



28 August 2019

Manager
Financial System Division
Markets Group
Treasury
Langton Cres
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Email: InsuranceConsultations@treasury.gov.au

Dear Sir / Madam

Treasury Laws Amendment (Unfair Terms in Insurance Contracts) Bill 2019

The Financial Planning Association of Australia¹ (FPA) welcomes the opportunity to provide feedback in response to Treasury's Exposure Draft legislation - Treasury Laws Amendment (Unfair Terms in Insurance Contracts) Bill 2019.

The FPA supports the intent of the draft legislation and provides the following feedback in relation to life risk insurance products.

General insurance products and life insurance products are fundamentally different:

- General insurance is an insurance which is on an asset and typically covers losses caused by theft or damage. Life insurance is an insurance of a person's life.
- Life insurance is a contract which insures your life risk. Whereas, general insurance is a contract of indemnity which promises to make good losses incurred.
- In life insurance, benefits paid are based on an agreed sum and are paid either on the event of death or injury of the policy holder, or on maturity of the policy. In general insurance, the amount of actual loss is reimbursed when a certain event and damage occurs that is covered by the policy.
- Life insurance is a long term contract. General insurance is a short term contract, generally for one year and needs to be renewed every year on expiry.
- Since life insurance is a long term contract, the premium needs to be paid throughout the term of the policy or upto the minimum premium paying term. The premium for general insurance is payable only if the policy is renewed each year.

¹ The Financial Planning Association (FPA) has more than 14,000 members and affiliates of whom 11,000 are practising financial planners and 5,720 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first "policy pillar" is to act in the public interest at all times.
- In 2009 we announced a remuneration policy banning all commissions and conflicted remuneration on investments and superannuation for our members – years ahead of FOFA.
- We have an independent Conduct Review Commission, chaired by Dale Boucher, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 26 member countries and the more than 175,570 CFP practitioners that make up the FPSB globally.
- We built a curriculum with 18 Australian Universities for degrees in financial planning. Since 1st July 2013 all new members of the FPA have been required to hold, or be working towards, as a minimum, an approved undergraduate degree.
- We are recognised as a professional body by the Tax Practitioners Board.



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Hence, the terms of a life insurance contract will differ to those of a general insurance contract.

The FPA recommends additional examples should be included in the Explanatory Statement of how the Bill applies to life insurance contracts, particularly in sections 1.22 and 1.32.

The FPA supports a regulatory environment that provides enhanced protections and outcomes for consumers. However, care must be taken to ensure the implementation costs incurred by insurers (both directly and via ASIC's cost recovery levy) do not drive up the cost of insurance cover. The FPA notes the discussion of the costs to industry and ASIC of the implementation of Option 3 in the Draft Regulation Impact Statement, and suggests the impact of this measure on premiums and consumer outcomes be monitored by APRA and ASIC respectively.

We would welcome the opportunity to discuss with ASIC the issues raised in our submission. If you have any questions, please contact me on ben.marshan@fpa.com.au or 02 9220 4500.

Yours sincerely

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