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**RE: CONSULTATION PAPER 284: Example Statement of Advice for life insurance:
Update to RG 90**

Dear Natasha,

Please find below my feedback in relation to the Sample Statement of Advice for Life Insurance. My understanding is that ASIC have made a number of revisions to Version 2 outlined in this report to address the concerns identified by the second round of user testing however these revision are yet to be user tested.

Overall the content is good and would already exist in most quality life risk advice SOA's but could be better presented with more white space, diagrams and less wordy (with the exception of front page remuneration disclosure which needs to be removed).

Consultation Paper 284

I make the following comments regarding my review of this consultation paper:

- (A) Background to the Proposals
 - The new SOA applies for scaled Life Insurance Advice – what if the advice is broader than just risk
 - RG 90 provides an example SOA to illustrate clear, concise and effective disclosure – this is already done in the current SOA negating the need to place disclosure on the cover page
- Current ASIC Guidance
 - The focus of this section is for the development of an SOA which is clear, concise and effective to allow a retail client understand the advice and make an informed decision
- Policy developments in the retail life insurance advice sector
 - Correlations between high upfront commissions and poor advice have been addressed via the LIF reforms namely reduced upfront commission and extended responsibility periods
- Trowbridge Report
 - Again recommends clear concise and effective disclosure making SOA simpler to understand

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- One would view the ASIC guide as a minimum standard to meet however the following needs to be considered:
 - Life Risk Advice is complex given the range of variable to consider such as ownership structures, estate planning strategies, policy benefits, premium options, tax treatment of premiums and proceeds. It is not simply selling a product.
 - Advisers to need to adequately protect themselves in-line with the PI guidelines against vexatious clients (and their legal advisers)
 - Complex advice cannot always be simplified down to the lowest common denominator
- Life Insurance Reform Package
 - The LIF package implemented reforms of reduced upfront commission and longer claw back period (over and above the onus of client's best interest duty) to address the perceived or real incentives to provide advice which is not in the clients best interest
 - Prominent disclosure of commission over and above the current detail disclosure is not required and provides no benefit to the consumer
 - In fact, starting a document with the disclosure of remuneration makes the document about what the adviser is paid and not the focus of the advice to address the client's needs. It is the commoditisation of the advice which undermine' s its importance.
- Proposed updates to RG 90
 - The flaw in the research undertaken in preparing the SOA is that the underlying clients data, goals & objectives on which the advice was prepared was not provided and part of research leaving little ability to test the validity of the advice prepared
 - Financial products and services are inherently complex and that is why advice is required
 - Whilst I am not adept in behavioural economics one would assume that for a consultant to design an SOA which meets the needs of the client that the consultant should be furnished with all the information required to produce a compliant SOA. I.E client data, goals and objectives, issues and concerns, technical strategies, product strategies, etc would need to be clearly understood for an example SOA to be produced for review.

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- What is having the remuneration on the front page of the SOA attempting to achieve for the client apart from the commoditisation of advice to product.
- Your feedback
 - It should be interesting to test how this SOA would integrate into current planning software systems such as XPlan etc and at what cost?
- (B) Illustrating clear, concise and effective disclosure
 - Language used in the example SOA
 - What makes SOA's difficult to understand?
 - Life Risk Advice is complex given the range of variable to consider such as ownership structures, estate planning strategies, policy benefits, premium options, tax treatment of premiums and proceeds. Is it possible to simplify that down to a grade 8 level?
 - Why does information need to be duplicated if it is clearly outlined in a table of contents especially if it is expected that an adviser is taking the client through the document
 - Structure of the example SOA
 - An executive summary of the advice recommendations provides the client a simple advice overview
 - The flow of information noted in section 51 is good subject to the following:
 - (h) should be renamed remuneration associated with the advice as the client may pay for the advice via fees, commissions or a combination of the two.
 - (h) the summarising commission of the advice on the front page should be removed as this provides no benefit to the client and commoditises the value of the advice provided.
 - This flow should note an authority to proceed to confirm the clients decision of how they wish to proceed with the advice.
 - Content and length of the example SOA

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- What is not included in the example SOA – disclaimers and warnings is an interest thing to exclude as I would expect this provides protection to both the adviser and client.
- Upfront disclosure of commissions
 - This is of not benefit to the client in my opinion
 - I propose this is of detriment to the client as the focus of the document starts with remuneration rather than the value of seeking advice.
 - Furthermore it commoditises the advice down to a product sale. Life Insurance advice is invariably linked to a life insurance product.
 - The current flow document flow works as it demonstrates the value of the advice being provided to the client, then outlining the costs to the client, what the adviser is paid, then the client is in a position to decide if the advice is of value to them and can decide to implement in full, in part, not at all or explore alternative strategies.
 - This type of disclosure would be more appropriate for direct or general advice insurance sales when the client is not receiving any advice
 - The disclosure also creates a focus on the initial nature of insurance advice only and takes away from the ongoing review relationship and the most important component being the management of claims on behalf of the client (another distinct difference between advised and non-advised clients as well as other areas of financial planning advice)
- (C) Encouraging industry use of the example SOA
 - If ASIC is proposing a new sample SOA, should each licensee submit their template SOA to ASIC for approval?
- (D) Regulatory and financial impact
 - One would expect that implementing these changes will come at some level of significant expense to amend existing templates or technology platforms

