



17 November 2016

Committee Secretary
Parliamentary Joint Committee on Corporations
and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

BY EMAIL: seniorclerk.committees.sen@aph.gov.au

The Finance Sector Union (FSU) thanks the Committee for the opportunity to make a submission to your inquiry into the Life Insurance industry.

The FSU represents workers who provide life insurance advice and products in insurance companies, banks and superannuation funds across the country. These workers are motivated by a desire to meet their customers' genuine life insurance needs by providing them quality advice and/or life insurance products and services that will assist them and their families during difficult circumstances.

The union has developed its submission based on its extensive experience with employers across the country, direct feedback from members who work in the life insurance sections of the finance industry and the previous representations and submissions the union has made in relation to the life insurance industry.

This submission contains both general feedback and specific feedback in relation to sections a) and d) of the Committee's terms of reference.

The FSU looks forward to discussing these issues with you, should you require any further information please contact me on .

Yours sincerely

Geoff Derrick
National Assistant Secretary
Finance Sector Union of Australia

General Comments

A life insurance policy, like many of the products and services provided by the Australian finance industry, is critically important to the individuals and families who take up the product.

If a family is claiming a payment from their life insurance policy it is because that family has suffered a tragic loss or serious injury. In many cases the first time they read the details of the policy is after the death or serious injury of a loved one.

At a time of stress and emotional trauma these people are entitled to expect that the policy they were sold, in some cases pushed into accepting through aggressive sales practices, will match the promises made by the insurer or the insurer's agent at the time of sale.

The FSU believes that many customers would be shocked to learn that the employees who sold them their life insurance policy were being driven by management culture and an associated remuneration system that incentivise and rewards volume based sales outcomes rather than providing the customer with the insurance policy that best meets their needs.

The union's position is that the definition of a poor customer outcome must start where the customer is seen as an opportunity to be exploited.

The existing systems drive, celebrate and reward (in the form of recognition and monetary rewards) the employees with best sales records. In the alternative, those who fail to reach sales targets suffer threats and punishment. Most employers have league tables that not only reward top sellers but are also used to challenge and in some cases embarrass those recorded as "underperforming" – regardless of the circumstances or causes of their sales results being below target.

Insurance companies around the world, including those in Australia, have been under increasing pressure to maximise their profits and returns on equity – these expectations have led to increased pressure to secure higher sales outcomes (particularly on long term products such as life insurance) and the pressure to delay and in some cases refuse premium based payments. It is our view that this trend has accompanied the demutualisation of large parts of the industry and the monetisation of work. The market and the organisations that operate within it have significantly changed in the past 30 years.

Unless the regulators and legislators understand these pressures and amend the compliance and regulatory regimes to take into account the pressures being placed on employees to secure sales as the primary measure of success, relegating the customer's need, the number of cases of customers being provided with policies that do not meet their needs will continue to increase and the human consequences will be potentially catastrophic. This, in turn, will place increasing pressure on the social security system to pick up the pieces and soften the blow for claimants.

Response to terms of reference

a) – The need for further reform and improved oversight of the life insurance industry;

and

d) – The sales practices of life insurers and brokers, including the use of Approved Product Lists

The Australian government and Parliament must ensure that the laws that regulate the insurance industry and establish the compliance regime for the industry keeps pace with the changes that are occurring within the industry.

The union believes that the main area in which the regulatory and compliance regimes have not kept pace is in understanding the pressure placed on employees to secure volume based sales outcomes. This pressure has seen remuneration systems increasingly reward and incentivise the sale of products (including life insurance) rather than the provision of quality customer service outcomes.

The FSU's position is that legislation should be introduced that bans all forms of conflicted remuneration systems within the insurance industry and introduces a 'customer's best interest duty' that requires all institutions, executives and employees to place the needs of the customer ahead of the needs of the institution. This ban should be straight forward and not complicated by loop holes and exemptions provided through the artifice or manufactured "balanced scorecards" or similar devices intended to circumvent the best interests duty. We say this because of the evidence that the management culture relegates all non-sales considerations on an operational basis most of the time.

FSU members have consistently provided feedback on the daily pressure they are under to see each customer as a sales opportunity to be exploited. This pressure is reinforced during meetings that are called to discuss sales outcomes, training sessions that are designed to train staff in how to identify and exploit sales opportunities as well as the feedback received from managers regarding the expectation to successfully close a sale to meet a target imposed without reference to customer needs or best interests.

