



INSURANCE AND SUPERANNUATION COMMISSION

212 Northbourne Avenue Braddon ACT 2612 GPO Box 9836 Canberra ACT 2601
Telephone (06) 247 2299 Facsimile (06) 257 1639 DX 5766 Canberra

LETTER TO ALL CEOS OF REGISTERED LIFE COMPANIES AND LIFE BROKERS

**copies to: Chairs of Compliance Committees
All Senior Compliance Officers**

LIFE CODE OF PRACTICE - RESULTS OF 1996 ANNUAL REPORT

This report is a comprehensive analysis of the first annual statistical return that the Life Code requires life companies and life brokers to submit. This statistical collection has facilitated :

- a measure of the impact of the Code of Practice on the conduct of the life industry - of use to report to Government and to aid in the review of the Code;
- the identification of trends in the industry composition and conduct - to use for our own monitoring purposes and also to report back to industry;
- the comparison of experiences of individual brokers and life companies against their own past experience and against industry trends; and
- the identification of areas where the ISC needs to investigate further and, in some instances, focus its regulatory attention.

It is important to note that the results are indicative rather than definitive as we have only been collecting statistics for the past two years. However, over time we hope that this type of information will be useful to industry and the ISC in identifying industry trends and individual aberrations from those trends.

The report at Attachment 1 shows summary figures and trends for the industry in the following areas


1. our best estimates of the **numbers of life insurance advisers** by type (tied, multi, salaried) for 1996 is 14,289 (page 3);
2. the **volume of business sold by distribution method** (tied, multi, salary, direct & brokers) (page 3) and class of business (page 5);
3. the proportion of **brokers** (71%) **and agents** (18%) that are either licensed security dealers or proper authority holders **under the ASC regime** (page 4);
4. **internal complaints statistics** (total 21,647) by type of business and basis of complaint, time frames for the resolution of complaints (93% within the 45 day limit set by the Code), proportion of internal decisions overturned (12%) by external complaints schemes (pages 4 and 5);

5. **business terminated within cooling off period** by class of business (page 5) and distribution channel (page 6);
6. **discontinuances** within 1 year by class of business and distribution channel (page 6)

The ISC will follow-up individual companies with performance that, on the basis of the statistical returns, appears to be sub standard (for example, a turn around on complaints or the over turning of internal complaint decisions). High termination rates will also attract attention and will be raised with companies if appropriate. The ISC expects that individual companies, being cognisant of their own position relative to the attached market figures, will be pro-active in remedying areas where experience is below the industry average.

Summary of Key Statistics

- internal complaint handling mechanisms dealt with thirty percent more complaints than for the corresponding period last year - this does not necessarily indicate increased customer dissatisfaction as, since the introduction of the Code, there has been an increase in customer awareness of complaint mechanisms and the development and centralisation of complaint handling mechanisms have been effective in capturing more complete information;
- 93% of these complaints were resolved within 45 days of receipt by the life company - this is about the same as last year;
- 5.3% of complaints initially handled by the internal mechanism were subsequently handled by the external complaint handling arrangement- again about the same as last year;
- the resolutions provided by the internal mechanism were generally fair and impartial - as indicated by there only being 12% of cases with overturned resolutions - this represents an improvement from 32% last year;
- ordinary and super savings products had the highest level of complaints, with company service being the largest basis;
- direct response (no adviser involved) had the highest termination levels in the cooling off period;
- whole of life and savings plans were the types of business with the highest terminations in the cooling off period;
- the *top ten* companies account for at least 85% of new policies sold in most major product groups; and
- life brokers handle very few complaints as compared to their life company counterparts

