

31 July 2017



Natasha Nguyen  
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Australian Securities & Investments Commission

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Dear Ms Nguyen,

**Consultation Paper 284: Example Statement of Advice (SOA) for life insurance: Update to RG 90**

The Financial Services Council (**FSC**) welcomes the opportunity to provide feedback to the Consultation Paper 284: Example SOA for life insurance: Update to RG 90 (**CP 284**).

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 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 FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

This submission provides feedback to the sample SOA and the questions outlined in the Consultation.

Should you have any questions in relation to the contents of this submission, we would welcome the opportunity to discuss this further.

Yours faithfully,

Bianca Richardson  
Senior Policy Manager

## ASIC Consultation 284 Example Statement of Advice for life insurance

1. **CP 284: General feedback on the example SOA including:**
  - **Any changes needed to make it a more effective tool for communicating information to customers**
  - **Barriers to advisers using the SOA and what may help to overcome these barriers**
  - **How can ASIC assist advisers to use the example SOA when preparing their own SOAs**

ASIC CP 284 seeks to provide an example SOA to deliver life insurance recommendations that are clear, concise and effective whilst meeting all legislative and regulatory obligations.

It is helpful that the example SOA is illustrative of a common type of advice/customer risk advice scenario and contains simple, easy to understand, plain language. It is evident that a great deal of effort has been undertaken to develop this example SOA. Key strengths of the example SOA;

- it is illustrative of a common type of advice/customer risk advice scenario which requires greater analysis/consideration of issues in the example SOA (the previous example included in RG 90 was simple and influenced the length of the SOA only being 12 pages, whereas the new example is reflective of a common customer/advice scenario and the SOA is now 27 pages);
- it contains simple, easy to understand, plain language;
- the document shows customer name, adviser name and contact details on each page which is helpful;
- it limits the inclusion of factual information on the types of cover, which will help the customer focus on the relevant information;
- the document uses tables and dot points throughout to communicate key information efficiently and effectively; and
- the document refers to other documents and/ or includes links to educational material providing a clear expectation that these are not necessary to be incorporated in the SOA.

General observations in relation to areas which can be strengthened in the example SOA;

- there is room to further simplify the SOA. Certain sections contain repetitive information and repetition could be reduced to be consistent with the requirement that SOAs be clear, concise and effective<sup>1</sup>;
- we question whether some of the information is better placed in a different order (discussed further in this submission) and could be restructured to enhance the flow of information to customers; and
- we question whether this document includes all the information required to enable the customer to make an informed decision (discussed in the table below).

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<sup>1</sup> Section 947C(6) Corporations Act 2001

## 2. Feedback relating to specific sections of the example SOA

Table 1.

	RG Reference	Example SOA Section	Comments
1	RG 90.21, RG 90.54, RG 90.80 - 90.83	Front cover	<p>It is noted that a summary of product commissions has been disclosed on the front cover of the example SOA. Whilst this is certainly the earliest possible opportunity to disclose advice preparation costs, financial product fees and other remuneration received, it is our view that this is not the best or appropriate place for commission and fee disclosure. We also consider that this is inconsistent with RG 175.137 which notes that the aim of the SOA is for the customer to understand and determine whether to rely on the advice.</p> <p>Fees and commission disclosures have greater context when read together with the recommendation, including product recommendations. We consider that addressing fees after discussing the advice ensures that the customer has the context for the costs and understands what they will receive for those costs.</p> <p>We understand that ASIC seeks to ensure that the customer has a thorough understanding of the costs and remuneration and we believe this can be achieved by effective discussion and disclosure during the advice process. Where this occurs in the document/discussion should be secondary to this.</p> <p>It is our view that the breakdown of advice preparation costs, product commissions fees and other remuneration received should be disclosed toward the back of the advice document as customers can easily navigate to the applicable section via the table of contents.</p> <p>If ASIC however considers that a snapshot of commission disclosure should remain towards the beginning of the document then we consider that it is best outlined together with the summary of insurance recommendations on page 3 under the heading 'Summary of my insurance advice'.</p>

