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14 November 2022

Secretariat, Quality of Advice Review
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
By email: AdviceReview@treasury.gov.au

Dear Ms Levy

QUALITY OF ADVICE REVIEW – CONFLICTED REMUNERATION

Thank you for the opportunity to consider the proposals related to conflicted remuneration and to provide feedback on these.

We are strong supporters of giving consumers choice about how they pay for advice and welcome the proposal to continue the exemption from conflicted remuneration for life insurance commissions under the Life Insurance Framework (LIF). This ensures that more Australians will be able to access advice and obtain appropriate life insurance protection, reducing the risk of further increasing the already significant underinsurance gap.

Recent research from NMG Consulting[1] noted community attitudes show a high level of endorsement of the community benefit of protecting individuals and families from financial hardship associated with life risk events like death, disease, and disability. They also endorse the role of financial institutions rather than government, families, or individuals, in delivering this protection. There is a high degree of community consensus as to the standard of protection required to mitigate the risk of financial hardship on individuals, families, and communities – that is, enabling reset and future choices, but not extending to providing financial security for life.

Consumers have demonstrated strong preferences for commissions over upfront fees

Recent CoreData research[2] demonstrates that a fee-based model as the only option to remunerate an adviser is not the right approach. The research notes:

- between 60 and 70 per cent of consumers, across a range of scenarios, would prefer to remunerate their adviser via commission rather than pay an upfront fee, and
- of those who had previously paid for their life insurance advice through commissions, more than four in 10 (42 per cent) would have reconsidered their decision to get advice if the only option was to pay an upfront fee.

In the absence of that advice, it’s likely these consumers would not have identified their life insurance needs or taken action to address those needs. Inevitably this would increase underinsurance levels.

The underinsurance gap is increasing

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[1] NMG Consulting – Australia’s Life Underinsurance Gap: Research Report, October 2022

[2] CoreData Research - *Life insurance advice and cost*, November 2022

The Conflicted Remuneration Paper notes that in reviewing the Life Insurance Data Collection (LIDC) *“the overall number of new life insurance policies (including death, total and permanent disability (TPD), trauma and individual disability income insurance (IDII)) issued between 2017 and 2021 declined”.*

NMG’s recent underinsurance report provides insights that support the argument that recent financial advice reforms, including LIF, have impacted underinsurance. The NMG report noted:

- life insurance sales have fallen in recent years (consistent with the LIDC findings)
- underinsurance is predominantly a function of how many policies are currently held by Australians – therefore the relative gap between lapsing policies and new business sales has caused the underinsurance gap to increase
- under current regulatory settings, the total number of in-force advised policies is expected to decline by 17 per cent by 2027, increasing the underinsurance gap
- if life insurance commissions were removed, this would reduce the level of new sales, resulting in the total number of in-force advised policies declining by 32 per cent by 2027.

We have provided responses to consultation questions in the template as requested. Our response notes some suggestions that could be reflected in the final recommendations to Government to capture what we understand to be the intent of the consent and disclosure obligations.

Should you wish to discuss any aspects of our response please do not hesitate to 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

Appendix 1: Consultation template

Name/Organisation: AIA Australia Limited

General Insurance and consumer credit insurance (Proposal 1)
1. Do you support Proposal 1, which requires financial advisers or insurance brokers to obtain informed consent from their clients in order to be able to receive a commission from a product issuer for the sale of a general insurance product or consumer credit insurance? **a) If you do not support this proposal, please state your reasons**
We have elected not to respond to this question.

