

MEDIA RELEASE

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FSC Statement on Retail Life Insurance Announcement

Assistant Treasurer the Hon Josh Frydenberg's announcement today on the way forward for life insurance advice is a welcome approach that will provide certainty for consumers and clarity for the industry.

The announcement, which has industry support, is in response to an independent report by former APRA member, John Trowbridge.

A broad reform package for life insurance and advice is now agreed across the industry.

This outcome is largely due to the Trowbridge roadmap for reform for the life and advice industries in response to ASIC's Review of Retail Life Insurance and Advice released in October, and December's Financial System Inquiry.

Sally Loane, CEO of the Financial Services Council said: "The Trowbridge process was instrumental in assisting the life insurance and advice industries to find a way to solve the structural issues that were undermining trust and confidence and leading to poor consumer outcomes."

"John Trowbridge conducted an independent and thorough review consulting with a wide range of stakeholders including regulators, parliament, industry and consumer groups. He set the high level direction for the industry that this package seeks to deliver."

"Bringing the life and advice industries together to undergo an open and independent process in search of reform solutions – including changes in the culture of the industry as a whole – was a ground-breaking approach," Ms Loane said.

"The package includes a new remuneration model, development of a code of conduct, more product choice through the broadening of Approved Product Lists and a review of Statements of Advice."

"These reforms will be supported by a Code of Conduct which the FSC is looking forward to developing in consultation with the community."

Ms Loane said that if there were no significant changes to consumer outcomes within three years, the industry would go further by either moving to a fee-for-service or level commission model.

"This model is part of the reform package and is increasingly being adopted by life insurance advisers. In the long run, we expect most advisers will naturally move to a level commission or fee-for-service model."

Ms Loane also said that life insurance was crucial to a well-functioning and self-reliant community.

“Life insurance, trauma insurance, income protection insurance, total and permanent disability insurance – these are all critical pillars to assist us from sinking in times of personal stress.”

“Life insurance provides the financial means to preserve our way of life, or that of our families, in the event of accidents, serious illness or death. As well, life insurance businesses are a large and important sector of the national economy as major investors in Australia providing capital, developing property and infrastructure,” she said.

EDITORS' NOTE:

In a report handed down in October 2014 ASIC expressed concerns about high lapse rates in life insurance and the quality of advice being given by some financial advisers. It indicated that high upfront commissions directly correlated to poor advice, and highlighted the misalignment between incentives and distribution channels and that some business models are outdated. ASIC urged the development of industry-wide solutions.

In the wake of the ASIC findings, the Financial Services Council initiated the Life Insurance and Advice Working Group (LIAWG) to find solutions to structural issues that were undermining trust and confidence in the industry and leading to poor consumer outcomes.

John Trowbridge, actuary and former APRA Member John Trowbridge was appointed independent chairman of the LIAWG. He conducted an independent review and made recommendations for industry reform. The Final Trowbridge report was released on 26 March 2015.

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About the Financial Services Council

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and Public Trustees. The Council has over 130 members who are responsible for investing more than \$2.5 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.