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MEDIA RELEASE: FSC releases draft APL standard for consultation

The Financial Services Council (FSC) has today released for consultation its draft standard for life insurance approved product lists (APLs).

The standard, which will be compulsory for all FSC members once approved, supports APL construction practices that promote competitive access and choice for advisers and their clients.

It requires life insurance APLs to contain a choice of multiple life insurance providers and to be supported by robust off-APL processes. This enables advisers to recommend alternative products or insurance providers which are not on the APL to help meet best interest obligations.

To ensure consumers have full transparency to make an informed choice, disclosure of how many products and providers are on the life insurance APL will also be included in the advice process, namely in the Statement of Advice.

Additionally, there is a requirement for APLs to have a reasonable basis and to be formulated with the best interest duty in mind.

The draft standard also sets out best practice principles, which are not mandatory, but are intended to assist with creating and maintaining a life insurance APL. Examples of best practice principles include:

- Having an investment and product committee of experienced research professionals to assist with a licensee's internal research process.
- Licensees are encouraged to develop and utilise benchmark methodology in identifying which products are suitable for inclusion on the APL;
- A range of factors to consider when reviewing the suitability of an insurance product/provider for inclusion on the APL.

APLs serve as a risk management tool for advisers and licensees whereby products have been assessed for suitability prior to being included on the list. They also offer efficiency to advisers, providing them with comfort that the products on the list have been reviewed and approved by the licensee's own internal governance and research process and deemed suitable for inclusion on the APL.

The standard will be reviewed within 18 months of commencement.

Click [here](#) to read the draft standard in full. Submissions must be submitted to FSC Senior Policy Manager Bianca Richardson (brichardson@fsc.org.au) by 10 May.

ENDS

For further information please contact FSC Media Manager Mark Smith on 0434 566 764 or msmith@fsc.org.au.

About the Financial Services Council

The Financial Services Council (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.

FSC Standard No. 23 Life Insurance Approved Product List Policy

FSC Membership this Standard is most relevant to:	This Standard applies to FSC Members who are AFSL Members as defined in this Standard.
Date of this version (and commencement):	This Standard was issued on *** , and commences on 1 July 2017 on a voluntary basis. Full compliance with this Standard applies on and from 1 July 2018 .
History (prior version) of this Standard:	No prior versions.
Main Purpose of this Standard:	The purpose of this Standard is to encourage high standards in life insurance Approved Product List (APLs) construction practices that encourage competitive access and choice for advisers and their clients in life insurance products. The Standard also outlines processes for 'off' APL recommendations to ensure that adviser can access other products to enable them to meet best interest obligations.

Table of Contents

1. TITLE	3
2. DATE OF ISSUE	3
3. STATEMENT OF PURPOSE	3
4. COMPETITIVE ACCESS AND CHOICE CRITERION	4
5. REASONABLE BASIS CRITERION	4
6. Disclosure.....	5
7. BEST PRACTICE PRINCIPLES AND COMMENTS.....	5
8. GENERAL COMMENTARY	7
9. COMPLIANCE WITH THIS STANDARD.....	8
10. DEFINITIONS.....	8
11. APPLICATION OF THIS STANDARD.....	9

DRAFT

1. TITLE

- 1.1 This Standard (the **Standard**) may be cited as FSC Standard No. 23 *Life Insurance Approved Product List Policy*.

2. DATE OF ISSUE

- 2.1 This Standard was first issued on [insert date].

3. STATEMENT OF PURPOSE

- 3.1 The purpose of this Standard is to encourage high standards in life insurance APL construction practices that encourage competitive access and choice for advisers and their clients in life insurance products.
- 3.2 Used by many AFSLs providing personal advice to retail clients, the APL is an important element in the advice process that facilitates the delivery of quality recommendations based on quality researched products for licensees and advisers. Professional indemnity insurance can be voided if an adviser makes recommendations other than as approved by an AFSL. The APL serves to identify each product approved for recommendation.
- 3.3 The focus is on quality, across processes and APL construction practices, which support quality consumer outcomes.
- 3.4 Life insurance APLs are also commonly supported by “off APL” processes which enable advisers to recommend alternative products or providers, which are not on the APL where the adviser has sought review and obtained approval to use the additional product to meet best interest obligations. Off APL processes are mandatory under this Standard (see section 4.3) and subject to 4.4.
- 3.5 Although Life AFSL members may have their own internal research and life insurance APL processes, there is no industry standard on best practice principles or minimum requirements for developing a life insurance APL. The focus is also on having processes for ‘off’ APL recommendations to ensure that adviser can access other products to enable them to meet best interest obligations.
- 3.6 This Standard encourages principles of competitive access as well as choice and is also intended to ensure that there is a reasonable basis underpinning life insurance APL construction which facilitates the performance and satisfaction of the best interest duty and other obligations of an AFSL member and its representatives.
- 3.7 The focus is on having a suitable Life Insurance APL, as well as appropriate Life Insurance APL construction processes, which enables and facilitates AFSL Members and their representatives to act in the best interests of their clients.

