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## CONFIDENTIAL

Mr Simon Sherwood  
Office of the Solicitor Assisting  
Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry  
Level 34, 600 Bourke Street, Melbourne

13 June 2018

By email: [REDACTED]

Dear Mr Sherwood,

### Notice to Produce No. NP-495

I refer to your email of 6 June 2018 and to the Notice to Produce No. NP-495 attached to it (**Notice**).

Please find attached to this email electronic copies of all documents in Select's possession, custody and control which respond to that Notice. I have also set out below information which may assist the Commission in understanding Select's response to the Notice, adopting the paragraph numbering of the Notice:

a) In respect of paragraph 2.1 of the Statement:

- i Any report to the CEO, Executive Committee or Board of Select or St Andrew's in relation to Select's determination to cease distributing funeral insurance;

No such report exists. The decision to cease distributing funeral insurance (*including life and accident insurance*) was made by Russell Howden (the CEO and sole director of Select AFSL), for the reasons outlined below.

Up until 1 January 2018\*, Select had an arrangement with the insurer, St Andrew's, for St Andrew's to provide 100% upfront (initial) commission to Select on the sale of every insurance policy, in exchange for a reduction to Select's ongoing commission on these policies.

This commission arrangement was similar to other commission arrangements in the market at the time for the distribution of life insurance (*in both the "direct" as well as "independent financial advisers" channels*) and was designed to assist Select in covering its high upfront cost of acquiring policies, commonly referred to as "new business expense strain".

Under the Life Insurance Framework (LIF) reforms effective 1 January 2018, life insurance distributors are no longer permitted to receive upfront commissions of 100%

or more of the first year's premium paid by the policyholder. Instead, distributors can elect to receive commission under a "hybrid" or a "level" commission option. In summary, under the hybrid commission option (upfront & trail commission) there is now a cap on initial commission of 88% (*reducing to a cap of 77% for business written in 2019 and to a cap of 66% for business written during and after 2020*) and a cap of 22% on ongoing commission.

Select changed its commission structure on all new policies issued on or after 1 January 2018, to level commission only. Unfortunately, the suspension of the new business financing meant that Select was not able to cover its new business expense strain and in the two month period ended February 2018 suffered a significant cash loss.

In the absence of an alternative funding model, I unfortunately had no alternative than to cease distributing new policies. BlueInc Services, a related company, will continue to administer and service the current Let's Insure and FlexiSure policies under an administration agreement with St Andrew's.

*\* On 3 November 2017, St Andrew's requested Select enter into a new Distribution Agreement when the then current distribution agreement between the parties expired on 31 December 2017. Whilst St Andrew's requested a contract period of 4 years until 31 December 2021, given the imminent changes to remuneration under the LIF reforms (referred to above), Select only agreed to enter into a new interim agreement up to 30 June 2018, to allow it time to explore an alternative basis of funding its policy acquisition costs.*

- ii Any other document explaining the reasons why Select has determined to cease distributing funeral insurance.

There are no other documents (or reasons) relating to Select's decision to cease distributing funeral insurance (*including life and accident insurance*).

- b) In respect of paragraph 5.1.2 of the Statement, since 1 January 2013:

- i Any scripts provided to Select representatives (whether employed by external call centres or otherwise) for the purposes of making outbound calls to referred potential customers in order to offer Select funeral insurance policies;

During the period January 2015 until May 2017 (the date Select stopped accepting referrals completely), there was a section at the end of every sales script (after the sale had been made) introducing our referral programme. Annexures RH-03 to RH-04 are copies of each sales script issued during that period.

When a sales representative contacted a client whose details had been referred, the agent was required at the start of the call to point out to the potential customer where they had obtained their details and the reason for the call. The agent was then required to follow the standard script from this point onwards.

ii Any pro forma documents sent by Select representatives to:

1. New customers;
2. Referred potential customers,

in relation to the offer of Select funeral insurance policies to referred potential customers

We have assumed that this request seeks only proforma documents which refer to the referral program. The attached "Refer a Friend" flyer (Annexure RH-07) is the only proforma document which does so. It was included in Welcome Packs (together with the Welcome Letter, Policy Schedule, Product Disclosure Statement and Financial Services Guide).

c) In respect of paragraph 5.1.3 of the Statement, since 1 January 2013, any scripts provided to Select representatives (whether employed by external call centres or otherwise) for the purposes of making outbound calls in order to offer Select funeral insurance policies;