2	RG 90.21, RG 90.55	Table of contents	<p>It is acknowledged that it is often beneficial for customer's ease of navigation to include a 'table of contents' where an advice document is greater than ten pages in length.</p> <p>Use of the Moneysmart link for factual information is helpful, although discretion for use and/or placement of this sits with the Licensee and we support Licensee discretion regarding the format and presentation of the SOA.</p>
3	RG 90.21, RG 90.56	What this document is about	<p>The inclusion of a 'What this document is about' section could be beneficial to customers, particularly those who have not previously received personal advice, as it will provide them with contextual understanding of the advice document purpose, however it is repetitive to reference the scope of advice here when also covered later in the document, in more detail. As such we suggest that this section be an optional inclusion.</p> <p>It is our view however that an overview of what a SOA and ROA is, is probably best conveyed through the Financial Services Guide (<b>FSG</b>).</p>
		Attachments	<p>This section outlines which Product Disclosure Statement's (<b>PDS</b>) have been provided to the customer. This emphasises the products recommended at the start of the document and places an emphasis of products over strategy/advice.</p> <p>Alternatively, we recommend that the list of PDS' provided to the customer is outlined in the ATP section to avoid duplication of information and confirm that the customer has received these documents.</p>
4	RG 90.21, RG 90.57	Summary of my insurance recommendations	<p>It is acknowledged that it is beneficial for customers that an 'executive summary' or similar be included in advice documents, especially where the document is greater than ten pages in length.</p> <p>This shows upfront a clear and concise end state for the customer.</p> <p>The preference for whether or where the 'summary of recommendations' is located within the document will invariably differ between licensees.</p>

			<p>In addition we suggest that this section indicates which policies are held in superannuation. One of the customer's objectives was to have insurance funded through super. Without this information upfront, the immediate customer reaction may be "how can I afford all of this" when that has already been considered in the plan.</p> <p>This could be explained in the introductory text above the tables in this section or by way of footnotes below the tables.</p>
5		Rearranging sections of the SOA	<p>Following the 'summary of my insurance recommendations' section, we recommend rearranging the SOA components into the following sequence:</p> <ol style="list-style-type: none"> <li>(1) What you should know about my advice (p23-24)</li> <li>(2) About you (p4-5)</li> <li>(3) What you want (p6-7) which should be combined with 'My advice' (p8-12)</li> <li>(4) Overview of recommended products (p13)</li> <li>(5) Why my advice is in your best interest and appropriate (p18-22)</li> <li>(6) Consequences of my advice (p14-17)</li> <li>(7) How to follow my advice</li> <li>(8) My commissions</li> <li>(9) Authority to Proceed</li> </ol> <p>The proposed sequence makes it easier for the customer to understand. It aligns with ASIC's requirement of making SOA's '<i>clear, concise and effective</i>' (RG 90.18). Although it is acknowledged that preferences for where this information is positioned within the document will invariably differ between licensees.</p> <p>The scope of the advice which is covered in 'what you should know about my advice' section should be upfront so that it is easier for the customer to understand what the advice will cover.</p> <p>The information covered in 'What you want' and 'my advice' sections can be combined to remove repetition and streamline/shorten the relevant sections. Example 2 illustrates how this section may be combined and removes two pages from the SOA. This will also demonstrate to the customer how the advice aligns with what the customer is seeking.</p>

6	RG 90.21, RG 90.58	What you own and what you owe	<p>We consider that this section should be separated into lifestyle assets, super and investments. We consider that is how customers tend to think about their money, and so we recommend this is how it should be presented back to them.</p> <p>Further, the concept of this title ‘what you own and what you owe’ is very simplistic but it is not consistent with terminology through the document. If this is not going to be maintained then we would recommend consistency of terminology is better.</p>
		What you earn each year	<p>After tax income is irrelevant to Income Protection. As such we suggest this section should capture before tax income.</p>
7	RG 90.21, RG 90.62	What you want	<p>The “what you want’ section seems a bit long winded and overly emphasises cost of cover rather than assessment of customer need.</p> <p>The information can also be simplified to note what was discussed in a single column with what was discussed with the customer instead of having two separate columns.</p>
8	RG 90.21, RG 90.64	My advice	<p>We support the use of tables and dot points throughout the 'My advice' section as it ensures clear, concise and effective communication.</p>
		Superannuation contribution strategy Page 10	<p>We have proposed suggestions to improve the recommendation included in the table with the following language:</p> <p>“Do not make additional contributions to superannuation to offset the impact of insurance premiums.”</p>
		Superannuation contribution strategy Page 12	<p>The section states – ‘A non-concessional contribution is an ‘after tax’ contribution’ and goes on to say that the customer may be eligible for a government co-contribution without actually saying whether the customer is entitled to this or not.</p> <p>We suggest including the amount the customer is entitled to and removing the other general information to a fact sheet for the customer. E.g.:</p> <p>A non-concessional contribution is an ‘after tax’ contribution’. Based on your current income the maximum government contribution will be \$500.</p>
9	RG 90.21, RG 90.66	Overview of recommended products	<p>It is our view that advice documents should contain distinct sections for strategic advice (e.g. how much, type etc.) and financial product advice (i.e. product recommendations) (as illustrated in the example SOA) to easily enable strategic only advice to be provided (if required).</p>

