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To whom it may concern

FSI Report And Its Impact On Life Insurance

I refer to your report released on 7th December 2014 and the request for submissions to the report.

I am an Actuary and the CEO of Experien Insurance Services (EIS). EIS is a privately owned insurance brokerage with 5,000 clients. We employ 11 life insurance advisers and 2 general insurance advisers and have national offices in 5 major cities. Our business is made up of 25 staff including 8 assistants/paraplanners. Experien focuses on life insurance and general insurance only with no financial planning advice provided. Approximately 65-70% of our life insurance business is written using hybrid commissions and our client lapse rate is approximately 5% per annum.

I have previously worked in senior roles in the manufacturing of life insurance products across all distribution channels (both locally and overseas) for companies including CommInsure/CBA and ClearView. My understanding is that there are not many Actuaries that have worked both for a manufacturer (across all 4 major distribution channels) and a retail advice brokerage, so I hope my submission can offer insights that represent my experiences across the entire spectrum.

I have been actively involved in industry affairs in the past, particularly with the FSC, having served for over 5 years as a member of the FSC insurance committee board and receiving the industry excellence award from the FSC in 2008.

Our business is unique in that we focus only on insurance, and we are also able to highlight the differences (in our experience) between life insurance and general insurance in terms of remuneration and consumer behaviours.

I was pleased to present the attached slides recently at the FSC offices to the Life Insurance Discussion Group, which is an industry association that arranges monthly talks to people working in the life insurance industry. The topic was related to recommendations 24 and 25 of your paper. Accordingly, I hope the information contained in my slides, which are attached, are useful.

I was also fortunate to recently be part of a panel discussion at the Institute Of Actuaries with John Trowbridge on the work he is doing with the FSC. My slides for this presentation are also attached as they are relevant to the 2 recommendations.

In this submission, I will focus on these 2 recommendations only, and specifically regarding life insurance advice (and not financial planning or superannuation advice).

I hope you find my submission useful and that you are able to accommodate my suggestions. Please feel free to contact me at any time to discuss anything further.

Yours sincerely

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A. Life insurance remuneration (recommendation 24)

In this section, I will focus only on the life insurance remuneration framework as per recommendation 24 in the final report (extract shown below) :

Align the interests of financial firms and consumers

Recommendation 24

Better align the interests of financial firms with those of consumers by raising industry standards, enhancing the power to ban individuals from management and ensuring remuneration structures in life insurance and stockbroking do not affect the quality of financial advice.

Description

Better align the interests of financial firms with those of consumers by:

- Government amending the law to require that an upfront commission for life insurance advice is not greater than ongoing commissions. This would reduce incentives for churning and improve the quality of advice on life insurance.

My comments and recommendations are :

- The retail advice distribution model appears to be the best for both consumers and insurers for life insurance (measured holistically by profits, pricing and features) yet it is most in the "firing line" compared to the other channels which include :
    - o Consumer credit insurance (poor consumer benefits and massive compensations schemes required in the UK)
    - o Group insurance (poor profits and weak and non tailored benefits), and
    - o Directly sold insurance which is expensive and commonly leaves consumers underinsured.

- There is a low take up rate of personal life insurance by Australians. Our life insurance business is 10 years old and has 11 advisers. Our general insurance business is only 3 years old and has only 2 advisers. Yet we now sell as many general insurance policies per annum as life insurance policies. General insurance and health insurance is bought, yet life insurance has to be sold.

- Life insurance is not compulsory to have. This compares with health insurance or superannuation, which is either compulsory or have rebates or penalties to encourage take up. Is therefore hard to sell life insurance !

- **The absence of compulsion, penalties or incentives means that risk selection (underwriting) of life insurance is much more important compared to say, health insurance.** This is because those seeking life insurance may be more likely to claim and see value for money in the product. The risk selection or underwriting process is more intense, and hence this makes a sale harder, which is why the industry needs passionate and talented insurance advisers. Advisers facilitate (project manage) the medical underwriting process. It will not work by trying to build up an advisory force of academic personalities who cannot convince someone to go through health checks and other inconveniences to get insured.

- Commissions are often quoted in the press using big numbers like 110%. However, **few take the trouble to determine the actual "net" percentage** once GST is stripped out and after recognising that commission is not paid on many parts of the premium (eg stamp duty, frequency loadings and so on). Few people realise that a 110% commission rate turns out to be well below 100% (and is closer to 80%) after these allowances.

- Percentages (like 110%) can be distorting measurements when nominal amounts are ignored. The average insurance sale can take up to 15 hours to complete (ignoring the many failed attempts to sell insurance to some people) and assuming the underwriting process is successful. The average premium is only $2000 per annum, so this means the **average hourly income (before expenses) is only $133 per hour**. It is interesting to compare the amount of time a life insurance adviser spends selling an insurance policy, and the upfront remuneration earned, versus other comparable industries like mortgage brokers or superannuation advisers. The time spent is likely to be higher and the upfront remuneration (in $ terms) lower for a risk adviser.