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- This cost might be easily borne by institutional licensee group but this would be a proportionally higher spend for smaller licensees
 - This is yet another impost on quality advisers compensating for the lowest common denominator “adviser”. The LIF reforms, education standards and these proposal continue to threaten the viability in the life risk advice profession without the involvement of the ACCC. I would recommend we invite an ACCC review of the LIF instruments, educations standards and this proposal to test if these are in the interest of consumers and do not cross over any anti-competitive standards
 - Is sample SOA’s for the wider financial planning community going to be updated including the requirement to outline remuneration on the opening page of the advice?
- APPENDIX: Designing and testing a new example SOA for life insurance
 - Testing and Refining the SOA – Table 2
 - This attempts to show the improvement in the document from round 1 to round 2 of testing
 - It appears that keys areas of the document such as why products have been recommended, how the advice changes their financial position, why recommendations were given and reviewing the overall plan remained low, had little change or got worse
 - Whilst what the adviser is paid is very clear to the client
 - How is this of benefit to the client if they still don’t understand or appreciate the advice.

RG 90 – Appendix 1 & 2

I have not yet read the entire guide, instead first focussing on the client data (which was not provided to the adviser during the testing phase) and the sample SOA. I note the following at first pass in relation to the SOA:

- Page 1 - The payment to me section sets the advice process off on the wrong foot. It focusses the document on remuneration of the adviser rather than the advice for the client. Furthermore the commission structures would have been already outlined in the FSG and will be outlined in detail later in the SOA. This make the cover page very busy.
- Page 2 – Too busy. The table of contents should be stand alone to allow the client to easily navigate the document. The remaining items should

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follow on the next page creating more white space highlighting the other important documents which accompany the SOA such as PDS'

- Page 3 – the table should note which covers are existing being retained, reduced or increased, which is new policies and which is being replaced
- Page 4 – Estate Planning data gathered is too basic. Asset & Liabilities position is not presented well and could be clearer to highlight debt positions
- Page 5 – Current Insurance information too hard to distinguish between cover on Brad vs cover on Zara
- Pages 6/7 – Does a good job of outlining the scope of the risk advice but does not outline what is not included outside of insurance. E.g. estate planning etc.
- Pages 8/12 – My advice. The content is good but the presentation of the needs calculated is incredibly wordy and could be presented more simply in a calculation table with some explanatory text. Furthermore not sure if this style could be easily coded into existing software without extensive expense. Lastly does the super disclosure satisfy ASIC's requirements to outline the impact of insurance premiums on superannuation balances?
- Page 13 – Not sure how easily these tables could be produced by software to be efficient. There is a throwaway line in relation to nomination of beneficiaries. This is in essence providing estate planning advice which is out of scope as per page 2 and does not take into account the estate planning objectives of the client considering they have any existing will in place and there has been no discussion regarding TDT's or death benefit pensions.
- Page 16 – How is the impact on super balance expected to be calculated and what is the basis for the calculation. Again a very wordy page which will have limited efficient production
- Page 17 – Is making concession contributions to super to form part of an insurance only SOA when superannuation's funding is being recommended? What about salary sacrifice calculations etc?
- Pages 18/22 – Again very wordy. That being said I would be surprised if existing SOA's in the market place did not already include this information.
- Pages 23/24 – Why is this at the back of the document. This should be key for the client to understand the scope of the advice.
- Page 25 – Medical and Financial Underwriting requirements are not disclosed

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- Page 26 – Commission disclosure appear to be as simple as current disclosures
- Page 27 – ATP does not provide the client with the opportunity to make any amendments to the advice to be implemented or decline to proceed.

In short my overall impression of this document as follows:

- The upfront disclosure of remuneration does not add and benefit to the client and commoditise the value of advice (especially considering other SOA's do not have this requirement)
- Overall the content is good however, this client scenario is extremely simple and results in a 27 page document. I am not sure how this has improved the understanding for the client given the results of the testing and refining of the SOA results outlined in table 2 of the appendix in the consultation paper 284
- The clients estate planning objectives are not provided the required consideration when recommending nomination of beneficiaries or the associated estate planning needs of the client
- Should client insurance needs be more complex (such as blended family arrangements, or business insurance) it would be interesting to see how lengthy this document would become and would it add any value to the client
- This new model will create unnecessary and potentially high expenses on licensee and advisers to produce a document which will have little benefit to the client and undermine the value of the advice provided
- I would also be seeking support and feedback from insurers regarding the impact the expect these change would have for clients or the advice community.

Please do not hesitate to contact me should you wish to discuss this matter further.

Kind Regards,

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