



Unsolicited telephone sales of direct life insurance and consumer credit insurance

Submission to Australian Securities & Investments Commission

Response to: Australian Securities & Investments Commission

Response from: Sarah Phillips; Senior Manager, Corporate

Affairs Contact details: [REDACTED]

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AIA AUSTRALIA LIMITED



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Introduction

Thank you for the opportunity to provide feedback on ASIC's consultation on the prohibition of unsolicited telephone sales of life insurance and consumer credit insurance (CCI).

AIA Australia (AIAA) supports ASIC's ongoing efforts in this area, from the guidance on anti-hawking, to the extensive work on CCI, and the 2018 report on the sale of direct life insurance.

In line with ASIC's 2018 findings, AIAA and its wholly owned subsidiary AIA Financial Services (together AIA) do not sell direct life insurance through outbound unsolicited calling.

Our sales practices are governed by the following principles:

1. Due to the inherent complexity of life insurance products, consumers need an opportunity to properly understand a product's features and terms, to determine whether the product is appropriate for them.
2. Where a product is sold with general advice, a consumer should first give an indication that they are seeking information regarding the product and should be given time to understand the information provided to them about the product before a sale is completed.
3. Where a customer has responded to a communication that has no financial product content or context, it is not appropriate to telephone them to discuss life insurance.
4. Our products are sold through partnership distribution relationships with providers who we ensure are selling appropriately, and who know their customer base sufficiently to approach them about products they may wish to purchase.

AIA believes that these principles, combined with customer contact and sales controls, create an appropriate environment where customers can assess their insurance needs, and make an informed decision over a period of time that doesn't result in concerns about pressure sales.

We want to ensure that the market is not over-regulated to the extent that we can't meet a need for products sold direct to consumer or that we impose barriers to consumers being informed of and accessing products which may be suitable for them.

It is important that the ASIC standard that is ultimately put in place is not so vague that companies can engage in practices that could further erode confidence in the industry and lead to poor outcomes for customers long-term. However, if the standard is too prescriptive, this could reduce innovation, and make it hard for uninformed/vulnerable customers to become educated about their insurance needs and options.

Customers may have an expectation that they can purchase a product as part of a phone call about their needs. An appropriate consumer protection is to ensure that a consumer is given time to consider the details of a life insurance product (which is inherently complex) before a sale is finalised.

It is important that we retain a system that allows product providers and issuers to engage with customers and potential customers to help them understand their needs, ahead of any product discussion taking place. Marketing systems should be able to raise awareness about the potential need for protection and risk management, and only once an individual is in a position to engage with problem-solving should they be able to solicit a financial product conversation with general advice provided.

Over many years we have served Australian consumers by addressing their protection needs, helping reduce the burden on Government disability services and provisions to cater for the disadvantaged in our society. We are concerned that the prospect of over-regulation will have a significant impact on an already underinsured nation, where we have households facing prospects of rising cost of living, record mortgage levels and lack of adequate protection if the unthinkable happens. We take our responsibilities seriously by understanding that the consumers of today like to transact across multiple channels to do their research and purchase, and as such believe that online tools and appropriately governed and managed telephone-based interactions provide a valuable avenue for consumers to make informed decisions and purchase cover that meets their needs.

We are pleased to provide some information below about the role we see for direct life insurance within a sustainable and consumer-focused industry, and the appropriate protections and boundaries on direct sales practices.

There is a role for simplified life insurance purchased directly by the consumer



Life insurance is designed and sold along a spectrum of design that ensures there are products that meet every Australian's needs; from a basic safety-net of cover provided on a default basis by trustees that design cover the meet the needs of their membership, through to tailored cover sold to an individual who has received personal advice from someone complying with a best interest duty obligation.

AIA is of the view that there is a need for a mass market product, which is simplified and can be purchased directly by consumers in a convenient and easy to access manner. Many Australians are comfortable researching products online and making an informed decision about the suitability of insurance for their needs; direct insurance fills a role for those people that know they need more than their default level of cover in their superannuation but may not wish to see or pay for a financial adviser, which allows them to purchase product in the way in which they want to transact.

