

**Answer to question in writing:**

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

**REVIEW OF THE ASIC ANNUAL REPORT (SECOND REPORT) 2019**

**QoN - ASIC17QW**

ASIC Report 413 *Review of retail life insurance advice* found that 37 per cent of consumers received advice that failed to meet the relevant legal standard that applied when the advice was given. It also found that the way an advisor was paid had a statistically significant bearing on the likelihood of their client receiving advice that did not comply with the law (pp. 6-7).

(a) Was the decision to implement the life insurance advice reforms based solely on the findings of this report?

(b) Report 413 found that upfront commission models represent an incentive for advisers to give product replacement advice to clients with existing arrangements, often referred to as 'churn'. How does 'churn' impact consumers?

(c) Has ASIC conducted research into the impact of different remuneration structures on clients receiving compliant advice following the introduction of the life insurance financial advice reforms? If so, please provide a copy of the research.

(d) Did this research find life insurance 'churn' to be a major issue in Australia? If not, do you believe that this is due to the new regulatory framework?

**Answer:**

**(a) Was the decision to implement the life insurance advice reforms based solely on the findings of this report?**

The Explanatory Memorandum for the *Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016* states that the Government's decision to implement the life insurance advice reforms was informed by the findings of three independent reviews of the life insurance remuneration arrangements and targeted consultations with stakeholders<sup>1</sup>. The three independent reviews were:

- Australian Securities and Investments Commission Report 413: *Review of retail life insurance advice*, October 2014;
- John Trowbridge, *Review of Retail Life Insurance Advice Final Report*, 26 March 2015; and

---

<sup>1</sup> [The Corporations Amendment \(Life Insurance Remuneration Arrangements\) Bill 2016 Explanatory Memorandum](#), paragraphs 2.1 and 2.2.

- *Financial System Inquiry Final Report*, November 2014.

**(b) Report 413 found that upfront commission models represent an incentive for advisers to give product replacement advice to clients with existing arrangements, often referred to as ‘churn’. How does ‘churn’ impact consumers?**

Product replacement advice can be beneficial or detrimental to consumers depending on its quality. ‘Churn’ is often used to describe poor-quality product replacement advice.

Report 413 found unacceptable levels of poor-quality advice, and a strong correlation between high upfront commissions and poor consumer outcomes.

Poor-quality product replacement advice will impact consumers in different ways depending on the consumer’s relevant circumstances. Direct effects can include:

- consumers paying for life insurance that is too expensive (which, in turn, can lead to loss of cover);
- inappropriate depletion of superannuation balances by high premiums;
- new exposure to the risk of non-disclosure on product replacement; and
- loss of cover.

Indirect effects include:

- higher overall premiums due to costs associated with greater lapse rates arising from high upfront commissions; and
- creating distrust of advisers and a barrier to seeking financial advice, which may lead to consumers buying inappropriate products directly from the life insurer without advice about what is most appropriate for their circumstances.

**(c) Has ASIC conducted research into the impact of different remuneration structures on clients receiving compliant advice following the introduction of the life insurance financial advice reforms? If so, please provide a copy of the research.**

ASIC is currently undertaking this research.

On 16 December 2015, the then Minister, the Hon. Kelly O’Dwyer, wrote to ASIC’s then chair, Mr Greg Medcraft, about remuneration arrangements in the life insurance sector. The letter asked ASIC to conduct a post implementation review of the LIF reforms to determine whether the reforms better align the interests of financial advisers and consumers.

ASIC’s Life Insurance Framework review (LIF review) consists of two streams, which are at various stages of completion:

- a review of personal life insurance advice files; and
- a life insurance industry data review.

ASIC will review two randomly selected samples of personal life insurance advice files, one sample of files from 2017 before the LIF reforms were introduced and one sample of files from 2021 after the LIF reforms are fully phased in. The advice files will be assessed for compliance with the 'best interest duty and related obligations'<sup>2</sup>. The results will show whether the quality of life insurance advice has improved since the LIF reforms were introduced.

ASIC is also collecting aggregate level data from life insurers every six months, covering the period from 2017 to 2021. ASIC will use this data to assess compliance with the law (i.e. compliance with commission caps and clawbacks) and to observe industry-level trends since the introduction of the LIF reforms.

ASIC will publicly release the findings of the LIF review in late 2022 and will provide Government a copy of the report prior to its release.

**(d) Did this research find life insurance 'churn' to be a major issue in Australia? If not, do you believe that this is due to the new regulatory framework?**

The findings of the LIF review will not be available until late 2022.

---

<sup>2</sup> s961B (provider must act in the best interest of the client), s961G (resulting advice must be appropriate to the client), s961J (provider must prioritise the interests of the client over their own).