- There are **high costs and a large effort required to make a sale**. The high costs are caused by the following :

  1. There is a limited talent pool of life insurance advisers and limited demand for life insurance advice (low supply and low demand is increasing the cost and reducing availability) and we are already seeing a decline in sales from advisers at an industry level.
  2. There is no formal training academy/TAFE/college that trains school leavers on becoming insurance advisers.
  3. It is a very difficult job with unique skills that few people possess. It is not easy to convince someone to buy life insurance and then also have the skills to transact the sale.
  4. Advisers are almost as qualified in medical underwriting as underwriters employed at insurers. This takes years to build up the necessary skills.

  It can cost over $200k per annum to support a life insurance adviser and many sales are not successful because of medical underwriting.

- It is therefore very **difficult to run a life insurance advice business profitably based on current remuneration levels**. It is also almost impossible to start (and run) a life insurance advice business on level commissions alone. Other factors that make it very difficult to start a new company that provides insurance advice include :

    - There are relatively few experienced advisers and few willing to struggle through the challenges of selling life insurance.

    - There are no incentives for people to take out insurance and society has a natural apathy to taking out life insurance. Again, it is hard to make a sale !

- There are expensive upfront costs incurred by the business to seek clients and convert them into sales. Many clients do not pass underwriting and so large amounts of time can be spent wasted on SOAs and so on.

- There are expensive ongoing costs in supporting clients with items such as premium dishonours, renewals and claims

- Life insurance advice businesses can only become profitable after many years because of the long time to build up a reasonable trail insurance stream.

- Even allowing for upfront commissions, a new life insurance advisory business appears to be viable only if a small business structure can be used to minimise costs (eg work from home), minimise taxes (eg payroll tax) and use efficient tax structures such as splitting income. A larger corporate venture, such as ours, is not as profitable and hence uncommon, which means that training is not available to new advisers and hence the industry is not growing.

- Customers will not pay an upfront fee for service with respect to insurance advice because they can't afford to do so (and typically take out insurance because they are heavily in debt). This compares to a customer seeking investment advice, who by definition, has funds available to pay for the advice at that time.

- Contrary to popular rhetoric, it can be difficult to churn most insurance policies. This is because the initial sale is often made by selecting the best price and cover for a client, or a client is placed on level premiums. It is also difficult to get a client to agree to go through the cumbersome administration and underwriting process again, even if there can be policy improvements. Churn can sometimes arise from financial planners and accountants stealing clients and dialling down commission to move them to another insurer (they can afford to do this because they are earning other fees from the client to subsidise this). Policy replacement, on the other hand, is more common and often caused by poor insurance company management whereby product features and key personnel are not well managed and this leads to uncompetitive product and degraded service propositions, and then increased lapses.

- The lapse rates of some of the very large insurers (particularly insurers owned by banks (including CBA and NAB) are higher than others because (in my opinion) these larger insurers are extremely uncompetitive (compared to say BT or TAL who have low lapse rates) and have been losing market share based on competitive reasons, and not structural factors related to adviser remuneration. The lapse rates of these large insurers can not be solely attributed to adviser remuneration structures or standards of adviser education.

  It would also be very interesting to see the lapse rates of the employed/salaried advisers from the conglomerates (such as CBA and NAB) which own the larger insurance companies - and also employ advisers - versus the lapse rates of the independent advisers who use, or have used, the insurer at the conglomerate. If they are similar, then it will be difficult to argue that the remuneration structure of independent advisers is the problem. My understanding is that this data is likely to be readily available and should be offered to you.

- Winners and losers

  The likely losers from the abolition of upfront commissions include :

  - Consumers who are paying premiums of up $2k/$3k per annum who may no longer be serviced by the advice sector

  - Consumers who have substandard health and who would require a large effort to pass the underwriting process. The services of advisers are required here and this would not be as widely available if advisers leave the industry.

  - New advisers into the industry

  The likely winners from the abolition of upfront commissions include :

  - Advisers who are more able to "assign"/change the servicing adviser of existing clients over to them as the servicing adviser (where trail commission, that is now higher on hybrid or level commission structures, flows to the servicing adviser and not the original advisers that did all the hard work upfront). These are likely to be accountants and financial planners who are providing other services to the clients already, like tax services (and earning other fees from that client).

  - Commission refund services (eg yourshare.com.au and cashbackclub.com.au) who can now offer a 20-30% refund of annual premiums vs 10% currently. These firms should not be allowed to receive trail commission unless they employ advisers that can assist with claims and reviews and meet whatever industry standards are required. They should not be allowed to operate on a transaction only basis and receive commissions.

  - Larger life advice firms as they have a sustainable cash flow or capital position to manage the change

- Competition

  The effect on pricing, and the rates of commission after any change to abolish upfront commissions will be fascinating to monitor. My understanding is that the current industry rates of commission (which are generally the same across all insurers) are more profitable to insurers on existing upfront commission structures than existing hybrid or existing level structures. If all commissions are moved to hybrid or level commissions then there is a risk that insurers will reduce the exiting hybrid and level commission rates as a result.

  However, the change to commission structure should only be done if lapse rates are expected to improve. Otherwise why make the change ? And what will happen if lapse rates do improve ? The desired effect or outcome of any policy change must be noted at the outset. A broad statement regarding "sustainability" as being the sole reason for this change should not suffice.