Over the past decade remuneration systems across the industry have shifted to performance based systems that primarily reward volume sales outcomes. These systems have introduced volume based sales targets that are used to determine the fixed and variable remuneration of employees and in many cases whether an employee keeps their job.

Employers have also developed and implemented performance management systems that sit alongside these remuneration systems. These performance management systems make it clear to all employees that your value as a worker is based upon your ability to sell. Employees who do not achieve their volume based sales targets are routinely humiliated in meetings and on league table displays.

The current remuneration and performance management systems have created an environment where employees are rewarded, and in many cases retain their employment, only when they exceed the arbitrary sales targets attached to their position by the deadline set for performance review. This deadline can be daily, weekly, monthly, quarterly and/or half yearly.

The union would ask the members of the committee to imagine what it must be like to be told that understanding and meeting customers' needs isn't enough to earn a liveable salary or retain your employment. For many employees the only way they can retain their job is to exceed their sales targets. Such a system inevitably leads to customers being sold products and services that do not meet their needs.

The culture of rewarding volume based sales exists across each institution and begins with executive remuneration structures that cascade down to each level of management rewarding and prioritising the sales to customers and limiting the claims paid, often regardless of the need of the customer.

When discussing the role of remuneration in financial system scandals in Australia, Mr. Chris Cuffe, former CEO of Colonial First State said in April 2016 that, *"Culture is hard to measure but easy to feel. You soon learn about their ethics and standards when you deal with anyone. Culture is the combination of beliefs, values and attitudes that guide behaviour. In my view, the scandals in financial advice, life insurance and rate setting are primarily caused by one thing: the remuneration structure. Pay someone to behave a certain way and there's a good chance they will."*

The following extract from the remuneration policy of one of Australia's largest insurance companies illustrates the statement made by Mr. Cuffe.

"... is committed to an integrated remuneration program that, through a pay for performance based remuneration structure and incentive arrangements, will support the company's strategic objectives."

Hoping that the industry will change just doesn't work!

When previous Parliamentary inquiries examined the impact of remuneration systems and discussed solutions they determined that change required legislative and regulatory reform rather than relying on the industry to self regulate.

The clearest example of this conclusion emanated from the Committee that examined the need for reforms to the provision of financial advice. The Future of Financial Advice (FOFA) reforms eliminated most conflicted remuneration models and established a customer's best interest duty. That legislation was the subject of vigorous lobbying and repeated attempts to water it down that continued into the life of the next Parliament. These reforms would not have been implemented by the industry without the legislative requirement to do so.

Having finally been forced to adopt the FOFA reforms on conflicted pay and customer best interests duty, the industry now publicly embraces the changes in its efforts to rebuild trust and confidence from the community.

The FSU's position remains that the only means by which reforms will be implemented across the industry in relation to the sale and delivery of life insurance products and services is for the Australian Parliament to pass laws that require the industry to implement changes that protect customers and workers. The experience of the FOFA legislative process demonstrates that this will require both clear intent and courage on behalf of the Committee and the Parliament.

What Needs To Happen?

The union believes that the following measures should be implemented to improve the provision of and administration of life insurance policies:

1. All forms of conflicted remuneration (ie systems that reward or incentivise the sale of life insurance premiums) should be banned from the industry, including from executive remuneration systems. This should not be moderated by exceptions and exemptions such as those provided by so called “balanced score cards”.
2. A customer best interest duty should be imposed that requires all financial institutions, their employees and agents to:
 - act in the best interests of each customer at all times;
 - only provide appropriate products and/or services;and
 - prioritise the interests the customer.
3. All remuneration systems should be structured to encourage and reward meeting the customer ‘best interest’ duty.
4. Each institution should be required to ensure all employees and agents who provide advice, products or services to a customer are trained and certified in relation to the best interest duty.
5. Each institution should be required to provide approved annual training to relevant employees in order to maintain accreditation in relation to the best interest duties.
6. Legislation should require all companies who offer life insurance products to annually declare on their website how many claims they refused to pay as well as any adverse findings from relevant jurisdictions.
7. The abolition of the sales based remuneration systems should not be used to reduce costs, rather the money should redirected towards the implementation of the skill based remuneration framework that professionalises the industry.