These consumers are now more empowered than ever before – over \$67m in direct life insurance sales were sold to customers either purchasing directly online or calling inbound in the 12 months to March 2019.¹

There are existing protections in place for purchasers of direct life insurance products

AIA has worked with its partners to implement ASIC's clear expectations in respect of telephone sales as set out in ASIC's 2018 report 587 on direct life insurance. We understand that similar steps were taken by the rest of the industry and those with poor practices have left the market.

Details of the sales controls in place at AIA are described in detail in the next section below.

AIA has implemented ASIC's recommendations for telephone and online sales; including explanations of any product exclusions, product intricacies (such as when premiums will rise), and benefit indexation. It is our expectation that these additional disclosures should be provided by all distributors as part of the sales journey.

Due to the inherent complexity in life insurance, AIA creates products for the direct channel that take into account the channel, target market and product suitability. Disclosure is simplified to clearly highlight product features/limitations, being cognisant that the products are sold under general advice and customers need to be supported to make appropriate decisions themselves. They are subject to

¹ NMG Direct Channel Risk Distribution monitor: \$23.3m digital sales and \$44.3m inbound.

limited underwriting, which provides greater certainty of cover and removes the need for underwriting at claim stage, which is already likely to be a difficult time for customers and their beneficiaries. They do not require full underwriting, which can be a drawn out process that includes medical tests, which is best navigated using the assistance of a financial adviser's expertise.

We want to ensure that our customers are purchasing products that suit their needs, and the work that the industry is doing in response to the new Design and Distribution Obligations legislation will support this occurring in the direct sales channel. It is our view that ensuring products are appropriately designed for the target market and the sales channel is a better outcome for consumers than prohibiting a distribution channel across the board.

The scope of "unsolicited telephone sales" needs to be clearly defined

As suggested in the introduction, AIA supports appropriate sales practices, to ensure consumers don't feel pressured and have the information and time they need to consider a product.

However, it is also important not to over-regulate to the point where contact cannot be made in situations where a clear life insurance need or interest is expressed.

AIA believes the regulatory system should allow for raising awareness of risks and protection needs as part of a customer's application process for financial products, with the ability to refer them for more information where they have expressed an interest or requested a call back.

Provision of information by telephone can be a useful way for an insurer or distributor to ensure application questions are not causing confusion and the cover is well understood.

We view an unsolicited call as constituting the following:

- Customers of our partners, who aren't also existing AIA customers, will never be contacted about a life insurance product if they have opted not to receive marketing, and haven't provided a one-off clear/positive/informed consent to be contacted
- Customers who have no relationship with AIA or a partner and haven't provided a clear, positive, informed consent, through a process that is clearly about the purchase of consideration of life insurance, will not be contacted
- Collecting consumer information through surveys about topics unrelated to financial products and then calling them to discuss a financial product
- Buying email/customer contact lists and calling them

However, we do not view the following as unsolicited calling that should be prohibited:

- Proactive contact with partner customers about an insurance product, where that customer has provided a clear, informed and positive consent to receive this contact
- Raising awareness of holistic protection needs, as a stand-alone conversation
 - This might involve contacting existing customers through proactive calls
 - This could also occur during the sale of a related product that is likely to create a new protection need
 - This conversation can include an explicit reference to what steps can be taken to have a more comprehensive conversation and will capture a clear/positive/informed consent
 - These calls will not describe specific products, provide quotes or provide any other product specific information.
- Contacting existing insurance customers of AIA:
 - To make them aware of new offerings and product updates, and options that they might have within the existing product that have not yet been taken up
 - To remind them of the value of their existing insurance benefits, and the implications of lapsing
- Follow ups to online applications.

Further detail about the need to allow insurers and partners to continue to contact existing customers and those who start an application online is provided below.

1. Following up online applications should not constitute “online lead generation”

Online lead generation is described in the consultation paper as “where consumers take part in lifestyle surveys or competitions, click on sponsored content, sign up to newsletters or provide their details to access information.”

AIA agrees that where a consumer has provided their details for something unrelated to the purchase of life insurance, an insurer or their distributor should be prohibited from contacting them to sell them an insurance product.

However, we believe there needs to be further clarity that “online lead generation” does not encompass situations where a consumer has commenced the purchase of an insurance product online, prompting a phone call, or has otherwise actively engaged with a provider for the purposes of specifically understanding the life insurance products or services offered or promoted by that provider.