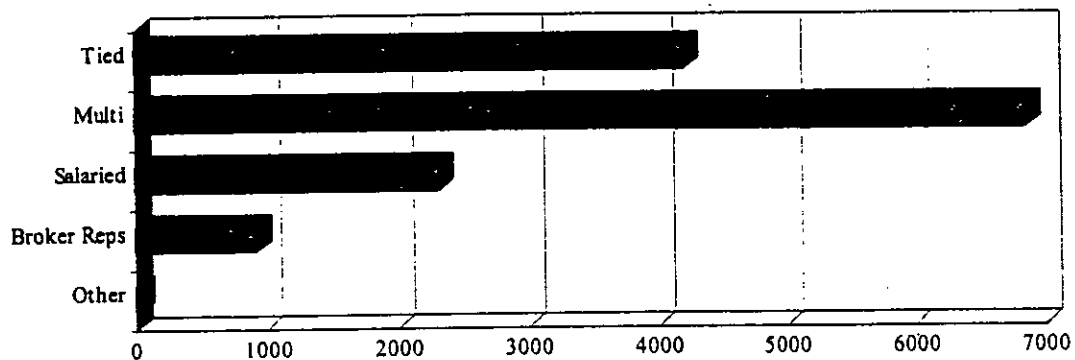

R G Glading
Deputy Commissioner
Life Insurance
20 March 1997

**ATTACHMENT I :
LIFE INSURANCE CODE OF PRACTICE - 1996 ANNUAL REPORT**

Life Insurance Advisers

Our best estimate of the number of life insurance advisers¹ is 14,289. THP Services', a multi-agent auditing company, most recent estimation at 5 March 1997 is that there are 15,500 life insurance advisers. The number of multi-agent agreements issued by life companies is known (34,271 this year and 35,163 last year) but the number of individual multi-agents to which this translates is unclear. Consequently the following graph should be seen as our best estimates for 1996. According to recent advice from THP, multi-agents, on average, currently hold 5 agency agreements.

Number of Life Insurance Advisers at 30/6/96



It is important to note that the categorisation of tied agents is almost entirely comprised of "first-option agents"², that is, in the adviser market it is rare to find a true tied agent. Part salary advisers also receive a commission income in addition to drawing a salary. "Other" advisers include consulting actuarial firms and fund trustees. The figures for 1995, the inaugural code statistical return, have since proved to be questionable but comparisons indicate increases in the number of brokers representatives and salaried advisers with a small decrease in the number of tied agents

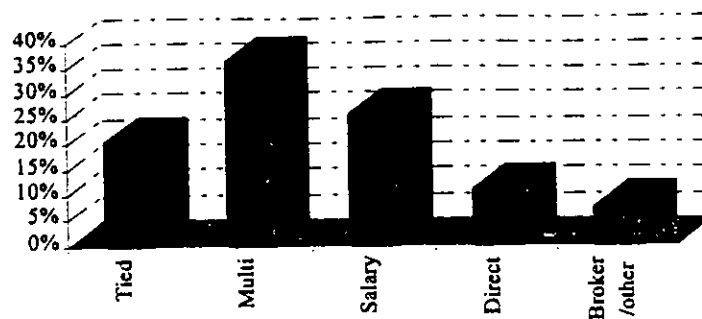
Volume of Business Sold by Type of Distribution

From the table below it is clear that the majority of new policy sales, just over one million in 1996, come via the multi-agent distribution channels, followed by salaried advisers and tied agents. Direct response business accounts for approximately 11% of all new policies.

¹ Life insurance advisers are defined as natural persons who, for reward, provide advice in respect of, or arranges life policies. Such people include tied/multi agents, salaried staff and broker's representatives. The number of advisers shown consequently only includes those actively providing advice and does not include persons that have been trained and authorised but who are not advising.

² First option agents have contractual obligations to place a certain proportion, often 85%, of their policy sales with one insurer.

Number of New Policies sold - Type of Distribution



Licensed Securities Dealers(LSD) / Proper Authority Holders(PAH)

Licensed Securities Dealers are recognised under the Code as being responsible entities that, pursuant to an agreement with life companies, are able to retain the Customer Advice Record. The proportion of Life Company advisers that are also LSDs or PAHs is 18%. The proportion of Life Broker advisers that are also LSDs or PAHs is 71%.

Internal Complaints Handling Mechanisms

In the twelve months to 30 June 1996, 21,647 complaints were handled by the internal complaints handling mechanisms of all life companies and life brokers. This represents a 29% increase over the corresponding figure for the previous 12 months. One hypothesis for this is that the obligation for companies to centralise and record internal complaint handling mechanism statistics stems from the Code and consequently companies are now better able to capture information. Additionally there is now much wider consumer awareness of complaint mechanisms due in part to the Code and to the guidelines for promotional material. The incidence of these complaints, by product group, is shown below in descending order. Full details are contained in Appendix I.