  If lapse rates are to improve, then who will benefit from the improved lapse rate ? Will it be :

  - Consumers in the form of lower prices for new policies only ? If so, what will happen when existing clients realise that they can get better prices by being rebroked as a new client ? And will advisers be blamed for doing this ? This will be highly ironic if so.

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- Advisers who will be remunerated with higher hybrid or level rates than at present (they can't be the same or lower, otherwise why make the change ?), or

- Will insurers keep the extra margins ? If so, then that is not the best outcome for consumers as this is already one of the more profitable distribution channels for insurers.

- Commissions are sensible to support a robust life insurance industry

  Commissions – and upfront commissions in particular - are used as a sensible and sustainable structure for life insurance advisers worldwide. They offer the following advantages :

  1. Insurers assist clients in funding the cost of the advice provided. Effectively a "micro loan" is provided to the client behind the scenes by the insurer in funding upfront commissions (the advice fee) to advisers

  2. Advisers are paid when they perform their work. Usually higher upfront amounts to compensate the effort of setting up a policy, and lower ongoing amounts to compensate for the maintenance of the policy and assistance with claims.

  3. Consumers pay no fees to shop around and compare the market (versus a fee payable for time as per a lawyer for example).

  4. Commission is built into premiums which means that commissions are tax deductible when premiums are tax deductible.

  5. The financial risk of policies ending after a short period of time is retained by the largest party to the transaction (the insurer) which is able to pool the risks of lapses and average out the outcome (using an average assumed lapse rate with pricing). This leads to the most economically efficient outcome for consumers. If this risk is transferred to each individual client (or to advisers) then there are no benefits of pooling and prices will need to rise across the board.

  6. Commissions are efficient from a processing point of view where, for example, the customer only pays one party and not both the adviser as well as the insurer.

  7. Fees in the form of commissions can be paid from preserved superannuation money – a benefit to the consumer.

  8. A worldwide comparison should be undertaken to identify if any other countries have enjoyed a successful insurance model without commissions and without upfront commissions.

- Alternative commission structures

Despite my comments, the current mood from the regulators and public will simply not allow an upfront commission model to remain. So an alternative must be found that does not destroy the industry and harm consumers as a result.

Alternative remuneration structures could take into account the component parts of an adviser's service and their relevant share of effort. This includes :

	Phase when this service is provided	Estimate % of total time/effort over the life of a policy
Researching solutions, preparing a quote and completing a statement of advice	Upfront	40%
Completing the application form	Upfront	15%
Completing the underwriting process	Upfront	20%
Putting the policy in force	Upfront	5%
Annual servicing including managing premium dishonours and policy renewals and updates	Ongoing	10%
Claims	Ongoing	10%

This suggests that 80% of effort is spent upfront and 20% over the life of the policy (or say 4% per annum over 5 years).

- An upfront commission model will result in approx 80% of payments upfront in line with this structure.
- A hybrid model will pay 50% upfront and
- A level commission model will pay 20% upfront.

This effectively means that there will be a "new business financial gap" (effort less reward) for advisers of say 30% in the first year with a hybrid model and say 60% with a level commission model.

One option to mitigate this gap, but still change the industry structure, is to break the commission into 3 parts being :

- An upfront commission that has a traditional 1 year clawback period (eg 1/12th per month)
- A supplementary or deferred upfront commission that has a longer clawback period (eg 1/36th per month) and
- A trail commission

For example :

- Up to 50% of premiums may be paid under the upfront component with a traditional clawback structure,
- Up to another 50% may be paid under the deferred upfront component with a longer clawback period, and
- Trail commission can be payable at competitive levels

Insurers will need time to amend their systems to cater for this.

A second option could be :

- Allowing level commissions only, but
- Allowing insurers to loan up to 100% of premiums - secured by future commissions - to advisers. This assists advisers with cash flow but transfers the lapse risk to them. The loan can be reduced, transferred or cancelled if the client transfers servicing commission rights to another adviser.

Again, it will require time for insurers to change their systems to accommodate this structure. It is hard to argue that churn will still be possible under such a scheme, but yet advisers can still have viable businesses with such a structure.

A third option could be :

- Allowing year one commissions of no more than 80% of premiums with a traditional responsibility period, and
- Allowing year two commission of no more than 40% of premiums, and
- Then allowing insurers variable trail commissions

This may lead to a compromise where an insurer may offer a structure of say 80% in year 1, 40% in year 2 (ie remuneration still close to when effort is incurred) and then, say 15% ongoing.

A fourth option could be to only allow upfront commissions to be used where the statement of advice is pre vetted by the licensee's compliance team and only where there is a dealership with an independent compliance person (ie excluding small AFSL holders).

A fifth option could be to only allow upfront commissions where annual premiums are less than $2,500 per annum to ensure that middle and lower socio economic groups are still able to access advice and where a longer responsibility period is used.

- Longer responsibility periods

  It is worth noting that longer responsibility periods (eg up to 3 years) are extremely complex when a corporate model with employed advisers is used. There are many reasons for this.