Life risk insurance product (Proposal 2)
2. Do you support Proposal 2, which requires financial advisers to obtain informed consent from their clients in order to be able to receive a commission from a product issuer for the sale of a life risk insurance product? **a) If you do not support this proposal, please state your reasons**
Yes, we support Proposal 2 which would continue the exemption from conflicted remuneration for life insurance commissions under the Life Insurance Framework. In relation to the consent proposal, we support the intent in principle. Consumers should retain the option of remunerating their financial adviser for life insurance advice through the payment of a commission or through the payment of a fee for service (or a combination of both). Recent Core Data research[3] commissioned by life insurers demonstrates that between 60 and 70% of consumers prefer to remunerate their adviser via commission relative to an upfront fee, across a range of scenarios. Consistent with that choice, obtaining written consent from clients seems reasonable and is aligned with the consent the adviser would obtain if charging a fee. It is also aligned with Standard 7 of the Code of Ethics which states *“The client must give free, prior and informed consent to all benefits you and your principal will*

[3] CoreData Research - *Life insurance advice and cost*, November 2022

receive in connection with acting for the client" and would continue to apply to relevant providers.

However, to ensure that the simplification benefits from earlier proposals to reduce complexity in consent and disclosure also flow through into this proposal, the nature of the consent could be flexible rather than being in a prescribed form or format. For example, many advisers execute an 'authority to proceed' which, in the case of applying for a life insurance policy, gives the adviser the 'OK' to commence the process of placing the life insurance. In other cases, advisers might ask the client to sign a quote produced using the life insurer's quoting software. Insurers could reasonably update their quoting software or policy application to ensure that the consent is captured in the appropriate manner. In future, advisers may record that consent verbally or on video.

Suggested clarity for the final recommendation paper

In recent roundtables between industry and the Review team, there has been clarity provided to questions which arise from the conflicted remuneration paper. For the avoidance of doubt, we have set our understanding of the intent below. We recommend that this clarity is provided in the final recommendation to Government.

- We understand that the current distinction that commissions aren't ongoing fee arrangements would continue. This would mean that consent must be obtained once only (when the advice is given) and would only require new consent if both parties agreed to enter into new arrangements, for example if further advice was given.
- Additionally, we understand the consent obligation to be prospective, relating to new policies or policies for which there is a change and further advice provided. Applying this prospectively avoids significant operational complexity and cost to advisers and life insurers, and avoids undermining arrangements entered into under current LIF rules (and on which advisers have based projected cash flows or business valuations).
- The final recommendations could also provide greater clarity about what is to be disclosed:
    - Proposal 2 notes that the disclosure should include any ongoing service, using an example of the assistance provided if there was a claim. Attachment A then states *"the nature of the ongoing service **(if any)** the adviser will provide to the client"* (emphasis added). Our understanding is that there is no obligation on advisers to provide ongoing service, but if they have committed to this it should be disclosed.
    - Proposal 2 requires the adviser to disclose the commission they will receive for the duration of the policy (both upfront and trail). Given that premiums typically change each year, for a variety of reasons, advisers will not have certainty about the value of the ongoing trailing commission. We would encourage you to make it clear in the final recommendations to Government that where there is certainty about the dollar amount of commission that will be paid, for example the upfront commission, then this could be disclosed in dollar terms. Where there is uncertainty about the dollar amount of commissions, e.g., trailing commissions, any disclosure should indicate how that commission is calculated. This might be disclosed as suggested below.

> The annual premium for the life insurance cover I have recommended is [$3,000]. To cover the cost of providing this advice, I will receive an upfront commission of [$1,800] (representing 60% of the premium) from [ABC Life] when they issue you with a policy. For every year you renew the policy, I will receive a commission of 20% of that year's premium.

Time-sharing schemes (Proposal 3)

3. Do you support Proposal 3, which recommends that the Government conduct a separate holistic review of time-sharing schemes and the way they are promoted?

a) If you do not support this proposal, please state your reasons

We have elected not to respond to this question.

Other Conflicted Remuneration exemptions (Proposals 4-7)

4. Do you support Proposals 4 -7, which remove or modify the existing exemptions to the ban on conflicted remuneration?

a) If you do not support any of these proposals, please state your reasons

b) Do you consider there to be any unintended consequences related to the implementation of Proposals 4 -7?

We have elected not to respond to this question.

General

5. **Do you have any other comments or feedback on the Quality of Advice Review Conflicted Remuneration Consultation Paper?**

We have elected not to respond to this question.

6. Do you have any other comments on the regulation of conflicted remuneration under Chapter 7 of the Corporations Act?

We have elected not to respond to this question.