Life Insurance Framework FAQs

THE FACTS, THE FIGURES, THE FUTURE

On 1 January 2018, the Life Insurance Framework (LIF) transition began.

These FAQs outline how we've implemented the changes so far and provide some updated information about phase three, which comes into effect on 1 January 2020.

If you'd like more information about our approach, please get in touch.

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1 LIF Summary

In response to the ASIC Report 413 (*Review of Retail Life Insurance Advice*), the Financial System Inquiry and Trowbridge report, the Federal Government announced it would support a reform package from industry to better align interests of consumer and advisers.

That reform includes the Life Insurance Framework (LIF), which covers the following areas:

Adviser and licensee remuneration
Including commission arrangements, volume based payments and fee for service.

Transitional arrangements
Three year transition structure, commencing 1 January 2018.

This FAQ focuses primarily on adviser and licensee remuneration changes.

TAL

2 Commission Rules

UPFRONT COMMISSION CHANGES

LIF came into effect by capping commission payments over a three year period:

	1 January 2018	1 January 2019	1 January 2020
NEW BUSINESS COMMISSIONS CAPPED AT:	88%	77%	66%

All commission figures are GST inclusive

Since 1 January 2018, **trail (ongoing) commission has been capped at 22%** (GST inclusive) on products that are subject to the LIF commission.

And from the same date, volume-based incentives will no longer be permitted on new business.

→ Refer to **Section 3** for clawback information
→ Refer to **Section 4** for Level commission information
→ Refer to **Section 5** for transition information

HOW WILL TAL CALCULATE COMMISSION?

TAL will continue to pay commission on:

- The premium after all relevant discounts/rebates are applied
- The premium prior to the 15% premium tax rebate being applied on annual rollover
- All permanent and temporary loadings
- Stamp duty only where it is implicitly charged.

Commission isn't payable on:

- The policy fee
- The modal/frequency loading for monthly or quarterly premium payments
- Waived or refunded premiums.

→ Please refer to the **TAL Adviser Guide** for more information

HOW WILL GRANDFATHERING WORK?

Policies written on pre-LIF terms will continue to retain the commission terms which they were originally written.

Any policies written on LIF commission terms are not grandfathered. Increases or additions to these policies will be limited to **maximum initial commission 66% from 1 January 2020**.

3 Clawback & Lapse

NEW RESPONSIBILITY PERIOD (CLAWBACK)

A number of new clawback rules apply for business written from 1 January 2018, including:

100% of the commission paid must be clawed back for cancellation or proportionately for reduction in the policy cost in year 1

60% of the first year commission paid must be clawed back for cancellation or proportionately for reduction in the policy cost in year 2

Clawback applies when the policy is cancelled, or applies proportionately when a benefit is removed or the sum insured – and policy cost – is reduced. The total policy cost is taken into account. Clawback applies at policy level, rather than benefit level. Below is a brief summary of the LIF clawback approach. The summary is subject to the provisions of the Corporations Act and any relevant ASIC guidelines or instruments and may therefore change.

	EVENT	TRIGGER CLAWBACK?
	Cancellation of insurance policy	✓
Cancellation due to:	Death of insured	✗
	Act of self-harm (ie policy ceases or policy exclusion applies)	✗
	Policy / benefit reaches maturity	✗
	Cancelled due to admin error	✗
Reduction in premium due to:	Cancellation of Benefit	✓
	Cancellation of Option	✓
	Reduction in Sum Insured	✓
	Policy alteration: • IP benefit period decreasing • IP waiting period increasing • Downgrade of contract type, for example, IP premier to IP standard • Downgrade of definition, for example, own occupation to any occupation • Level premium to stepped premium • Stand alone cover to rider cover	✓
	Smoker to Non Smoker	✗
	Removal of underwriting loading	✗
	Improvement to occupation class	✗
	Change of premium rates	✗
	Discounts being applied (acquire or retain)	✗
	Claim or claims being made	✗
	Admin error	✗
	Indexation reversal	✗

→ See the **Appendix** for examples of clawback application

WHO WILL TAL CLAWBACK FROM?

For LIF policies, we'll clawback from the Licensee of the last known commissionable adviser (who may also be the servicing Adviser) at the time of discontinuance.

4 Level Commission

TAL will retain its current Level commission approach (being 30/30, inclusive of GST), inclusive of 12 month responsibility period.

5 Transition

WILL THERE BE ANY TRANSITION PERIOD FOR THE 1 JANUARY 2020 CHANGES TO INITIAL COMMISSION?

No, there won't be any transition period when this change is implemented.

Following LIF implementation from 1 January 2018, subsequent changes in initial commission to 77% and 66% will have a hard cut-off 31 December 2018 and 2019 respectively.

Any business completed on or after these dates will receive the respective new initial commission. This includes increases and additions to existing policies written on LIF terms.

When paying premium via rollover, funds have to be received and allocated by 31 December 2019. Receipt of payment after 31 December 2019 will require Hybrid commission to be paid at 66% in line with legislated requirements.

Any application requirements which are not fulfilled by 31 December 2019 or rollovers not received by us by 31 December 2019" will not receive the 77% (including GST) rate of commission applicable until 31 December 2019.

WILL DISTRIBUTION AGREEMENTS NEED TO CHANGE FOR LIF?

Yes, commission schedules will be amended to support the LIF changes.

6 Appendix

CLAWBACK EXAMPLES

Based on the final LIF commission rate of 66%, GST inclusive.

POLICY CANCELLATION IN YEAR 1

Initial premium = $1,000

- Year 1 commission = $660
- Policy cancelled after 6 months, commission clawback = $660

POLICY CANCELLATION IN YEAR 2

Initial premium = $1,000

- Year 1 commission = $660
- Policy cancelled after 18 months, commission clawback is 60% of year 1 commission = $396 ($660 x 0.6 = $396).

BENEFIT REMOVED IN YEAR 1

Initial premium = $1,000

- Year 1 commission = $660
- Benefit removed after 6 months, reducing year 1 premium to $500
- Commission clawback is therefore 100% of commission paid on reduced proportion = $330 ($660 x 0.50 = $330)

BENEFIT REMOVED IN YEAR 2

Initial premium = $1,000

- Year 1 commission = $660
- Benefit removed at start of year 2, reducing premium to $700
- Commission clawback is therefore 60% of reduced proportion relative to year 1 premium= $118.80 ($1,000-$700)/$1,000 = reduction of 30% relative to year 1 premium 30% x 60% x $660 = $118.80)