10	RG 90.21, RG 90.67 - 90.71	Consequences of my advice	<p>We support the use of tables and dot points throughout the 'Consequences of my advice' section as it ensures clear, concise and effective communication.</p> <p>We assume that ASIC does not expect the industry to use the assumptions it has made with respect to annual premium increases of 7%.</p>
		Page 16	<p>The language in the recommendation on page 16 can be improved as follows:</p> <p>"Purchase Life and TPD Insurance inside superannuation".</p>
11	RG 90.21, RG 90.72 - 90.74	Why my advice is in your best interests and appropriate	<p>A dedicated section within an advice document to explicitly outline why the advice is appropriate and in the best interests of the customer is a helpful way to ensure this information is clear for the customer, however the four pages employed to justify why the advice is appropriate, appears to be inconsistent with the regulatory requirement in RG 175.183-187 to be clear, concise and effective.</p> <p>Further, much of the information outlined within the 'How my advice is appropriate' section appears to repeat information in the insurance needs section and therefore this content can either be streamlined to remove repetition, or a Licensee may elect to incorporate this section within another section provided it is done so clearly.</p>
		You obtain your life and TPD cover through a new product provider MNO insurance - Page 19	Suggest amending 'available' to available.
		The new MNO Insurance replace your existing insurance	<p>Suggest amending the recommendation as it does not seem like a complete sentence/make sense.</p> <p>Suggest the section also refers to the customer's specific occupation as it is known, instead of noting that 'given you currently work in a specific type of occupation,'.... By not including this, the document is not personalised to the specific customer.</p>
		Your life policy be owned and funded within superannuation	<p>The second sentence does not discuss why owning life cover inside super is in the best interests of the customer - which is what is required to be demonstrated in this section.</p> <p>ASIC 413 report recommends identifying opportunities to promote personal advice that</p>

			<p>would be in best interests of customer, particularly in balancing the issue of affordability versus cover both inside and outside of superannuation. In particular the ASIC 413 Appendix Life Insurance Checklist outlines making a recommendation to retain and / replace a product. We would envisage that the sample SOA is consistent with ASIC's recommendations in 413 unless there is no need to go into the level of detail set out in ASIC report 413? It would be helpful if ASIC could make amendments or clarify why a different approach is taken in the sample SOA.</p> <p>For example the impact of insurance being funded in super (per the text on page 16). ASIC Report 413 was very clear that the impact of superannuation funding needed to be clear and in this document has provided an extrapolated figure for impact in 9 years time. Comments:</p> <ul style="list-style-type: none"> <li>• The impact of this is not personalised to the customer in terms of actual retirement impacts</li> <li>• There is no way to understand why the timeframe of 9 years was chosen</li> <li>• 5% return may not be appropriate for the customer risk tolerance given we don't know this.</li> <li>• What is the 7% increase pa based on? Is it an industry average or how was this figure selected?</li> </ul>
12		<p>You retain your existing income protection policy without changes example on Page 20 (4<sup>th</sup> row)</p>	<p>In the draft SOA, the reasons provided when giving hold advice (e.g. customer to retain Oz insurance, page 21) is contained to a simple statement ("<i>Its terms and definitions compared well to other products available, and the cost of the cover also compared well</i>") as opposed to new advice (e.g. you obtain life and TPD cover, page 21) where a more comprehensive list of reasons and comparisons are included (e.g. Insurance needs page 11, Additional consequences page 15, risks involved page 17, and how my advice is appropriate page 21).</p> <p>We would like clarification from ASIC on the obligations of disclosure in instances of advice to retain existing products (referred to as 'hold advice').</p> <p>Does the information in the SOA reflect the level of detail that meets ASIC's expectations for hold advice or does ASIC envisage more information is included outside of the SOA?</p>