  One is that it is not unreasonable to have up to 15% of staff leave a company each year. If an adviser leaves, then the firm will have paid the adviser their final benefits (salary plus bonus) but potentially be exposed to losses for up to 3 years from that adviser. This is because clawbacks are unlikely to be able to be recovered from any final pay where the final pay allowed for a bonuses from recent sales.

  Clawbacks can also cause havoc with taxes in accounting years because tax cannot be recouped from a prior financial year where there was income, but then a loss in a following year following a clawback.

  Any prolonged clawback considerations should not be "all or nothing" in structure, where for example, a 100% clawback is undertaken up to a certain period and then nil afterwards. It should be a uniform monthly formula such as 1/12th, 1/24th or 1/36th earned per month.

  Long clawbacks can also make it harder to sell businesses and conduct long term budgeting with comfort.

Longer or regulated responsibility periods should not apply to hybrid commission models unless the rates of commission rise to compensate for the extra risks that advisers would need to assume. Hybrid models already, by definition, contain a large element of commission deferral and a longer responsibility period on the initial payment will result in an effective double deferral.

- Profit margins

Based on our own company's experience, our high level cost breakdown is as follows (as a percentage of revenue) :

Category	Share of income
Adviser remuneration costs	**40% (base and bonus)**
Assistant costs	15% (base and bonus)
Marketing costs, referral fees and sponsorships	15%
Rent, phones, printing and IT	7%
Dealership, software and PI costs	6%
Corporate/accounting/support staff costs	6%
Travel, entertainment and parking costs	3%
Payroll tax	2%
Profit margin	**6%**

From the above it can be seen that the average share of income for advisers and for profits are relatively low at circa 40% and 6% of income respectively.

Assume upfront commissions are actually 90% of premiums (allowing for GST and parts of the premium not enjoying commission) and with a trail of say 8% of premiums. Similarly assume hybrid commission nets out at say 63% of premiums in year one and 16% ongoing.

For a business in a steady state with an upfront commission model, it means that advisers will probably earn :

- 40% of 90% =36% of new business premiums and
- 40% of 8% = 3.2% of ongoing premiums.

If a good adviser sells $200k in business a year (approx 100 new clients per annum) and has say $700k of in force premiums (say 350 existing clients) then this means an adviser will earn $94k of income per annum. This is hardly suitable compensation for the skills required. And the profits will be a paltry $14k per annum,

For this same business with a hybrid commission model, it means that advisers will probably earn :

- 40% of 63% =25.2% of new business premiums and
- 40% of 16% = 6.5% of ongoing premiums.

If a good adviser sells $200k in business a year (approx 100 new clients per annum) and has say $700k of in force premiums (say 350 existing clients) then this means an adviser will earn $96k of income per annum and is similar to the upfront model.

However, in the start up phase, where new business sales are probably only $100k to $150k in the first few years, and no trail yet, the remuneration to the adviser will be only

$25k to $40k of premiums. This is hardly a living wage (especially if a tertiary qualification is required).

Accordingly, the industry should offer new advisers an exemption whereby they can continue to receive upfront commissions (capped at say 115% of premiums) provided they are certified as not having worked for 5 cumulative years in the industry at any prior time. Suitable protection will be needed to avoid loopholes where other advisers wash their policies through newer staff to earn upfront commissions.

- Insurance claims

  Commissions are not generally payable when premiums are waived whilst a client is on claim. Income protection insurance is most relevant in this consideration. Whilst claims frequency rates are less than 10% per annum (ie a minority of clients) the effect will be more severe on brokers' cashflows when a level or hybrid commission is payable. Insurers should be encouraged to allow for this in their remuneration model as there are significant amounts of time spent by advisers in helping clients with the ongoing claims payments. One option could be to encourage insurers to continue to pay commissions whilst premiums are waived (although this will have IT system implications).

- Transition period

  The industry should be allowed to have a transition period to adjust to the new remuneration structures. Many advisory businesses would not be viable if a change to hybrid or level commissions was required to be implemented with an immediate effect. This may be done by only making the change in 18-24 months' time or in phasing the maximum level down over time (eg 100% immediately, then 90% after 1 year and then 80% after 2 years as the maximum first year payment).

- Threat of theft of trail commissions from accountants and financial planners

  Accountants are highly regarded by clients as trusted advisers. They routinely get clients to assign their life insurance brokerage to the accountant after the original adviser has done all the hard initial work in securing the cover.

  In a model of hybrid or level commissions, there is a high risk that accountants and financial planners are more likely to poach clients because of the attractive higher ongoing commissions. They have already secured the client through their other services and have a position of influence which can be taken advantage of.

  This risk is not as material with upfront commissions where remuneration is paid in a pattern that approximately matches when the costs and effort are incurred.

  A large percentage of clients lost by our business are not lost because of clients' lapsing cover with an insurer - because of affordability or a decision that they no longer want or need the cover. Instead, they are clients who are convinced by their accountant or planner to assign their brokerage over to the accountant or planner. These accountants or planners are often part time "dabblers" in insurance and are being opportunistic.

  One option could be to encourage insurers to protect that element of trail commission that is effectively a deferral of the upfront commissions. Another option is increase standards or processes required for a client to be assigned to another adviser.

A minimum competency requirement for medical terminology would be an effective tool to ensure those giving advice on insurance are well trained and well placed to service the clients. This will avoid accountants and planners being able to arbitrarily assign clients over.

