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4 January 2016

Manager
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Dear Manager

Life Insurance Reform Legislation

National Seniors believes the provisions contained in the Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2015 need to be strengthened in order to prevent the switching of life insurance policies where there is no consumer benefit.

Currently, the high up-front commissions (as high as 130 per cent of the first year product value) incentivises advisers to switch consumers into new, less suitable life insurance products. ASIC's own investigation found high insurance lapse rates and unacceptable levels of poor quality advice, with 45 per cent of advice failing to comply with the law when an adviser was paid under an up-front commission model.[1]

National Seniors is seeking much stronger reform provisions in the Bill, including:

- an explicit provision that ASIC may, by legislative instrument, determine a level commission and determine that zero commission or benefit is payable;
- a three year retention period, with clawback provisions that require repayment of 100 per cent of the commission on the first year's premium, 80 per cent on the second year's premium and 60 per cent on the third year's premium; and
- an obligation for industry to report on premium data to enable ASIC to monitor the impact of the reforms on the cost of premiums to consumers.

National Seniors supports the intent of the Bill, which is to ban commissions and volume based payments in relation to life insurance products. However, the Bill provides ASIC with powers to develop an instrument that will prescribe when life insurance products will be exempt from this ban on conflicted remuneration. In doing so, the Bill allows for up-front commissions to continue.

[1] ASIC (2014), REP 412 *Review of retail life insurance advice*, http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-413-review-of-retail-life-insurance-advice/

While National Seniors recognises this is a compromise solution reached with the life insurance industry, we remain strongly of the view that all commissions should be banned to safeguard consumers from poor quality advice. To this end, we believe that in giving ASIC the power to create an instrument specifying the percentages of acceptable commissions, the Bill should also allow ASIC to set level commissions and zero commissions. This would signal to industry that up-front commissions are transitory and encourage the adoption of level commission and fee for service remuneration arrangements.

The clawback provisions under the Bill must also be strengthened. The Bill proposes that advisers return a proportion of the commission if a consumer is moved out of the life insurance product within the first two years of commencement. Given up-front commissions will continue, National Seniors believes there should be a minimum three-year retention period, with the obligation to repay a percentage of commission received in each year clearly set out in the legislation.

The Bill will introduce an ongoing obligation for industry to provide product replacement data to ASIC. We support this provision and suggest the information requirements also extend to premium data, with a new requirement for ASIC to monitor premiums following the legislation taking effect to determine if the cost reduction achieved from reduced adviser remuneration is passed on to consumers.

National Seniors will be responding separately to the consultation process on the ASIC instrument for setting caps on commissions and determining acceptable payment under clawback arrangements.

Should you require further information about this feedback, please contact Ms Suzanne Lawless, Policy Manager, on 07 3233 9108 or policy@nationalseniors.com.au

Yours faithfully

Sarah Saunders
Deputy Chief Executive