

Friday 9 September 2016

Sarah Phillips
Financial Services Council
Email: sphillips@fsc.org.au

Dear Ms Phillips,

RE: Life Insurance Code of Practice

CHOICE welcomes the efforts made by industry and consumer representatives in drafting the Life Insurance Code of Practice (“the Code”). Codifying practice in the life insurance sector is a vital step in ensuring industry and community expectations are aligned in the market for this important product. However, we have a number of concerns about the draft Code.

First, CHOICE would like to endorse the comments made by the Financial Rights Legal Centre and Consumer Action in their feedback to the Code.

Group insurance

We are concerned that providers of group insurance policies are not captured by the Code. As of June 2015, insurance within superannuation represented \$7.9 billion in premiums. 15.3 million accounts in APRA-regulated institutional funds had life insurance (53 per cent of all accounts), with 13.2 million (46 per cent) having Total and Permanent Disability cover and 5.3 million (18 per cent) having income protection insurance.¹ The sector accounted for more than 70,000 successful claims in the financial year to June 2015. The life insurance within superannuation market is too large and important to consumers to exclude from the Code.

Timeframes

An effective Code should set hard timeframes for claims handling processes and document requests. We are concerned that the current draft does not set enough firm timelines and where timelines are set they are subject to wide exemptions via the ‘Exceptional Circumstances’ clauses.

¹ APRA, 2016, ‘Annual Superannuation Bulletin’, June 2015, (reissued 23 August, 2016), available at: <http://www.apra.gov.au/Super/Publications/Documents/2016ASBPDF201506.pdf>

We understand there may be differences in timeframes, for example, in claims decisions involving superannuation trustees, however we believe this adds further weight to the need for specific obligations in relation to group insurance policies. Leaving consumers to wait up to 12 months for a decision should never be seen as best practice claims handling.²

Enforcement

There is no statement in the Code that creates enforceable obligations between consumers and subscribers. This needs to be addressed as a matter of priority. The Code should also be registered with ASIC in accordance with Regulatory Guide 183. This will demonstrate industry's commitment to meeting community expectations and demonstrate that the Code meets minimum requirements around monitoring and enforceability.

Sales practice


The Code does not do enough to improve sales practice standards beyond what is currently required by law. The Code should define and prohibit the types of behaviour that have led to poor consumer outcomes. There is substantial room to improve or even prohibit certain practices related to commission based sale models, add-on insurance sales and products such as Funeral Insurance and Consumer Credit Insurance.

Code review

The Code creates an obligation on the Financial Services Council (FSC) to commission an independent review of the Code as appropriate, but no less than every three years.³ CHOICE believes the first Code review should be conducted within 18 months. This would give adequate time for the FSC to address the issues outlined above.

For further information, please contact CHOICE on xohalloran@choice.com.au

Yours sincerely,



Xavier O'Halloran – Policy & Campaigns Adviser

² Life Insurance Code of Practice, second consultation draft 10/08/16, Clause 8.15

³ Life Insurance Code of Practice, second consultation draft 10/08/16, Clause 12.2