Robina Financial Solutions
Reduce Debt Create Wealth Retire Comfortably

Robina Financial Solutions Pty Ltd

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Submission RE: ASIC Review of retail life insurance advice:

Robina Financial Solutions Pty Ltd (RFS) is an award winning advice practice on the Gold Coast and was recently a Grand Finalist in the AFA Practice of the year awards (October 2014)

RFS offers the following advice solutions:

- Wealth accumulation
- Pre and post retirement advice
- Investment advice
- Personal insurance needs
- Business insurance needs and succession planning
- Aged care advice.

RFS has three employed financial planners and a staff of seven who support these advisers.

Our role is to make a positive meaningful difference to our client's lives.

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Our response will cover the following three areas:

1. **The cost of providing risk advice at the practice level**
2. **Consumer protection, remuneration and other adviser incentives**
3. **Insurer practices that contribute to the Life Insurance industry 'Sustainability' issues.**

In the following we outline the costs and services we expect our risk team to provide to our clients. We would note that not all practices provide these services however we would argue that clients seeking personal risk advice should have access to these services. We also note that we regularly review insurances placed through direct services, group offerings and industry funds that are:

- *Inappropriate;*
- *Inadequate;*
- *likely to create unexpected tax consequences for beneficiaries; and*
- *owned by the wrong entities.*

RFS is a very productive office, ranking in the top 5 of Professional Investment Services for new risk with over $270,000 of new premium introduced to the practice in the 2014 calendar year, however, as you will see from the below numbers, even the current commission arrangements do not create a great deal of profit for the practice.

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We would argue that:

- *Providing risk services that protect retail consumers should not be handed to cut price, cookie cutter providers with the single objective of selling a product, not a solution. Our fear is that ASIC does not recognise the value provided by risk specialists and is questioning their pricing due to this misunderstanding;*
- *Life companies have largely outsourced all of their responsibilities to advisers and now want to reduce their costs of delivery by reducing their payments to the advisers who provide theses services for them;*
- *The regulatory framework we have in Australia under FSR and FOFA, while not perfect, provides robust protection for consumers and if managed correctly with adequate consequence management for those who defraud it will deliver the desired consumer protections;*
- *The regulator should look to impose significant consequences for product manufacturers who provide risk products to known 'bad apples' and to licensees who provide those bad apples with Authorised Representative status;*
- *Unlike health insurance and vehicle CTP insurance, there is no mandatory obligation for Australians to hold insurances to provide for their families and protect their income. This service, which significantly reduces the financial impacts of injury, trauma and death on the public welfare system, is largely provided by the Australian adviser network. The regulatory system we exist in adds a minimum cost that can not be avoided;*
- *Reducing benefits payable to advisers to non-commercial terms will simply leave the field to unscrupulous sales driven cultures, vertically integrated within large life offices. Retail personal insurances will be provided under the heavily conflicted life agency arrangements we fought so hard to get rid of in the 90's. Education standards will drop, the quality of the advice will suffer and Australia's underinsurance problem will expand.*

RFS would advocate reduced pricing for risk advice provided under the limited advice framework similar to group life pricing currently available – usually up to 22% with no underwriting, no advice and no ongoing service and support.

Advice provided with the support of accredited risk advisers would be more appropriately priced with the current hybrid arrangement. Pricing can be standardized across providers so it can not be seen as an incentive.

1. The cost of providing risk advice at the Practice Level.

RFS has a specialist team that provides risk services to our clients. This has one senior adviser and 1.6 Paraplanner/Client managers supporting him.

RFS Risk team costs:

Adviser: Base salary $80,000 plus super, Quarterly bonus, Mobile phone, Fuel allowance, Office space, Car Park, Education funding (currently completing his MBA in Financial Planning 50% funded by RFS), computer and software .

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1.6FTE Paraplanner/client managers costs: Combined base salary $85,000 plus super, Quarterly bonus, Office space, Car Park, Education funding for DFP and ongoing CPD, computer and software.

