

MEDIA RELEASE

9 October 2014

Industry joins forces to address insurance issues

Industry associations representing advice and life insurance will form a working group to address the issues raised by the ASIC report into life insurance released today.

The Association of Financial Advisers (AFA) and the Financial Services Council (FSC) will jointly convene a working group to specifically address retail life insurance product structures and distribution practices. An independent chair will be appointed to convene the working group and facilitate industry and policy solutions.

John Brogden, CEO of the FSC said: "It is critical that remuneration models in the life insurance industry are sustainable and practical for consumers and the industry."

"The ASIC report requires a serious response from the industry. We have formed a working group to achieve this," Mr Brogden said.

"The working group will consult with the regulators and Parliament on its solutions."

"The financial advice and life insurance sectors will work together to carefully examine the findings and recommendations in the ASIC report and to assess all options to improve market practices and sustainability."

Mr Brogden said the working group will produce an initial report on its findings within two months and a final report early next year.

"As an industry we will review the ASIC report and provide a considered response. We note ASIC will take enforcement action," he said.

"Consumer trust and confidence in financial advice and products is essential to ensure Australians have sufficient life insurance cover."

"Australians are chronically underinsured. Life insurance helps protect Australians against the social and economic impact of premature death, illness, injury or disability that impacts their ability to earn an income – arguably the most important financial asset a person has."

"The contribution of private life insurance will be critical for the Australian economy as our population ages and workforce declines."

Mr Brogden also said: "In recent years, policymakers have treated life insurance in a bipartisan manner."

"The ASIC report notes: The FOFA reforms did not extend the ban on conflicted remuneration to individual life insurance sales under personal advice. That is, commission payments for life risk insurance products (with the exceptions in paragraphs 42(a)–42(b) are exempted from the ban on conflicted remuneration."

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About the Working Group

The Life Insurance and Advice Working Group (LIAWG) is an initiative of the Association of Financial Advisers and the Financial Services Council in response to the Australian Securities and Investment Commissions Report into life insurance, released on 9 October 2014.

The report identified a number of areas related to life insurance product design and distribution practices. The LIAWG will review the report and will provide an initial integrated industry response to the report in December 2014. A full report will be released early in 2015.

Terms of Reference

1 Objectives

The LIAWG will review ASIC's report and make recommendations on how the industry can respond to the issues identified to ensure that Australians are adequately insured and receive world class financial advice.

2 Scope

The LIAWG will consider all options in its response including those which will be industry led and those which will require regulatory assistance.

The LIAWG will:

- Provide a unified response to the identified issues;
- Address the three key issues arising from the report:
 1. remuneration structures;
 2. product design issues; and
 3. quality of advice.

2.1 The LIAWG will provide specific analysis on the options and recommendations for industry change, including transitional paths.

3 Timing

3.1 The Working Group will provide an interim report by 15 December 2014 and will report in early 2015.

4 Consultation

4.1 The Working Group will consult with key industry stakeholders, consumer groups, regulators and the Parliament.

5 Support

5.1 The Working Group will be supported by a Secretariat within the associations.

Membership

The LIAWG will have an independent chair, and will include a mix of advice, practitioner, and insurance representatives drawn from the founding industry organisations, the AFA and the FSC.

About the Financial Services Council

The Financial Services Council (FSC) represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees. The Council has over 125 members who are responsible for investing more than \$2.3 trillion on behalf of 11 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 third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.