			<p>Are there any cases where it is not suitable for a hold recommendation to use a simple statement such as the one used by ASIC in the sample SOA?</p> <p>Finally, to ensure that industry clearly understands ASIC's expectations it would be extremely helpful if ASIC could include explicit guidance about what information is expected to be included in relation to hold advice/products which are retained to ensure consistency of interpretation.</p>
		You retain your insurance through your existing OZ industry super fund	We question the relevance or value of including the first sentence. The whole section talks about why the advice is appropriate for the customer.
		Your life policy and TPD policy be owned and funded within superannuation	This second bullet point is repetitive – to offset the impact of premiums....this will not only offset the effect of premiums on your superannuation....
13	RG 90.21, RG 90.75 - 90.78	What you should know about my advice	<p>Advice limitation sections may outline both what is in and outside of the advice being delivered. Alternatively, Licensees may choose to only outline what was agreed to be addressed through the advice. We suggest that privacy disclosure should be covered in the FSG via a reference to the organisations Privacy Policy.</p> <p>We have also suggested that this section be rearranged in the SOA in accordance with section 5 of this table.</p>
14	RG 90.21	How to follow my advice	We support this section. It is our view that the inclusion of step by step instructions can assist customers to better know what to do, when and in what order.
		Step 1	This section includes an explanation of what a superlink ownership structure means. We consider this should instead be explained in the SOA recommendation section, with relevant consequences of this structure also outlined to the customer.
15	RG 90.21	Authority to proceed	<p>The ATP does not allow any room for notation or a section where the customer can vary the advice and note this on the ATP. We support the inclusion of this to provide flexibility in the implementation process.</p> <p>It would also be helpful to include a notification about the cooling off period in the ATP to enhance</p>

			consumer understanding regarding cooling off rights.
		Duty of disclosure to be inserted into ATP	<p><b>Insert ‘Duty of disclosure’</b> – The duty of disclosure is a significant duty which has significant ramifications for customers if they fail to adhere to the obligation. Noting the importance of the duty to disclose, we consider that a duty of disclosure should be included in the ATP for the customer to confirm that they have adhered to this duty.</p> <p>In the present example, the duty is referred to on page 15 but covers only innocent non-disclosure and therefore is not an accurate representation of the customer obligations.</p> <p>We recommend Licensees be given discretion on the placement of this duty and also ability to place additional duties of disclosure in the document (e.g. at the front of the document).</p>
16	General	Some text in the draft ASIC SOA addresses the customers in third person and first person	<p>It would be helpful to include consistent approach in the example SOA.</p> <p>Wording should be in first person if the customer is being addressed.</p>

### 3. Responses relating to CP 284 list of proposals and questions

#### 3.1 Language used in the example SOA

**B1Q1 Do you have any comments about the way that any of the info in the example SOA is expressed? In particular do you have any suggestions for how to make the language simpler and easier for customers to understand?**

It is helpful that each page shows the customer name, adviser name and contact details.

We have set out feedback regarding the various sections of the example SOA in Table 1 above which recommends using consistency of terminology to assist client understanding and also including more content regarding important disclosures in full, e.g. the duty of disclosure should be elaborated in the SOA given the significance of this duty and the implications where this is not adhered to.

Please refer to Table 1 for further details and suggested changes.

#### 3.2 Structure of the example SOA

**B2Q1 – do you think the structure of the example SOA assist customers to understand and find information? If you do not find the structure helpful, please explain why.**

**B2Q2 – Do you have any suggestions that would improve the structure of the SOA so it is easier for customers to follow?**

**B2Q3 Do you have any specific comments about the order in which the information has been set out? For example, what do you think about where the information about the scope of the advice has been placed? Please provide an explanation for your comments.**

As general observation, we note that licensees will have different preferences for the sequencing and how information is presented in an SOA. The approach to sequencing and presentation can often be developed via internal adviser feedback on what works well and enhances customer understanding. This feedback is often based on their own customer's experience and feedback received when presenting the SOA to customers. In addition, it would be helpful for ASIC to clarify that this document is an example only and that it is not mandatory to use this document.

As such we consider it important that licensees be able to retain flexibility in structuring and presentation of the SOA such as the use of tables rather than paragraphs where appropriate and the ability to move various sections around, such as the "About you", "What you want sections" or inserting additional sections such as obligations.

We have provided feedback in Table 1, of the proposed restructuring of sections to enhance the flow and facilitate consumer understanding of the SOA. We recommend the following sequence:

- Front page (moving total commissions to the rear)
- Table of contents (p2)
- Summary of my insurance recommendations (p3)
- What you should know about my advice (p23-24)
- About you (p4-5)
- What you want (p6-7) which should be combined with 'My advice' (p8-12) – Example 2 illustrates how this section may be combined and removes two pages from the SOA
- Overview of recommended products (p13)
- Why my advice is in your best interest and appropriate (p18-22)
- Consequences of my advice (p14-17)
- How to follow my advice
- My commissions
- Authority to Proceed

We consider the scope of the advice, which is covered in 'what you should know about my advice' section, should be upfront so that it is easier for the customer to understand what the advice will cover.

