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Media Release

Trowbridge Review on Retail Life Insurance Advice

The Trowbridge Report, released today, proposes a package of recommendations to achieve structural reform for the life insurance and advice industries.

It has been produced in response to Australian Securities and Investments Commission's (ASIC's) Review of retail life insurance advice, released in October 2014. It is an initiative of the Association of Financial Advisers and the Financial Services Council to conduct an independent review of ASIC's findings and to make recommendations for industry reform.

John Trowbridge, author of the independent report and former APRA member, said: "My recommendations are designed to better align interests across the life insurance value chain, from insurer to licensee to adviser to consumer."

"Consumers are at the heart of these recommendations which aim to restore trust and confidence in the life insurance sector through eliminating misaligned financial incentives offered to advisers and licensees, and encouraging competition through a wider choice of products so Australians are adequately insured for their lifecycle needs."

"The recommendations need to be adopted as a package to achieve the transformation needed for the advice and life insurance industries," Mr Trowbridge said.

"Misaligned incentives that have been found to influence the quality of life insurance advice require urgent attention. It is up to the industry to take the initiative to respond positively to these recommendations."

Trowbridge proposes a new model for industry reform

Mr Trowbridge's model for reform includes 11 recommendations: 6 policy recommendations, 4 implementation recommendations and one recommendation to review the changes in 2020.

"To minimise conflicts of interest it is critical that the remuneration that advisers and their licensees receive from insurers is restructured," Mr Trowbridge said.

"This suite of recommendations is designed to achieve improved alignment of interests, including the removal of conflicts over remuneration and advice, along with productivity gains in the life insurance and advice sectors."

Mr Trowbridge has recommended that the industry adopt level commissions to a maximum of 20% of premiums supported by an initial advice payment (IAP) not exceeding \$1,200 per customer and, for annual premiums below \$2,000, to no more than 60% of the first year's premiums. Importantly, he has proposed that IAPs be available only on advised business and once only unless at least five years have passed and the customer takes out new policies.

Mr Trowbridge has also recommended changes to licensee remuneration, specifically that licensees be prohibited from receiving benefits from insurers that might influence recommended product choices or the advice given by the licensees' advisers.

“These changes are transformative as they are designed to stimulate insurers to compete for customers instead of for licensees and advisers. They will remove misaligned incentives for new and replacement policies and align the interests of insurers, licensees and advisers,” he said.

Mr Trowbridge has allowed for a three year transition period between current remuneration arrangements and the new model.

To ensure that all advisers have access to a good cross section of the insurance market, Mr Trowbridge has recommended that all licensees be obliged to include at least half of the 13 retail life insurance providers on their Approved Product Lists.

Also included in his reform recommendations is that licensees and their advisers re-examine the advice process towards improved client engagement and understanding of life insurance and more streamlined Statements of Advice. “Consumers must have access to clear, concise and effective Statements of Advice that are meaningful to them,” Mr Trowbridge said.

His final recommendation is that the life insurance industry develop a code of practice similar to the precedents set by the general insurance and banking sectors, aimed at setting standards of best practice for insurers, licensees and advisers.

“Bringing systemic and cultural change to fruition is no small task. It will involve modifying industry structure and behaviours that will require industry commitment and investment in transition planning.”

“Ultimately the recommendations in my report represent an integrated package of reforms that, taken as a whole, can deliver a more competitive industry with more consumers who are better advised and better protected by their life insurances.”

About the Trowbridge Review

The *Trowbridge Review* has been a unique process in the context of industry-led reform in Australia. It has bipartisan support as being the right approach to respond to ASIC’s *Review of retail life insurance advice* released on 9 October 2014.

The review has involved a three step process comprising:

1. An interim report, released in December 2014, that explored options and issues that arise on consideration of the ASIC report
2. Submissions from the industry, consumers and other interested parties, and
3. A final report with recommendations for reform.

As independent chairman, Mr Trowbridge has enjoyed full autonomy in determining the outcomes from this process and has been supported by a working group with high-level representatives from the AFA and the FSC.

Mr Trowbridge received 137 submissions with over 1,000 pages of content and he consulted extensively with industry participants and others including consumer groups, government agencies (ASIC, APRA and Treasury), individual advisers, licensees and insurance company executives.

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For further information contact John Trowbridge: john@trowbridge.com.au