FSC Standard No. 24

Life Insurance Approved Product List Policy

December 2019



FSC FINANCIAL SERVICES COUNCIL

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Relevance and purpose of this draft Standard:	This Standard applies to FSC Members who are AFSL Members as defined in this Standard.
Date of this version (and commencement):	2 December 2019 with a Commencement Date of 1 July 2020.
History (prior version) of this Standard:	This Standard was issued on 4 December 2017 and commenced on 1 January 2018 on a voluntary basis. Full compliance with this version of the Standard applies on and from 1 July 2018.
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 advisers can access other products to enable them to meet best interest and other obligations.

This Standard is to be read in conjunction with the Life Insurance Code of Practice, Standard 11, Standard 16, Standard 21, Standard 25, Standard 26, Guidance Note 11, Guidance Note 32, Guidance Note 33.

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FSC Standard No. 24

1. Title

1.1 This Standard (the ***Standard***) may be cited as FSC Standard No. 24 *Life Insurance Approved Product List Policy*.

2. Date of Issue

2.1 This Standard was first issued on 4 December 2017 and was last updated on 2 December 2019. This version of the Standard applies from the Commencement Date (1 July 2020).

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. Specific "off-APL" processes are mandatory as set out 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 also is on having processes for "off-APL" recommendations to ensure that advisers 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 (not inconsistent with this Standard) 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 must contain the choice of four (4) or more life insurance providers.

4.3 AFSL Members 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 and the AFSL Member will make a decision for the "off-APL" request within seven (7) business days.

4.4 However, the requirements in section 4.3 and section 6.1 do not apply where the Life Insurance APL is "open" and includes all life insurance providers that service the retail life insurance market.

4.5 AFSL Member is to keep records of how many and which insurers are on the Life Insurance APL and maintain records of how many off APL/legacy approval requests are received and approved each year.

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 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 AFSL Members 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 an AFSL Member 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:

a) Claims and underwriting philosophy of providers
b) Product features, benefits and consumer value for money
c) Relevant product research and service metrics
d) Financial factors such as financial stability.

6. Disclosure

6.1 Subject to section 4.4, disclosure must be provided to clients to outline how many providers are on the Life Insurance APL. Under this obligation advisers are to discuss this with their client during the advice process and document that the client has been advised of this (for example by including a relevant confirmation in the client file note).

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 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 is strongly encouraged however they are not mandated by this Standard.

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 may be supported by research providers, external consultants and other relevant stakeholders to assist with an AFSL member's internal research process.

b) The research committee responsible for developing or reviewing the Life Insurance APL, should include life insurance/risk experience. This can be in the form of someone with relevant life insurance or risk experience on the committee or by consultation with someone external to the formal committee.

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) AFSL Members are encouraged to develop and utilise benchmark methodology in identifying which products are suitable for inclusion on the APL. Benchmark methodology can utilise internal standards developed or agreed by the AFSL Member s 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:

i. Corporate strength and credit rating of a particular life insurer
ii. Industry experience and track record of the life insurer
iii. Ownership structure
iv. Reinsurer arrangements
v. Inforce business, positive growth rates and low lapse rates which can be sourced through 6 monthly APRA Reports and research from market specialists
vi. 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)
vii. 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:

i. Transparent claims process
ii. Insurer has stated claims philosophy
iii. 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:

i. Transparent underwriting process to enable advisers to manage clients' expectations
ii. Emphasis on the customer in the underwriting process
iii. Medical evidence requirements
iv. 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:

i. Product feature assessment including consideration whether the product features are valuable and whether the cost (for the features) is reasonable
ii. History of providing upgrade to "post-sale" clients
iii. Maintenance of product definitions with medical advancements
iv. 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:

i. Application process
ii. New business processing
iii. Underwriting
iv. Timeliness of claims and benefit payout history
v. Administration
vi. Consumer education
vii. Adviser support such as education and training
viii. 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 through 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 may 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 AFSL Member'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 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, comply with this Standard.

9.3 This Standard was reviewed within 18 months following commencement date outlined in section 2.1 of this Standard and the outcome of that review is reflected in the release of this version of this Standard. This Standard will be reviewed on an ongoing basis in accordance with Standard 1.

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 the member is authorised to provide personal advice to retail clients in relation to life risk insurance products.

10.4 **Best Practice Principles** means the best practice principles set out in section 7.4 of this Standard.

10.5 **Commencement Date** means 1 July 2020.

10.6 **Digital Advice** means the provision of automated personal financial product advice, using algorithms and technology, without the direct involvement of a human adviser.

10.7 **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.

10.8 **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.

11. Application of this Standard

11.1 Other than as provided for in Clause 4.4, 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 utilises. 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 Member'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. The FSC acknowledges that this Standard may need to be expanded or adjusted as digital advice models are developed.