# THE LIFE INSURANCE CODE OF PRACTICE

## SALES, MARKETING AND COMMUNICATIONS

PART 4


INSURANCE ■ COMMERCIAL ■ BANKING

# Table of Contents

# Introduction

The FSC's Life Insurance Code of Practice opens a new dialogue with the industry's customers about how the industry will work with them.

It is intended to:

- Promote high standards of service to consumers
- Provide a benchmark of consistency within the industry
- Establish a framework for professional behaviour and responsibilities

The Code contains ten "Key Code Promises" which are reflected in the individual sections of the Code. Because the Code is a promise to the customer it is not written in a way that is function specific for the individual business units of companies. This guide extracts the parts of the Code in a way that allows people that work in insurance companies to see how the Code will apply to what they do on a day-to-day basis.

It doesn't reproduce every provision in the Code, but is our selection of the things that we think are most important and which companies will need to incorporate if they need to change their procedures to comply.

We have not designed it as a commentary or explanation of the Code, as the Code speaks for itself and it will be up to each company to decide how it achieves (and hopefully exceeds) the standards and objectives set out in the Code in its own way.

Though the Code is now live on the FSC website (you can download a copy here), companies have until 1 July 2017 to be compliant. Individual companies may choose to make their activities subject to the Code earlier than this if they wish.

We hope you find this guide helpful in your journey toward successful implementation.

John Myatt
Partner and Head of Insurance & Financial Services, TurksLegal

SUBJECT 1

# Products covered by the Code

## Life insurance policies

- Once a company adopts the Code, it applies to all the products that are Life Insurance policies as defined in the definition's section of the Code[1]. This basically adopts the definition in section 9 of the Life Insurance Act 1995, with some exceptions (see below). It also applies to policies that are deemed by APRA to be life insurance business under section 12A of that Act.

## Types of policy covered

- term life insurance/death and terminal illness;
- total and permanent disability (TPD);
- trauma/critical illness insurance;
- disability insurance;
- funeral insurance;
- income protection/salary continuance;
- business expense cover; and
- consumer credit insurance ('CCI') issued by a life insurer.

(2.10)

## What products are excluded?

- The Code does <u>not</u> apply to interactions with customers in relation to:
  - annuities and investment life products, except any component considered as a Life Insurance Policy;
  - whole-of-life and endowment insurance products;
  - general insurance products (including but not limited to sickness and accident covers); and
  - health insurance products.

(2.11)

## Policies bought before the company adopted the Code

- The Life Insurance Code of Practice became available for adoption by companies from 1 October 2016 but it does not apply to a company's interactions with customers until the company notifies the FSC and Life CCC that it agrees to be bound by it. (2.8)
- The provisions of the Code that apply to purchasing cover (See Section 5: "When you buy insurance") do not apply to interactions the company had with the customer before it was bound by the Code. Although, once the company adopts the Code it will bound to apply it in relation to subsequent claims or complaints. (2.10)
- Once a company adopts the Code it applies to all interactions from that date, including interactions relating to a pre-existing claim or complaint.

For further detail regarding:

- When does the Code apply to a company's interactions with customers?
- Who is bound by the Code?

see The Life Insurance Code of Practice: Coverage and Complaints and Code Governance

For further detail regarding:

- Product Design and Product Review
- Initial policy information on purchase

see The Life Insurance Code of Practice: How it affects New Business and Underwriting

[1] Definitions appear in section 15 of the Code.

SUBJECT 2

# Advertising and Sales Practices

## Advertising

When advertising and marketing life insurance policies, companies must:

- be clear and not misleading;
- consider the characteristics of the audience likely to see the advertisement or marketing communication and whether it provides adequate information for that audience;
- ensure statements in advertisements or marketing communications are consistent with the features of the relevant policy and the disclosures in any corresponding product disclosure statement (PDS);
- ensure that any images used do not contradict, detract from or reduce the prominence of any statements used;
- give a realistic impression of the price or premium offered to the target audience;
- make clear if a benefit depends on a certain set of circumstances;
- ensure any use of phrases such as "free" or "guaranteed" are not likely to mislead; and
- comply with ASIC's guidance for advertising financial products and services regarding unsolicited sales.

(4.1)

## Product Disclosure Statements (PDS)

- Any PDS that has been prepared by the company for one of its risk products must be available online for the intended customer to view prior to making an application for cover.
- If the PDS has been prepared by another party (such as a superannuation fund trustee or other group policy-owner) the company must refer the intended customer to the relevant party for a copy of the PDS.
- Group insurers must encourage the trustees they work with to make their PDS available online.

(3.7)

## Sales philosophy and prohibition on pressure selling

- A company must have a clearly documented sales philosophy to ensure its staff and its Authorised Representatives[2] conduct sales appropriately and avoid pressure selling or other unacceptable sales practices. This must include:
  - having clear rules on when staff must stop selling if the intended customer indicates they do not want to purchase a life insurance policy or if it becomes clear that they will be unlikely to claim the benefit under the policy being sold;
  - how to record and keep adequate evidence that the intended customer has genuinely consented to purchase the policy;
  - guidance on the minimum information that must be disclosed to the intended customer about the premium, features, benefits, exclusions, limits and cooling-off period of the policy; and
  - performance measures included in the company's staff incentive programs stating the consequences that will apply if the company identifies any staff member that has engaged in pressure selling or other unacceptable sales practices.