Savings (Ordinary and Super)	12,692
Traditional	6,686
Annuity	1,105
Risk	922
Other	242

The complaints by nature and product type are comparable to last year.

As can be seen from the graph below, resolution was generally within the 45 day limit required by the Code (92% of complaints in the 1995 report were resolved in the 1-45 day period). There was no significant variance in resolution times amongst the different types of products.

Internal Mechanism	
Timeframe	Proportion Resolved
1 - 45 days	93 %
45+ days	7 %

Life companies have informed us that 1147 complaints (5.3%), originally handled by the internal mechanism, were subsequently referred to the external complaints handling mechanism (5.6% in 1995). The internal complaint mechanism resolutions of 12% of

these complaints (141 cases), were overturned following consideration by the external complaints handling mechanism³ (the benchmark figure last year was 32%).

Resolution of External Complaints Mechanism Compared To Resolution of Internal Mechanism

Internal Decision	
Upheld	88 %
Overtured	12 %

Nature of Complaints Considered By The Internal Complaints Mechanism

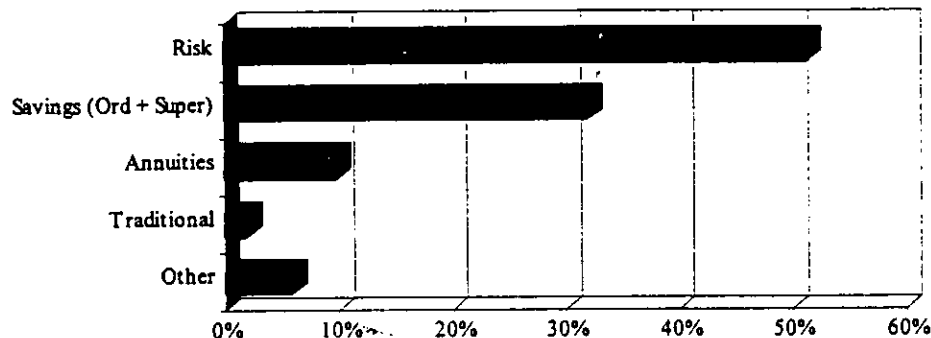
The table below shows that complaints regarding the standard of company service, policy values and charges and alleged adviser misrepresentation comprise the bulk of all complaints received by the companies' internal mechanisms.. In total 21,647 complaints were received representing approximately 0.2% of the number of policies in-force. Full details are contained in Appendix II.⁴

Standard of Company Service	10324	48%
Adviser Misrepresentation	4371	20%
Policy Values or Charges	2883	13%
Other	4069	19%

Number of Policies Written in 1996

During the twelve months ending 30 June 1996, approximately 1.1 million new life insurance policies were written. The graph below shows the volume and type of products that were written. Full details are contained in Appendix III.

Policies written in year to 30 June 1996



Terminations in the Cooling-off Period

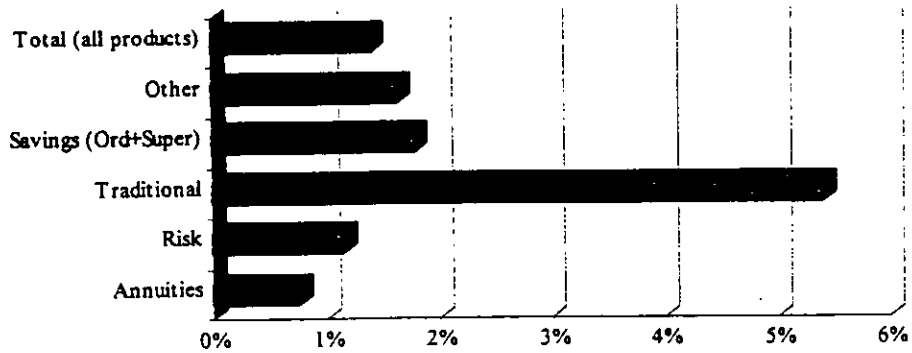
The incidence of terminations in the cooling-off period is an indicator of the appropriateness of the original sale - a high number of early terminations indicating that

³ The Life Insurance Complaints Service's Annual Report for 1995 (1996 not yet available) states that 54% of complaints were finalised and found to be in favour of the complainant. However the LICS Report does not indicate whether the initial internal mechanisms decision was in favour of the complainant but unacceptable to them and consequently it cannot be assessed whether the external mechanisms resolution overturned the internal mechanisms resolution.