- Bad practices we have discovered

There are 2 bad practices we have seen in the industry that is probably associated with churning, and we have written to insurers on these findings.

<u>Change of adviser forms</u>

It appears that many insurers are unaware that there is no standard "change of adviser" form required by their company or the life insurance industry generally. To change a client to a different adviser, the new adviser simply types something basic on their letterhead - and their client signs the document. Insurers process these with limited controls. The only control is an advice given to the outgoing adviser. Dealerships in turn do not seem to audit the quality or veracity of the advisers' processes in this regard.

We have discovered that this has led to inappropriate (and possibly illegal) practices in the industry. And these seem to be concentrated by the many accountants who have an associated life risk offer.

In the most recent example of the abuse that is taking place, we have seen a client of ours engage an accountant for their tax returns. The accountant has a life insurance division - which is becoming increasingly common. The accountant misleadingly tells the client that they need to see the client's insurance details to enable him to complete the tax returns. The client is given a form to sign in this regard - and does not realise that the form is actually a change of adviser form.

When we as the adviser are subsequently alerted to this change, and tell the client what has happened, the client is usually furious, but then too scared to confront the accountant as they fear this would interfere with their tax return preparations - and hence are stuck and take no action. To make it worse, the accountant is leading with discounted advertised accounting fees to rope in the clients, knowing that the insurance will be used to cross subsidise their revenue. A churn could then be attempted in due course if possible.

This can be stopped with a simple process change.

We have asked insurers to simply create a new, well written, standard form that must be completed by clients before they process a change of the adviser. This form should be clearly written, and designed to achieve the goal of ensuring the client is absolutely aware of what they are doing, and have a full understanding of the impact of the change. An example of what a form can be supplied.

This will help the quality advisers who are working hard to sell using level premiums and not using upfront commissions – as requested by insurers. The accountants are realising that it's a fantastic "smash and grab opportunity" to find a client on level premiums and hybrid trail commissions to assign over to them. It is possible that these poachers are then rewriting the level premiums to stepped premiums in an attempt to churn.

Information release forms

We have witnessed a concerning practice from an adviser in Melbourne. The incident relates to an inappropriate use of an "Authority To Release Information For Insurance" form.

In summary, this is what we understand this adviser is doing :

- He has a trade stand at conferences
- People are encouraged to come to his stand to enter a draw to win a competition
- They are tricked into signing an "Authority To Release Information" for insurance form, where they have no intention or understanding that they are doing so. They are in a hurry and complete the form quickly without reviewing it.
- The adviser then sends this form to many insurers, and is "fishing" to find if this person has cover and if so, with what insurers.
- If he finds a policy, he then has access to all the client's information and prepares a quote with another insurer. If need be, he will dial down the commission (and possibly the benefits) to obtain a cheaper quote.
- He then approaches the client with the opportunity to get a cheaper price and hopes to hook the client on this proposition. He will then churn the policy.
- We have seen this twice and, in the recent case, the client of ours did not even have insurance in place yet, when the information release authority was sent to insurers.

We have written to insurers to encourage them to do the following as a general practice to prevent such abuse :

- Establish a register in their administration department that records each time an adviser sends in such a form.
- Monitor this at an Authorised Representative (AR) level, as well as the company the person works for (as there could be more than one AR)
- Monitor if an information release form is received but returns a blank result : ie if no policy is held by that client. This should be an instant alarm bell.
- Monitor if any AR or practice lodges an unusually high number of requests. If so, take action to block any further from the adviser and alert the dealership, whilst the insurer investigates

We have no concerns with an "Authority To Release Information" form as we think it facilitates a competitive market. However, we think the above suggestion is a simple and practical method to catch and punish the very few advisers who are abusing it. A standard form that we recommend that the industry should use can also be supplied.

- Why advisers only ?

Advisers are just one of many important parties to the end to end insurance process.

I encourage the FSI to debate whether the CEOs of the insurers (and possibly other responsible officers, board members or senior managers) should be :

- required to hold the same (or higher) minimum education, training and experience requirements of advisers - whatever they turn out to be. This will prevent senior managers being appointed with inappropriate skills to manage the unique nature of a life insurance company that requires long term thinking and sufficient experience.

and,

- be required to have a remuneration structure that is analogous to what advisers are required to have. In other words, a CEO or senior manager should not be allowed to be paid the entire income they earn in a year, in that same year. Instead, part should be deferred in a manner that is analogous to renewal commissions. For example, 50% of an STI payment may be deferred and payable uniformly over 5 years based on future lapse rates and other key business metrics. This will prevent short term thinking by new senior managers who often have personal remuneration strategies analogous to churners where they intend to only spend 3 years at the helm of an insurer and adopt short term strategies.

I also recommend that managers of sales teams at insurers should have the same requirements. Some sales managers are known to encourage churning into their company so they can receive short term bonuses.

Similarly, consideration should be made as to whether claims managers and underwriters should have minimum training and education requirements (there currently is none) as well as unique remuneration structure requirements to encourage the right behaviours and discourage the wrong behaviours.