It is AIA’s view that in situations where someone has actively sought to understand a product or started the purchase process online, it does not constitute an “unsolicited telephone sale” if AIA or a partner calls the customer to follow up and ensure they have all of the information needed to understand the product and complete the sale if they wish. In these situations, we believe the application should be able to be conducted and sales process should be able to be finalised over the phone if the customer desires.

We understand that protections are required when making telephone calls to customers in these circumstances. The protections that AIA has in place are as follows, and are what we consider constitute good practice:

- Prior to a customer commencing an online quote and application process for a life insurance product, they must:
 - acknowledge that they have read the relevant Product Disclosure Statement and financial services guide
 - confirm that they are aware of how their data will be handled, including by referring customers to any applicable privacy policies
 - agree that they may be contacted to discuss the relevant life insurance product until they tell us otherwise, including by telephone.
 - agree to receiving communications about that product electronically
- If a call is made and a customer indicates that they do not want to be contacted about their application or quote, the call is immediately ceased. If the customer opts out of all further marketing contact during the call, this is actioned, and also passed on to any other relevant entity
- Calls to customers are made by our contact centre using scripts prepared by staff who are trained in accordance with ASIC RG 146². The scripts are developed in consideration of all current ASIC guidance, and go through a due diligence process that involves review by senior product design and compliance teams
- All supervisory and quality assurance staff in our contact centres are also RG 146 qualified, ensuring a high level of compliance and quality is maintained
- We are committed to making sure our scripts are clear, honest and provide all relevant information, to ensure that the recipient of a call knows the exact nature of what is being offered and the commitment involved. Before making an offer to buy the product, all relevant information that would equip the customer with making an informed decision is relayed
- Every one of our direct life insurance sales calls is monitored and verified by a dedicated quality assurance team. This involves checking all information gathered is accurate in order

² RG 146 Licensing: Training of financial product advisers.

for a policy to be completed, so that a verified sale has satisfied all requirements for a policy to be 'in-force', including passing all relevant legal and compliance requirements

- Currently, 70% of sales made via the phone following the commencement of an online application continue to have multiple touch points, giving time for the customer to read through all the relevant information and carefully consider before making a decision to buy or not to buy
- After a sale is completed, AIA's policy administration team completes a "welcome call" with the customer, to ensure all relevant policy documentation has been received and to determine whether the customer has any further questions about their policy or feedback on the sales experience
- All current direct life insurance products issued by AIA have a 30-day cooling off period where a full refund of premiums is made should a customer change their mind

Since AIA transitioned its call centre in-house following the release of ASIC's Rep 587, we have seen huge improvements in the customer experience. We believe this underscores the strong consumer protections and sales culture that have been embedded within our operations.

2. Existing customer relationships should allow for telephone sales where appropriate

The consultation paper notes that unsolicited sales can include contacting consumers whose details have been acquired through an existing relationship with the brand or provider.

It is our view that AIA and the organisations with which we partner to distribute our products – banks, trustees and other providers – should know our respective customer bases well enough to suggest additional products to them that might suit their life stage and financial position. Organisations should have sufficient understanding of their customers and their customers' situations to match a product recommendation with a customer's potential needs.

If trust has built up between a customer and a financial service provider, we shouldn't prevent a natural sales progression and further enhancing the customer-provider relationship, as long as appropriate protections are in place.

This can include sending a marketing communication to a targeted group of customers that would likely have a "relevant" need to consider life insurance i.e. if they have recently purchased a home, started a family or experiencing another life stage event. This marketing communication could result in a follow up call being requested by the customer or made by the financial services provider to ensure the information that was sent was understood by the customer.

Additionally, providers should not be prevented from reaching out to their existing customers, including via telephone, to inform customers of new products or other products that may enhance or complement their current circumstances.

There is a need to distinguish between circumstances where a related or complementary product is sold, compared with cold selling of a new product relationship. For example, suggesting insurance that may be appropriate when putting in place a loan, in a situation where there is an assumed need and a logical flow of conversation moving from one product to the next, is different to selling insurance based on pure outbound leads. This is also the case where an issuer of one type of insurance suggests the purchase of another – for example, life and health insurance products bundled together.

