



SHAPING FUTURES

FPA *Professionals* CONGRESS

BRISBANE 18-20 NOVEMBER 2015



FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

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Is risk advice now risk-free?



Agenda

- Life Insurance Framework update
- Summary of determinations from FOS
- Life Insurance Advice Guide
- Questions & Close

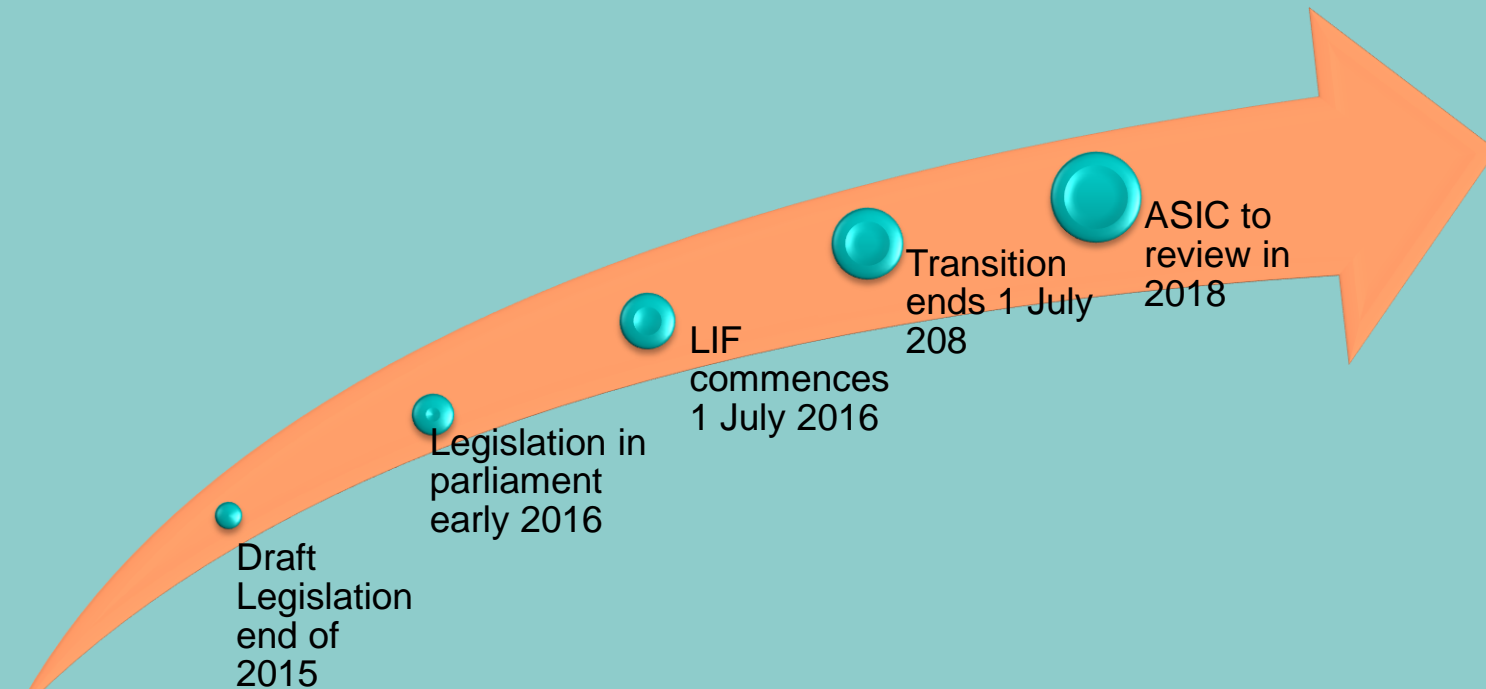


Life Insurance Framework

Update



Life Risk Update



Life Risk Update

Quality of advice and insurer practices

- Industry will have responsibility to widen Approved Product Lists by 1 July 2016.
- Life Insurance Code of Conduct to be developed by the FSC by 1 July 2016.

Commission Calculation

- Commission caps can be calculated on the base premium, frequency loading and the policy fee
- Excluded will be GST and Stamp Duty

Lapse Definition

- A lapse is defined as any cancellation of policy excluding when a claim is made or suicide/self harm.

Better enforcement and monitoring

- Ongoing reporting by life insurance companies of policy replacement data to ASIC from 1 July 2016
- ASIC to conduct a review of these measures by the end of 2018



FOS Determinations



FOS Life Insurance Determinations

- 17 Determinations since January 2014, with only two in favour of the Applicant and two 50/50 between the Applicant and the FSP.
- Even where FOS found a misleading statement in an SOA or similar, the Applicant was still required to prove they suffered a loss as a result of the misleading statement.

Key Learnings from Determinations:

- When recommending replacement life insurance policy be mindful of:
 - Any exclusions or loadings on the existing policy and how this effects the new application;
 - Comparing like for like policy terms;
 - Confirming any medical conditions etc. declared in the existing policy, and need to continue to be declared;
 - Cost comparisons that only look at the first 1 or 2 years. The new policy may be cheaper now but how much will it cost in 10 or 15 years?



FOS Life Insurance Determinations (cont.)

- When recommending insurance policies within a superannuation fund, balance the required levels of insurance with the cost of the premiums.
- Be careful when referring to benefits of an insurance policy in an SoA that it is actually a benefit of the policy being recommended.
- Ensure existing policies are not cancelled until new policies have been accepted by insurer. Further, be careful of clients cancelling policies without your knowledge, to their own detriment.
- General warnings in an SoA are not adequate to reduce liability for inappropriate advice, particularly where the adviser is aware of changed medical conditions of the client.