⁴ The Life Insurance Complaints Service's Annual Report (1995) states that Misrepresentation (at 46%) was the major cause of complaint lodged with the external mechanism followed by Standard of Company Service (at 27%).

the customer reconsidered the policy purchase after the sale. Traditional life insurance products, namely Whole of Life and Endowment, which are high commission products, had a significant representation in early terminations. Full details are contained in Appendix IV.

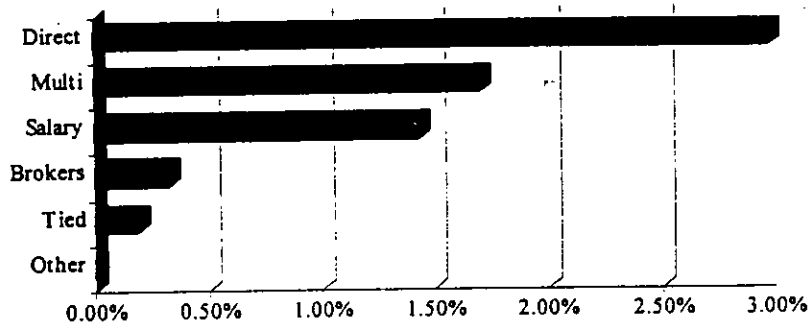
Terminations in Cooling-off Period by Product Group



Terminations in the Cooling-off Period by Distribution Channel

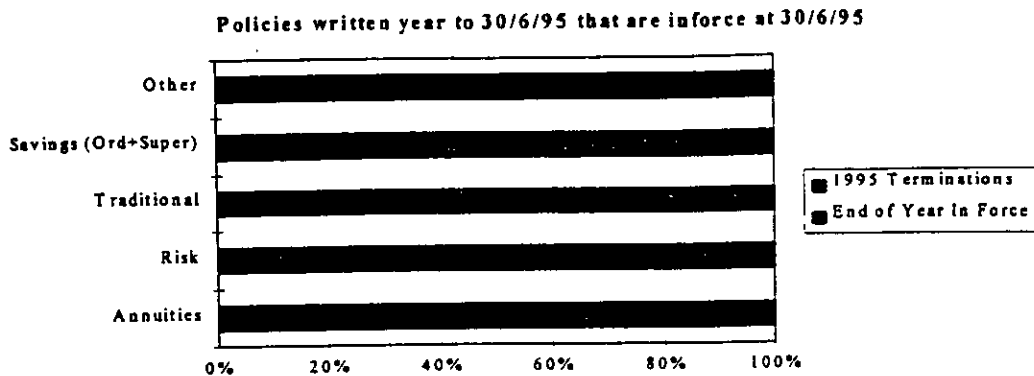
During the period there were 11,165 terminations in the cooling-off period. Approximately 3% of all policies sold by direct marketing were terminated in the cooling-off period. Typically, direct response products are simple, low premium risk only policies. There was a small variation amongst the distribution channels, however by number, policies originally sold by multi-agents accounted for over half of all terminations in the cooling-off period.

Terminations in Cooling-off period by method of distribution



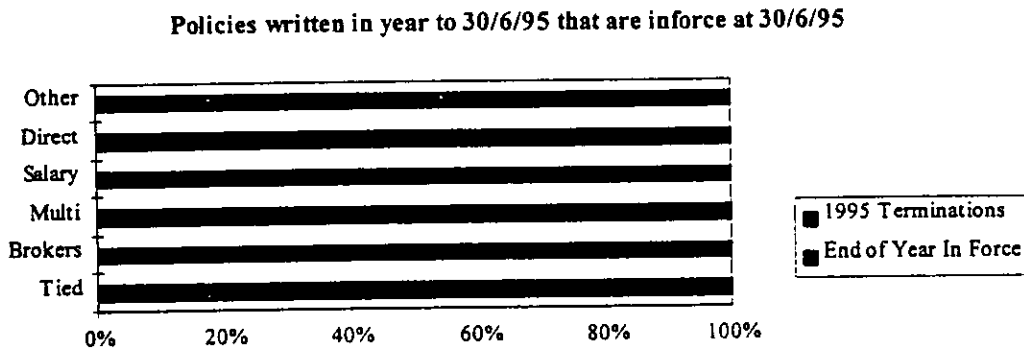
Discontinuances by Duration : One Year (Type of Product)

