AIOFP
ASSOCIATION OF
INDEPENDENTLY OWNED
FINANCIAL PROFESSIONALS

INQUIRY INTO THE
LIFE INSURANCE INDUSTRY

Parliamentary Joint Committee on Corporations and Financial Service

November 2016

Complied by AIOFP Executive Director

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1 - Executive Summary

The AIOFP is the nation's largest Association for independent and independently owned financial professional Advisers with over 3,500 Advisers within its practice member constituents. To be a member each practice must not have any institutional ownership and operate its own Australian Financial Services License [AFSL]. Individual members must be licensed to a practice that qualifies under the practice qualification guidelines.

AIOFP members deal extensively in the LIFE RISK INSURANCE area over an extensive time and are eminently qualified to comment on the industry.

Allow us to make some critical points that should be seriously considered by the Senate Committee in the context of this discussion: -

1. Consumers rely upon Product Manufacturers/Life Insurance Companies [Companies] to construct and effectively manage products and Regulators to monitor them.

2. Risk Advisers [Advisers] are ALSO consumers of these products and ALSO rely upon Companies and Regulators to do their job effectively.

3. The quality, pricing and distribution of life products are controlled by the Companies, not the Advisers.

4. The commission culture is controlled, constructed and paid by the Companies, not the Advisers.

5. With exception of dealing directly with the Advisers client, the Companies control all other functions of the industry.

Despite these industry facts [which incidentally also applies to mainstream financial advice] the Advisory community inexplicably gets blamed for most negative aspects of the industry whilst other stakeholders avoid culpability.

Other facts that should be taken into consideration are –

6. Advisers must always act in the best interests of their clients, it is a legal and ethical requirement.

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7. The competition in the industry between the Companies for sales constantly puts Advisers in a difficult position as they must advise their clients of other superior products in both cost and features.

8 Companies that develop superior products and get support from the Advisers acting in the best interests of their clients are happy, the Companies who have the inferior products cancelled are unhappy. This dynamic is in constant flux but the Advisers get blamed for 'impropriety' if they recommend clients consider a better product. This scenario applies whether the adviser works on a commission or fee for service basis with the client.

8. There are a minority of Advisers who are genuine 'churners' but the Companies know exactly who they are but still choose to deal with them when they are getting new business but complain when they are not on the receiving end! These 'churning' advisers should only ever be offered level commissions BUT the Companies control this aspect not the Advisers and in many cases one company is prepared to act whilst another is not.

9. Companies prefer to now market directly to consumers via the internet, telemarketing, electronic media and group superannuation schemes. Most seem to want to eliminate the consumer critical advice role Advisers play in the decision making process. This disadvantages consumers as virtually all direct Companies underwrite at the time of a claim – not before the policy is issued (see point 2 below) and the marketing costs have been shown to be more expensive than adviser commissions.

10. Companies are shareholders of the Financial Ombudsman Service [FOS] along with Advisers but are NOT subject to the same scrutiny as the Advisers – this must change to assist consumers.

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2 - Preference for dealing directly with Consumers.

The Companies preference for selling Insurance directly to consumers is vividly apparent in all forms of media communications, we contend this market development is not in the best interests of consumers. The recent negative media around Companies refusing consumer claims clearly demonstrates a worrying trend, please consider the following facts –

- Long term policy rejection rates for consumers who have sort advice from an Adviser is less than 4%.
- Although data for direct sales is closely protected by the Companies [for very obvious reasons], we believe the Policy rejection rate exceeds 40%.
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This disparity in claims rejection can be attributed to the following circumstances: -

- Companies do not underwrite [or assess the consumer's application] with direct sales until the point of claim, not at the point of sale. This procedure is presented to consumers as a 'hassle free' service but it is a diversionary tactic to get consumers to pay their premiums without being guaranteed cover. Consumers are then at the Companies 'mercy' later when they try and claim – a very worrying and dangerous position for consumers to be in. This is precisely what the recent poor publicity is about and it has absolutely nothing to do with the role adviser's play - ironically this is what DOES not happen when advisers are involved to protect consumers from unscrupulous behaviour.

- The amount spent to market direct products through television advertisements and other means has been shown to exceed the commission paid to advisers. As insurance pricing is based on the percentages spent for marketing/sales, administration/underwriting, claims and company profit targets, it follows that the easiest variable for direct insurers is the amount paid in claims.

- Most no win/no fee legal claims are against direct insurers but the cost involved have directly impacted adviser's professional indemnity premiums. Another market calamity instigated by the Companies.

