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Dear Helen,

**SUBMISSION RE: CONSULTATION PAPER 245: Retail Life Insurance Advice Reforms**

Thank you for the opportunity to comment on ASIC's proposals to implement the retail life insurance reforms set out in CP 245.

Industry Super Australia (ISA) has long been a vocal critic of the impact of all forms of conflicted remuneration in financial services including for life insurance advice. ISA supports the repeal of the exemption from the ban on conflicted remuneration for retail life insurance advice. However we do not support the conditions announced on 6 November 2015.

In relation to ASIC's proposals to implement the retail life insurance reforms by legislative instrument, ISA make the following comments:

**1. *Setting a maximum level of commission***

ASIC has proposed that an ongoing commission for policy renewals will be set at 20% of the total of the premium paid for the renewal from 1 July 2018 (ASIC Consultation Paper 245, B1b). This differs from the Government's proposal that ongoing commission would be set at 20% from 1 July 2016.

This extends the start date of the cap on ongoing commissions by two years, which provides a generous concession to advisers who will not be required to operate within a cap. ISA does not support this extension on the basis that it places the interest of advisers ahead of those of consumers.

*ISA Position: ISA recommends that ASIC align the start date for the maximum cap with the Government's proposal to reduce detriment to consumers and to ensure that ASIC's 2018 review of the reforms capture the impact of the 20% cap.*

**2. *Clawback arrangements***

Under the proposed arrangements, a certain portion of upfront commission payments would be paid back to the life risk insurer by the financial adviser for the first two years of the policy. ASIC will be empowered to determine how much must be clawed back each year.

ASIC has proposed the following clawback arrangements:

- a) In the first year of the policy, 100 per cent of the commission paid to the financial adviser in the first year will be repaid to the life insurer.
- b) In the second year of the policy, 60 per cent of the commission paid to the financial adviser in the first year will be repaid to the life insurer.

The effect of this is that advisers who churn clients after one year and one day will be able to retain 40 percent of upfront commission payments, while advisers who churn clients after two years and one day will be able to retain the full amount of upfront commissions.

*ISA Position: ISA does not support this proposal on the basis that it fails to eliminate the incentive to churn clients to new products to receive new upfront commissions.*

### **3. Ongoing Reporting to ASIC**

The Government has proposed that life insurers will be required to provide ongoing policy replacement data to ASIC. ASIC has proposed to collect detailed information on life insurance policies, lapse rates, remuneration and clawback amounts.

*ISA Position: ISA supports the collection of certain information from life insurers on life insurance sold through general and personal advice and in circumstances where there is no advice provided. This information will be critical to ASIC's 2018 review into the effectiveness of the reforms.*

### **4. Review of SOA**

The Government has proposed that ASIC is to commence a review of Statements of Advice (SOAs) in the second half of 2016, with a view to making disclosure simpler and more effective for consumers as well as assisting advisers to make better use of these documents.

*ISA Position: ISA supports this proposal but recommends that ASIC provide additional detail in relation to the operation and scope of this review.*

Please contact Ailsa Goodwin on (03) 9923 7172 if you have any questions about this submission.

Kind Regards,



**Ailsa Goodwin**  
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**Industry Super Australia**