3.8 In addition to the requirements of this Standard and meeting regulatory requirements, AFSL Members may have other principles and practices that they may follow in order to maintain a high standard of conduct in the operation and management of an AFSL Member's business.

4. COMPETITIVE ACCESS AND CHOICE CRITERION

4.1 The FSC supports principles of competitive access and choice for all advisers and their clients to available life insurance products.

4.2 In practice this means that an AFSL Member's Life Insurance APL should contain the choice of multiple life insurance providers.

4.3 Life Insurance Licensees will be supported by efficient and robust approval processes in place to consider insurance offerings outside of the Life Insurance APL. This means where advisers wish to use insurance offerings not part of an AFSL Member's Life Insurance APL that they are not unnecessarily restricted from doing so.

4.4 However, the requirements in 4.3 do not apply where the Life Insurance APL is "open" and includes all life insurance providers that service the retail life insurance market.

5. REASONABLE BASIS CRITERION

5.1 AFSL Members should focus on Life Insurance APL construction that provides a range of options for their advisers to deliver advice in their client's best interests. To this end, it is required by this Standard that Life AFSL members must apply a reasonable basis to APL construction.

5.2 This means having a range of current retail life insurance providers on the life insurance APL.

5.3 This requires consideration by the licensee of whether the APL will reasonably enable financial product advice to be given to a client consistent with the best interest obligations, having regard to the need to prioritise the interests of the client, and the obligation to provide appropriate advice.

5.4 For example it may be reasonable that a licensee with a large proportion of high risk occupation clients has a different range of insurance products on their APL to cater for this client base.

5.5 It is envisaged the Life Insurance APL will have regard to:

- Claims and underwriting philosophy of providers
- Product features, benefits and consumer value for money
- Relevant product research and service metrics

6. Disclosure

- 6.1 Disclosure should be provided in the Statement of Advice to outline how many products and providers are on the life insurance APL. Under this obligation it is envisaged that the adviser would also discuss this with their client during the advice process.

7. BEST PRACTICE PRINCIPLES AND COMMENTS

- 7.1 The requirements in section 7 are not mandatory. Rather the AFSL member should have regard to the best practice principles outlined in this Standard and determine what is reasonable given their own relevant circumstances.
- 7.2 This Standard sets out a number of best practice principles for creating and maintaining a life insurance APL.
- 7.3 These Best Practice Principles are intended to assist with Life Insurance APL processes. Consideration of these principles are encouraged however they are not mandated.
- 7.4 Best Practice Principles

7.4.1 Investment and Product Committee

- a) It is good practice for AFSL member to utilise an Investment and Product Committee as part of its research and APL process. Research Committees generally consist of experienced research professionals and can be supported by research providers, external consultants and other relevant stakeholders to assist with a licensee's internal research process.

7.4.2 Investment and Product Committee function

- a) When developing a Life Insurance APL, insurers should be researched against the best practice principles set out in this standard as well as the licensees own internal research requirements.
- b) Licensees are encouraged to develop and utilize benchmark methodology in identifying which products are suitable for inclusion on the APL. Benchmark methodology can utilize internal standards developed or agreed by the licensee as well as can also externally sourced information such as Research House ratings.
- c) The Life Insurance APL should be reviewed at least biennially, researching insurers against the licensees own pre-set benchmark methodology, as well as the best practice principles set out in this Standard.
- d) Where a life insurer, which is on the Life Insurance APL, makes significant enhancements or significant updates to their product range, the relevant team

managing the APL should make a commitment to review the changes accordingly in line with benchmark methodology.

- e) Where circumstances require an insurance APL may also be reviewed on an ad-hoc basis.
- f) Any changes to the APL, including additions or removals, should be communicated to advisers, outlining the basis for which the product was added or removed.

