

15 December 2025

secretariat@lifecodereview.org.au

Dear Mr Kell,

Consultation – Life Code Independent Review

The Financial Advice Association of Australia¹ (FAAA) welcomes the opportunity to provide feedback to the Life Code Review.

The FAAA fully recognises the importance of this Code for life insurance consumers. Financial advice is a very important means through which many Australians access life insurance and financial advisers act as advocates for their clients. In this submission we are addressing the key issues that are important to our members and their clients.

There are three important issues that our members believe are adversely impacting their clients. They include the following:

- **Broad Mental Health Exclusions.** The application of broad mental health exclusions, where there are no grounds for these exclusions, is not consistent with transparency and fairness. For example, exclusions for nervous system diseases and disorders should be more specific rather than addressing a very broad group of diseases and disorders. We are also concerned about the evident strategy to apply a mental health exclusion because of very limited prior history, including reference to counselling of any form.
- **Significant Premium Increases.** Over recent years, life insurance consumers in Australia have been subject to very significant premium increases on their life insurance policies. This has involved repeated double digit increases, which in many cases will mean that they are paying nearly double what they were paying just a few years ago. Life insurance is already a product where age factors result in regular premium increases. On top of this, large pricing increases can have a substantial impact on the budgets of Australians. Such large premium increases can put pressure on clients, particularly if they have other financial challenges at that time.
- **Upfront Premium Discounting.** In recent years it has become common for life insurers to offer material upfront short-term premium discounts for new clients. The consequences of this are that it is often in the interests of clients to seek new cover on a regular basis to access these discounts, provided that their health has not deteriorated in the meantime. It is our view that this

¹ The Financial Advice Association of Australia (FAAA) is the largest association representing the financial advice profession in Australia, with over 10,000 members. It was formed in 2023 following the merger of the two leading financial planning/advice bodies in Australia – the Financial Planning Association (FPA) and the Association of Financial Advisers (AFA). With this merger, a united professional association that advocates for the interests of financial advisers and their clients across the country was created.

is a very problematic practice, which can work to the disadvantage of existing clients who remain in their existing policies. Whilst the Code does not currently address pricing issues, this might be an area that the review could consider.

We have responded to the questions where we believe that we can make a meaningful contribution.

FAAA FEEDBACK

Mental Health

3.1. Are the current commitments in the Code adequate to ensure that customers who experience mental ill-health are dealt with transparently and fairly?

Our members have expressed concern that often very broad mental health exclusions are applied as a result of underwriting. As an example, an exclusion applied following underwriting could cover an extensive range of conditions, such as the following:

No claim will be payable under this cover which is caused directly or indirectly from any mental disorder including adjustment disorders, post traumatic stress disorder, substance abuse (including alcohol), behavioural disorders, functional neurological disorders, including treatment and/or complications of any such mental disorders. In addition, no benefit will be payable for conditions arising from mental or nervous diseases or disorders, including but not limited to anxiety, depression, or stress, symptoms of stress, cognitive impairment, fatigue or exhaustion; chronic fatigue, fibromyalgia, including treatment or related complications.

In our view, such a broad exclusion presents a number of challenges including the following:

- The diagnosis and treatment of mental health now enables the distinction of one condition from another. For example, post-traumatic stress disorder (PTSD), for which the onset is typically based on a reaction to an external event that likely posed a threat to a person's life, is very different to psychiatric disorders with strong hereditary factors such as schizophrenia (SCZ), bipolar disorder (BD), major depressive disorder (MDD), autism spectrum disorder (ASD), and attention deficit hyperactivity disorder (ADHD). They should be dealt with separately, and only excluded for a particular condition where there is a history of that condition.
- Nervous system diseases and disorders – should not be used as a broad term within an exclusion. An example of conditions under this category include Parkinson's disease, Multiple Sclerosis, Alzheimer's disease, epilepsy, stroke. Infections, such as meningitis, encephalitis, myelitis, and epidural abscess are also disorders of the nervous system. Nervous system diseases and disorders can also include peripheral nerve issues like carpal tunnel syndrome and Bell's palsy, brain injuries, migraines, and brain tumours. Exclusions should be more specific, rather than addressing a very broad group of diseases and disorders.

- Myalgic Encephalomyelitis/Chronic Fatigue Syndrome (ME/CFS) is often excluded under a mental health exclusion despite researchers identifying many biological abnormalities in people living with the disease. For some people, the disease may be triggered suddenly by an infection, toxic exposure, anaesthetic, immunisation, or trauma such as car accident. In other people, ME/CFS may develop slowly over months or years. However, research clearly demonstrates that ME/CFS is a biological illness, and it is not caused by being unfit or mental health problems. Multiple published scientific studies have reported that people with ME/CFS have measurable abnormalities of the brain, the immune system, energy metabolism, the blood vessels and bacteria that live in the gut. This should not be classified as a mental health condition.

