29 January 2016

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Dear Ms Yu

ASIC Consultation Paper 245 – Life Insurance Reforms

AMP is pleased to provide this submission in relation to Consultation Paper 245: Retail life insurance advice reforms (CP 245).

We have been working closely with the Financial Services Council (FSC) on their submission in relation to this item and would like to highlight the following issues.

Clarification regarding grandfathering of pre-existing arrangements
We agree with the statements by the FSC in their submission in relation to Section B of CP 245 – *Setting a maximum level of commission*, for when an increase in premium should be dealt with under the proposed commission structure. That is, some distinction is required between customer directed increases and automatic increases (for example, changes in the premium rate due to CPI).

We also support the FSC's request to ASIC for clarification of grandfathering for existing policies. For clarity, AMP believes that a new policy for an insurance benefit that did not previously exist should not be grandfathered, and the new remuneration rules should apply. For a new policy issued for a previously existing insurance benefit (for example due to administrative processes), this policy should be grandfathered. For a new insurance benefit written within an existing policy, the new benefit should be grandfathered.

Stamp duty as part of the commission for term life products
The Exposure Draft Legislation includes a requirement for Stamp Duty to be excluded from the Relevant Amount that will be used to calculate the commission amount allowed under the cap and the commission amount that is clawed back.

We agree with the statement by the FSC in their submission in relation to Section B of CP 245 that stamp duty in the first year for term life insurance products should be allowed to be part of the Relevant Amount used to calculate commission payments. It would be significantly difficult and therefore costly for AMP to unbundle the stamp duty in the first year for term life products, for little customer benefit. Further, the actual amounts of commission that would not be paid would be immaterial for an average size policy and we do not believe that this would have a bearing on the quality of advice. We are also discussing this issue with Treasury to explain the implementation difficulties and would be open to also discuss these with ASIC.

Cap for level commission
Section 963B(1)(b)(iii)(A) of the Exposure Draft allows for level commission but there is no provision for a cap on level commission. In addition, Paragraph 1.28 of the Explanatory Memorandum states "ASIC is also able to allow level commissions to be paid, with no maximum cap in place when a level commission is paid." Without a cap on level commission, we believe there is a risk of consumer detriment and damage to industry reputation if life insurers are able to offer varying rates of level commission, and does not support a transition over the medium to long term, to a fee for advice model which we believe is in the best interests of consumers.

We also note that current level commission rates are unsustainable and would result in higher premium rates for consumers should the proportion of business sold under these arrangements increase beyond the current immaterial levels (quoted at 4% in 2013 in ASIC Report 413). This further increases the reputational risk for the industry and this significant reform.

We agree with the FSC's statement in response to Section B of CP 245, that ASIC should also have the power to set a cap on level commissions in the future. AMP also supports the FSC's recommended cap on level commission arrangements of 20%.

<u>Clawbacks should also apply to direct insurance</u>
The FSC states in their submission on Section C of CP 245 – *Clawback arrangements,* that clawback for lapses are inappropriate for direct insurance in many cases. AMP disagrees with this statement. We acknowledge that these reforms have been focused on personal advice, and it would be useful to clarify that they should also apply for other forms of advice including general advice that may be provided for direct insurance or future insurance distribution models.

AMP believes there should be consistency for all types of advice provided for life insurance and that clawback requirements should therefore be applied consistently – this will ensure integrity and reputation of the life insurance industry and these reforms. We believe that balanced scorecard approaches are already used for other products that are recommended by direct teams providing general advice, and that these approaches should also be used for insurance products should a direct insurer not choose to implement the commission and clawback framework.

<u>Clawback period of 2 years</u>
With the significant change in the proposed reforms to reduce the clawback period from 3 years to 2 years, it is important to ensure that the effect of the legislation is achieved as intended. There is a risk that while the intent is to create a 2 year clawback period, the outcome could be different based on the practical operation of the law. For example, if a life insurer pays the full year 2 (ongoing) commission on the first day of the second year then an adviser may cancel the policy on the second day of the second year, having received both a year 1 and year 2 commission. Our understanding is that in this instance, only the year 1 (upfront) commission is subject to clawback. In effect, the year 2 commission may be seen as an offset against this clawback, thus reducing the effectiveness of the deterrent against policy churn.

One possible solution is to extend the clawback to apply to year 2 (ongoing) commissions. This is consistent with feedback we have provided to Treasury in our submission on the Exposure Draft Legislation for the Life Insurance Reforms. We would welcome the opportunity to work with ASIC and Treasury to ensure the reforms have the intended outcome.

We would be open to discuss these issues further with you. If you require further information please do not hesitate to contact me or Jenifer Wells on 0402 111 044 or jen_wells@amp.com.au

Yours sincerely

Megan Beer

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