

6th September 2016



Financial Services Council
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Attention: Sarah Phillips Policy Consultant, Life Insurance, FSC
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CARE Incorporated
ABN 45 037 269 595

**Financial Counselling
Service**

Consumer Law Centre ACT

Re: Life Insurance Code of Practice

Service information

Care Inc. Financial Counselling Service and The Consumer Law Centre of the ACT (Care) has been the main provider of financial counselling and legal assistance on consumer credit matters for low to moderate income and vulnerable consumers in the ACT since 1983. Care's core service activities include the provision of information, financial counselling, legal advice and advocacy for consumers experiencing problems with credit and debt. Care also has a Community Development and Education program, provides gambling financial counselling as part of the ACT Gambling Counselling and Support Service (AGCSS) in partnership with lead agency Relationships Australia; makes policy comment on issues of importance to its client group and operates the ACT's first No Interest Loans Scheme which was established in 1997. Across Care's service delivery programs, the agency responds to over 2000 new requests for assistance every year.

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We thank you for the opportunity to make comments on the draft Life Insurance Code of Practice (the Code).

Background

Care's consumer credit solicitors and financial counsellors work with members of the ACT and region community from young adult to the elderly, including Aboriginal and Torres Strait Islander (ATSI) clients and clients from culturally and linguistically diverse backgrounds (CALD).

The primary reason people contact Care for assistance is when they are experiencing financial hardship and are unable to meet their commitments as they fall due. They may be struggling to pay credit facilities such as personal loans, credit cards or mortgages and also day to day expenses such as rent, utilities, medical costs, transport, education and food.

Along with an inability to meet their financial commitments, many clients will be experiencing a range of complex personal circumstances. This can include high levels of stress, mental and physical ill-health, relationship breakdown, unemployment, family violence, effects of past trauma and addictions.

In general, our clients are unable to afford insurance products given their level of income. Many regard insurance as a product they would like to be able to purchase but meeting immediate needs including medical, utilities

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and food override the possible future benefits of insurance products. Even with the emergence of relatively low cost insurance products specifically aimed at the low income market¹, the premiums will still be more than some clients can afford given the level of financial stress and hardship they face.

While we see many clients without any insurance products, we do encounter clients with insurance product(s) where the clients experience some or all of the following:

- The client did not know they were paying for the insurance(s)
- The client did not understand the nature of the insurance(s)
- The client was unaware of the (sometimes significant) total cost involved; and
- The client was unaware of the benefits (if any) of the insurance(s) they had been sold.

Case studies

We provide below two examples of cases where clients have been disadvantaged by inappropriate practices within the insurance sector; and where it requires a great deal of work and advocacy on behalf of the clients to rectify the situations. A robust and clearly defined Code would go at least part way to assisting in either preventing or resolving such cases more quickly. Protection of vulnerable consumers should be a desired outcome of a workable and ethical code. This would potentially reduce the impact on very vulnerable and disadvantaged consumers such as those below:

1. Life insurance*

A twenty seven year old client in receipt of Disability Support Pension, with an ongoing medical condition which prevented her from working, was sold life insurance via a cold call. She did not understand what she was signing up to, but liked the sound of having some money for her baby daughter (who was six months old at the time) if something happened to her. The financial counsellor ascertained that it was not explained to the client what would happen if she dies while her daughter was a minor, nor what length of time she would be making payments for – if she lives to eighty five she will be able to access the full benefit of \$150,000 but she would need to keep making payments for the next fifty eight (58) years. Given her circumstances and limited income, the payments of \$15 per fortnight (stepped over the term of the product) represent a significant amount of money for her.

In the above case study, the client was very vulnerable, with significant health concerns; she also did not request or enquire about life insurance.

2. Disability and Income Protection Cover*

A client with a loan he had taken out several years ago had insurances added to his contract for:

- *Disability*
- *Income Protection*

The client did not request them to be added to his loan and until he saw the financial counsellor he did not know they had been. The total cost was several thousand dollars; because this amount was added to his loan he had then also been paying interest on the insurances for the last few years.

¹<https://www.essentialsbyaai.com.au/>

This client had no idea that he had been sold insurance, or that he was paying interest on them. The client is now experiencing financial hardship and the stress associated with this. It is a complex and difficult task to try and resolve this matter.

Issues of importance in development of the Code

We regard the following as being essential to the new Code:

- The language and style of the current draft Code is too complex. The Code must be written in plain language, able to be understood by consumers and their advocates.
- The Code should be enforceable against, and binding on, Code subscribers.
- The Code should be registered with the Australian Securities & Investments Commission in accordance with Regulatory Guidance 183.
- Timeframes described in the Code should be explicit, such as for document requests and claims processing.
- The code should include insurance taken out through superannuation funds: not including it ensures that millions of policies are excluded, thus making the Code far less effective.
- Re funeral insurance: the current draft Code makes reference to offering level premiums as a default option; in our opinion any funeral insurance premiums that are stepped should be prohibited.
- Financial hardship should be identified as a separate section within the Code. Language used about financial hardship should be easy to interpret. In the draft Code for example, when discussing funeral insurance, terms such as 'grace period' and 'premium holiday' require clarification.
- For consumers requiring additional support², a commitment is needed to only sell insurance products suited to their needs.
- Acknowledgement of the need to work with an authorised advocate (e.g. consumer credit solicitor, financial counsellor) for customers requiring additional support and/or those customers experiencing financial hardship should be made in the Code.
- Unsolicited marketing/selling *in any form* should be expressly prohibited by the code including phone calls, emails, letters and when a customer makes general enquiries about their account this should not be regarded as an opportunity to then sell more products to them.

² Draft Code s7 p13

*details of clients altered

- Pressure selling of *any kind* should be expressly prohibited by the Code.
- The current 'Complaints and Disputes' section should be reworded to Internal Dispute Resolution to align with other similar codes and to clarify that this is different from the identified external dispute resolution of the Financial Ombudsman Service (FOS).
- The Code should be widely available and promoted in formats that are accessible to all potential customers.

Thank you for the opportunity to provide these comments.

Carmel Franklin

Carmel Franklin
Director

Liisa Wallace

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