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## APPENDIX F: LIFA STATEMENT ON REFORMS

### ADDRESS BY THE LIFA CHAIRMAN TO THE LIFA ANNUAL DINNER THURSDAY, 13 MAY 1993 HYATT HOTEL CANBERRA

#### Introduction

Ladies and gentlemen.

The life insurance industry has long formed part of the financial fabric of this country. Providing both insurance cover and investment opportunities for millions of Australians.

During this time, the industry has adjusted to a great variety of social, political and economic change.

The industry is very competitive and prides itself on its responsiveness to the market in general and to its consumers in particular.

It was in the interests of these consumers and to be responsive to their changing needs and expectations that, twelve months ago at our last annual dinner, we announced our "Position Statement on Consumer Issues".

This policy statement represented a genuine attempt by the industry to address the major criticisms and concerns being expressed by government, the ISC and consumers.

I want to emphasise that the LIFA position statement was not a "knee jerk" reaction to the demands of the consumer lobby groups and it substantially predated the reports of the Trade Practices Commission. The report was the outcome of our own detailed investigations.

The statement committed the industry to initiate a number of reforms:

- a greater level of disclosure,
- development of a licensing system for agents,
- simplification of life office documentation, and
- greater independence and more resources for the industry's inquiries and complaints system.

It gives me pleasure this evening, to report that considerable progress has been made in developing these important initiatives.

It seemed fitting that I should report progress to you at this annual dinner.

In developing our proposals, we have kept in mind the various consumer observations and, more recently, the recommendations of the TPC report, many of which have been adopted. We have also had on-going discussions with the Insurance and Superannuation Commission, the Australian Lifewriters Association, consumers and other interested groups.

But, essentially, what I will outline this evening represents what the industry considers appropriate to ensure consumers are provided with sufficient information to make informed choices and to ensure their interests are properly protected.

Initially, we believed that our proposals should be implemented in a self-regulatory way. However, we have come to recognise that this may not be possible given the nature of the reforms and the desirability of having them apply across the board. Accordingly we were pleased when the ISC indicated that it would deal with some of the issues through regulation.

With those introductory remarks, let me now report progress.

### **Disclosure**

First, disclosure.

Consumers are already provided with an explanatory document at point of sale, a policy information statement at point of policy issue and an annual statement.

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We have consolidated and enhanced these and have added many of the TPC'S recommendations on disclosure and more of our own disclosure initiatives.

The result is as follows:

- The reworked existing disclosure requirements will make it easier for consumers to compare products.
- All fees and charges will be disclosed, as well as the effect thereof on benefits. This will be done in a generalised way at point of sale and in a contract specific way at point of policy issue.

We have not changed our views about the usefulness to the consumer of commission disclosure for its own sake. However, in recent discussions, representatives of the consumers and the TPC expressed the view that disclosure was primarily needed to expose any bias in advice provided. Concern about commission quantum has largely been addressed by our willingness to fully disclose all fees and charges. In the light of this, and in the spirit of resolving the issue, we are actively seeking to find a satisfactory approach and have arranged to have discussions with the ISC about this matter shortly.

- A "client needs analysis" will be undertaken by agents and written recommendations will have to be made and filed with the application for insurance for future reference. The agents written recommendation will be set down in a document to be known as a "Fact Finder".

In this way, a paper trail will be created, which will be of assistance in resolving consumer complaint which may arise subsequently.

Not only will the agents recommendations have to be disclosed in writing, but they will have to be conveyed to the consumer verbally as well.

Life offices will be required to randomly monitor compliance and an agent found lacking in this regard, will have all his recommendations for the past twelve months audited.

- All agents will be required to identify the capacity in which they are acting. Steps will be taken to prevent agents claiming to be providers of independent advice where this does not apply.

While agents cannot, strictly speaking, provide independent advice, because they act for the life office they represent they must and do provide quality advice. Our reforms are designed to facilitate the provision of such quality advice.

- Standard "health warnings" will be included in life office disclosure documents, such as alerting consumers to the disadvantages of surrendering their policies early and entering into long-term contracts if they have short-term needs or horizons.

### **Agent Regulation**

The second area of major reform is in the area of agent regulation.

The need for life offices to assume greater responsibility for the regulation of their agents is clearly the rationale behind the LIFA proposal for an agent licensing system.

We initially considered the possibility of having agents individually licensed by a separately constituted agent licensing board.

However, the model that has since proven more acceptable and which has now been endorsed by LIFA is what might term a "proper authority" system.

This "proper authority" system, under which life offices will formally authorise agents to sell particular products, certainly places more responsibility for agent regulation at the door of the life office.

While the *Agents and Brokers' Act* already does much of this, our proposal introduces more stringent requirements:

- For instance, our "proper authority" proposal will be underpinned by a comprehensive code of conduct requiring agents to act responsibly and ethically.
- Minimum competency standards on an industry wide basis, will also be prescribed for agents.
- We believe a register of agents should be established and maintained by the ISC, which life offices would have to consult prior to engaging an agent who had previously worked in the industry.