The information covered in 'What you want' and 'my advice' sections can be combined to remove repetition and streamline/shorten the relevant sections. This will also demonstrate to the customer how the advice aligns with what the customer is seeking.

The proposed sequence would make it easier for the customer to understand and aligns with ASIC's requirement of making SOA's '*clear, concise and effective*' (RG 90.18)

### **3.3 Content and length of the Example SOA**

**B3Q1 Have we included any information in the example SOA that you think should be excluded? Please provide an explanation for your comments**

While we don't recommend specific content be excluded, we note that content not arising from a specific regulatory requirement is included at the discretion of the Licensee. For example, links to resources, reiteration of content already included in an FSG.

**B3Q2 Have we excluded any information in the example SOA that you think should be included? Please provide an explanation for your comments, bearing in mind that the SOA is only one part of the advice process and additional information can be provided to the customer in other ways.**

Advice on retaining existing products is included in the fourth row on page 20.

In the draft SOA, the reasons provided when giving hold advice (e.g. customer to retain Oz insurance, page 21) is contained to a simple statement (*"Its terms and definitions compared well to other products available, and the cost of the cover also compared well"*) as opposed to new advice (e.g. you obtain life and TPD cover, page 21) where a more comprehensive list of reasons and comparisons are included (eg. Insurance needs page 11, Additional consequences page 15, risks involved page 17, and how my advice is appropriate page 21).

We would like clarification from ASIC on the obligations of disclosure in instances of advice to retain existing products (referred to as 'hold advice').

Does the information in the SOA reflect the level of detail that meets ASIC's expectations for hold advice or does ASIC envisage more information is included outside of the SOA?

Are there any cases where it is not suitable for a hold recommendation to use a simple statement such as the one used by ASIC in the sample SOA?

Finally, to ensure that industry clearly understands ASIC's expectations it would be extremely helpful if ASIC could include explicit guidance about what information is expected to be included in relation to hold advice/products which are retained to ensure consistency of interpretation.

In relation to potentially excluded information please refer to our comments in the table as to whether the advice is consistent with ASIC 413 report.

### **3.4 Upfront disclosure of commissions**

**B4Q1 Do you think the disclosure of commissions in the example SOA is sufficiently upfront and prominent? Please provide reasons.**

**B4Q2 Do you think that customer understanding of commissions is enhanced by upfront disclosure? If not, why not?**

Rather than focusing on the benefits of the advice, or the advice itself, the focus on the cover page is on how much the adviser will get paid. Focus of the SOA should be on how the customer benefits from the advice. Having commission on the front page of the document will not assist in solving the under-insurance problem in Australia but may inadvertently discourage customers not to proceed with the advice.

Fees and commission disclosures have greater context when read together with the recommendation, including product recommendations. We do not consider including commissions disclosure as is currently presented in the sample SOA is helpful or assists consumer understanding in relation to fee and commission disclosure.

We therefore consider that it is not appropriate to include commission disclosure on the first page.

The focus of the document should be consistent with RG 175.137 which notes that the aim of the SOA is for the customer to understand and whether to rely on the advice. It should not be focused on fee disclosure **in the absence of the advice or the recommendations**. It is preferable that the

fees are disclosed after the recommendations, in the detailed table towards the back of the SOA, and that the customer can easily access the commission fee disclosure via clear labelling in the table of contents page.

If however ASIC considers that commissions disclosure needs to be included earlier in the document, a short snapshot of the fees/commissions should be included on page 3 after the summary of recommendations – please refer to Example 1 which has been included as an attachment to this submission.

To help consumer understanding, a note should also be included in the snapshot to note that the fees are discussed in greater detail on page x (towards the back of the document) so that the customer doesn't think that the snapshot and detailed disclosure relate to two different fees or the incorrect view that they are being charged twice.

We have received feedback that utilising the term "me" in the disclosures is considered unprofessional which would not be found in the terms of engagement used by other professionals such as Accountants or Lawyers. In addition, the reference to "me" may often not be correct, the money can be received by a corporate authorised representative who pays the adviser a salary. Even if the adviser owns the business they generally don't receive all of this money, the fees may also cover business expenses such staff wages, premises and business on costs.

#### **4. Proposed updates to RG 90**

##### **4.1 proposed updates to RG 90**

**We propose to update the guidance in RG 90 to reflect the new example SOA. The draft updated guide is attached to this consultation paper. It is intended to assist advisers to make use of the example SOA and better understand ASIC's expectations for SOAs.**

##### **C1Q1 do you have any comments about the draft update RG90?**

Page 4 of updated RG 90 notes that ASIC's aim is to assist advisers make better use of SOAs. It would be helpful if ASIC could outline what it means by advisers making better use of SOAs. Does this mean that the SOA is more effective in communicating to the customer the benefits of advice thereby leading to the customer implementing the advice (i.e. more commercial) or more effective as a disclosure document, or a balance of the two?