B. Life insurance education standards (Recommendation 25)

In this section, I will focus only on the life insurance educational and competency framework as per recommendation 25 in the final report (extract shown below).

Financial System Inquiry — Final report

Raise the competency of advisers

Recommendation 25

Raise the competency of financial advice providers and introduce an enhanced register of advisers.

Description

Government should continue the current process to raise the minimum competency standards for financial advisers.[51]

In the Inquiry's view, the minimum standards for those advising on Tier 1 products should include:

- A relevant tertiary degree.
- Competence in specialised areas, such as superannuation, where relevant.
- Ongoing professional development — including technical skills, relationship skills, compliance and ethical requirements — to complement the increased focus on standards of conduct and professionalism in *Recommendation 24: Align the interests of financial firms and consumers* in this chapter.

My comments and recommendations are :

- Life insurance advisers are highly regulated. FSR legislation introduced many additional requirements such as statements of advice, FSGs and PDS documents. It also led to PS146 training requirements, dealerships and compliance standards. **Advisers are (or should be) audited up to twice a year** and this is interesting to compare with other industries such as accountants, lawyers or actuaries who are not required to be audited by peers. Dealerships are often understaffed and should be forced to have enough resources to complete at least 2 audits per adviser per annum.

- In my opinion the **FSR legislation was beneficial overall** as we have seen relatively few disputes from retail clients over the years with regards to life insurance. However, it has reduced the number of insurance advisers in the industry, increased the cost of advice, and reduced the availability of advice. It has also led to more people being hired as advisers with a compliance focus and without the necessary people skills or emotional intelligence to assist customers to realise their need to have appropriate insurance.

- There is a concerning hypothesis that insurance advisers should be required to have tertiary degrees. This is a flawed theory that bears no relationship to the skills required to be a competent adviser and has not been well thought through. This follows hot on the heels of an arbitrary new requirement for advisers to be registered via the Tax Agents Board and hence even more training and ongoing costs for no apparent reason or benefit.

- The type of tertiary degree suggested to be required has not been noted, and it would be difficult to pinpoint which degree types are relevant and which are completely irrelevant (would an arts degree in an arbitrary subject like history count as a relevant degree ?). This suggests that a national competency exam tailored for the industry is the only possible option. However, such an exam should be different for life risk advisers and financial planners given the different work they do and the different skills applicable. **Existing advisers should be exempt** from needing to complete such an exam provided they have at least 3 years experience in the industry.

- There has also been no audit undertaken of the percentage of existing advisers who have degrees and hence what the impact of any change would be to the existing workforce (if they are not exempted). Nor has there been a study of the availability of tertiary educated people emerging from university over time who are likely to want to be able to be insurance advisers. My sense is that very few tertiary qualified people would choose to be insurance advisers and hence we will see a very small talent pool of such people working as insurance advisers in 10 to 20 years.

- Competent life insurance advisers should have a strong level of emotional intelligence to enable effective client engagement and convince them of the need for insurance, and to navigate the process to apply for cover. Unfortunately there is no course or test for emotional intelligence and no tertiary degree covers this important skillset. Good advisers are commonly not strong academics and hence a tertiary degree for life insurance advisers could add no value to society and could have the opposite effect.

- Any minimum requirement for training should be specific for insurance (and not muddied with planning for superannuation and investment savings) and include :

    - Successfully completing a short course on **medical terminology**. This is highly relevant to an adviser's field work and will be useful to weed out the part time dabblers in insurance advice who are more likely to be associated with poor advice than experienced advisers. Few people realise the massive role that advisers play in helping the excellent risk selection that takes place in this sector compared to other distribution channels.

    - An upfront ethics course and test similar to that contained in the Chartered Financial Analyst course run from the USA (albeit not over 3 years) and an annual attestation by an industry body. This is a course I have completed and I found the ethics component impressive and one that requires my ongoing adherence to.

    - A requirement to be supervised as a **trainee adviser**, under a qualified adviser, for at least 3-5 years before working unsupervised.

    - Possibly a requirement to have extra ongoing independent compliance checks if small firms have their own AFSL.

    - A more rigorous auditing requirement to be imposed on dealerships (eg a minimum of 2 audits per adviser per annum).

- A requirement to have the minimum PS146 qualifications as per today.
- A requirement to pass a product competency test from an insurer before being allowed to advise on an insurer's product or when their products are updated.
- A requirement to meet rigorous ongoing CPD standards each year, and
- A personal ongoing competency assessment for one hour every 5 years – an analogy to the requirement for older age drivers to keep their driving license by a test every few years - from a central and independent assessor licensed by ASIC.

- There is a perfect storm facing insurance advisers, who are under attack on all sides including :

  - Already being one of the most regulated sectors including needing to have PS146 qualifications, police and bankruptcy clearance checks, requirements to hold professional indemnity insurance, requirements to adhere to dispute resolution and FOS, ongoing CPD requirements, audits by dealerships, an AFSL licence, requirements with PDS documents, FSGs and statements of advice and now being registered under TASA.

  - And now facing a dramatic cut back to their remuneration choice, a requirement to undergo further training (possibly degree level qualifications) and needing to be members of expensive professional associations.

As a result of this, we are likely to see a great contraction in the number of existing advisers as well as very few new advisers entering the industry.

