

















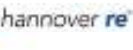

Helen Troup
Executive General Manager
CommInsure

February 2018

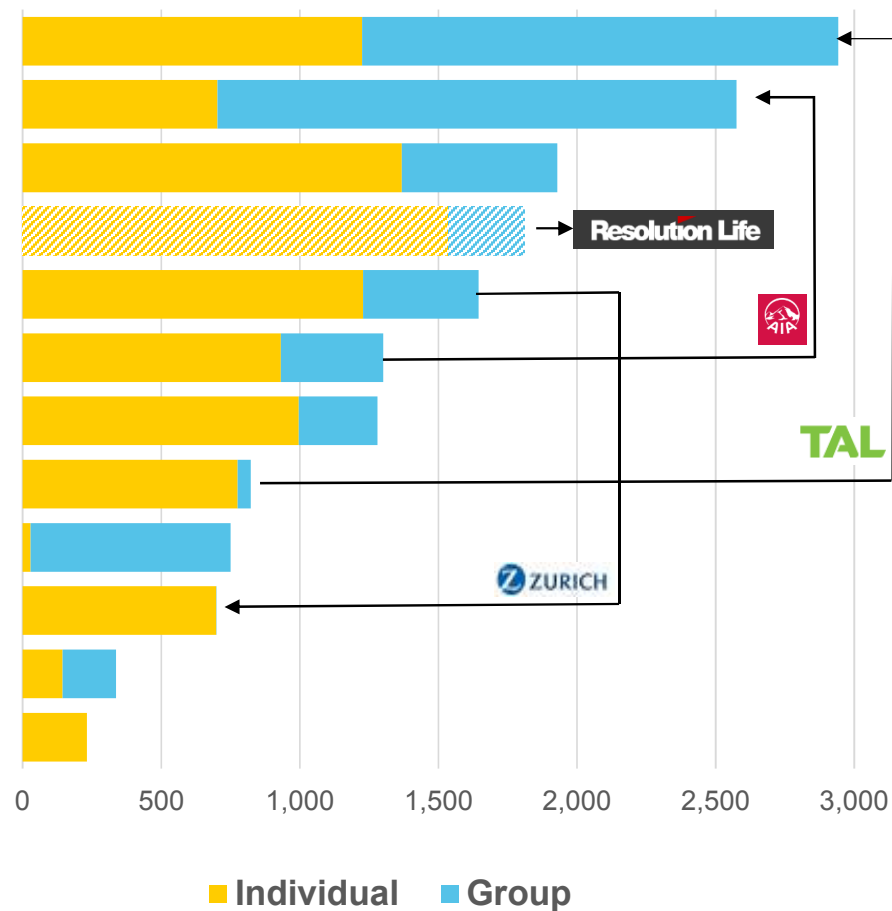


cafii
The Canadian Association of
Financial Institutions in Insurance

Australian Life Insurance Market

		Core Business	Advice	Group	CCI	Direct
	TAL (Dai-ichi)	Life	✓	✓		✓
	AIA	Life	✓	✓		✓
	MLC (80%Nippon/20%NAB)	Life 	✓	✓	✓	
	AMP (ASX Listed)	Life	Closed to new business			
	OnePath (ANZ)	Bank 	✓	✓	✓	✓
	CommInsure (CBA)	Bank 	✓	✓	✓	
	BT (Westpac)	Bank 	✓		✓	
	Suncorp	General	✓		✓	✓
	MetLife	Life	★	✓		✓
	Zurich	General	✓			
	Hannover Life	Reinsurer		✓		
	ClearView (ASX Listed)	Life	✓			✓

Inforce Premium Sept 2018
Market Size \$16,319m



★ Launching
Individual = Advice, CCI and Direct



Regulators and Industry Associations



Australian Securities and Investment Commission

Australia's integrated corporate, markets, financial services and consumer credit regulator. ASIC's role is to enforce and regulate company and financial services laws to protect Australian consumers, investors and creditors.