It is sufficiently clear that mental health exclusions need to be more specific when it comes to individual underwriting outcomes. There is scope for sufficient specifications that protect both the insurer and insured. Insurers should also engage with the latest medical research on conditions such as ME/CFS that confirm that it is a biological condition and NOT a mental illness. Continuing to include broad mental health conditions fails in the application of the key principles of fairness and respect.

A client who has a history of anxiety, depression or stress that has had no to minimal impact on their ability to work and participate in society, should not be given an exclusion that excludes them from claiming on an event with no correlation or prior history such as PTSD nervous system disorders or cognitive disorders, particularly those that often have unrelated causes such as brain injuries or infections. Where broad exclusions are offered due to the possibility/risk of occurrence, then a statement should be included to the life insured when offering terms of cover with a mental health exclusion that if medical opinion can confirm that there is a lack of causation between past history and the event giving rise to a claim, then a claim could be considered.

This would provide protection for situations such as where a mental health exclusion is applied to a policy in a scenario due to a period of stress (e.g. partner loses their job resulting in financial difficulties that are later resolved - situation based etc), then some time later that same person suffers the loss of a child in an accident, but may be prevented from claiming despite the grief reaction being a normal response that would impact any parent with or without a prior history. Solutions such as limited benefit periods could be considered and utilised as an alternative to a broad-based exclusion or the exclusion wording should be required to be individually tailored or at least grouped into a more closely related set of conditions.

We are also concerned by the evident tendency to apply a mental health exclusion simply as a result of prior history, including reference to counselling of some form. A referral for counselling should not be grounds for a blanket exclusion of mental health cover. Some insurers will apply a mental health exclusion where they are of the view that there is a potential for symptoms to occur, despite no history of symptoms being evident for the life insured. Australians should not be prevented from having discussions with their GP about issues that are concerning them, that have limited broader implications.

In some cases, some form of counselling may be a requirement that the individual cannot avoid. Some examples of where counselling may be required include the following:

- In NSW, it is mandatory to go through counselling (FDR) before you can file a court application for a parenting order.
- For Fertility Treatment, counselling is sometimes a mandatory part of fertility treatments, especially for egg or sperm donors or recipients.
- Certain occupations and roles in healthcare or law enforcement require mandatory debriefing or counselling sessions.
- Receiving counselling for mental wellness where no symptoms exist e.g. seeking advice on career pathways, or advice on ways to support friends or family who have experienced an event.

We are concerned about mental health exclusions being applied where there are no grounds for this.

3.2. Do you have any feedback on the practical operation of the prohibition on blanket mental health exclusions? Are there changes to the Code that could support more consistent adherence to this requirement?

Further to the discussion above, we note that Clause 2.1 of the Code only refers to general terms and conditions. Evidently this does not apply as a result of exclusions applied following underwriting. Feedback from our members is that non-standard terms are very common. This position with respect to the application of blanket mental health exclusions should be applied more broadly, including with respect to the cases discussed above.

Paragraph 7(b) of Appendix B: 'Supporting customers experiencing a Mental Health Condition', should be calling for sensible proportionality to indicators of history, however it is not evident that this is being applied.

3.4. How useful is Appendix B of the Code? Are there other ways that the Code or related guidance could set out the commitments that insurers make when dealing with customers with mental health conditions? Could this information be made available to consumers in a form that increases accessibility and understanding of how insurers support people with mental health conditions?

Appendix B of the Code is useful, however the sections on interviews and surveillance are largely copied from elsewhere in the Code, and whilst the description of practices that apply to vulnerable persons is beneficial, it is a reality that consumers will almost always be reluctant to acknowledge mental health issues.

It is important that this information is readily available. All options should be considered to better enable the availability of this information.

Supporting customers experiencing vulnerability

3.5. Are the Code commitments in relation to vulnerability, including specific areas such as FDV, in line with community expectations? Are there areas where the commitments could be improved?

It is recognised that the Code does include specific recognition of customers experiencing vulnerability, however the reference to Family and Domestic Violence (FDV) is largely limited to a reference that insurers will have a publicly available policy on their website. Community expectations with respect to FDV are changing and the practices applied within the life insurance industry needs to keep pace with this. We would argue that there is room for more detailed expectations.