FOS Life Insurance Determinations (cont.)

- If an adviser becomes aware of exclusions / loadings to a new recommended insurance product, this needs to be assessed in regards to the client's best interests. Should the recommendation now be to stay with the existing product?
- Where there is a conflict between two or more of the client's objectives, inform the client of its existence and extent and get the client to prioritise the objectives.
- Be careful when recommending a super fund be rolled over to a new fund, particularly where the fund is operated by a related party, that consideration is given to current insurances with the fund and ensuring the client has like-for-like insurance coverage before closing any previous insurance.
- ALWAYS complete contemporaneous, accurate and concise file notes of meetings and conversations with clients.



Life Insurance Advice *Guide*



Section 1: Defining the scope of the advice

- Conduct an initial triage check to:
 - Determine the complexity of the client's circumstances;
 - Communicate expectations;
 - Establish consent to costs and process.
- Run through the process involved in order to manage expectations.
- Agree on the Terms of Engagement, including client expectations and obligations, the specific scope of the advice, whether and how the advice will be limited.
- Initial Engagement Piece – Setting the foundation for a long term relationship.
 - Part 1 – Who We are?
 - Part 2 – Who they are?
 - Part 3 – What are the terms?



Section 2: Collecting & documenting the right information

- Map out a family tree and structure of other entities involved.
- Understand the assets involved and expectation of beneficial rights.
- Incorporate the six components of the FPA Client Needs Wheel.
- Educate clients on estate planning and risk management to allow clients to realise their objectives.
- Over and above fact finding, collect and address underwriting issues and other matters upfront.
- Discuss the methodology of sums involved.



Section 2 (cont) Family Tree & Client Wheel

- Map out the Family Tree
 - Ownership – Personal Vs Business, Marriages, Children
 - Estate Planning Linkage
 - Client Needs Wheel – *refer to page 7 of Guide*
- Pre-Underwriting Process – Add Value Piece



Section 3 (part 1): Needs Analysis

- Categorise estate and non-estate assets.
- Acquire a list of all past and present family members.
- Incorporate the intentions of the client and work out the calculation of cover required for:
 - Debt elimination;
 - Replacement of income;
 - Rehabilitation / home modifications;
 - Medical expenses;
 - Overall quality of life.
- Discuss the method of establishing the amount of cover needed.
- “Disturb” – “What do you want to happen once you are gone”?”
- How much, When, Where, Who? And Why?



Section 3 (part 2): Strategy

- Ensure funding is optimised and cash flow analysed across linked entities.
- Weigh up conflicting priorities.
- Include impact of charging model to client's cash flow or investments.
- Ensure ownership and structures are efficient and consider the impact of payouts.
- Consider the provision of trusts.
- Incorporate client circumstances and factors which limit product features.



Section 4: Recommendation of Product

- Weigh up the benefits versus costs of switching into a different product, taking into account potential loadings, exclusions and longevity to maintain the policy.
- If increase of cover is required and the existing policy is at standard rates, then ensure loadings and exclusions do not apply to the original sums insured.
- Where a product no longer suits the client, then reasons linking back to the needs of the client must be recorded and justified.
- It is not justifiable to replace a product simply for remuneration purposes.
- Ensure recommended products can cater for the client's future needs.
- Information + Research + Analysis = Ratings Tool
- Cost/Benefit Analysis, Peer Insurer Review – Suitability, Claims, Service Standards, Value for Money and Underwriting



Section 5: Implementing the advice

- Ensure implemented cover amounts are mutually agreed.
- Educate the clients on their disclosure obligations and consequences.
- Ensure the Life Insured's statement remains at arms-length.
- Document and justify the ongoing service agreement including fees and claims management service.
- Educate the client on consequences of rolling over their Super without your knowledge where insurances are attached.
- Disclosure – Pre-Underwriting Value
- Tele-Underwriting, Online Applications, Technology Enhancements – Risk Transfer



Section 6: After service agreement

- Ensure an ongoing service arrangement is in place.
- Provide an annual notice regarding their cover and a reminder of trigger events requiring a review.
- Respond to clients review requests with SLA commitments.
- Ongoing Service Agreement
- Client Wheel + Mind Map = Has anything changed?



Section 7: Record keeping

- Maintain stringent record keeping that ensures:
 - All discussions and correspondence with different parties are recorded (file notes should be easily understood by any other party that might read them);
 - Records remain accessible;
 - In the event of a claim, all records can be utilised to make a successful claim;
 - Documents will allow assistance to legal representatives where needed during a claims process.

IMPORTANT: *Your SOA must clearly state that your client has a duty/obligation of disclosure as well as informing them of the consequences of breaching that duty. This duty continues until the date the policy commences.*

- *X-Plan + Cloud + Some Originals in Hard Copy – Business to Business will vary.*



Section 8: Disclosing conflicts of interest

- You must identify, manage, disclose or avoid conflicts of interest.
- Disclose the benefits and consequences of implementing life insurance.
- Link the value of your risk management advice proposition, to the costs of implementing insurances as part of your advice and ongoing service agreement.
- Broad open APL + Good ratings tool
- Meeting Licensee Requirements
- Fees & Commissions
- **Checklist** – *refer to pages 21-22 Appendix 1 of guide*



Summary

- Start now your process to transition under the new LIF
- Take the learnings from FOS
- Use the FPA Guide to help and support you in delivering best practice advice
- Consider specialist training (LRS®) and CPD to support your knowledge on life insurance





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