Australian Prudential Regulation Authority

is the prudential regulator of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies.



Australian Competition and Consumer Commission

Competition and National Consumer Law regulator.



Financial Services Council

Sets mandatory standards and develops policy for more than 100 member companies in financial services (Superannuation, Life Insurance, Advice).



Insurance Council of Australia is the representative body of the general insurance industry.



Australian Banking Association's

Provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services.

Sample of other speciality groups and external dispute bodies



Environmental Factors: Where to start and where does it end?

Range of Scandals:

- Advice – “Fees for no service”
- Austrac
- Rate rigging
- CommInsure
- Regulatory action
- Banking: BankWest/ANZ (eg farmers), responsible lending case studies
- Superannuation breaches

ASIC Regulatory Reviews (Insurance sample):

- Report 256: Consumer Credit Insurance (2011)
- Report 498: Life insurance Claims: An industry Review (2017)
- Report 587: Consumers experiences with the sale of direct life Insurance (2018)
- To come – Industry Review of implementation of report 256, TPD plus more

APRA CBA Prudential Inquiry Final Report

Government

- Scrutiny of Financial Advice Inquiry
- Financial System Inquiry
- Productivity Commission
- Sedgwick review into Retail Banking Remuneration
- Parliamentary Joint Committee into Life Insurance
- Senate Banking Enquiry
- Royal Commission

Political Environment

- International
- Liberal (Government) vs Labour (Opposition)
- Independents hold power
- Socialism
- Banks universal target

Plus

- The rise of the Consumer groups voices
- Power of Media
- Wells Fargo

Legislation changes:

- FOFA, Simple Super, Life insurance Framework (LIF/Commission), Tax, Dispute bodies



Consumer Credit Insurance

“Efficiently, honest and fairly”

Context
Product Design: <ul style="list-style-type: none"> • Death • Terminal Illness • Trauma • Disability • Unemployment
CommInsure Products: <ul style="list-style-type: none"> • Credit Card – CCP bundled • Personal Loan (PLP) bundled • Home Loan (HLP) unbundled
Sold on no advice basis, branch and phone
Can be Life or General Insurance product
Considered an “Add on Insurance”

Miss Selling
Data: Complaints, claims withdrawn and decline rates
“At Risk customers” <ul style="list-style-type: none"> • Not eligible for all benefits • Existing Health conditions • < 25 years old
Not implemented Report 256 recommendations
Conflicts: Sales targets, remuneration models, pressure sales
Expectations on seller to “know customer” even though no advice product: <ul style="list-style-type: none"> • Ineligible to Unsuitable
Monitoring

Product Design and Controls
Bank Product vs Insurance Product <ul style="list-style-type: none"> • Loan start and finish • Loan changes
Bank Hardship and Deceased Estate Processes
Funded in loan
Premium Structure vs Loan Coverage
Definitions and Exclusions: Complexity

Product Value
Claims Rates, decline rates
Loss Ratio
Questionable Customer need



Report 256: Consumer Credit Insurance (2011)

A review of sales practices by authorised deposit-taking institutions

Findings:

- 1 Sales volumes (19.4% conversion), denied claims (15.9%) and cancellations (13.8%)
- 2 Concerns with sales practices: no scripts, scripts lacked sufficient structure to prevent improvising:
 - Not aware purchased and is optional
 - May not have consented
 - Not aware many not be eligible to claim on all components
 - Use of pressure or harassment by sales staff
 - Not understand how much they pay for CCI
 - Not understand how long CCI lasts
- 3 Disclosure: Provision of PDS before sale, few provided reminders about cost and how to claim
- 4 Limited training and lack of monitoring:
 - Induction only and focused on generating sales rather than on minimising risk of non compliant sales;
 - Not specifically on CCI, not on conduct of staff selling CCI (was on had they done training and distributed documents), not structured to detect issues before materialising
- 5 Complaints and Breaches: variation across companies, 50% sales related

Recommendations:

- 1 Formal Sales Scripts
- 2 Evidence of Consent
- 3 Disclosure of interest payments
- 4 Separate quotes
- 5 Disclosure of Premium Structure
- 6 Duration of CCI Policies
- 7 Timing of provision of PDS
- 8 Ongoing information
- 9 Training Programs
- 10 Monitoring systems



1 Recommendation 1: Formal sales script

When CCI sold over the telephone, distributors should have formal scripts in place for their sales staff. Scripts should include:

(Extract from report)

- (a) sufficient structure to minimise the risk of staff being required to 'ad lib' or continually refer back to the PDS to provide information to the consumer;
- (b) a clear statement, made before any attempt to sell CCI, of the intention to sell insurance (this may take the form of a clear 'permission to discuss insurance' question, where the consumer's consent is obtained before attempting to sell CCI to the consumer);
- (c) when CCI is cross-sold during calls made by a consumer for some other purpose (e.g. to activate their credit card), a clear delineation between the original purpose of the call and the attempted sale of the CCI product;
- (d) a clear statement that the purchase of CCI is optional;
- (e) the use of words such as 'purchase' and 'buy' to describe the purchase of CCI, rather than potentially misleading words such as 'activate', 'enrol' and 'process';
- (f) a clear question asking the consumer if they consent to the purchase of CCI (asked after the consumer has been provided with all relevant information about the product);
- (g) a clear explanation of the main exclusions that apply to the CCI policy (and where CCI is sold as a packaged product, this should include a clear explanation of the main exclusions that apply to each component of the policy);
- (h) clear instructions for staff to end any attempted telephone sale if a consumer indicates once, or at the most twice, that they do not want to purchase the product;
- (i) information about the cooling-off period, without using the cooling-off period as a selling point (this may be best achieved by providing information about the cooling-off period after the consumer has clearly agreed to buy the product); and
- (j) information about the full cost of the CCI policy (see also Recommendations 3–5).

When sales are made in branches, we encourage distributors to adopt an approach based on this recommendation (e.g. by requiring staff to use a checklist covering the elements included in this recommendation).

We also note that, where only general advice is provided, consumers must be issued with a general advice warning that complies with s949A of the Corporations Act.

Royal Commission: A summary

4 Observations

- 1 Connection between conduct and reward
- 2 The asymmetry of power and information between financial services entities and their customers
- 3 The effects of conflicts between duty and interest
- 4 Holding entities to account

Underlying principles – Norms of Conduct

- 1 Obey the Law
- 2 Do not mislead or deceive
- 3 Act Fairly
- 4 Provide services that are fit for purpose
- 5 Deliver services with reasonable care and skill
- 6 When acting for another, act in best interests of that other



Laws already support this – need to be enforced and misconduct not rewarded

“Efficiently, Honestly, Fairly”

“Misleading and deceptive conduct”



Royal Commission

15 Specific Insurance Recommendations, plus Superannuation and all “Sector” recommendations

3

Have strategic implications for Direct, Bancassurance and Superannuation channels

- Anti Hawking – extend and modify rule
- Deferred Sales Models
- Additional scrutiny for Trustees in regard to arrangements (particularly related parties)

10

Implementation challenging, devil in the detail, will increase premiums

- Duty of disclosure - duty to take reasonable care to not misrepresent
- Clarify remedies for nondisclosure
- Apply unfair contracts
- Remove Claims handling exemption from financial service definition
- Make industry codes enforceable and.....
- Add more sanctions
- Universal policy terms in MySuper
- Status attribution to be fair and reasonable (Super)
- *End Grandfathered Commission*
- *Limit ability to deduct advice fees without consent*

8

Other related...

- BEAR
- Co operate with AFCA
- *Quality of Advice*
- *Commission review Advice*
- *Conflicted Remuneration - CCI*
- *Culture*
- *Remuneration*
- *Regulators “enforce the law”*

NB: Cap on Motor vehicle commission and funeral expense recommendation not include above