RG 90.17 - Even though the primary purpose of this exercise is to enhance customer communication, it is important that the SOA's role as a key disclosure document for advice to retail customers is not understated. This is the document which ASIC, industry and customers use to consider key information relevant to the advice and the decision on whether or not to proceed with the advice is based.

Further the guidance notes that the SOA has not been prepared to protect the providing entity from liability. It is considered that a well drafted SOA should effectively communicate to the customers, and as a result, provide also provide a certain level of protection to the providing entity.

Page 14 of RG 90 – The key points section notes that the body of the SOA does not include standard warnings and disclaimers. It would be helpful to include a further note that the SOA should however still contain risk disclaimers relevant to the advice.

It would be helpful for ASIC to confirm that the intention is only for the SOA in RG 90 to be an example document rather than a mandatory requirement. In addition, advice providers should have

the discretion to use language in the SOA that is more customer-friendly and that advisers would choose to use when speaking to customers.

#### **C1Q1 Are there areas where you consider further guidance is needed?**

To assist understanding and implementation of the requirements set by RG90, it would be helpful if RG 90 could include a summary;

- of recommendations/guidance covered in the RG, as well as to clearly define what the minimum regulatory standards are as opposed to best practice recommendations.
- which outlines the regulatory requirements that each RG obligation fulfils. For example, the disclosing commissions satisfies the duty to disclose fees.

It would also be helpful if RG90 would outline the sections where licensees have discretion to change the order or format of contents or the format of certain sections. RG90 should also outline sections (or parts) which are compulsory requirements that cannot be edited or changed.

#### **Regard to new or changing requirements set out under RG**

Updating RG 90 may impact existing understanding of ASIC's understanding and expectations and require changes to practices and processes. Implementing changes including providing advisers with relevant training support can be a timely and costly exercise, and industry would welcome sufficient time and ASIC support to ensure a smooth transition to changing/new RG90 obligations.

#### **4.2 Adapting the example SOA to different scenarios**

**C2Q1 what if any difficulties do you think an adviser may face in adapting the example SOA to different life insurance or advice scenarios?**

**C2Q2 How do you think ASIC can assist advisers to overcome these difficulties?**

The SOA includes a lot of free text which is to be populated by advisers. This will increase the time for SOA production and may increase the risks of advisers unintentionally omitting relevant information (compared to information which is populated).

The Financial Ombudsman Service will review SOA's in complaint scenarios. We consider that it is important and we recommend that FOS is engaged and comfortable with the final example SOA. Additionally, it would also be helpful if consumer testing of the final document is undertaken to ensure the final SOA supports customer understanding.

#### **4.3 Addressing barriers to industry take up**

**C3Q1 What organisational barriers exist for advisers to use the example SOA as a model? Please explain how these barriers may hinder industry take up of the example SOA.**

**C3Q2 How do you think ASIC can assist advisers to overcome these barriers and use the new example SOA as model in producing their own SOAs?**

Updating and amending the SOA template to align with the example SOA will encompass the following changes and costs;

- time and resources to develop a new template SOA and supporting SOA guides to support the SOA templates
- business/system costs to amend the SOA templates within financial planning software

- education and training on the new SOA template and changes to the financial planning system in terms of how to populate the SOA/fill in the information

Further barriers also include initial system and user problems or errors in using and populating the new SOA template when transitioning.

As these barriers are incurred every time the SOA is amended there is not a great deal which ASIC can do to assist to overcome these barriers. These are costs that are simply imbedded when making changes to SOA templates.

# Example 1: Summary of my insurance recommendations

I recommend that Brad replace his life and total and permanent disability (TPD) insurance, retain his income protection insurance and take out trauma insurance.

I recommend that Zara increase the amount of cover under her life and TPD insurance and take out trauma insurance.

The tables below provide a summary of the products I recommend for Brad and Zara. See 'My advice' on pages 8–12 for more detail about these recommendations.