Table 1.1 Break down of Salary and on costs for Risk team pro-rated for 2.6 FTE forecast for 14_15

2014_15 Salary, Super and Bonus (F'cast)	$236,340
Office space, Car Parking, Signage Pro Rata	$ 20,810
Education Funding and CPD, Kaplan	$ 4,490
Computer services, Software and Telephone	$18,204
Total for Risk Team	**$279,744***

**For the purposes of this exercise we have excluded any interest, marketing and travel and accommodation costs. We have also excluded the costs of the practice manager.*

Table 1.1 is cost only and does not factor in a profit margin for RFS.

Services the Risk team provides:

- Annual review for all insurance clients and renewal reminders and risk summaries of existing insurances;
- Claims support for any claims arising;
- All advice documents for new and reviewed clients;
- Underwriting management and co-ordination of medical requirements;
- Liaison with all product providers.

Education expectations of the business for our risk specialist

Minimum Adv. DFS or equivalent, CFP or MBA in FP. All new advisers to the business must be degree qualified.

Our risk specialist adviser should be able to discuss:

- Ownership structures such as Company, Trusts and Partnerships;
- Estate planning issues with the support of one of our legal relationships.

Our risk specialist should be able to identify:

- Ownership issues in existing insurances;
- Benefit definitions that are not appropriate for a client ;
- Tax consequences of any benefit payment;
- Specialist solutions for non standard lives;
- Estate planning issues in existing Wills, EPA's and Health Directives.

To provide appropriate insurances, all of the above needs are to be taken into account and we need staff that are capable of providing these services. These staff need qualifications, training and support and the above costs would not be unusual in our industry.

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2. Consumer protection, Conflict and Remuneration

A big driver to changes to adviser remuneration seems to be based on improving consumer protection.

Since 2003 we have been provided an increasingly complicated advice regime to achieve this same result. Surely no one can argue that clients are not completely aware of the fees an adviser is paid for the advice and the costs they will be paying.

In a standard Statement of Advice we can have up to **9 pages of fee disclosure** out of a 60 page document.

Consumer Protection.

Does 'churn' exist?

Our view is yes, but we do believe policy replacement due to inappropriate structures, inadequate insurance and poor benefit definitions is all included under the banner 'Churn'.

Real churn is an adviser replacing a client's policy every 13 months for exactly the same amount elsewhere and using 'takeover' terms to avoid inconveniencing the client with underwriting.

Life companies should be able to provide a report of systemic churn and then work with a licensee to deliver 'consequences' to the adviser. The regulator can accept an EU from that adviser. New business records can then be provided to the regulator for the prescribed EU period by the Licensee and these cross checked with product manufacturers. If the behavior is not improved, the adviser is banned permanently and we all move on – it isn't that complicated.

Churn is easily dealt with and we do not need a massive regulatory structure to resolve the issue, just appropriate consequence management.

Fraud

We do see fraud through non disclosure and we have seen advisers provide fraudulent health histories to life companies to place insurances. Unfortunately we also see consumers try to defraud all parties by providing false information.

This is criminal behavior, not a compliance issue and should be dealt with accordingly. The consequences should be provided in a court of law. Currently a criminal record does not exclude you from providing Financial Advice – perhaps this should be reviewed?

Conflicted remuneration

If adviser behavior is driven by insurance commissions we should all be writing AMP policies only. They have the highest commission structures, ergot the greatest benefit to advisers and licensees.

The industry statistics do not support this.

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Should commissions be standardized? Our answer would be yes to simply remove this as a red herring. Commission is paid to advisers because life companies disbanded their aligned agency structures and outsourced their 'distribution' to financial advisers hence removing a huge cost and litigious risk from themselves. These life companies are now trying to inflict the life agency structure on Australian's once again under the smokescreen of 'Consumer Protection'.

For anyone who lived through the life agency days this argument is ludicrous. Life company management with the aid of conflicted actuaries created products that only delivered outcomes for themselves – the consumer simply funded profits. To suggest we can 'trust' a vertically aligned conflicted solution to provide better consumer protection beggars belief.