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Essentially, the proposals we have developed will result in agents being better trained and equipped to sell life insurance and superannuation and better regulated by life offices.

For their part, life offices will become even more accountable and responsible for the actions of their agents.

Greater professionalism and transparency, all round will be the result.

### **Documentation**

The third area of reform is in the area of documentation.

I would have to say that life insurance documents are often complex and sometimes difficult to understand. It is incumbent on the industry to address this issue and to present information to consumers in a form they can more readily understand.

While some life offices have already taken steps to simplify their documentation, LIFA believes that the issue should also be tackled on an industry-wide basis.

To assist us in this area, we have established a special documentation task force and retained the services of an "expert" on plain English, Professor David Kelly, a former Chairman of the Victorian Law Reform Commission.

Professor Kelly has already provided LIFA with one report, which is a general examination of the need for the industry to simplify substantially its documents.

At its April meeting, the LIFA Board approved significant funding for Professor Kelly to prepare a second report, in which he will examine four products, namely:

- regular premium superannuation,
- insurance bonds,
- disability incomes, and
- allocated pensions.

Plain English model documents will be produced, the intention being that these will be put forward as guides or models for the industry to follow.

While clearer and better information is required, it must be information which is:

- meaningful to the average person;
- focussed on salient features;
- fair, that is, capable of assisting comparisons with competing products without distortion; and
- economic, in meeting consumer needs at reasonable cost.

It is also very important, to balance the needs of the consumer for information against the costs and benefits of its provision.

This is a complex issue and it will take some time to effect widespread change but a good start has been made.

### **Inquiries and Complaints System**

While the industry's policyholder complaints resolution system does not enjoy the full support of some consumer groups, I believe I can say quite legitimately that it is functioning effectively.

That is not to say change or refinement is unnecessary and an early response is to promote the system more widely so that it is as accessible to policyholders as it should be.

The response time in resolving policyholders complaints are not satisfactory and consumers probably need more assistance in formulating and pursuing their complaints.

Last year, we appointed an independent executive officer for the system and that appointment has enabled us to provide a better service.

More resources and further refinements are required. However, we have been awaiting the outcome of a major review of our system before committing additional resources and making further changes to our system.

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That review, undertaken by an independent consultant, Issues Australia, has now been completed and many recommendations for change have been put forward.

LIFA is presently working through these recommendations and those which will make our complaints resolution system better will be adopted.

We will be having discussions with the Insurance Industry Complaints Council, which is responsible for overseeing our system, and with the ISC in the next few weeks.

I am sure the outcome will be that the industry will:

- promote the service more widely,
- commit more resources to the system,
- provide greater assistance to complainants to pursue their complaint,
- work strenuously to reduce the time taken to deal with complaints, and
- make the system more transparent by making more information available to interested groups.

The industry wants and needs a credible complaint resolution system, but one which involves both conciliation and, if that fails, arbitration.

I am confident we will achieve this objective by the end of the year, following implementation of many of the recommendations contained in Issues Australia's report.

### **Conclusion**

Ladies and gentlemen, these are major reforms on which we have been working for twelve months.

In developing them we consulted widely and, I believe they will be generally acceptable.

As I said earlier, they represent what the industry considers appropriate to ensure consumers are provided with adequate information and to ensure their interests are properly protected.

We now have a consultative document which we can formally discuss with our regulator, the ISC.

And, further consultation with other interested groups will be undertaken as soon as possible.

It would be remiss of me if I did not take this opportunity to thank the Australian Lifewriters Association for its support and assistance.

LIFA and the ALA are increasingly working together and co-operating for the good of the whole industry and there is every reason to be confident that this partnership will continue.

It is now imperative, for the changes to be implemented as quickly as possible. There is a great deal of uncertainty in the market place, which will only be dispelled when the change and reforms are put into place and people know exactly what the rules are and where they stand.

It remains to be seen whether our proposals are accepted by the ISC and the extent to which they will be implemented in a regulatory or self-regulatory way is not clear at this stage.

What is clear, however, ladies and gentlemen, is that the reforms we have crafted to meet the needs and expectations of consumers will undoubtedly provide them with a greater degree of protection and assistance than has hitherto been the case.

Much is made today of the need to avoid discriminatory practices and to achieve level playing fields.

While the spotlight has, of late, been on the life insurance industry, it should not remain there. It needs also to be directed to other sectors of the financial industry, otherwise there will be an unlevel playing field.

I said at the Annual General Meeting this afternoon, the Chinese curse, "may you live in interesting times", is our lot today.

Ours is a dynamic industry and over the last few years, the life insurance industry has been subjected to continuous change.

The ability to adapt, change and to meet the ever-changing needs and expectations of consumers have been traditional hallmarks of the life insurance industry.

We believe we have met, or gone a very long way to meeting, the consumer challenge and we now look forward over the next few months to working with the ISC and others to implement the reforms I have outlined this evening.

Thank you.