## Recommended insurance—Brad

Cover	Insurer	Amount of cover	First year premium
Life cover TPD cover	MNO	Life: \$1,110,000 TPD: \$510,000	\$2,040
Income protection	Mantra	\$5,350 per month	\$1,200
Trauma	MNO	\$150,000	\$900
<b>Total</b>			<b>\$4,140</b>

## Recommended insurance—Zara

Cover	Insurer	Amount of cover	First year premium
Life cover TPD cover	OZ Industry Superannuation Fund	Life: \$840,000 TPD: \$840,000	\$650
Trauma	MNO	\$235,000	\$1,300
<b>Total</b>			<b>\$1,950</b>

## Payments received for this advice

These commissions are paid from the insurer to us and are not an additional cost to you. The commissions are split between my licensee and my company. For the breakdown please refer to page XX.

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**Commissions**

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First Year	60% of Total Premium	\$2,784
Following Years	20% of Total Premiums	\$1,088

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# Example 2: What you want (Combining)

I met you both on 15 March 2017 for the first time. We had a discussion about your insurance preferences and needs. This section outlines my understanding of your needs.

## What you both want

What we discussed	Explanation
<p>At that meeting, you said you were worried about whether or not you had enough personal insurance.</p>	<ul style="list-style-type: none"> <li>➤ <i>You both recognise the value of having comprehensive personal insurance cover, especially while you have young children.</i></li> <li>➤ <i>You want to ensure that Brad’s income is protected until retirement and that you have appropriate personal insurance cover while you have debts and dependent children.</i></li> <li>➤ <i>You expect that as your debts decrease and your children become less dependent on you, the level of insurance cover required will reduce.</i></li> </ul>
<p>We discussed the availability of trauma insurance cover for children.</p>	<ul style="list-style-type: none"> <li>➤ <i>You were not interested in obtaining advice on child insurance. This is because you have flexibility with your working arrangements, access to your cash reserves, and both your parents live nearby to help if one of your children becomes ill.</i></li> </ul>
<p>Because of the value you place on insurance, you confirmed that you are willing to spend up to \$5,000 per year of your surplus cash on personal insurance premiums (\$3,800 more than you currently spend), rather than directing these funds to your mortgage.</p>	<ul style="list-style-type: none"> <li>➤ <i>We agreed that I would provide you with a full review of your personal insurance needs, to ensure that your family has adequate financial support in the event of death, disability or illness.</i></li> </ul>
<p>You told me that, where possible, you would like all available surplus cash to be used to reduce your mortgage.</p>	<ul style="list-style-type: none"> <li>➤ <i>You agreed that it is important to balance your need for appropriate personal insurance cover with your goal to pay down your mortgage debt as quickly as possible. You would prefer any personal insurance premiums to be funded using your superannuation benefits.</i></li> </ul>

## What you want and need—Brad

In case of	You want to ensure that	Amount of cover needed	
Your death	<i>The mortgage on your home can be cleared in full</i>	<i>Clear Mortgage</i>	<i>440,000</i>
	<i>\$10,000 is available to help with funeral expenses</i>	<i>Funeral costs</i>	<i>10,000</i>
	<i>Your family can financially maintain their current lifestyle.</i>	<i>Replacement of income Replacement of 50% of your income to age 65. Assumes 3% inflation and 5% returns</i>	<i>760,000*</i>
	<i>Total Insurance Need</i>		<i>1,210,000</i>
	<i>Less existing super or other assets</i>		<i>\$100,000</i>
	<i>Total cover needed</i>		<i>\$1,110,000</i>
You become totally and permanently disabled	<i>The mortgage on your home can be cleared in full</i>	<i>Clear Mortgage</i>	<i>440,000</i>
	<i>\$100,000 is available to help with any related medical expenses</i>	<i>Medical Costs</i>	<i>10,000</i>
	<i>Your family can financially maintain their current lifestyle.</i>	<i>Replacement of income 75% of your income would be replaced through income protection and mortgage payments would no longer be needed as the mortgage is paid off.</i>	<i>nil</i>
	<i>Total Insurance Need</i>		<i>540,000</i>
	<i>Less existing super or other assets</i>		<i>\$100,000</i>
	<i>Tax payable on super and insurance claim</i>		<i>\$70,000</i>
You suffer a severe illness or injury (i.e. trauma)	<i>\$100,000 is available to help with any related medical expenses</i>	<i>Medical Costs</i>	<i>100,000</i>
	<i>\$50,000 is available to cover 2 years' worth of mortgage payments</i>	<i>Mortgage Repayments</i>	<i>50,000</i>
	<i>Zara's income is not to be replaced if she takes time away from work to support you</i>	<i>Replacement of income</i>	<i>nil</i>
	<i>Total Insurance Need and recommended cover</i>		<i>150,000</i>

