



14 September 2011

The General Manager
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: futureofadvice@treasury.gov.au

Dear Sue Vroombout

Following the federal government's release of draft Future of Financial Advice (FoFA) legislation Suncorp welcomes the opportunity to submit its position on these reforms to Treasury.

The Suncorp Group is a leading national provider of retail insurance and operates a number of insurance brands including Suncorp Insurance, AAMI, GIO, Million Dollar Woman, Apia, Shannons and Asteron Life. The group provides financial advice through several of its operating brands and believes that FoFA reforms are an important step towards improving the accessibility and quality of financial advice. In particular Suncorp was pleased with comments from The Hon. Bill Shorten MP accompanying the draft bill, "They [FoFA reforms] also remove the red tape that has prevented low-cost, good quality advice being delivered to millions of Australians."¹

Whilst supporting the policy intention of FoFA, Suncorp is concerned that there may be some unintended consequences. Therefore the following submission, in response to Treasury's request for feedback, outlines our feedback from a practical perspective.

It is thought that some aspects of the proposed FoFA legislation stand of having significant impacts on our business and therefore the availability of free personal advice through our operating brands.

General Insurance (GI) Products

Suncorp operates various General Insurance brands with brands operating different advice models:

- **No advice** – Our mass market brands Suncorp, GIO and AAMI operate on a 'no advice' model. Suncorp General Insurance, has found the compliance of advice provisions under the Corporations Act 2001 on a large scale, to be costly and time consuming. The no advice model allows Suncorp to minimise operating costs thereby keeping insurance premiums low for the retail consumer. However as raised previously with Treasury² we would like to be able to offer more advice to consumers under these business operating environments, without increasing operating costs significantly. To do this, the advice provisions of the Corporations Act would need to be revised for General Insurers - issuers and tied agents issuing on behalf of a single licensee, with clear exemptions applying for simple product advice.
- **General advice** – General advice is provided on business insurance products sold by AAMI and GIO. Previously, we have found that small business owners have experienced difficulties in selecting a business insurance package. By offering general advice AAMI and GIO can better educate the consumer on options that may suit their particular trade or small business. Our customers have found this general advice valuable.

¹ See Media Release, The Hon. Bill Shorten MP, 29 Aug 2011 No. 127 Future of Financial Advice Reforms- Draft Legislation

² NDIR Response, July 2010,

However it needs to be noted that we have found the roll out of this advice model to be cumbersome due to the fine distinctions between implementing General and Personal advice models. Its ongoing success is reliant on constant monitoring of our staff and significant training programs which increase operating costs.

- **Personal advice** – Our niche brands Apia and Shannons both offer personal advice to their customers. Shannons has a strong heritage of ‘sharing the passion’ with their customers and Shannon’s assessors frequently perform onsite valuations of high value assets. For this type of consumer, personal advice is ideal to ensure their passion is adequately insured. The Apia brand is targeted at customers over 50 and the business recognised that this demographic appreciates personal advice more so than any other. Apia customer service advisors frequently interact with customers that have recently had a spouse pass on and are experiencing difficulties handling insurance for the first time. Through the provision of personal advice Apia assists customers to navigate their insurance arrangements with ease and continue to enjoy their retirement.

Suncorp is one of the few general insurance companies that currently provide personal advice to the retail consumer. The general insurance industry has generally found that the advice provisions of The Corporations Act are too onerous and costly to be successfully implemented. Indeed the provision of personal advice within our business is only viable in the unique operating environment of our niche brands, Shannons and Apia. We feel that aspects of the draft FoFA legislation stand to reduce the viability of providing personal advice within our niche brands and worsen the business case for further implementation of personal advice models across our business.

Best Interests Duty

The minimum steps outlined in section 961C (2) of the best interests duty stand to severely impact the affordability and practicality of Suncorp providing personal advice within its Apia and Shannons brands.

S961C (2) (d) – Where it is reasonably apparent that the client’s objectives could be better achieved, or the client’s needs better met, if the client obtained advice on another subject matter, either in addition to or in substitution for the advice requested, advising the client in writing of that fact;

Our call centre consultants are frequently asked for advice regarding insurance products that they do not issue. This duty indicates that consultants would be required to issue a written notice advising the client to seek advice elsewhere. As an example Apia customer service advisors are commonly asked for advice regarding strata insurance, which Apia does not issue. Each time customers enquire on this topic staff would be obliged to issue a written notice advising the client to seek advice elsewhere.

The explanatory memorandum notes that this written notice could be included within the statement of advice already provided. Suncorp would like to highlight that as per Corporations Act Regulation 7.7.10 General Insurance is exempted from providing a written statement of advice for most products and therefore this duty would introduce an entirely new process to the business. The frequency of these requests would result in a significant business expense without any clear consumer benefit.

S961 (2) (f) – “assessing whether the client’s objectives could be achieved, and needs met, through means other than the acquisition of financial products;”

From a General Insurer’s perspective, it is unclear how this process would be completed. As an insurer we would not be encouraging consumers not to insure/self insure. Potentially this would exacerbate societal issues in relation to under and non insurance, which is against continually stated government policy and our own beliefs that insurance is a necessary mechanism in developed economies to help manage risk (whether individual or community).