The graph below shows small variations in first year policy discontinuances amongst the various product groups. Full details are in Appendix V.



Discontinuances by Duration : One Year (Method of Distribution)

The following graph shows the variation in first year policy discontinuances amongst the various distribution channels.



APPENDIX I

Complaints received by internal complaint handling mechanisms - by type of product.

Savings Plan	6543
Personal Super	4396
Whole of Life	4349
Endowment	2337
Group Super	993
Insurance Bond	760
Disability	741
Deferred Annuity	697
Immediate Annuity	408
Other	242
Trauma	135
Group Life	26
Term	20

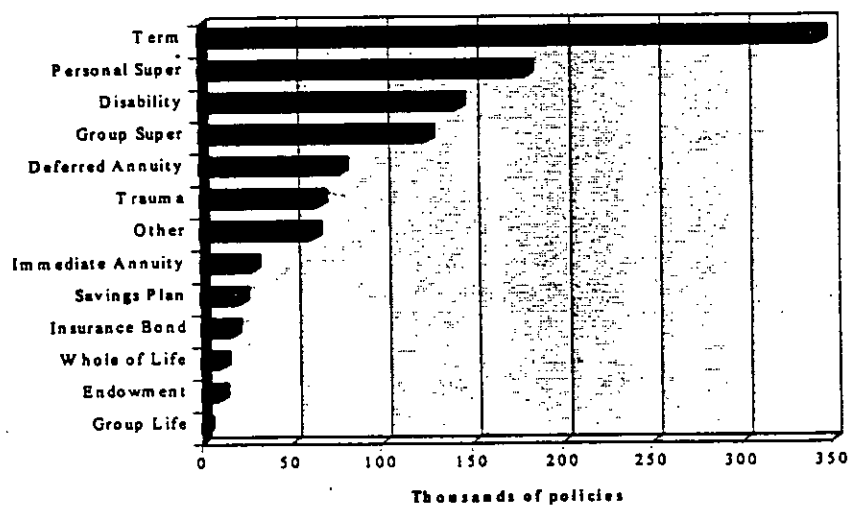
APPENDIX II

Nature of complaints considered by the internal complaints handling mechanisms.

Standard of Company Service	10324	48%
Adviser Misrepresentation	4371	20%
Policy Values or Charges	2883	13%
Other	2144	10%
Policy Term of Conditions	1433	7%
Claim Denial - Medical	316	1%
Claim Denial - Other	102	0%
Document Misrepresentation	73	0%

