the ability to apply for products.

Users of online calculators have done so voluntarily. They are free to click out of our website at any time. There is no question of pressure selling, or conflicted remuneration, they may or may not choose to receive a phone call, and moreover, consumers can visit websites of competitors at any time to retrieve other quotes and information for comparison purposes.

We believe there is scope to expand on insurers' and super funds' ability to provide a more seamless self-directed experience to customers and encourage better engagement. We acknowledge the findings of ASIC in its report in 2018 regarding poor sales practices and poor value. These concerns have been largely addressed through reforms such as Product Design and Distribution, and the prohibition of unsolicited outbound calls. Moreover, customers that use these tools, have voluntarily accessed a tool of a branded website. It is not clear an advertising and product promotion prohibition could ever be complied with given many super funds only have a very limited number of products, so there is considerable confusion among providers.

The advice regime impacting risk and other calculators should be reformed to better enable active self-directed customers to engage with their insurance and retirement needs, and receive suggestions (and apply for products), without triggering personal advice and other requirements under the current ASIC Class Order.

We recommend the Generic Calculator Class Order be amended to allow the user to apply for a product via the Calculator where it is clear the product provider is also the provider of the calculator, and the provider is either a trustee subject to Best Financial Interest Duty or an Insurance company subject to the Design and Distribution Obligations.

Limited scope advice and intra-fund advice

Existing customers often contact insurers directly to ask our view on whether they have the right level of cover in place or whether to make certain changes to their policies. They often want guidance or simple advice to help them make their decision. Examples of these requests include:

- Making changes to existing cover due to changing circumstances such as growing children or reducing mortgage balances. Customers may benefit from very simple personal advice to ensure they have the right level of cover in place, and they've thought about the risks and trade-offs.

- Customers might call because they are concerned about their ability to afford premiums. They want to understand the options available to them, such as reducing cover, increasing wait periods, reducing benefit periods, deleting optional extra's etc. All of these options, whilst more affordable for the relevant customer, come with trade-offs. It is difficult to have these conversations without straying into personal advice. Our staff are often forced to refer the customer to an adviser, the customer often does not want to see an adviser and if they do, the adviser may or may not want to deal with that customer because of the work involved in providing the advice.

- Customers might call to cancel their cover. It may be in the customer's best interest, depending on their personal circumstances, to keep some cover in place but in order to ascertain whether that is the case, it requires a conversation to understand the customers broad circumstances and what is driving their decision to cancel their cover. Again, these types of conversations are difficult to have without straying into personal advice.

- A member of a super fund may be interested to know whether they should apply for voluntary cover and may benefit from simple advice on what an appropriate level of cover might be.

Under the current advice regime, the ability of insurers and super funds to adequately service these customers are restricted because onerous obligations may be triggered when asking some simple questions and proposing a simple course of action, especially if the questions tip the advice into personal advice.

In 2021, aiming to improve these conversations, Zurich adopted a general advice model in our customer service team where staff, after recommending customers to engage with their adviser, assist customers with simple requests such as increases, cancellations and other basic cover changes. Although this model improved these interactions, it became evident limitations still apply when trying to assist customers.

Many of these instances of limited scope or intra-fund advice would be expensive to provide under the current personal advice regime. They also fall outside the general advice regime or are interpreted as falling inside the personal advice regime. In many instances, customers are seeking assistance about existing product, and we cannot answer their questions or help them navigate their decisions as we do not provide personal advice in this area.

Also, from time to time, customers approach Zurich and enquire about its products and after a fact-based discussion with Zurich staff, may want to apply for a life insurance policy. In these cases, Zurich would need to suggest to the customer that they either (a) go to its website, determine how much cover they think they need and apply for a direct product, or (b) Zurich would need to suggest that the customer engage the services of a financial adviser.

Where the customer does not wish to engage the services of a financial adviser it is our view that Zurich should be able to provide that customer with simple advice (including a recommendation) that enables the customer to apply for a Zurich policy without the need to do an assessment of competitor products (which adds complexity, time and cost to the advice process which in turn makes life insurance less accessible).

Zurich recommends reforms to the advice regime to take into account the simplicity and limited nature of the advice sought and introduce a limited scope advice regime that reduces the cost of compliance, is scalable and contains measures that is proportionate to the risks.

Life insurance in a highly indebted country

The FSC submission highlighted Australians' exposure to the housing market. The most significant debt most Australians will ever have is the mortgage over their primary residence. Australia has one of the highest levels of household debt in the world, while the average value of new home mortgages has been growing rapidly.

Despite this, the capacity of lenders, such as mortgage brokers and banks, to highlight to customers the risks of debt exposure and insurance solutions to address these risks is prohibitive. In the last five years, customers receiving life insurance information and/or advice whether through general or personal, have significantly contracted. This is in stark contrast with many leading foreign markets such as Japan, Canada, Germany, The Netherlands, UK and Ireland where many have strong placements of life insurance via the lender channel.

In fact, some markets insist that life insurance is offered as part of the lending process because of the risk these consumers carry if they have no life insurance in place[5]. Referrals to a financial adviser have also significantly contracted due to these regulatory settings. In part, this was due to strong regulatory barriers that were enacted following the misconduct revealed via the Financial Services Royal Commission. While Zurich supports strong consumer protections, there is a balance to be struck as cohorts of underinsurance among the most indebted are growing [6].

The boundaries between personal and general advice subsequent to the Westpac case have often been cited as a barrier. So too regulatory barriers from broad reforms relating to deferred sales and anti-hawking, restricting both conversations and process. These barriers have, moreover, been retained despite the overlay of the Product Design and Distribution reforms, a significant consumer protection regime for better targeting of markets with more suitable products.

We believe there is opportunity to streamline the complex interactions between these reforms and liberate the capacity of providers to have meaningful conversations about significant risks borne by consumers, when acquiring significant debt.

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[5] July 2020, NMG Research Report "Australian Life Insurance Market", Figure 10 Government Mechanisms supporting Life Risk Adoption

[6] Page 106, FSC submission to the Quality of Advice Review – Issues Paper. Under the heading "Younger Australians are least able to afford advice most likely underinsured".

Summary and conclusion

There are many pressures adversely impacting the affordability and accessibility of financial advice today. The cost of compliance, concerns about appropriate levels of remuneration, structural barriers to customer engagement and the need for greater investment in innovation have all contributed to these pressures. They are having a tangible impact on the decline in the number of advisers, rising costs and emerging trends of under-insurance and lack of engagement.

To begin addressing these pressures will require a strong commitment from Government and regulators. Zurich is a strong supporter of appropriate levels of remuneration under LIF, of innovation via technology, and a sustainable, affordable and accessible sector. We want to see solutions that encourage customer engagement, and we need to be able to offer better quality, simple advice in our conversations with our existing customers.

We are concerned about the likely adverse impacts to both the accessibility and affordability of advice if LIF were to be removed, and the impact from the likely increase in under-insurance in the Australian community.

We would welcome the opportunity to meet with you to discuss this submission. Please do not hesitate to contact myself or Li Chang at li.chang@zurich.com.au if you require any further assistance.

Yours sincerely

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