S961C (2) (h) – “If the provider proposes to advise the client to acquire a financial product in substitution for or in addition to another financial product:

- i) assessing the disadvantages (including risk and increased complexity) in acquiring the product; and
- ii) weighing them against the advantages of not acquiring the product; and

- iii) advising the client to acquire the product only if, having weighed those disadvantages against the advantages, it is reasonable to conclude that the client's objectives could be better achieved, and the client's needs better met, if the client acquired the product;"

In the General Insurance industry consultants are frequently contacted by consumers comparing our insurance product to that of their existing provider. This proposed duty indicates that staff would be required to investigate the consumer's current policy and weigh all advantages and disadvantages prior to giving advice. Consider as an example a consultant comparing the Suncorp Classic Home and Contents policy to that of the AAMI Building and Contents policy, the consultant would be required to weigh the advantages and disadvantages of more than 20 points of difference between these policies. Now consider the number of General Insurance policies available to the consumer and the rapid growth of competitors in our industry. Meeting this obligation would be a massive undertaking for our business; it would require significant research into our competitor's policies, additional infrastructure to support the communication of these offerings, a large staff training program to ensure customer service advisors remain conversant in how to weigh these various offerings and increased monitoring and supervision. It would not be possible to implement within our business.

We believe consumers come to our business seeking advice on and only on the products that we offer. There is no reasonable expectation from the consumer that we would have knowledge of the current terms and conditions of their existing product, should it be issued by a competitor. Customers take our advice under consideration and make their own determination as to which product is best suited to meet their needs and objectives.

We feel that this obligation would make it impractical to provide any personal advice to customers that are comparing our insurance products to that of our competitors.

Regrettably we expect that these aspects of the proposed legislation, left unaltered, will ultimately result in Suncorp ceasing all personal advice offered through our Apia and Shannons brands.

Recommendation

In order to cut red tape and increase access to free financial advice on retail general insurance, it is our view that GI products should be granted the same relief that is provided to basic banking products. Both the Government and ASIC have previously regarded basic banking products and GI products to be of a similar standing. Suncorp notes that both are exempted from providing a Statement of Advice under S946B and also fall under ASIC's Tier 2 training requirements [RG 146], in recognition that both areas of financial services are relatively straightforward. The explanatory memorandum for FoFA, notes that basic banking products are granted a lower best interest standard due to these products being widely understood by the consumer and advice on these products poses a low risk of consumer detriment. We believe that GI products are also widely understood by the consumer and should be treated the same way.

As ASIC notes in RG146.39 GI products:

- (a) are relatively straightforward;
- (b) do not have any investment component;
- (c) are subject to standard terms and conditions except for previously disclosed variations; and
- (d) are of limited life, often 12 months.

In addition the products that Suncorp issues are subject to robust consumer protections under the Insurance Contracts Act 1984.

Suncorp cannot see any reason to change the treatment of GI products under FoFA reforms.



Life Insurance

Suncorp recognises life insurance as an important part of being able to protect our customer's dreams and long-term financial security. The Suncorp Group operates Asteron Life as its premier life insurance brand. Asteron has been a specialist life insurance company for more than 175 years and provides life insurance via a network of independent financial advisors. The ongoing fees obligation aspects of the FoFA draft legislation stand to have significant negative impacts upon our operation of Asteron Life.

Schedule 1, Division 3—charging ongoing fees to clients

Where an ongoing financial advice relationship exists between an adviser and a retail client which involves the charging of an ongoing advice fee, the fee recipient is required to discharge two separate (albeit intertwined) obligations.

1. Disclosure obligation: In order to continue charging an ongoing fee for a period longer than 12 months, the fee recipient must provide a fee disclosure statement to the client outlining fee and service information relevant to the client.
2. Renewal notice obligation: In order to continue charging an ongoing fee for a period longer than 24 months, the fee recipient must provide both a fee disclosure statement and a renewal notice to the client.

Asteron Life notes that there are more than 18,000 financial advisers operating in 8000 small businesses around Australia. These new opt-in obligations have the potential to add approximately \$100,000 to the cost of running an average advisory practice.³ This is a cost that cannot be absorbed within the operating expenses of a typical small business and will be passed on to the consumer. Asteron Life also believes that the increased red tape involved with an opt-in renewal will adversely affect the quality of financial advice given as a result of advisors spending more time dealing with red tape and less time invested with their client. Asteron Life feels that *meaningful* contact is just as important as regular contact. The increased need to deal with paperwork and collection of opt-ins will inevitably result in lower income for financial advisers. We predict that this impact will ultimately result in the closure of many small advisory practices and a reduction in the availability of financial advice for the consumer.

Suncorp is pleased that Treasury has restricted the application of the ongoing fees obligation to new clients however continues to believe this requirement will result in reduced access to financial advice for the consumer. The increased best interests obligations that apply for financial advisers and the improved ASIC regulatory powers will go a long way to improving the quality of financial advice and therefore, we believe, the onerous opt-in requirement is not necessary and overly costly.

Recommendation

Suncorp recommends that the compulsory opt-in obligations set out in Division 3 of the proposed amendments be removed. It is our belief that the consumer is already protected by the best interests obligations provided under the Act and introducing a new level of red tape will only serve to reduce access to financial advice and increase the costs associated with obtaining that advice.

³ Treasury and Senate Estimate hearings, February 2011



Please do not hesitate to contact myself or Fiona Thompson (02 8121 1506); fiona.thompson@suncorp.com.au should you wish to discuss any of Suncorp's concerns in further detail.

Yours sincerely

A handwritten signature in black ink, appearing to read "Annabelle Butler".

Annabelle Butler
Executive Manger Public Policy and Stakeholder Management – Suncorp

CC Chris Cunnington, EGM Group Regulatory Affairs
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