

14 May 2026

secretariat@lifecodereview.org.au

Dear Mr Kell,

Consultation – Life Code Independent Review – Interim Report

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

As stated in our previous submission to the review, the FAAA fully recognises the importance of this Code for life insurance consumers. We restate the important role that financial advisers play in the life insurance market. Financial advisers act in the interest of their clients and play a critical role in ensuring that they can obtain life insurance cover and can access the benefits of their cover when they experience a life insurance event. Financial advisers often play the role of advocates for their clients with insurers.

In our initial submission in December 2025, in response to the Code Review, we highlighted concerns in the following areas:

- The application of broad mental health exclusions for underwritten business.
- Ongoing significant premium increases which are creating an affordability crisis and increased lapses.
- The practice of upfront premium discounting, which we believe is both counter-productive and disadvantageous to existing clients.

The interim report does not appear to address the issues that we raised in our initial submission in any material way. With respect to broad mental health exclusions in underwriting, we highlighted that exclusions were typically being applied for all mental health conditions and not just the one or ones where the consumer has a history and that non-material matters were unreasonably being used as the basis to decline any mental health cover or apply significant loadings. It is our view that the coverage in Section 2.1.3 does not address the core issues that we have raised. Whilst we accept that greater guidance on what matters related to mental health history need to be disclosed to the insurer as part of the underwriting process would be beneficial, this along with the recommendation for improved feedback on

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.

the reasons for declining cover does not address the core issue of excessive and unreasonable exclusions. We believe that more needs to be done.

The issues of premium increases and upfront premium discounting are only addressed in terms of disclosure to clients of the expectation of premium increases and the implications of the cessation of any discount (Recommendation 57). We do not feel that this is sufficient to address the importance of these issues. The right outcome is to prohibit upfront premium discounting. Disclosing the implications of the cessation of any discount will do nothing to remove this nonsensical practice. Our risk specialist members are strongly opposed to upfront premium discounting practices, and believe that they have had extensive negative impacts on the life insurance market and work to the disadvantage of existing policyholders. They believe that the emergence of these practice over recent years, is a clear signal of the level of dysfunction in the life insurance market that has emerged as a result of a substantial decline in new business volumes following the introduction of the Life Insurance Framework. Upfront premium discounting has not fixed the problem, it has instead made it worse.

[ASIC and APRA's joint letter to the life insurers on 5 June 2025](#) identified that consumers have experienced "repeated, large and unexpected premium increases" causing concerns about the affordability and stability of life insurance. What regulators describe as "duration-based pricing" is in practice a 'loyalty tax'; a new client subsidy funded by existing policyholders, whose only alternative is to cancel the cover they may have held for years and reapply as a new client to access new client market pricing. This continues to happen today with multiple insurers continuing to offer upfront discounts whilst applying significant premium increases on existing policy holders. ASIC and APRA were explicit that disclosure alone is insufficient, stating that "simply explaining that the length of time a consumer has held their policy is a factor impacting premiums fails to adequately capture the actual consequences of duration-based pricing." Recommendation 57's disclosure requirement does not adequately address this problem. The right outcome is the removal of upfront premium discounting, not better disclosure of its consequences.

We have focussed our response on the issues raised in the Mental Health section.

FAAA FEEDBACK

Mental Health Recommendations

1. The Code should contain a new overall industry commitment to dealing appropriately with customers experiencing mental health condition in Section 1 rather than in Appendix B.

We support this proposal. It is appropriate for it to be addressed in the main body of the Code.

2. When an insurer declines to provide cover or offers cover on non-standard terms for mental health, the Code's current provisions in Section 4 setting out required information for applicants should be revised to:

- **Clarify that this information should be in writing**
- **Align the information to be provided in a decision to offer alternative terms (4.22) with the information provided in a decision to decline cover (4.25), as relevant. For example, in both situations the consumer should be given the reasons for the decision based on what the applicant disclosed, as well as the opportunity to correct information;**
- **Require a plain English summary of the actuarial and statistical data or other relevant data the insurer has relied on to justify the decision, with sufficient detail to enable the consumer to understand how this information relates to the decision on their application.**

We support this proposal, however we do not believe that this adequately addresses the experience in the marketplace with exclusions being applied to all possible mental health conditions when the consumer has limited mental health history and that non-material historical matters are unreasonably being used as the basis to decline any mental health cover or apply loadings.

3. Insurers should be required to explain to consumers as part of underwriting questions what information on mental health needs to be disclosed and what does not. This issue should be covered at a general level in the proposed ‘Consumer Guide to Life Insurance and Mental Health’.

We support this proposal, however believe that it needs to go further in explaining the approach to underwriting and how relatively minor mental health historical matters will be assessed.

4. Remove Appendix B of the Code (as recommended above, include a clear statement in the main body of the Code on mental health).

We support this proposal.

5. Develop a standalone plain-English consumer document - ‘Consumer Guide to Life Insurance and Mental Health’.

We support this proposal and would appreciate the chance to contribute to this when it is developed.

6. Incorporate the commitment to provide an assigned claims assessor in clause 14 of Appendix B into the Code provisions relating to Claims Handling.

We support this proposal.

Mental Health Questions

1. Would it be appropriate to change the current position set out in clause 2.1(b) to allow limitations on cover for mental health in standard form policies (consistent with the DDA) in light of the trends for mental health claims.

The FAAA is very conscious of the rapid growth in mental health claims and the threat that this poses to the viability of life insurance products and the overall market. In the context of the scale of this issue, we are open to consideration of a range of potential solutions. We are, however, fearful of the risk that it becomes very difficult to get any insurance for mental health conditions. This is an outcome that we would not like to have eventuate.