(4.3)

- Companies must put in place;
  - quality assurance measures for reviewing sales, such as call monitoring, mystery shopping and post-sale call surveys; and
  - analysis and reporting on key data, such as sales results, lapses, claim declines and complaints.

(4.4)

[2] Authorised Representative is defined in the Code (15) as a person, company or other entity authorised by the company to provide financial services under the company's Australian Financial Services Licence, but does not include an authorised representative of a licensee that is a related company. The Code does not apply to other financial advisers or other industry participants, such as trustees unless they have adopted the Code in accordance with 2.1(b).

back to top

SUBJECT 3

# Special Products

- Companies must set up similar arrangements with other parties distributing their products, including satisfying themselves that appropriate staff monitoring and reporting framework, and training is in place to meet the requirements of the Code. They must also make it clear to anyone distributing their policies that pressure selling is not permitted. (4.5, 4.6)

## Replacement business

- If a customer requests to replace a Life Insurance Policy, companies must inform the customer not to cancel any existing cover until the new application is accepted, in addition to explaining the general risks of replacing an existing policy, including the loss of accrued benefits.

(4.8)

## CCI Insurance

- Where a CCI policy is sold as an add-on to another financial product (either directly or through an Authorised Representative), companies must require evidence that the customer consented to the purchase. This means that before they put policies in place, companies must ask questions to this effect and check the answers.

  Prior to purchase the company must:

  - provide a clear statement that the purchase of the life insurance policy is optional;
  - ask the customer clearly if they consent to the purchase of the policy; and
  - provide a clear explanation of the eligibility criteria for the policy, the main exclusions that apply and the cooling-off period.

- Companies must also clearly inform customers how the premiums will be structured.

  i. If the policy is an add-on to a loan and the option of paying the premium through the loan is offered, then a "non- financed" payment option (such as a monthly direct debit) must also be offered.

  ii. If the premium is fully funded by the loan, the customer must be informed that they will pay interest on the premium, and their loan repayments will be quoted with and without the premium for comparison.

- Companies must obtain adequate evidence that the customer has consented to purchase the life insurance policy.
- Companies must provide annual written notice to the customer prior to the anniversary of their life insurance policy, unless the customer opts out of receiving this.

The annual notice will include:

i. period of cover

ii. types of cover

iii. contact details for any questions or if a customer needs to make a claim.

(4.7)

back to top

SUBJECT 4

# Policy Communications

## Annual Notice

- Companies must provide customers with an 'annual notice' each year prior to the anniversary of the policy inception which must provide:

  a) confirmation of the type of cover the customer is insured for and how much;

  b) an explanation for any increase in premiums in accordance with the terms of the policy;

  c) information about the risks of cancelling and replacing an existing policy;

  d) information about how a customer can contact companies to discuss options to change the terms of the policy or if customers are having difficulty meeting payments; and

  e) what to do in the event of a claim.

- Companies must notify customers if a policy has an automatic upgrade of benefits and if/when that automatic upgrade applies to their policy.

(6.3)

SUBJECT 5

# Policy Changes/ Cancellation/ Support

- If a customer wishes to change the terms of their Life Insurance Policy, or if they are having trouble meeting their premium payments, companies are required to inform the customer of options that may be available, such as:

  a) changing the benefit structure or sum insured;

  b) reducing the benefits in order to reduce the premium; or

  c) suspending a customer's payments for a short period, during which time, a customer is not able to make a claim, however, the customer's Life Insurance Policy is also not cancelled, in accordance with hardship procedures.

- If the policy owner is entitled to a refund of unexpired premium on cancellation, this must occur within 15 business days.

- Companies must take "reasonable measures" to assist some customers (for example, people from Indigenous communities or those from non-English speaking backgrounds) in purchasing insurance or making a complaint (7.4) and take into account people living in remote and regional communities in the timeframes companies set. This must be considered during the underwriting and claims processes. (7.5)

- Companies must investigate concerns identified with sales practices of staff and/or Authorised Representatives. If it is found that a Life Insurance Policy has been sold inappropriately, companies must:

  a) contact the consumer to discuss an appropriate remedy. Appropriate remedies will vary depending on the circumstances, and may include:

    i. cancelling the cover;

    ii. arranging a refund of premiums paid;

    iii. payment of interest on the refunded premium;

    iv. adjusting the cover or arranging for more suitable cover;

    v. correcting incorrect information; or

    vi. honouring a claim.

SUBJECT 6

# HR and Training

b) if a customer is not satisfied with the proposed remedy, the situation will be reviewed and the customer informed how to make a Complaint; and

c) education and training will be provided/required to correct any identified issues in the staff or Authorised Representative's sales practices.

(4.9)

## Sales staff and Authorised Representatives involved in sales

- Companies' sales staff and Authorised Representatives who sell policies must:

  a) receive appropriate initial training and be provided ongoing training covering policies, identifying suitable customers for policies, acceptable and unacceptable sales practices and the requirements of the Code; and

  b) receive additional remedial training as needed to correct any identified performance shortcomings.



back to top

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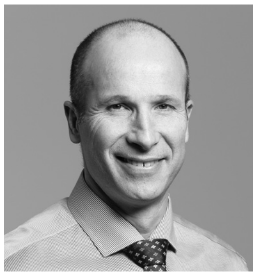

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back to top

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