



AIA Australia

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The General Manager
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600
Email: futureofadvice@treasury.gov.au

Dear Ms Vroombout,

Draft Regulations – Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011

AIA Australia welcomes the opportunity to make a submission on the Exposure Draft - *Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011 (Draft FFoFA Bill)* and accompanying Explanatory Memorandum.

AIA Australia has operated in the Australian life insurance market for 40 years and provides group insurance benefits to some of Australia's largest superannuation funds across Industry and Public Sector Funds, Retail Master Trusts and Corporate superannuation segments, insuring approximately 2.5 million working Australians. AIA Australia also distributes life risk insurance in the Individual Financial Advice segment.

Overall, AIA Australia generally supports the intent behind the Future of Financial Advice reform measures and the Government's acknowledgement that life insurance plays a critical role in protecting the financial needs of working Australians, both inside and outside of superannuation.

The Draft FFoFA Bill seeks industry comment on the proposed provisions relating to conflicted remuneration, including a ban on commissions, soft-dollar benefits, volume-based shelf-space fees and asset-based fees involving leverage.

In making this submission, AIA Australia seeks further clarity on issues relating to insurance, specifically:

1. Limiting the impact of the conflicted remuneration ban on insurance;
2. Consistency of terminology used to define insurance policies within superannuation; and
3. Broadening the information technology software or support exemption.

Detail regarding each of the above points is outlined further in this submission.

1. Limiting the impact of the conflicted remuneration ban on insurance

AIA Australia seeks assurance and legislative certainty that the following insurance arrangements are exempt from the ban on conflicted remuneration and to ensure that the regulations do not undermine the capability of funds to continue to provide vital insurance benefits to members.

a) Trustee costs incurred to administer and service insurance benefits

AIA Australia is concerned that, in its current form, the Draft FFoFA Bill may prohibit a superannuation fund from recovering costs incurred to administer, service and communicate with members.

We foresee considerable implications for funds and their members if trustees were unable to continue to have the discretion to recover insurance costs (excluding the cost of advice) from the underwriting life insurer. AIA Australia is of the view that funds could potentially be burdened with significant expense

associated with the provision of insurance benefits. With these costs ultimately borne by members, any increase over the long term could consequently reduce a member's final retirement benefit.

b) Insurance profit-share arrangements

AIA Australia is concerned that non revenue-based profit-share arrangements in risk insurance may also be prohibited under the Draft FfoFA Bill. An insurance profit-share arrangement provides security to protect members of a fund if the claims experience of the underlying group insurer is poor due to factors such as increasing member claims for insurance benefits. Underlying premium rates for insurance benefits are directly influenced by the claims experience and the demographic and occupational risk profile of a group of members. If profit-share arrangement did not exist, it is possible that member premium rates for insurance benefits would increase in the event of worsening claims experience. Insurance profit and loss-share arrangements enable members to share in both the profits as well as the losses.

Additionally, in an insurance arrangement that does not participate in profit-share, the member has to rely on competition in the market to generate a competitive premium rate. However, changes in membership (e.g. different occupation classes) or a reduced number of claims from a pool of members can alter the underlying experience and, potentially, lead to greater profits to the insurer. In this instance, the benefit of insurance profit-share is that it allows the member to participate in the profits of an insurer if the underlying group insurance claims experience happens to be favourable.

c) Broadening the general insurance exemption under conflicted remuneration

We are concerned that the general insurance exemption from the ban on conflicted remuneration fails to recognise those life insurance products that encompass general insurance riders. Although the life and general insurance product is jointly issued by a life insurer and a general insurer, it is often the case that the life insurer appoints the distributor to distribute the insurance product and pays the distributor a commission for the distribution services.

AIA Australia recommends that the general insurance exemption is broadened to reflect how these jointly issued products are distributed in the market place.

2. Consistency Of Terminology Used To Define Insurance Policies Within Superannuation

AIA Australia supports the ban on conflicted remuneration on MySuper and default group insurance, however the terminology and definitions contained in both the Explanatory Memorandum and the Exposure Draft have in some instances caused confusion with regards to the application of how the ban on conflicted remuneration applies to a 'choice' group insurance policy.

It is quite common for industry descriptions of group insurance benefits to vary across the different market segments. For example, non-default superannuation group risk insurance is also referred to within the industry as a retail, personal or choice policy that may still sit within a group insurance arrangement.

As a result, AIA Australia seeks more precise details to understand its obligations regarding when a monetary or non-monetary benefit may be provided in relation to insurance benefits and, where possible, recommends that the definitions contained in the concurrent MySuper and Stronger Super regulatory reforms are adopted to ensure consistency and facilitate greater industry understanding.

3. Information Technology Software or Support Exemption.

AIA Australia is concerned that the information technology software or support exemption from the 'conflicted remuneration' and 'soft dollar benefits' bans is limited to circumstances where the information technology software or support is provided in respect the 'provision of financial product advice'.

While we understand the draft bill has a general exemption on the provision of benefits where those benefits are provided to an Adviser who advises retail clients for individual life products, it is our interpretation that this exemption does not apply to group insurance policies in superannuation.

AIA Australia is concerned that the Draft FFOFA Bill prohibits fund members from access to information technology software or support that assists members to acquire or increase their insurance benefits even though these same information technology benefits would be available to those outside of superannuation.

It is AIA Australia's view that the 'information technology software or support exemption' should be broadened to include information technology that is provided for the purposes of issuing and selling insurance benefits as well as the provision of financial product advice, to ensure members are not inadvertently disadvantaged by the '*financial product advice*' requirement.

If you have any queries in relation to this submission or would like to discuss any of the comments raised, please call me directly on 03 9009 4107.

Yours Sincerely

Andrew Taylor

Head of Business Strategy

cc: Damien Green, Chief Executive Officer, AIA Australia