In case of	You want to ensure that	Amount of cover needed	
You are unable to work due to illness or injury	<i>As much of your salary as possible is replaced</i>	<i>This is 75% of your income plus an additional amount to employer cover SG contributions</i>	<i>5,312.50</i>
	<i>Note that premiums paid on income protection insurance are generally tax deductible.</i>	<i>90-day waiting period and a benefit period to age 65</i> <ul style="list-style-type: none"> <li>• <i>You have 3 months sick leave</i></li> <li>• <i>You expect to work until age 65</i></li> </ul> <i>You will need to retain a cash buffer to cover the period of time until a payment is made. These are made monthly in arrears i.e. the first payment would be after 4 months.</i>	

## Superannuation contribution strategy

Recommendation	Explanation
You do not make additional contributions to superannuation to offset the impact of the insurance premiums at this time.	<ul style="list-style-type: none"> <li>➤ <i>You stated your goal is to reduce your mortgage.</i></li> <li>➤ <i>Your current employer contributions substantially exceed the recommended insurance premiums that will be deducted from your superannuation.</i></li> </ul>

## What you want—Zara

In case of	You want to ensure that	Amount of cover needed	
Your death	<i>The mortgage on your home can be cleared in full</i>	<i>Clear Mortgage</i>	<i>440,000</i>
	<i>\$10,000 is available to help with funeral expenses</i>	<i>Funeral costs</i>	<i>10,000</i>
	<i>Your family can financially maintain their current lifestyle.</i>	<i>Replacement of income Lump sum to generate approx \$30,000 pa to help maintain lifestyle until Noah is 16. Assumes 3% inflation and 5% returns</i>	<i>240,000*</i>
	<i>Total Insurance Need</i>		<i>690,000</i>
	<i>Less existing super or other assets</i>		<i>30,000</i>
	<i>Total cover needed</i>		<i>\$660,000</i>

In case of	You want to ensure that	Amount of cover needed	
You become totally and permanently disabled	<i>The mortgage on your home can be cleared in full</i>	<i>Clear Mortgage</i>	<i>440,000</i>
	<i>\$100,000 is available to help with any related medical expenses</i>	<i>Medical Costs</i>	<i>10,000</i>
	<i>Your family can financially maintain their current lifestyle.</i>	<i>Replacement of income</i> <i>Lump sum to generate approx \$30,000 pa to help maintain lifestyle until Noah is 16.</i> <i>Assumes 3% inflation and 5% returns</i>	<i>240,000</i>
	<i>Total Insurance Need</i>		<i>780,000</i>
	<i>Less existing super or other assets</i>		<i>30,000</i>
	<i>Tax payable on super and insurance claim</i>		<i>90,000</i>
	<i>Total cover needed</i>		<i>\$840,000</i>
You suffer a severe illness or injury (i.e. trauma)	<i>\$100,000 is available to help with any related medical expenses</i>	<i>Medical Costs</i>	<i>100,000</i>
	<i>\$50,000 is available to cover 2 years' worth of mortgage payments</i>	<i>Mortgage Repayments</i>	<i>50,000</i>
	<i>Brad's income is replaced for one year so he has the option to take some time away from work to support you and the children</i>	<i>Replacement of income</i>	<i>85,000</i>
	<i>Total Insurance Need and recommended cover</i>		<i>235,000</i>
You are unable to work due to illness or injury	<i>Replacement of your salary is considered; however, this is not a high priority.</i>	<ul style="list-style-type: none"> <li>➤ <i>You are not eligible for income protection insurance as you are only employed for 14 hours per week.</i></li> <li>➤ <i>There are other 'home maker' products, similar to income protection insurance, which pay an agreed monthly benefit if you become significantly disabled. However, taking into account the other types of insurance recommended, I do not recommend these products to you because covering your income is not a high priority.</i></li> </ul>	

## Superannuation contribution strategy

Recommendation	Explanation
<p>You make a non-concessional contribution of \$1,000 to your superannuation this financial year.</p>	<ul style="list-style-type: none"><li>➤ <i>This will enable you to receive a co-contribution amount.</i></li><li>➤ <i>A non-concessional contribution is an 'after tax' contribution. <u>Based on your current income the government contribution will be \$500.</u> If you earn less than \$51,021 per year (before tax) and make after-tax superannuation contributions, you are eligible to receive matching contributions from the Government. This is called the Government co-contribution. If you earn less than \$36,021, the maximum co-contribution is \$500 based on \$0.50 from the Government for every \$1 you contribute.</i></li><li>➤ <i>This recommendation will have a small impact on your goal to reduce your mortgage. However, it is a small contribution which, when matched with the co-contribution, will benefit your superannuation balance.</i></li></ul>