MEDIA RELEASE

4 July 2012

ADVISERS BELIEVE FSC'S PROPOSED 'REPLACEMENT BUSINESS' FRAMEWORK MAY HAVE UNINTENDED NEGATIVE CONSEQUENCES

The FSC's proposed Replacement Business[1] Framework measures may have unintended negative consequences for clients, according to a survey of IFAs.

Asteron Life put forward the independent adviser view in a submission on the FSC's proposed standard on replacement business for life insurance policies.

Asteron Life Executive Manager Mark Vilo said: "As a life-risk specialist aligned to IFAs, we wanted to make sure the voice of advisers is heard in this important debate on replacement business and understand the real implications of the FSC's framework on replacement business for advisers as a whole. So we collected the valid concerns of a think-tank of 70 advisers to fully represent their views in our submission.

"Asteron Life agrees with the FSC that while there is only a small proportion of advisers who indiscriminately 'churn' business, this was an issue highlighted by the Government.

"We commend the FSC for taking the lead on this issue. And, we're keen to work with the FSC to develop sensible policies to ensure advisers are remunerated in a way which will ensure them a sustainable future. However, it's important for the Government to listen to the actual practitioners out there wearing their shoes out, providing advice to Australians on insurance.

"'Churn' is not something practiced by most advisers. But for those advisers that replace business where it is genuinely in the best interest of their clients, we need to ensure that their businesses are able to survive, particularly in the current economic environment where cash flow is an issue for most advice practices.

"Overall, the industry needs to take a collective approach to deal with replacement business, otherwise, structurally, this industry will be unsustainable."

Key reforms under the FSC's proposed Replacement Business Framework include:

- Only level commission on replacement business to be made available to advisers from life companies
- Establishment of a consistent two-year adviser responsibility period, with 100% commission clawback if the policy lapses or cancels with an insurer within one year, and 50% clawback in the second year
- The removal of "takeover terms" (ie banning the practice of the relaxation of the standard underwriting process for replacement business) for a policy or a group of policies transferred by an adviser between insurers.

[1] Replacement business occurs where an adviser makes arrangements for a client to replace an existing individual life, lump sum benefit or income protection policy with a new policy of the same kind within five years from the commencement date of the original policy.

Advisers believe if the FSC's framework is implemented, this will penalise advisers and the ultimate impact will fall on consumers when advisers move to recoup costs. Those costs would come in the form of:

- Clients receiving less review of their insurance portfolio, making them miss out on better terms and conditions elsewhere
- Implementation of a review costing clients, as costs are passed onto the client
- Price-sensitive clients moving to direct insurances or cancelling policies due to lack of affordability
- Reduced adviser competition resulting in clients missing out on the opportunity to obtain better advice and service.

Advisers were strongly opposed to the FSC's proposed measures on replacement business, stating that:

- Since only a small portion of advisers engage in 'churn', the FSC's framework should focus on standards to force dealer groups and life companies to deal with those individuals, like reducing commission.

Advisers' arguments against key elements of the Framework were as follows.

1. **Definition of replacement business:**

- Advisers find the indiscriminate use of the word 'churn' offensive to them and their profession.

- Not all replacement business is 'churn'. So advisers want the ability to apply to the life office for an exclusion from the definition of they can demonstrate true advantage by replacing a policy.

  Those exclusions would include trigger events, such as: the removal of loading/exclusions, significant changes in product definition, change of premium structure, major changes in client circumstances (eg divorce), or change of ownership from 'ordinary' to 'super' as an affordability strategy.

2. **Capping of remuneration at 30% should be removed from the framework, otherwise the negative impact would be:**

- Acquisition costs remain the same, yet remuneration would be significantly reduced. This concerns business-owners in terms of their ability to pay fixed overheads.

- An adverse financial affect on AFSLs, due to lower remuneration from their advisers.

3. **Two-year responsibility period should be replaced with 1-year period, because:**

- Uncontrollable genuine lapses within two years (usually due to affordability) would penalise advisers without deterring 'churn' behaviours. (According to Asteron Life's lapse experience, only 20% of initial lapse notifications are due to advisers' recommendation, yet 65% are due to affordability).

- Increased financial pressure on AFSLs and advisers would occur due to possible write-backs for lapses they cannot control.

The FSC's framework is intended to be implemented on 1 July 2013 to coincide with FoFA.

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MEDIA CONTACT

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About Asteron Life: Asteron Life is a specialist provider of life insurance to financial advisers in Australia and New Zealand and is a part of the Suncorp Group. Asteron Life's broad range of life insurance products has been designed to protect customers, their families and businesses against the financial impacts of death, sickness or injury. For further information, visit: www.Asteronlife.com.au