This is certain to mean that most Australians will not be able to access life insurance advice or obtain cover. It is likely that only wealthy people will be able to afford the remaining advice available. Alternatively it may mean that brokers (acting on behalf of consumers) are phased out and we return to a model of salaried agents who only sell products of one manufacturer (to the detriment of consumers).

- The needs of clients can be complex and the range of options for them to consider are vast when choosing the optimum insurance solution. This includes :

  - How to pay for insurance premiums eg via super rollover or their own bank account
  - Whether level or stepped premiums are better
  - Who should own the policy and who the beneficiaries should be
  - Most people are not in perfect health and hence the process of navigating the complex medical assessments needs to be project managed by advisers
  - What cover to take eg trauma, death and so on
  - What sub type of cover to take such as waiting periods
  - How much cover to take
  - Whether cover should be contained partly or all in a superannuation wrapper or in a non superannuation structure
  - The competitiveness of the various insurance products

  It is therefore important to have a large pool of competent advisers to cover these points for each person in a cost effective way.

- Having the right life insurance and disability insurance is a serious matter. It involves protecting a person's largest asset (their future income), and sums involved commonly amount to over a million dollars for a family. If the right cover is not in place, it can devastate a family. Approximately 20% of mortgages are in arrears because of death or disability. If advisers are not actively used and available, then other channels will fail to provide the right solutions to the majority of Australians with terrible social consequences.

- **The retail advice channel requires support and nurturing to ensure it grows and allows new advisers to enter the industry. Advisers play a crucial role in keeping existing clients in place.** For example, my business can process up to 10 premium dishonours per week where clients have failed to arrange adequate payment of premiums and the majority of these are resolved. **In an industry with billions of dollars in Deferred Acquisition Cost assets, we cannot afford to lose advisers and compromise the risk of existing clients lapsing their cover.**

<u>The ASIC report on life insurance</u>

Whilst that report has clearly identified poor practices by some advisers, and cannot be ignored, the issue of commission type cannot be used to solely explain the poor advice given.

The vast majority of existing advisers use upfront commissions, and most of those have smaller businesses and less experience than the minority of advisers who use hybrid commissions. Our business is 10 years old and was not able to afford to use any structure other than upfront commissions whilst we were still in our infancy. With a larger and more stable client base, we are now finally able to accommodate the financial strains of hybrid commissions and 65% of our business is written on this structure. As we have been in business for over a decade as risk specialists, our advisers are now experienced and the quality of our advice is high.

The more experienced advisers are the only ones able to afford to use hybrid commissions, and these few advisers are more likely to give superior quality of advice because of their experience, rather than their choice of remuneration. They are also less desperate, and hence less likely to churn for inappropriate reasons.

The issue of cause and effect must be considered :

- Would advisers with small risk portfolios still give poor quality advice even on hybrid or level commissions ? and

- Is the quality of advice more correlated with the experience of an adviser or the percentage of time an adviser spends on risk insurance than the choice of remuneration structure ? If the answer is yes, then the change in remuneration structure is unlikely to change the quality of their advice. It will simply mean that they will no longer offer risk advice (because they can't afford to).

It would also be useful to identify if the poor quality advisers were tertiary qualified or not, to identify if there is a correlation between tertiary education and quality of advice.

p.t.o....

C. Recommendations

- Regulations or changes should be **separately** considered for insurance advisers and financial planners who focus on savings and investments (incl superannuation)

- Life insurance commissions should not exceed 80% of premium in the first year. This cap is necessary to manage public opinion - rather than being in the best interests of the sustainability of the industry.

- The capped figure should be clear as to whether it **includes or excludes** all parts of the premium such as stamp duty and policy fees.

- The level of **trail commission should not be capped** and should be left to market forces to determine.

- **Hybrid commissions should be allowed** and level commissions should not be mandated. Certainly level commissions at low levels (like 20%) are not viable.

- Great care should be taken if responsibility periods are lengthened, and a longer period should only be considered for upfront structures and should not apply to hybrid commissions. Longer periods should clawback on a "per month" type formula and not a penal "100% clawback" in an entire first year.

- Insurance advisers should **not be required to obtain tertiary qualifications** for reasons of practicality, and education and training standards should be analogous to those of a trade, with supervision standards being introduced. Insurance advisers should be required to obtain a **minimum level of competency in medical terminology** as part of their education requirements. This requirement should apply to existing and new advisers and phased in over 2-3 years.

- Insurers should consider paying commission on all components of a premium so that a true (lower) commission rate can be quoted by the industry (ie 100% upfront commissions usually mean 85% or so overall) and manage public opinion.

- Annual quality or incentive financial rebate schemes should continue to be offered by insurers to advisers **provided they contain hurdle measurements for lapses** and are measured on a portfolio basis (ie all the clients of that adviser with an insurer).

- Conglomerates that both manufacture insurance and employ insurance advisers (using salaries) will have a competitive advantage as a result of theses changes, compared to independently owned brokerages. **Insurers should not be allowed to cross subsidise** associated adviser employment related costs with manufacturing profits, to avoid an unfair competitive advantage.

