Australian Securities and Investments Commission

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TO: CHIEF EXECUTIVE OFFICERS OF ASIC REGULATED LIFE INSURERS, FRIENDLY SOCIETIES AND LIFE INSURANCE DISTRIBUTORS (LIFE COMPANIES)

18 August 2025

Dear CEOs

Improving the direct sale of life insurance

ASIC has completed its review of the direct sale of life insurance policies by the life insurance industry. We are now calling on Australian life insurance companies to renew their efforts to improve direct sale practices.

While we acknowledge the improvements made by some life companies in recent years, there remain notable deficiencies in industry practices in relation to direct sales.

The key observations from our review should be shared with your board and actions implemented where relevant to your company's operations.

Key observations from our review

Our findings have reaffirmed that life insurance companies will be in a better position to demonstrate their compliance with legal obligations and improve consumer outcomes if they observe the following actions:

- **Strengthen product design** with better use of customer feedback by testing and incorporating complaints, claims, and cancellation data into design processes, and improving product monitoring.
- **Improve sales and pay practices** by enhancing quality assurance processes, and linking sales staff pay to compliance and customer satisfaction measures. Linking performance to sales volume alone can create incentives for conduct contrary to the interests of consumers.
- **Apply consistent quality standards to retention calls and streamline cancellation processes**, ensuring clear criteria for identifying inappropriate pressure tactics, the proper oversight of retention activities, and objection-handling practices that respect customer decisions.
- **Treat complaints as valuable business intelligence**, sharing complaint information across relevant business units to enable systematic improvements.

Background

In 2018, we reviewed the direct sale practices of life insurance products and highlighted several areas of concern in our report, *The sale of direct life insurance* (REP 587).

In the February 2019 final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, several recommendations were made about how life companies sold their products directly to consumers.

ASIC subsequently reviewed documents and policies from a sample of life insurers and life insurance distributors covering the period between July 2021 and June 2024 to determine whether consumer outcomes had improved since our 2018 review.

Mixed progress and evolving challenges

Our review identified the following developments since the recommendations made by ASIC and the Financial Services Royal Commission.

Improvements since 2018

- Lapse rates for directly sold policies have fallen: death cover lapse rates have dropped from 14.1% to 12.1%, with similar drops across almost all cover types.
- Fewer customers who bought policies directly are withdrawing their claims.
- Some companies now link sales agents' pay to compliance and customer satisfaction, not just sales numbers.
- Several life companies now quality assure all sales calls, instead of a small sample, by using technology such as AI-powered speech analytics.

Remaining challenges

- Claims disputes for directly sold policies have significantly increased across all channels, with dispute rates more than doubling since 2018.
- There have also been concerning increases in rates of disputes involving policies sold through a financial adviser.

Better practice areas

Observations from our findings are outlined in the four better practice areas summarised below. The key provisions of the *Corporations Act 2001* (Corporations Act) that form the basis for our observations are:

- The prohibition on hawking financial products (s992A)
- Misleading and deceptive conduct (s1041H and s12DA of the Corporations Act – and s12DB of the ASIC Act)
- Efficient, honest and fair provision of financial services covered by the licence (s912A(1)(a)), and

- Product design and distribution obligations (s994A–994H).

Product design limitations

Life companies must ensure their products are designed and distributed consistently with the interests of consumers in the target market.

The better practices we observed in our review included testing products with real customers before launching them and using input from compliance, claims, and complaints teams to inform product development and design.

However, our review found examples of product design limitations among the sample life companies, including:

- Some made limited use of customer feedback and relied heavily on sales data during the product design phase.
- Some had insufficient systems to monitor for product problems, which allowed those issues to continue undetected. In comparison, others used insights from complaints, claims and customer surveys to monitor the suitability of products for customers' needs.
- In some cases, there was no process for frontline staff to report concerns, despite these staff often being the first to identify problems.
- The product teams of some companies did not have the authority and resources to address problems quickly when their internal reviews identified issues.

Sales and pay practices

Life companies have changed how they structure remuneration and measure performance. Some life companies have now moved away from sales-only targets to use compliance and customer engagement as their main measures of staff performance.

However, a few companies still compare an agent's sales volume against expected sales metrics while also incorporating compliance measurements into their KPI structure.

Continued prominence of sales volume and targets can incentivise high pressure or misleading sales tactics contrary to the interests of consumers.

We observed that:

- Some life companies only reviewed a small percentage of sales calls, relying on manual reviews to identify compliance issues.
- Many entities also focused their sales and pay practice reviews on successful sales calls and failed to review a targeted number of non-converting calls.
- In contrast, we observed other life companies making use of technology, including AI-powered speech analytics, to monitor 100% of sales calls for pressure selling and inappropriate behaviour, reviewing both successful and non-converting calls to identify training gaps and compliance issues.

Retention and cancellation practices

When compared to sales calls, most life companies in our review undertook fewer quality assurance checks of retention calls.

Cancellation processes and the documentation requirements of life companies should be straightforward and proportionate, balancing the provision of information with respect for a customer's intention to cancel.

We observed complexity in cancellation processes, for example:

- Some companies have complex cancellation processes that require customers to complete multiple steps or provide extensive paperwork to cancel their policies.
- A small number of life companies had notably onerous processes for their staff to follow, to try to convince customers not to cancel their policies.

Complaints handling

Complaints provide valuable insights into how efficiently businesses operate and indicate where systemic issues may be present.

We observed from our review that some life companies:

- limited information sharing about complaints between internal teams. This is despite Regulation Guide 271 Internal dispute resolution (RG 271) requiring firms to encourage and enable staff to escalate possible systemic issues and to promptly escalate these issues to appropriate areas within the company for investigation and action,
- had insufficient standards for analysing complaint trends and root causes to identify systemic issues, and
- performed only limited evaluation of the effectiveness of changes that had been introduced to address previously identified issues.

Governance of emerging technology

Life companies using technology for compliance functions need appropriate oversight procedures and accountability frameworks to ensure their governance practices keep pace with their adoption of AI.

While technology governance was outside the main scope of our review, we observed that:

- Life companies are increasingly relying on technology to meet compliance obligations. Some use AI-powered speech analytics for monitoring calls and detecting phrases and behaviour that may indicate non-compliance.
- There are significant differences between life companies in how they manage and oversee technology systems, with some implementing solutions without appropriate management frameworks. This included using a 'set and forget' approach or having insufficient testing and checking procedures for compliance systems.
- In contrast, other life companies have established strong management frameworks, particularly around AI use, with clear accountability and

ongoing monitoring, consistent with the governance principles outlined in Report 798 *Beware the gap: Governance arrangements in the face of AI Innovation* (REP 798).

Next steps

As life companies build or expand their direct sales operations they should consider the better practice areas identified in this review to ensure good customer outcomes and compliance with the law. This is particularly important for life companies that are considering expanding direct sales of life insurance.

The steps you take in responding to the matters identified above will inform ASIC's response if we identify conduct of concern, commence investigations or take enforcement action.

If you have any questions about this letter, please contact Pippa Lane at pippa.lane@asic.gov.au

Signed

Alan Kirkland
Commissioner