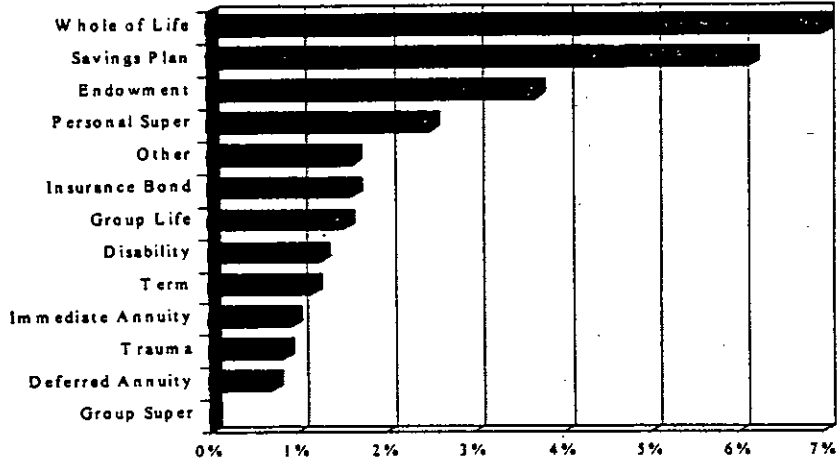
APPENDIX III

Number of policies written in 1996



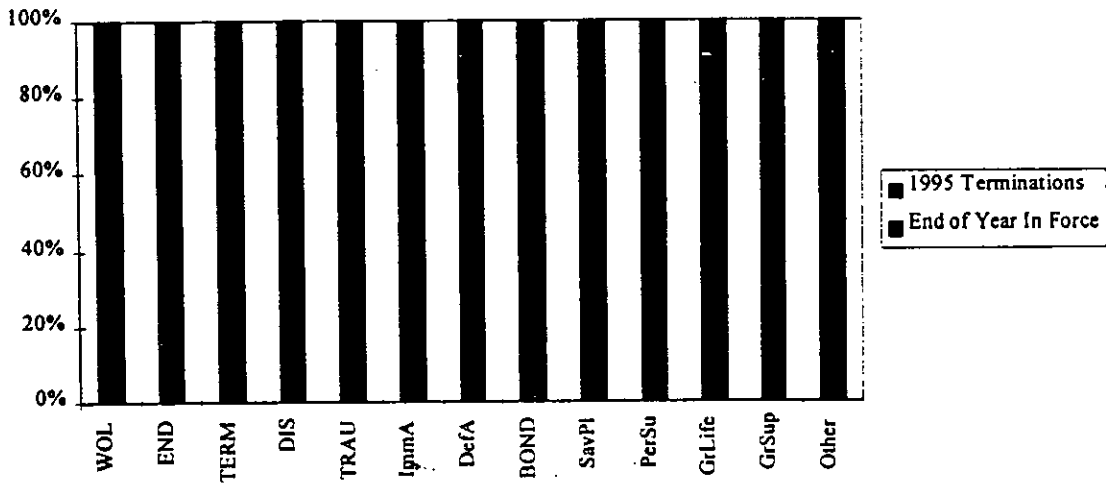
APPENDIX IV

Terminations in Cooling-off Period
by type of product



APPENDIX V

Policies written in year to 30/6/95 that are in force at 30/6/95



**ATTACHMENT II :
LIFE INSURANCE CODE OF PRACTICE - 1996 ANNUAL REPORT**

This attachment contains a number of tables in which life companies, that have experience that is worse than the industry average, have been ranked in descending order from the worst. *Note : An appendix of life company names and corresponding abbreviations follows at pages 6 and 7.*

Table 1 : Incidence of complaints handled by the internal complaints handling mechanism to the total number of policies on issue.

Industry average of complaints to total policies = 0.46%

MLL	10.26%
CFML	2.49%
RACV	1.51%
NMLA	0.75%
CORP	0.71%
AMP	0.42%

Table 2 : Proportion of complaints handled by the internal complaints mechanism that were resolved within 45 days of lodgement.

On average 90% of all complaints were resolved in 1 - 45 days

LICA	50.00%	of	2
TOW	58.19%	of	177
APAC	68.33%	of	341
FAI	69.89%	of	93
OLL	73.13%	of	67
MLC	73.75%	of	1,482
AEL	78.86%	of	421
ZURI	79.47%	of	526
L&G	79.61%	of	358

Table 3: Proportion of complaints initially handled by the internal complaint handling mechanism that were referred to the external mechanism.

Av. incidence of referrals to ext. mechanism = 11%

COMB	100.00%	of	2
LRE	50.00%	of	2
AJL	30.00%	of	10
PCAL	28.12%	of	313
TOW	25.99%	of	177
AIAA	18.18%	of	33
BTLL	14.29%	of	7
AC&L	14.02%	of	107
FAI	11.83%	of	93

Table 4 : Proportion of resolutions by the internal complaints handling mechanism that were different (over-ruled) by the external mechanism.

Av. ratio of different resolutions = 12.61%

AMP	53.45%
MML	50.00%
ANZ	41.67%
SUN	33.33%
TLI	33.33%
AEL	29.63%
NMLA	26.00%
MLC	23.57%
PCAL	21.59%

Table 5: Proportion of policies voluntarily terminated within the first year.

