AIOFP

ASSOCIATION OF
INDEPENDENTLY OWNED
FINANCIAL PROFESSIONALS

# AIOFP SUBMISSION TO THE SENATE ECONOMICS COMMITTEE

# CORPORATION AMENDMENT [LIFE INSURANCE REMUNERATION ARRANGEMENTS] BILL 2016

FROM PETER JOHNSTON EXECUTIVE DIRECTOR AIOFP
MARCH 2016.

Dear Secretariat and Senators,

The AIOFP is the largest Association representing the independent and independently owned sector [the Independents] in the advice market place. We have over 4,000 advisers through 200 + different advice practices of varying sizes around the nation.

Allow us to be quite candid and brief with our submission.

This Legislation needs to be amended to protect consumers from buying/being sold potentially *flawed insurance policies by Institutions who now prefer to go directly to consumers via the internet/telemarketers and avoid third party independent advisers.

This entire issue has been cleverly manipulated by the Institutions to focus on the industry's commission payments culture which is ironically controlled by them. [See the 'foot notes' for further information]. This has diverted attention away from their primary commercial objective of marketing directly to consumers to sell potentially flawed product and imposing difficult trading conditions on independent advisers to reduce competition.

We consider it to be clearly all about increasing profits for Institutions, eliminating competition and reducing choice for consumers.

Elements of the Financial Services Council [FSC], The Financial Planning Association [FPA] and the Association of Financial Advisers [AFA] collaborated to give a false impression to the Minister that this legislation is 'supported by the industry', which is clearly NOT the case. These Associations ignored the views of the minority adviser components of their membership and supported the Institutional position. In addition, the AIOFP and the other smaller adviser focussed Associations were purposely NOT consulted over this issue purely because we would not have cooperated with the political outcome they desired.

Please consider the following key issues in your deliberations:-

1. The critical issue is the significant effects the proposed legislation will have on consumers, the nation's chronic underinsurance dilemma, future Federal welfare liabilities and small business.

2. Firstly the AIOFP supports the reduction in commissions from 120% but it must be a sustainable level to ensure small business can survive and consumers have choice of providers.

3. The massive consumer issue is the preference for Institutions to now sell policies directly to consumers via telemarketers and online websites. This form of policy is fundamentally flawed as the underwriting to guarantee cover for consumers is performed at **the POINT OF CLAIM** not when the consumer actually buys the policy. The Financial Ombudsman Service [FOS] records and market anecdotal evidence confirms **the REJECTION RATE** for these policies exceeds 50%, in other words, consumers think they have cover but due to the ridiculously simple '5 question underwriting' strategy in place they are getting refused cover in over 50%

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of all policies. This is all happening many years after the policy has been purchased when it is all too easy to reject cover based on the 'current circumstances' and 'lack of disclosure'.

4. When this scenario is compared to the less than 4% rejection rate of policies managed by independent advisers face to face with consumers, you can no doubt see why institutions want to go directly to consumers…..greater profits and no commissions payments to advisers.

5. Consumers not having viable cover is exacerbating the nation's underinsurance problems and putting further strain on the nation's welfare budgets, these problems are well documented.

6. The current proposal of a 2 year claw back and eventual 60% commission level will lead to many experienced advisers leaving the industry, staff redundancies and a loss of a professional reliable choice for consumers.

7. Our recommendation is to increase the commission payment to maximum 80% of the first years premium, 20% ongoing and only have a 1 year CLAW BACK period where the cost is shared 50/50 with the Institution. Like Institutions, advisers also have administration costs to process clients so it should be equally shared and 'Churning' advisers are only offered level terms.

SUMMARY – This legislation is all about Institutions wanting to sell a potentially flawed, highly profitable range of online products to unwary consumers who THINK they have protection for their family. You only need to watch/listen to the plethora of media commercials and take after hour home phone calls from telemarketers to appreciate what they are trying to do.

FOS data confirms that 70% of all consumer complaints from risk related products are consumers complaining about Institutional conduct refusing Risk claims. Although precise information on rejected policies is closely guarded by the Institutions for obvious reasons, market feedback indicates the rejection rate of these policies at point of claim exceeds 50% and in some cases 60%.

The Minister has justified this Legislation on 'what the industry wants', which is incorrect. The Institutionally aligned FSC/FPA/AFA Associations ignored the wishes of their adviser members, cooperated with the Institutional influence in their membership and supported this Legislation. Very few of the 16,000 advisers in the market supports this legislation – it is simply not what the advice 'industry' wants, it's what the Institutions want.

Consumers need to have choice with advice channels, not a range of Institutions operating vertically integrated models selling their own products in a totally conflicted environment. The attempt to reduce an independent adviser's revenue by 50% and then have uncertainty around retained revenue for 2 years under a clawback structure [the original outrageous proposal was 3 years] has been designed to eliminate independent advisers from the industry.

Consumers need to be protected, the Nations underinsurance dilemma needs addressing and pressure taken off the out of control welfare system – allowing Institutions to offer potentially flawed policies and increasing their profits is clearly not the answer.

We think a fair compromise for all concerned is as follows –

1. A hybrid 80% upfront maximum commission and 20% ongoing.
2. A 1 year clawback period where the cost is equally shared by both the adviser and the institution.
3. 'Churners' are only offered level commission terms.

The Institutions are trying to do what the Oil Companies and large Retailers have done to small business operators in the recent past, exerting their political and commercial power, driving them out of the market leaving consumers with no distribution choice, poorer service levels and ultimately higher pricing.

Thank you for your interest in this critical matter.

PETER JOHNSTON.
EXECUTIVE DIRECTOR - AIOFP

Foot notes -

- *the reference to potentially flawed policies is in a traditional underwriting sense. Institutions now prefer to not underwrite at the point of purchase, therefore guaranteeing cover, but prefer to assess the policy at the point of claim – a very dangerous and alarming precedent for consumer protection in our view.

- Advisers are unfairly being accused of 'churning' policies by Institutions but please consider the counter argument. Institutions are continually trying to undercut each other to get distribution. This is done by reducing price or offering more commission, which is rife in the industry and controlled by Institutions. If an adviser has offered a client specific cover at say $1,000 pa but the next year a competitor's comparable cover is offered for $750 pa what does an adviser do? Is he/she acting in the best interests of his client by offering the cover? If the client wants it, is the adviser acting in the clients best interests or being a 'churner' of product? In regard to the commission issue, if the level is capped at 80% this will stop the INSTITUTION [not the adviser] using commission tactics to capture sales, we welcome this outcome.

- In regard to 'churning' advisers, the Institutions are quite aware of who they are and they should only be offered level commissions arrangements. Why has this not been done before? The Institutions who are the beneficiary of their activities are loath to discipline them, until of course they start moving the business to the next willing Institution. Churning advisers are a significant minority in the market place, this issue is being used politically to justify change that suits the Institutional agenda.