



Investment & Financial Services Association Ltd  
ACN 080 744 163

30 July 2007

Mr Mark Adams  
Director, Policy and Research  
Australian Securities & Investment Commission

**By Email:** Insurance\_arrangers@asic.gov.au

Dear Mark

## **GROUP INSURANCE ARRANGEMENTS**

We refer to ASIC's Group insurance arrangements consultation package released by ASIC on 6<sup>th</sup> May 2007 outlining the proposed relief for some arrangers of group insurance and our subsequent discussion with Geoff McCarthy, Technical Leader Financial Services on 16 July 2007.

Overall, we believe that the proposal relief is a positive initiative by ASIC, and acknowledge that it will add support to the industry's awareness campaign to reduce underinsurance. IFSA does have some minor concerns which should be considered by ASIC before the Class Order is released.

The Investment and Financial Services Association Limited (IFSA), is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. IFSA has over 140 members who are responsible for investing over \$950 billion on behalf of more than ten million Australians. Members' compliance with IFSA Standards and Guidance Notes ensures the promotion of industry best practice.

### **Item 3.1 (b) Summary of proposed relief**

As outlined, IFSA is in general agreement with the proposed Class Order relief. However, the limitation, outlined at item 3.1, part (b), that an exemption from section 1012H is contingent upon determining whether the insured acquired as a wholesale client is problematic, as insurers cannot determine whether the insured would have acquired the policy as a wholesale client.

### **Item 3.3 (a) Independence of the group purchasing body**

#### *Independence of insurers and brokers*

In relation to part (i), it is common practice for group risk providers to offer either self-experience or pooled profit sharing arrangements for large plans and the majority

of death and TPD plans respectively. In addition, multi-national pooling arrangements also operate using a profit sharing basis. Typically, a percentage of the profit is returnable in the form of a rebate to the policy owner.

Although in most cases, the employer would fund the premium, in a number of cases an employer may pass back some or all of the premium cost to the employee, or implement salary sacrificing arrangements whereby the employer collects and remits the premium, but it is in essence paid for by the employees themselves.

In the later example, profit share would in effect be prohibited in instances where an employer policy owner did not pass 100% of any rebate back to each employee. Aside from difficulties in calculation, issues arise in an employer having to pass back a rebate to people who were employees during the period to which the rebate relates (usually paid 12 to 18 months in arrears) but who are no longer employees.

#### *Commission, sponsorship and remuneration*

In relation to specific constraints on remuneration, at part (ii), consistent with the exemption from the AFSL requirement, we have some concern that separate sponsorship arrangements may be caught by the proposal, though we consider this is not the intent of the policy. IFSA would be happy to work with ASIC to discuss possible solutions, if necessary.

This condition proposes to restrict any form of remuneration or other benefit (including commission) being paid to the group purchasing body. It does however state that an exemption exists where a rebate is 'paid over in full to those who pay for cover'.

### **Item 3.3 (b) Basic information about the product**

#### *Commencement timing*

In relation to part (b), which requires disclosure before commencement we retain a concern that this requirement may delay the commencement of cover and create administrative difficulties for employers in terms of ensuring that cover is not enabled until they are sure that information has been provided to all employees. This requirement will delay the issue of cover for *group policies*, and seems unnecessary particularly when the person to be covered is not liable for the cost of the policy.

#### *Amounts payable to arranger*

In relation to part b(iii), IFSA support reasonable disclosure, payable in relation to a group policy arrangement. IFSA consider that disclosure as to the payment of a rebate rather than 'the amount to be paid; is more appropriate, as the amount cannot be known at the time a person enters into the coverage.

### **Item 3.3 (e) Receipt of monies and the obligation on insurers**

The proposal relating to the receipt of money, may create an anomalous situation in that section 3.3 (e) seems unnecessary. In particular, we consider that the approach may be amended to ensure that the receipt of money by the group purchasing body from an applicant does not automatically provide that the applicant will receive cover under the policy.

### **Item 3.3 (f) Cancellations, renewals and notifications**

The provisions for cancellation should reflect the difference practices between policies of general insurance and life insurance.

The requirement for the insurer to give notice to each insured person for a life insurance policy that is not renewed is not workable, as the insurer may not know that the life insurance policy is not being renewed for some weeks after the actual due date for premiums.

Broadly speaking, there is genuine difficulty for insurers to directly contact the insured where they are a beneficiary of a group policy. This occurs as insurers generally receive broad information about the insured group on an infrequent basis,

Insurers do not rely upon this information to administer or underwrite these types of policies, except for the purposes of managing claims. Indeed, in the case of *group policies*, the insured only becomes aware of substantive details of an insured party, only upon commencing the claims application process.

This approach reflects generally accepted risk management practices adopted by life insurers but also strikes a balance between ensuring that the community has both effective and affordable life insurance.

To the extent that the proposal, at section 3.3(f), contemplates insurers entering into a contract with the insured, this is likely to increase insurer's costs and reduce the accessibility of this type of cover to the community. This would not support the commitment of industry to promote greater take-up of life insurance and the concomitant social benefits.

### **Concluding comments**

Thank you for the opportunity to provide comment on this subject when submissions were originally due by 25 June 2007.

IFSA welcomes the commitment of ASIC to introduce Class Order relief in relation to this matter, subject to our general comments above. IFSA would be pleased to engage further with ASIC to discuss these matters in more detail or to provide additional information on specific issues.

Should you have any questions in relation to this submission, please do not hesitate to contact me or David Micó on (02) 9299 3022.

Yours sincerely



**Richard Gilbert**  
Chief Executive Officer