Industry average termination rate after One Year = 8.14%

MML	18.69%
HALL	14.47%
TOW	12.45%
NAFM	12.35%
NMLA	11.69%
HCF	11.43%
CUNA	11.24%
PCAL	9.95%
AIAA	8.82%

Table 6 : Proportion of policies voluntarily terminated within the first two years.

Industry average termination rate after Two Years = 19.65%

HCF	37.43%
HALL	30.50%
MML	27.72%
PCAL	27.39%
NMLA	27.17%
TOW	25.38%
CFML	24.32%
CML	24.32%
NAFM	22.95%

Table 7 : Proportion of policies voluntarily terminated within the cooling-off period.

Industry average termination rate in cooling-off period = 1.42%

HALL	8.77%
AEL	7.07%
MML	3.13%
FAI	3.07%
AMP	2.99%
GSA	2.37%
AC&L	2.37%
APAC	2.27%
SUN	2.25%
AIAA	2.04%

The following tables are league tables showing productivity proxies for the various methods of distribution. Life insurance companies have been ranked against the entire industry and also grouped with its closest peers.

Table 8 : Productivity proxy (policies sold per adviser) - Salaried Advisers

Peer Group = Salaried Advisers

	<i>Pol/Adv</i>	<i>Advisers%</i>	<i>New.Pol%</i>	<i>Rank</i>
GIO	277.54	1.46%	4.76%	1
CLL	277.03	2.17%	7.05%	2
NAFM	161.98	5.11%	9.71%	3
RACV	122.79	0.15%	0.22%	4
APAC	122.78	2.59%	3.73%	5
GSA	115.13	0.54%	0.73%	6
ANZ	56.09	4.47%	2.94%	7
HALL	19.19	4.65%	1.05%	18
FORT		0.00%	0.00%	42

Table 9 : Productivity proxy (policies sold per adviser) - Tied Advisers

Peer Group = Tied Advisers

	<i>Pol/Adv</i>	<i>Advisers%</i>	<i>New.Pol%</i>	<i>Rank</i>
GQLD	50.86	1.98%	1.18%	9
NMLA	33.39	39.20%	15.36%	11
AMP	33.10	14.25%	5.53%	12
MLC	24.61	14.67%	4.24%	15
AIAA	5.20	3.56%	0.22%	31

Table 10 : Productivity proxy (policies sold per adviser) - Multi Advisers

Peer Group = Multi Advisers				
	<i>Pol/Adv</i>	<i>Advisers%</i>	<i>New.Pol%</i>	<i>Rank</i>
ADVA	51.41	1.29%	0.78%	8
MML	42.70	18.42%	9.23%	10
PCAL	31.05	9.52%	3.47%	13
ZURI	25.48	3.16%	0.94%	14
CUNA	21.13	0.06%	0.02%	16
LLL	21.00	2.60%	0.64%	17
SUN	14.79	22.07%	3.83%	19
BTLL	14.63	4.45%	0.76%	20
FAI	14.45	9.42%	1.60%	21
CFML	13.85	16.17%	2.63%	22
CML	13.85	16.17%	2.63%	23
NULA	13.41	16.32%	2.57%	24
AC&L	12.87	23.31%	3.52%	25
L&G	12.38	23.25%	3.38%	26
TOW	10.95	12.99%	1.67%	27
TLI	10.20	5.76%	0.69%	28
OLL	9.27	15.23%	1.66%	29
AJL	9.16	3.16%	0.34%	30
AEL	4.52	13.28%	0.70%	32
LRA	1.65	0.41%	0.01%	33
LICA	1.42	1.56%	0.03%	34
MLL	no	data	available	35
ELL	no	data	available	38
CORP	no	data	available	39

Table 11 : Productivity proxy (policies sold per adviser) - Direct Marketers
Advisers

Peer Group = Direct Marketers				
	<i>Pol/Adv</i>	<i>Advisers%</i>	<i>New.Pol%</i>	<i>Rank</i>
HCF		0.00%	1.70%	36
NRMA		0.00%	0.36%	37

Table 12 : League table of market leaders (number of policies sold basis) by type of business.