Provided other options are available to obtain cover for mental health conditions, we would be prepared to support the removal of clause 2.1(b), and a return to settings that enable insurers to exclude mental health conditions in standard terms and conditions or to enable materially different benefits or payment patterns to apply for mental health claims. We have not formed this view lightly, however from a financial adviser perspective, it is critical that the market remains sustainable and that Australian consumers can continue to have access to life insurance cover. We continue to call for the availability of options for cover for mental health conditions, however accept that one solution to address the issue of sustainability is to offer reduced benefit levels or alternative payment patterns.

Whilst we appreciate that there is some confusion about the purposes of clause 2.1(b), it is our understanding that the supplementary submission by CALI is seeking an outcome where life insurers would be able to bring to market products that include blanket mental health exclusions and to provide different benefits for mental health claims. We acknowledge this and appreciate the consequences of such a change.

It is important to appreciate that this potential change will only apply to new business. Existing products and existing policies will not be impacted unless a policy holder chooses to move their cover to a new product with the new policy terms. This might mean that insurers will continue to face significant challenges from mounting mental health related life insurance claim costs for existing and legacy policies. Existing policyholders will continue to be detrimentally impacted, suffering unsustainable premium increases. Insurers must be encouraged, or explicitly permitted, to offer existing policyholders the ability to voluntarily opt-in to mental health exclusions or capped benefits in exchange for immediate premium relief. Without this mechanism, healthy clients will continue to cancel their policies due to affordability. The impact on sustainability will be gradual, rather than immediate.

If it is the aim of the industry to allow policy holder to transfer their policies to more sustainably priced products, then policy holders should not be penalised or re-assessed on their health history by insurers when downgrading their cover where the insurance cover remains with the same insurer.

2. The impact the industry's proposed approach may have on consumers and insurers.

The potential impact on new consumers is likely to be the need to make a challenging choice on whether to acquire a product that includes mental health cover or an alternative materially cheaper product that excludes mental health cover or has limited mental health condition benefits. That will be a difficult decision for them to make, without the benefit of knowing what the future holds. The worst consequence

would be being in a situation in the future where they needed to claim for a condition that they accepted an exclusion for at policy commencement. We would also argue that this decision will have potentially significant consequences for financial advisers, in that if they were to recommend the product that excludes mental health cover and a client later experiences serious mental health consequences, then they may be exposed to a complaint on the basis that the client argues that they should have had mental health cover. Financial advisers should not be unfairly exposed as a result. Therefore, we strongly advocate for concurrent regulatory guidance or a safe harbor provision. This would protect financial advisers from retrospective compliance action or AFCA complaints when recommending restricted products, provided clear informed consent was obtained from the client.

From an insurer perspective, this potential change could enable them to put products into the marketplace that are more sustainable, where premium price increases are less overwhelming and where they can have more confidence about the long-term financial position with the product. As noted above, this will not address the potential challenges that they have with existing policies and the likely continued rapid escalation in mental health claims and premiums that occur as a result, unless insurers implement the voluntary opt-in to these exclusions (as we have proposed above).

3. If the prohibition on blanket mental health exclusions was removed and design features in insurance policies that limit cover for mental health were permitted:

a. How could the Code help ensure that such an approach was consistent with the requirements of the DDA?

It will be up to each insurer to ensure that the products that they design, build and market, comply with their obligations under the DDA. Having the flexibility to do so, rather than additional onerous requirements specified under the Code, is important for competition and choice for consumers.

b. Are there some general principles or 'guardrails' that should apply in the Code to ensure fair and transparent treatment of consumers experiencing mental health conditions as these design features are developed and implemented?

We are responding to this question on the assumption that products will emerge that include a standard blanket exclusion for mental health conditions. It might not be the case that these products would be dependent upon some measure of fair and transparent treatment of consumers experiencing mental health conditions if the policy they hold excludes coverage for mental health conditions. We believe that it is more important that the consumers fully understand at the time of purchase, provide informed consent and are then reminded each year upon renewal about the limitations relating to mental health claims.

If products emerge and are common in the marketplace that limit the benefits for mental health conditions or vary the payment pattern for such conditions, then fair and transparent treatment would be important. Once again, this might be best addressed through disclosure, informed consent and annual reminders.

c. Is there information that could be specified in the Code that would help ensure consumers understand why these policy features have been introduced and how they work?

It is not obvious to us that the Code is the most important place for information to be included that would ensure that consumers understood the implications of these policy features. It would be essential that this is made clear to them through any advice process they undertake and through the product disclosure statement. The Code might instead address the importance of communication with consumers and the necessity for consumers to provide informed consent.

d. Is there information that could be specified in the Code that would help ensure consumers understand how policy features apply to their situation?

We make the point that it is important that not only new, but existing consumers understand the consequences of such a change in the Code and the products that might be available in the future. Existing policyholders will not experience any change in their current policies, however they will continue to be exposed to the risk of worsening and material premium increases. It is important that they understand this. It is also important that they do not incorrectly assume, based upon media coverage or other sources of information, that mental health cover might have been removed from existing policies. For new consumers, it is important that they understand that products might exist where mental health conditions are excluded. It is essential that the client fully appreciates this outcome at the time of purchase and that the product communication reminds them of this on an annual basis.

Conclusion

The FAAA welcomes the opportunity to provide further feedback on the Life Insurance Code of Practice and the Review. We appreciate the work that has been undertaken, however we continue to seek direct and comprehensive responses to the issues that we raised in our 18 December 2025 submission.

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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