3.6. Should the Code address additional areas of vulnerability? If so, should this include any additional commitments?

The Code addresses a range of areas that could contribute to vulnerability, however does not address these areas of vulnerability in any detail.

Supporting customers experiencing financial hardship

3.9. Do the Code commitments adequately ensure customers facing financial difficulties are obtaining suitable and appropriate assistance from insurers? If not, how can the Code be improved?

Access to financial hardship measures is very important, particularly in the context of economic shocks and ongoing large premium increases.

We suspect that most people will simply drop their cover in the context of financial hardship. Life insurance policyholders who have access to a financial adviser will be more likely to look at how they can restructure their insurance cover or other living costs to better enable them to retain some level of cover.

Better awareness of the options that are available in the context of financial hardship would be beneficial.

3.10. Is there a need for the Code to distinguish between measures that might address short term financial hardship compared to more entrenched hardship?

The difference between short term and long term financial hardship issues is important. Some people can find themselves in positions that are of a short term nature that they might need assistance to overcome. When financial hardship is expected to be a long term consideration, it is more difficult to find solutions that will enable them to retain a suitable level of life insurance cover. More flexibility and visibility of options to overcome short term financial hardship would be beneficial.

Application of the Code

4.5. Do you have any feedback on the way in which the Code applies to group policies?

Obviously there has been a lot of media coverage over the last year with respect to the delay in the payment of life insurance claims related to large superannuation funds. We appreciate that the group policy market is quite different and it is the super fund that is the policy owner, and not the individual member. It is important that high standards of customer service apply in both the individual client space and the group space. We encourage the insurers to work with the super funds to ensure that similar standards apply across both sectors of the market.

Communications

4.10. How effectively do the Code commitments ensure consumers receive clear and effective communication, particularly in relation to premiums?

Consumers of life insurance do receive renewal notices that set out changes to their premiums each year. Whilst the new premium is clearly explained, clients typically do not get an explanation of why the price has increased or what the cumulative impact has been. Often the cumulative impact of premium increases over a five year period can be very substantial, however it is only those clients who pay particular attention, or reflect back on historical renewal notices, who will clearly understand this.

Premium sustainability is critically important. There are a number of factors that will influence future premium increases. We would like to see improved communication to clients of what they can expect in terms of future premium increases over the medium term. We would also like some means of the adherence by the life insurer to those projections or accuracy of those projections to be assessed. The ability to increase premiums is the major lever available to life insurers. It should be used very carefully and in a manner that involves a high level of transparency. Achieving greater premium sustainability is a key demand of life insurance clients and should be a priority of the life insurers.

We are very conscious of the concerns about the previous terms of 'stepped' and 'level' premiums. Those life insurance consumers who were on level premiums will most likely over recent years have experienced an outcome that is very different to the way this premium structure was presented. These terms have been changed now to 'variable' and 'variable age-stepped' premiums. There is still an elevated level of uncertainty about the meaning of these terms. The Code needs to be updated to reflect the change to these terms to describe premium models and insurers need to ensure that consumers better understand how these premium models work.

Structure of the Code

6.4. Are there any other sections of the Code where enhancements or clarifications could improve consumer understanding, suitability, accessibility and affordability of life insurance products?

As we have set out in the introduction, two important issues impacting life insurance consumers and financial advisers are the ongoing experience of significant premium increases and upfront premium discounting practices. These practices have a material impact on business lapses and create a poor consumer experience. We believe that the Code should address premium increases and the practices around upfront premium discounting and the consequences that both of these have. **The Code should consider a range of solutions that would disincentivise upfront premium discounting practices and provide an incentive for insurers to implement more sustainable pricing practices.**

Future Code reviews

6.10. Should the Code be reviewed every five years?

A five year cycle to review the Code is reasonable, however it is likely that things will change in that period and it will be necessary to make changes to ensure that it remains contemporary. As an example, the current legislation on the ban on genetic testing will most likely result in a change to Appendix A on the Moratorium on Genetic Testing in Life Insurance. This five year timeframe provides a sensible balance between the importance of regular reviews to ensure that it is meeting community expectations and the inefficiency of overly frequent reviews. We believe that CALI and the life insurance industry should be able to make essential changes in between major reviews.

Conclusion

The FAAA welcomes the opportunity to provide feedback on the Life Insurance Code of Practice, which we consider to be an important document in promoting consumer outcomes in the life insurance industry. It is our view that the Code is effective, however there are opportunities for improvement.

If you have any questions about our submission, please do not hesitate to contact me on (02) 9220 4500 or phil.anderson@faaa.au.

Yours sincerely,



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