- Consumers who allow an Adviser to assess and professionally underwrite their policies at the point of sale produce a far superior outcome for the consumer and the nations underinsurance dilemma. Consumers and their family know exactly how much cover they have if they must claim. In addition, the consumers have an Adviser as an experienced advocate to assist them both at the point of sale and claim

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- The terms and conditions for direct Policies are inferior to the retail Policies Advisers offer consumers. We think it is fair to say that Companies would prefer not to have Advisers involved in the sales process for very obvious reasons – they want to deal directly with the consumer to achieve a better outcome for themselves.

Conditions to put in place to protect consumers.

- All Companies 'terms and conditions' policy documents should be written in plain English and rated by an independent panel to give consumers a clear direction on the quality of the cover they are considering.

- All Companies should be compelled to regularly divulge their policy rejection information on their website.

- All policies should be underwritten at the point of sale to give consumers clarity on their family's protection position going forward. The underwriting at the point of claim is certainly NOT in the best interests of consumers and should be immediately rejected.

3 - An Industry standard for Policy information disclosure.

The Risk industry has many inconsistencies with disclosure of information, it needs to be standardised to avoid confusion when assessing the performance of the Companies and the quality of their policies. The following needs addressing –

- The death of a policy holder SHOULD NOT be considered a lapse of the policy.

- Long term polices that are terminated due to retirement or becoming obsolete to the consumer's circumstances should not be considered as a lapse.

The inclusion of these policies in the 'lapsed' category can only serve one objective – to build a negative story against the Advisers to justify change in the Companies favour.

4 – FOS Scrutiny of Companies.

Advisers and Companies are shareholders of FOS but only Advisers are subject to their legal process, scrutiny, threats of expulsion and subsequent loss of their AFSL unless they do not cooperate with binding determinations. This culture has proven to be very effective in getting favourable consumer outcomes – so why should Companies not be subject to the same process?

The fact that FOS determinations are not subject to any external review process has led to increased professional indemnity premiums for advisers.

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To assist consumers with their policy claims and put the Companies on notice that past behaviour is not good enough, a panel is established in FOS to deal with consumer complaints against Company internal decisions. If the Companies refuse to cooperate they are then threatened with expulsion/loss of AFSL saving consumers an expensive legal journey to get justice.

5 - Summary

Allow us to be quite candid with our views.

To get some badly needed balance into the ongoing industry financial services debate, it must be clearly understood that Advisers and members of the public are in a similar market position as consumers of product. They both rely upon the Companies to manufacture, manage and distribute product and the Regulator to monitor market conduct of all stakeholders.

This also applies to some aspects of FOFA and the failure of products in mainstream advice. The Regulator should not have allowed these products onto the market in the first place and they were designed, manufactured, distributed, managed and monitored by the Companies. Somehow the advisers get blamed for their failure……

The LIF campaign has been orchestrated by a small number of powerful Company Executives who have internally failed with their own product pricing strategy over many years and now choose to blame the Advisers for their predicament. All the real data shows that 90% of switching is caused by Companies increasing premiums in the second and third year of policy duration after competing in the first year based on price to get market share. What are consumers and Advisers meant to do when confronted with an unexpected rising premium?

These decisions are made by Company Executives NOT Advisers who must act in their client's best interests.

The Adviser's role is to select a product that suits their client's circumstances and then commence the underwriting process to guarantee cover to protect their family. This best interests obligation is an ongoing commitment to the client's circumstances not just a first year decision.

It is very clear that most Companies now prefer the business model of going directly to consumers via the internet, telemarketing, Superannuation funds and all forms of electronic media to sell inferior product to consumers and by pass Advisers. Advisers are a threat to this strategy as they demand the client gets a guarantee of cover up front and acts as their ongoing advocate to protect their position, particularly in times of claim.

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As all the recent poor publicity displays, the Companies take advantage of families in their hour of need by making underwriting decisions that are in their best interests NOT the consumer. Consumers are intimidated by having to deal with a large Company and are prone to back down when denied claims…..exactly the way it has been planned.

Who wants those 'pesky' advisers in there protecting their client's rights and making sure they have guaranteed cover upfront???

Allowing Companies to sell flawed products directly to consumers without being underwritten and guaranteed upfront is an affront to consumer fairness.

The LIF debate has been cleverly positioned by the Institutionally aligned Associations in concert with a small number of Companies and political/commercial interests to unfairly apportion a disproportionate level of blame on Advisers to cover up their own failings.