Currently an average up front commissions is approximately 120% including GST so actual benefit to the licensee is 109%. The licensee takes its percentage for providing licensee services that meet the regulators requirements and the adviser would generally be paid around 98% of the total benefit less Professional Indemnity (PI) Insurance of 2% so the benefits to an adviser is approximately 96% of the first year premium. The adviser then receives no trail for a year and then receives 11% less GST, Licensee, PI etc. - approximately 8.8% ongoing to follow up dishonors, provide annual reviews, manage claims and provide administrative support.

Why is it front end loaded? Why the initial 96% of commission?

Largely this is because the life company and adviser have all of the serious lifting in that first two to three months.

These include:

- initial client meetings;
- Formulation of the strategy;
- advice production;
- advice presentations;
- completion of applications;
- following up of underwriting;
- medicals, health questionnaires;
- Liaison with the clients' estate planning lawyers;
- Representing the result to a client and explaining any loadings;
- Implementation meeting where all the arrangements are re-explained to ensure the client understands exactly what they have and why.

For the life company they get to keep 90% in year two and beyond. If the policy is 'churned' then they lose this and their profitability. As stated above, 'Churn' is easy to resolve and within the product manufacturers control.

Commissions are front end loaded as that is where the costs are.

There are advocates and lobbyists who would have you believe 'Direct Insurances' are the future of the industry. They are certainly winning a large share of the market.

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The reality is that the products are inferior, the underwriting is done **POST** claim and they are equal to or more expensive than intermediated advice. The clients we review who have bought online inevitably have policies owned by the wrong entity, generally inadequate cover as they have only covered a single event and a benefit schedule that is not covering them for the risks they set out to cover.

All this and when they make a claim, they are then underwritten and can find that they have no insurance at all.

An additional issue is the very high lapse rate as well as claims rate. With no adviser involved and a call centre that has already made its commission, there is no real incentive to sustain the policy.

If this is the future of personal risk advice then the welfare system will be bearing the financial and social brunt of middle Australia's insurance claims.

Alternative Remuneration Models:

RFS's position is that the existing Hybrid structures meet the requirements of both risk specialty practices and the Life Companies. As stated above, we understand the reasons for a large upfront and can see where they are appropriate and certainly no huge profits are being made by quality practices in delivering retail personal risk solutions.

It should be noted that the 80% model includes GST so as per the example above only 64% of this generally is provided to a practice to meet its costs and provide a profit.

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3. **Insurer practices that contribute to the Life Insurance industry 'Sustainability' issues.**

Life companies are very quick to allocate the blame for 'Sustainability' issues at the feet of advisers however it can be argued that they have built the model which is causing the issues.

Life Company Sales team incentive schemes.

Incentives for many companies' business development executives are paid on New business only not 'Net' business. If remuneration structures focused on the quality of the business by looking at 'Total Book Growth' then the quality would be far better aligned.

Takeover terms.

Take over terms of up to 5 years are not uncommon for life products and encourages advisers to review contracts within this period. If a policy can be placed with a new provider at little inconvenience to the client at a lesser cost with better benefits then an adviser is actually neglecting their responsibilities to the client by not replacing the existing policy.

Banning takeover terms will remove this practice and will improve the sustainability of life office in-force books. If all clients have to be re-underwritten then both a client and adviser will only move for the right reasons.

Automatic upgrades for existing policy owners.

If a new benefit or definition improves the quality of a life policy then shouldn't it apply to existing policy owners as well? This is improving but we still find legacy policies that have never been reviewed needing to be replaced as the company itself is offering a much better solution currently that historically.

Responsibility Periods

One year is simply not enough. 30 years ago it was two years and that ensures both adviser and Life Company can make a profit out of the initial placement. Three years is too long as the work has been done and should be paid for. Why should an adviser take on the insurance companies risk. Both parties are paid after two years and neither are substantially in profit. The profit will come over retaining the policy and both will have a vested interest in looking after the client.

In short RFS would argue that sustainability is an issue created by the Life Companies rather than the advisers. If they adjust their own behaviors and offer reasonable remuneration systems then the client should ultimately benefit from reduced premiums and the Life Companies will increase their profits through their claims experience and reduced lapse rates.