

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,

Submission to Quality of Advice Review - Conflicted Remuneration Paper

TAL Life Limited (TAL) welcomes the opportunity to provide a submission to the Quality of Advice Review - Conflicted Remuneration Paper.

TAL's focus in this submission is on conflicted remuneration in respect of life insurance and life insurance advice. We welcome and endorse proposal 2 in the Conflicted Remuneration Paper, which will see a continuation of consumer choice as to how life insurance advice is paid for (i.e. either by fees, or commission, or a combination of both, disclosed and agreed between the financial adviser and customer).

It will also preserve the important role commissions play in supporting consumer access to **affordable** financial advice – an issue of vital importance to consumers, the broader Australian community, financial advisers and life insurers. TAL supports advisers obtaining consent from their client to receive a commission, which reflects current adviser practice and existing financial adviser Code of Ethics obligations.

The option of fee-based or commission-based remuneration supports the accessibility and affordability of life insurance advice for consumers. By providing options for advisers and customers to agree a fee or commission, or a combination of both, this provides more flexible and affordable options for customers. Indeed, in many cases, a commission structure reduces the upfront cost of life insurance advice for customers. This not only encourages customers to seek the benefits of advice, but when compared to the alternative scenario where a customer must pay for the advice they obtain through a fee in addition to a first-year product premium, commissions also lower the upfront cost of life insurance itself.

Of particular importance is the potential benefit this reduced upfront advice cost, brings to people on lower income levels. If the option to fund advice costs through commissions were to be reduced or removed, it is very likely that people on higher incomes will continue to obtain advice, however people of lower levels of income will be priced out of financial advice for life insurance. This includes key groups of Australians who stand to benefit from life insurance products, such as first home buyers and

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young families, may be deterred from seeking advice due to the significant upfront cost that an advice fee adds.

The Life Insurance Framework plays an important role in managing conflicts inherent to commissions

While there are benefits of commissions as a means of enhancing the affordability and accessibility of life insurance advice, if not managed they can also give rise to a potential conflict of interest between advisers and their customers. TAL understands this potential risk and accepts that an appropriate mechanism is required to mitigate the risk of any consumer harm.

TAL strongly supports the important controls introduced through LIF. Since its commencement in 2018, LIF has acted to manage the conflicts inherent in commissions by aligning the financial interests of advisers with those of their customer. It does this by capping the maximum commission payable, so creating an industry standard benefit structure governing the placement of new business by advisers. It also introduced standardised clawback arrangements in the event a policy lapses in the first two years of issue.

Obtaining customer consent for their financial adviser to accept a commission further strengthens the risk control regime. TAL supports this measure.

About TAL

TAL is one of Australia's leading life insurers. Together with our partners, we protect 4.9 million Australians against the risks of death, disability, and illness. In 2020-21 we paid more than \$2.7 billion in claims to 39,000 customers and their families. We provide life insurance cover in several different ways – through our partnerships with superannuation funds, via financial advisers, and directly to consumers through digital and other platforms.

TAL is a part of the Japan based Dai-ichi Life Group. Starting with the Dai-ichi Life Insurance Company, which was established in 1902 as Japan's first mutual insurance company, today the Dai-ichi Life Group is one of the world's largest life insurance groups. Dai-ichi Life Group is also one of the world's leading providers of retirement income products.

For further information

Should you have any questions regarding the information in this submission, or about TAL generally, we would be pleased to assist. Please contact in the first instance Mr James Connors, Head of Corporate and Government Affairs, on 0484 083 208, or by email at james.connors@tal.com.au.

Yours sincerely,



Brett Clark

Group CEO and Managing Director

TAL's submission only addresses Proposal 2 from the consultation template.

Life risk insurance product (Proposal 2)

1. 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

TAL supports Proposal 2, which would retain the existing legislative exemption for conflicted remuneration benefits given in relation to life risk insurance products. We also support retaining the exemption as currently expressed in sections 963B and 963BA of the *Corporations Act 2001* and further defined in *ASIC Corporations (Life Insurance Commissions) Instrument 2017/510*. These regulations, known collectively as the Life Insurance (Remuneration) Framework (LIF), are important consumer safeguards which support consumer access to affordable advised life insurance, while also managing the risks associated with a commission-based remuneration model.

TAL also supports the Quality of Advice Review's proposal for financial advisers who provide personal advice to retail clients in relation to life risk insurance products to obtain their client's informed consent, in writing, to receive a commission in connection with the issue of a life risk insurance product. TAL supports customers having a choice of fee or commission as the means of funding life insurance advice, and proposal 2 will help ensure this choice is informed and clear. Furthermore, disclosing commission funding to clients is already an obligation under Standard 7 of the *Financial Planners and Advisers Code of Ethics 2019*.

Our support for client consent notwithstanding, TAL observes there are opportunities to further clarify and strengthen the consent proposal in the Review's final recommendation. We suggest:

- Consent should be obtained at the time the advice is provided and endure for the life of the policy - i.e. there is no need for further re-consent annually or at any other point, which would be administratively burdensome for both customers and advisers, and add little further value. This approach would also be consistent with the approach suggested for general insurance commission consents, as set out in Proposal 1 in the Conflicted Remuneration Paper.
- Disclosure of commission at the time of consent should be limited to the first-year benefit, expressed in percentage and/or dollar terms. Ongoing benefits should only need to be disclosed in percentage terms of the year's premium, with no reference to the dollar amounts that may be payable, which may not be known when the advice is provided. Further, future policy pricing is subject to change, meaning expressing benefits in dollar terms has the potential to be misleading.

- The consent requirement should be clearly expressed in law with a clear date from which the requirement commences. It should also be a prospective requirement, applying only to new policies first issued from or after the date the consent requirement becomes effective. Requiring retrospective consent would be administratively and logistically very challenging.

TAL also notes that Proposal 2 proposes advisers describe the nature of any ongoing service that the adviser will provide to the client. Ongoing services ought to be a matter between the adviser and their client, and should not be prescribed in legislation or regulation.

Consent exemption for distributors

TAL notes Proposal 1 in the Conflicted Remuneration Paper proposes the consent requirement applying to commissions or other benefits paid in connection with the issue of the general insurance product or consumer credit insurance to retail clients, should not apply to distributors that distribute these products on behalf of the issuing insurer, such as white label providers or retailers.

Life insurance product issuers utilise distribution arrangements with other service providers such as but not limited to, banks, general insurers, and health insurers, and these often include white labelling arrangements. When a customer purchases a product, these arrangements may trigger a financial payment to the distributor. TAL considers the same consent exemption as is proposed to apply to general insurance distributed via these types of arrangements ought to also apply to life insurance. Without an exemption, it is less likely life insurance product issuers will be able to secure third party distribution partners (such as the consumer's bank when they take out a mortgage), diminishing consumers choice in how they access life insurance.

Commissions are preferred by consumers

New research commissioned by the life insurance industry and produced by CoreData Research demonstrates consumers prefer commissions to fees. The research finds that approximately two thirds of consumers prefer funding advice via commission over upfront fees, a relationship that holds at all cover levels tested (low cover to high levels of cover). Furthermore, almost half (42%) of consumers who did not pay a fee for advice say they would reconsider their decision to obtain life insurance if only option was to pay an upfront fee for the advice.