In consideration of this and in line with relevant law and the practices of other industries, the definition of 'unsolicited telephone sales' should not be so broad as to prevent product issuers and distributors from contacting existing customers about products and product enhancements which may be relevant and appropriate for the customer where: (i) the customer ordinarily receives, or would reasonably expect to receive, marketing communications relating to the product and services offered by the provider; (ii) the customer is provided the opportunity to opt out of receiving similar communications

and has not done so; and (iii) the caller complies with the applicable requirements relating to conducting a telemarketing call and providing financial services.

Further, in exercising its modification powers to declare that the exemptions in s992A(3)(a)–(e) do not apply to unsolicited telephone sales of life insurance and CCI where general advice or no advice is given, providers should not be prevented from providing customers with all relevant information for their consideration, including the cost of a product. In addition to the above, it is our view that ASIC should permit the generation of a quote during a telephone call so customers can make an informed decision by considering the financial implications of a product whilst considering other relevant information before a sales call is made.

However, we acknowledge there needs to be boundaries established on any product suggestions, to ensure consumers do not feel pressured into purchasing products without sufficient information or time to consider whether the products are appropriate for them.

We want to ensure that sales practices that we intend to put in place as part of a bancassurance partnership are not captured by the ASIC prohibition, and so would welcome clarity from ASIC that the process described below does not constitute “unsolicited telephone sales”.

It is intended that bank staff, in the process of having a solicited conversation with a customer about another financial product, such as a home loan, will be able to have a scripted conversation with the customer about whether they would be interested in taking out any protection products. Only if the customer has expressed a positive, clear and informed request, would the bank employee refer them to someone within the business who can provide detailed general information about products that may be appropriate. This would be a separate, second conversation, and customers will be made aware that the first product (the home loan) is not conditional on the second product (the protection product) also being obtained.

In all cases, the protection conversation will need to be conducted by appropriately authorised and trained staff.

AIA feedback on consultation questions in CP317

Consultation Question	AIA Comments
Q1 Do you have any feedback about our intention to use the modification power to prohibit unsolicited telephone contact to offer, issue or sell direct life insurance?	<ul style="list-style-type: none">• AIA supports ASIC’s intention to ban unsolicited telephone sales of direct life insurance and consumer credit insurance (CCI)• We agree that due to the complexity of life insurance products, consumers need an opportunity to properly understand a product’s features and terms, and whether the product is appropriate for them.• Where a product is sold with general advice, a consumer should first give an indication that they are seeking the product, and should be given time to understand the information provided about the product, including the cost of the product where relevant.• It is important that ASIC clearly defines what it means by “unsolicited telephone sales” and gives clear examples of what constitutes good and bad practice to ensure good customer outcomes without jeopardising the ability from insurers to meet the customer needs in this channel.

Q2 Do you have any feedback about our intention to use the modification power to prohibit unsolicited telephone contact to offer, issue or sell CCI?	We have responded to this in the body of our submission.
Q3 Is there a risk of causing inadvertent consumer harm by banning unsolicited telephone contact to offer, issue or sell direct life insurance and CCI?	<ul style="list-style-type: none"> • We want to ensure that we don't over-regulate to the extent that we can't meet a need for products sold direct to consumer or that we impose barriers to consumers being informed of and accessing products which may be suitable for them. • Direct contact with customers either through telephone contact or other communication channels can help raise awareness and educate customers about relevant products when a genuine need may be there e.g. having started a family, taken on increased debt.
Q5 If you are an insurer or distributor: (a) what are the likely compliance costs of the ban?	There are likely to be limited compliance costs of the ban due to AIA and most other insurance providers moving away from an outbound calling distribution model.
(b) what is the likely effect on competition?	AIA is of the view that there is a need for a mass market direct insurance products, which can be purchased directly by consumers in a convenient and easy to access manner. Given most providers have now moved to alternative distribution models there is unlikely to be much impact to competition.
(c) do you foresee any other impacts, costs and/or benefits of this proposal, or of any alternative approach you suggest?	<ul style="list-style-type: none"> • The biggest impact is likely to be stifling awareness of and education of life insurance to the "mass market". • Underinsurance in Australia is a significant problem and without clear examples of the bad practices ASIC is trying to ban may lead to further ambiguity and confusion amongst the providers trying to help address this problem.

Thank you for the opportunity to provide feedback to this consultation. If you wish to discuss any of the detail in this submission further, please contact Sarah Phillips, Senior Manager, Corporate Affairs in the first instance, on [REDACTED]