7.4.3 Corporate and Financial factors

- a) In considering the corporation and financial factors of an insurer, the research process should have regard to the following considerations:
 - Corporate strength and credit rating of a particular life insurer
 - Industry experience and track record of the life insurer
 - Ownership structure
 - Reinsurer arrangements
 - In-force business, positive growth rates and low lapse rates which can be sourced through 6 monthly APRA Reports and research from market specialists; and
 - Pricing, discounting and sustainability of current premium rates and customer lifetime cost (regard should be given to the sustainability of pricing and the ability to deliver in the long term. That is, consideration should be given not just to the current situation and pricing, but how that could change in the future); and
 - Claims payout ratios.

7.4.4 Claims Philosophy

- a) In considering an insurer's claims philosophy, the research process should have regard to the following considerations:
 - Transparent claims process
 - Insurer has stated claims philosophy
 - Transparent dispute resolution process

7.4.5 Underwriting Philosophy

- a) In considering the underwriting philosophy of an insurer, the research process should have regard to the following considerations:
 - Transparent underwriting process to enable advisers to manage clients' expectations
 - Emphasis on the customer in the underwriting process
 - Medical evidence requirements
 - Product design, policy terms and definitions

7.4.6 Product benefits and features

- a) In considering the product benefits and features of an insurer the research process should have regard to the following considerations:
- Product feature assessment including consideration whether the product features are valuable and whether the cost (for the features) is reasonable
 - History of providing upgrade to off-sale clients
 - Maintenance of product definitions with medical advancements
 - Design suitability for customer needs and expectations

7.4.7 Service Standards and Services Offered

- a) In considering the services an insurer provides the research process should have regard to the following considerations:
- Application process
 - New business processing
 - Underwriting
 - Timeliness of claims and benefit payout history
 - Administration
 - Consumer education
 - Adviser support such as education and training
 - Adequacy of other service standards (e.g. client online services and reporting)
- b) Feedback on service standards can be provided from a range of different sources, including external providers which undertake customer or adviser interviews in relation to the service criteria, customer or adviser feedback via surveys, or direct testing with the insurer through shadow shoppers.

8. GENERAL COMMENTARY

8.1 Life Insurance APLs assist advisers to understand and recommend appropriate insurance products that meet individual client needs and objectives. This may involve a trade-off between cost (premium) and the benefit or features of products including definitions and sums insured required to address the client needs. As a result, the APL should be diverse and not looking solely for risk products that are the highest rated or cheapest in order to be considered as competitive.

8.2 Retail risk products can be similar with regard to definitions and features. As a result, it is reasonable to group similar definitions and features that deliver against the most common primary client needs. Whilst there will always be some specific features available within individual products, Life Insurance APLs should reflect consideration of those that are most relevant in terms of common client needs. Where a client has a specific need that is not covered by the Life Insurance APL, the adviser is best placed to identify a suitable product that meets

the needs of a specific situation, subject to meeting the requirements of the licensee's approval process for use of such a suitable product.

- 8.3 In considering products for inclusion on a Life Insurance APL it is reasonable to conduct premium analysis on a range of product scenarios as a proxy to determine the competitiveness of an insurance product. Many life insurance companies will price their products to attract or detract certain clients. This for example may relate to age, sex or occupation. Premiums will often increase or decrease as a result of underwriting and claims experience, and lapse rates to various books of business. Premium pricing will be more sensitive within certain demographics. Accordingly a product does not need to be competitively priced across all product scenarios to be included on a Life Insurance APL.

9. COMPLIANCE WITH THIS STANDARD

- 9.1 AFSL Members compliance with the Standard must be certified annually in accordance with FSC Standard No 1.
- 9.2 The first annual compliance certification with respect to this Standard is required for the FSC Compliance Year commencing **1 July 2018**. However, AFSL Members are encouraged to adopt and apply this Standard prior to **1 July 2018**.
- 9.3 An AFSL Member must ensure that its representatives and for other persons for whom it is responsible to the extent to which it is necessary or required, also comply with this Standard.
- 9.4 This Standard will be reviewed within 18 months following commencement date outlined in 2.1 of this Standard.

10. DEFINITIONS

- 10.1 **APL** means Approved Product List.
- 10.2 **AFSL** is the holder of an Australian Financial Services Licence.
- 10.3 **AFSL Member** means a member of the Financial Services Council Limited who holds an Australian Financial Services Licence under which a member is authorized to provide personal advice to retail clients in relation to life risk insurance products.
- 10.4 **Digital Advice** means the provision of automated personal financial product advice, using algorithms and technology, without the direct involvement of a human adviser.
- 10.5 **Life Insurance APL** means an APL identifying which life insurance risk products have met the AFSL's research processes, and are approved to be recommended as suitable life risk insurance products for clients of an AFSL Member or its representatives.

