FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

SUMMARY OF ASIC REPORT 413

February 2015

Summary of ASIC Report 413 - Review of retail life insurance advice

ASIC's review of retail life insurance advice was designed to examine the quality of personal advice given to retail clients in relation to life insurance products. The review sampled pre-FOFA and post-FOFA advice, and included advice to new clients, product replacement advice to new or existing clients, and scaled life insurance advice.

Of the 243 advice files which were collected as part of this process, 101 of them were reviewed a second time by a current CERTIFIED FINANCIAL PLANNER® who was retired from the profession. 202 advice files from seven licensees formed the final sample for the Report.

Key findings

In total, 63% of the advice complied with the law, whereas 37% of the advice did not. Post-FOFA advice has been considerably better (67%/33%) than pre-FOFA advice (59%/41%). Where the adviser received an upfront commission for the advice, there was a 55% pass rate and a 45% fail rate. Where another commission model was used, the pass rate was 93% with a 7% fail rate.

Of the advice rated a fail by ASIC, 96% of that advice was remunerated through an upfront commission, though 80% of the total advice surveyed was remunerated through upfront commissions.

There was "evidence that advisers failed to adequately consider their clients' personal circumstance and needs, leading to situations where consumers received inferior policy terms, paid more for cover, had health issues excluded, and in some cases, had claims denied where they previously had cover".

There was also "evidence of unnecessary or excessive switching of clients between policies to maximise commission income, with a failure to consider or recommend insurance that reasonably correlated to clients' personal circumstances or objectives."

Lapse rates for policies correlated with the type of commissions offered, as well as the premium structure. On average across all life insurance policies regardless of remuneration structure, policies lapsed at 7% in the first year to 14% in the second, and high lapse rates (above 14%) persisted for the next three years before tapering.

The Report identifies product innovation by insurers, age-based premium increases affecting affordability, and incentives for advisers to write new business or rewrite existing business, as the reasons for high lapse rates.

Upfront commission remuneration models lapse at a higher rate than other remuneration models and, for stepped premium policies, they remain persistently high over time. In response, insurers are revising their assumptions about the duration of policies.

Stepped premium policies are revised downwards, whereas level premium policies will have significantly longer durations.

Reasons for advice failure

ASIC also explained many of the reasons why advice failed to comply with the law. These reasons include:

- Inappropriate scaling of advice
- Lack of strategic life insurance advice
- Inappropriate insured sums
- Weak rationales for switching
- Failure to consider the relationship between life insurance and superannuation.

ASIC has also identified warning signs of poor advice, which include; high clawback rates, high volumes of new business with 'no underwriting issues', poor or inadequate needs analysis, high volumes of replacement product advice, product bundling, and upselling, competency, insurance paid for using a high percentage of the client's superannuation guarantee contributions, poor record keeping, and poor compliance with disclosure obligations.