League Table by Business Line

<i>SAVINGS</i>		<i>TRADITIONAL</i>		<i>ANNUITY</i>		<i>RISK</i>		<i>OTHER</i>	
MML	24.33%	AMP	33.23%	CLL	19.00%	NAFM	15.53%	AMP	23.83%
GIO	19.29%	NAFM	23.77%	NAFM	11.81%	CLL	7.83%	CLL	19.54%
L&G	8.51%	AIAA	9.01%	MLC	9.81%	SUN	6.98%	MML	15.25%
PCAL	7.69%	PCAL	8.73%	NMLA	9.46%	AC&L	6.92%	OLL	9.47%
APAC	6.49%	NMLA	8.03%	ANZ	9.37%	NMLA	6.10%	ADVA	6.17%
NMLA	6.25%	OLL	5.80%	AMP	7.11%	AMP	5.12%	NULA	6.14%
MLC	4.22%	GSA	5.52%	MML	5.98%	MML	5.02%	GSA	5.84%
FAI	3.99%	MLC	2.65%	NULA	4.96%	MLC	4.61%	PCAL	4.35%
ZURI	2.39%	GQLD	2.57%	PCAL	3.80%	CFML	4.22%	ANZ	2.75%
NULA	2.37%	TOW	0.23%	L&G	2.92%	CML	4.22%	APAC	1.80%
TOTAL	233481	TOTAL	19705	TOTAL	104048	TOTAL	550120	TOTAL	616240
Mkt share	85.54%	Mkt share	99.53%	Mkt share	84.21%	Mktshre	66.55%	Mktshre	95.15%

Appendix : List Of Companies

<i>Full Name</i>	<i>Abbreviated Name</i>
Australian Casualty & Life Limited	AC&L
Advance Life Insurance Limited	ADVA
Australian Eagle Life Limited	AEL
American International Assurance Company (Australia) Limited	AIAA
Armstrong Jones Life Assurance Limited	AJL
AM Life Limited	AML
Australian Mutual Provident Society	AMP
ANZ Life Assurance Company Limited	ANZ
AMPAC Life Limited	APAC
Bankers Trust Life Limited	BTLL
Colonial Financial Management Limited	CFML
Commonwealth Life Limited	CLL
Cologne Life Reinsurance Company of Australia Limited	CLRE
The Colonial Mutual Life Assurance Society Limited	CML
Combined Life Insurance Company of Australia Limited	COMB
Citicorp Life Insurance Limited	CORP
Cuna Mutual Insurance Society	CUNA
Equity Life Limited	ELL
FAI Life Insurance Society Limited	FAI
Fortis Life Assurance Company Limited	FORT
Gerling Global Life Reinsurance Company of Australia Pty Limited	GERL
GIO Personal Investment Services Limited	GIO
Suncorp Insurance and Finance	GQLD
SGIC Life Limited	GSA
Hallmark Life Insurance Company Limited	HALL
HCF Life Insurance Company Pty Limited	HCFL
Heritage Life Insurance Limited	HERI
Legal and General Life of Australia Limited	L&G
Le Fort Life Limited	LEFL
The Life Insurance Company of Australia Limited	LICA
Lumley Life Limited	LLL
Life Reinsurance of Australasia Limited	LRA
The Mercantile and General Life Reassurance Company of Australia Limited	M&G
MLC Limited	MLC
Macquarie Life Limited	MLL
Mercantile Mutual Life Insurance Company Limited	MML
Munich Reinsurance Company of Australia Limited	MNRE

Full Name

*Abbreviated
Name*

National Australia Financial Management Limited	NAFM
The National Mutual Life Association of Australasia Limited	NMLA
NRMA Life Limited	NRMA
Norwich Union Life Australia Limited	NULA
Oceanic Life Limited	OLL
Prudential Corporation Australia Limited	PCAL
RACV Financial Services Limited	RACV
RGA Reinsurance Company of Australia Limited	RGA
Swiss Re Australia Limited	SRAL
Sun Alliance Life Assurance Limited	SUN
Swiss Reinsurance Company	SWRE
Tyndall Life Insurance Company Limited	TLI
Tower Life Australia Limited	TOW
Zurich Australian Life Insurance Limited	ZURI

Total 51 insurers