10.6 **Life risk insurance products** means retail life insurance products which cover risk only and do not have an investment **component** and include by way of example products such as life insurance, income protection insurance, trauma insurance and total and permanent disablement insurance.

10.7 **Licensee** means the holder of an Australian Financial Services Licence.

11. APPLICATION OF THIS STANDARD

11.1 Other than as provided for in Clause 5.5 this Standard applies to all **AFSL members** in relation to each Life Insurance **APL** that the **AFSL Member** utilises.

11.2 This Standard does not apply to other, non-life insurance, APLs that a Life AFSL member utilizes. For example, this standard does not apply to an APL for investment or superannuation products.

11.3 Nothing in this Standard is intended to diminish or negate an AFSL member's (or any other person's) obligations to meet any general law or *Corporations Act* obligations such as the obligation of an adviser to act in the best interests of a client.

11.4 Where there is a conflict between the requirements of this Standard and any applicable legislation, the AFSL member must comply with the statutory obligation in priority to this Standard. However the requirements of this Standard should, having regard to the purpose of the Standard, be modified appropriately so that, as far as is practicable, the AFSL member complies with the requirements of this Standard and an AFSL's obligation to ensure that representatives comply with the law.

11.5 This Standard does not apply to APLs utilised in the provision of Digital Advice. This Standard may need to be expanded or adjusted as digital advice models are developed.

12 APRIL 2017

FINANCIAL SERVICES COUNCIL DRAFT LIFE INSURANCE APPROVED PRODUCT LIST STANDARD

BACKGROUND AND PURPOSE OF THE DRAFT STANDARD

The FSC has developed this draft APL life insurance standard to encourage high standards in life insurance Approved Product List (**APLs**) construction practices that promote competitive access and choice for advisers and their clients in life insurance products.

This is reflected in the competitive access and choice criterion which requires Life Insurance APLs to contain a choice of multiple insurance providers on the APL and to be supported by robust off APL processes. This enables advisers to recommend alternative products or insurance providers which are not on the APL, where the adviser has sought review and obtained approval to use the additional product to facilitate best interest obligations. To enhance consumer understanding disclosure of how many products and providers are on the life insurance APL will also be included in the advice process, with disclosure included in the Statement of Advice.

There is also a requirement to meet the reasonable basis criterion mandating members to apply a reasonable basis to APL construction. APLs must be formulated with the best interest duty in mind. This requires consideration by the licensee of whether the APL will reasonably enable financial product advice to be given to a client consistent with the best interest obligations, having regard to the need to prioritise the interests of the client, and the obligation to provide appropriate advice.

It is envisaged the Life Insurance APL will have regard to:

- Claims and underwriting philosophy of providers
- Product features, benefits and consumer value for money
- Relevant product research and service metrics

The Standard also sets out best practice principles, which are not mandatory however are intended to assist with creating and maintaining a life insurance APL. The draft Standard does not seek to impose specific criteria as the licensee should determine what is reasonable dependent on the relevant circumstances. Examples of Best Practice Principles include;

- having an investment and product committee of experienced research professionals which can be supported by research providers to assist with a licensee's internal research process.
- Licensees are encouraged to develop and utilise benchmark methodology in identifying which products are suitable for inclusion on the APL;
- A range of factors to consider when reviewing the suitability of an insurance product/provider for inclusion on the APL.

The Standard will be reviewed within 18 months of commencement.

Background - Approved Product Lists

Licensees typically review and assess products for inclusion in an Approved Product List (APL) for advisers to offer their clients. As noted in the Trowbridge Interim Report on Retail Life Insurance Advice, APLs serve as a risk management tool for advisers and licensees whereby products have been assessed for suitability prior to being included on the list. This facilitates appropriate products being recommended to clients and serves to ensure that products retain competitive pricing and product features, commonly involves assessments of experience with underwriting, claims and other services which are likely to impact the customer or adviser experience.

Approved Product Lists also offer efficiency to advisers, providing advisers with comfort that the products on the list have been reviewed and approved by the licensee's own internal governance and research process and deemed suitable for inclusion on the APL.

Whilst the APL often forms part of a Licensee's governance process, APLs are commonly supported by off APL processes which enable an adviser to recommend an alternative product suitable for the client where it meets best interests obligations.