Annexures RH-08 is a copy of the lead generation script provided to external call centres authorised under agreement to generate leads for funeral insurance. Please refer to Annexures RH-01 to RH-06 for copies of the sales scripts provided to Select's sales representatives. Annexures RH-09 to RH-13 are copies of the agreements entered into with external call centres.

d) In respect of paragraph 8.1 of the Statement, since 1 January 2013, any version of the Quality Assurance Procedures applicable to the offer of Select funeral insurance policies;

Annexure RH-14 is a copy of the Quality Assurance Procedure during the period since 1 January 2013.

e) In respect of paragraph 10.1 of the Statement, since 1 January 2013, any QA scorecards prepared in relation to Select representatives in which a QA score of less than 90% was awarded.

As discussed between Matthew Crowley and Select's external lawyer, Kathryn Edghill on 13 June 2018, this will be the subject of separate correspondence.

f) In respect of the table following paragraph 23.1 of the Statement, any documents recording ways in which Select "actively tries not to target indigenous communities".

Annexure RH-15 is a copy of Select's advertising guidelines.

g) In respect of paragraph 24.1.1 of the Statement, since 1 January 2013, any instructions provided by Select to independent lead providers.

All lead providers have been required to enter into and abide by the provisions contained in our Lead Generation Agreement – refer to Annexures RH-09 to RH-13.

h) In respect of paragraphs 28.1 and 28.4 of the Statement, copies of:

- i any documents containing or summarising the internal analysis carried out by St Andrew's;
- ii any documents containing the notification from St Andrew's to Select on 31 October 2016.

Annexure RH-16 (which is an email from St Andrew's to Select) is the document which Select has which responds to this request. St Andrew's provided Select with a summary of their internal analysis in a graph contained in that email.

- i) In respect of paragraphs 28.2 and 28.3 of the Statement:
- i any documents containing or summarising the results of Select's internal investigation into the causes of the spike in funeral insurance sales in 2015;  
[The results of Select's internal investigation into the causes of the spike in funeral insurance sales in 2015 are contained in our letter to ASIC dated 19 June 2017 \(a copy of which is Annexure RH-17\) and in Annexure RH-18 which is the results of our internal analysis.](#)
  - ii any documents setting out the key features of the two sales incentive arrangements that coincided with the introduction of the referral campaign.  
[The key features of the 2 incentives are contained in Annexures RH-21 and RH-22.](#)
- j) In respect of paragraph 28.3 of the Statement, any document containing or summarising the results of Select's internal review of the sales practices of the two representatives.  
[Please refer to the analysis contained in Annexure RH-18 as well as the letter to ASIC dated 19 June 2017 \(Annexure RH-17\).](#)
- k) In respect of paragraphs 28.5 of the Statement:
- i any document setting out the voluntary disclosure made by St Andrew's to ASIC on or about 17 January 2017;  
[Select does not have any such document. St Andrew's provided Select with a verbal notification of this disclosure only.](#)
  - ii any document containing or summarising Select's opinion as to the matters raised by St Andrew's not indicating a likely significant breach of Select's obligations under the *Corporations Act 2001* (Cth).  
[This is contained in Select's letter to ASIC on the 19<sup>th</sup> June 2017 \(annexure RH-17\), specifically point 25 of the letter. To the extent that Select received legal advice in respect of such matters, it makes a claim of legal professional privilege in respect of the same.](#)
- l) In respect of paragraph 28.6 of the Statement, any document containing consideration of whether and when Select would notify ASIC in relation to the spike in funeral insurance sales in 2015.  
[Annexures RH-19 to RH-20 contains copies of minutes of meetings with representatives of St Andrew's and others at which there was consideration and discussion of whether and when Select would notify ASIC. All other documents containing such consideration are the subject of a claim of legal professional privilege, being documents which came into existence for the sole purpose of seeking and receiving legal advice.](#)

m) In respect of paragraph 28.14 of the Statement, since 1 January 2013, any version of Select's *Duty of Care Guideline*.

Annexure RH-23 contains a copy of the Duty of Care Guideline

Yours faithfully

A handwritten signature in blue ink, consisting of a series of overlapping, curved strokes that form the name 'Russell Howden'.

Russell Howden  
Managing Director