- Consideration should be given to the impact that accountants and planners could have on **poaching clients with higher ongoing trail commissions** relative to current lower ongoing trail commissions.

- The ACCC or a regulator should create a monitoring panel of independent experts to **ensure that any remuneration changes lead to lower prices in the industry** (unless commission rates rise). If lapse rates fall then insurers should be encouraged to pass on the financial benefit to existing customers as well as new customers (at a lower average reduction compared to new customers only) to avoid pricing distortions between existing and new customers, and avoid increased lapses from existing customers if only new business rates fell.

- The industry should offer new advisers an exemption whereby they can continue to receive upfront commissions (capped at say 115% of premiums) provided they are certified as not having worked for 5 cumulative years in the industry at any prior time.

- Life insurance advisers should be **audited at least twice a year** by their dealership or an independent auditor.

- The industry should create a standard form to be used for “information release” requests and for a “change of servicing adviser” request.

- The impact of any proposed changes must attempt to be modelled beforehand to try understand the implications of the availability of advice, the impact to consumers with regards to price and the impact to insurers and advisers profitability from these changes.

- **Government should consider policies to enhance the take up of insurance. This will in turn reduce the cost of advice as the demand for insurance rises.**

Retail Life Insurance Products Sold By Advisers

The views of an actuary working as an adviser

Feb 2015

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My 5 key points

1. **After 10 years, only 50% of our business is sold using hybrid commissions**
    - Our profit margin is less than 10%. Moving to everything on hybrid would cause us to lose money for several years. We have not managed to increase our use of hybrid by more than 10% in any one year.
2. **We are losing more clients to accountants and financial planners (when clients are on hybrid commission)**
    - They encourage our clients to assign them as their broker after the first year. We do the hard upfront work and they get the higher trail commission ! Not a major risk with upfront commissions.
3. **Most of our advisers have no tertiary education**
    - Nearly 75% of Australians have no bachelors degree equivalent. Our advisers are great at what they do, but they would not have become insurance advisers if they could get tertiary academic qualifications. Academics are not the best at selling life insurance Medical terminology education courses are more relevant
4. **It is harder to sell life insurance than other forms of insurance**
    - Our life insurance business is 10 years old and has 13 advisers. Our general insurance business is only 3 years old and has only 2 advisers. Yet we now sell as many general insurance policies per annum as life insurance policies. General insurance and health insurance is bought, yet life insurance has to be sold.
5. **Advisers play an important role in convincing clients to keep paying for their life insurance premiums**
    - 130 of our clients failed to pay their premium in January. We worked extensively with each and get most to renew their cover. What would the DAC write off be if we were not there ?

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Actual commission rates are not as high as you think !

	Upfront	Hybrid
Headline rate quoted by press	**115%**	**80%**
Remove GST	-11%	-8%
Remove components of premium on which commission is not paid eg stamp duty, frequency loadings, policy fee etc	-15%	-8%
Net commission	**89%**	**64%**

Referral fees , clawbacks and client rebates will reduce these even further

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There are very high costs incurred in selling life insurance

- **It is expensive to fund a life insurance adviser !**

Professional indemnity insurance	$5k per annum
Assistant salary	$50k + per annum
Dealerships fees	$15k per adviser per annum
Software costs (eg X Plan)	$10k per annum
Experienced adviser salary	$100k per annum base + bonus
Rent	$10k per annum
IT costs	$3k per annum
Marketing	$10k + per annum
Training, travel, phone, workers compensation, compliance training, accounting, payroll tax	$5k +++

> $200k per annum +

- **This is without allowing for :**
  - Difficulty, time and recruitment cost in finding someone
  - Key person risk
  - Operational risks
  - High compliance costs eg ongoing training

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And it is difficult to make a sale !

- Most people are not pro-active with their life insurance
- No compulsion like health insurance, super and some general insurances
- Finding people to discuss insurance with is hard. Convincing them to proceed is harder !
  - 20% of people that are spoken to agree to receive a proposal
  - 60% of these submit an application
  - 80% of these progress with application after underwriting process
  - **So, a good adviser will need to speak to 20 people to make just 2 sales a week !**
- Lots of time per client !

Initial client visit to conduct fact find	2 hours +
Prepare a high quality SOA	3 hours +
Presentation of SOA and completion of application	2 hours +
Arrange and follow up medical tests	3 hours +
Annual reviews	5 hours +
Claims	Days

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The commissions don't cover the costs…….

- Costs per annum = $200k+
- Sales per week = 2 (48 weeks in the year)
- Average premium per sale = $2,500 pa
- Sales of slightly more than $200k per annum in premiums
- Income is approx $160k in first year
- Costs are $200k + in first year
- Net loss of $40k + on upfront commissions

Needs to be higher. An average adviser will not be ok

Needs to be higher. Can only work with wealthy clients

Need capital and a long term view

Average time between initial client meeting and receiving commission can be > 3 months

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Theft of trail commission is a big concern

- We often advise clients to use level premiums and we take hybrid commission

- Creates a feeding frenzy for financial planners and accountants to steal the client and take our trail commission with one simple form being filled out

- Yourshare.com.au will refund half our trail commission to clients if you assign them as the broker – but they will not perform any work for you

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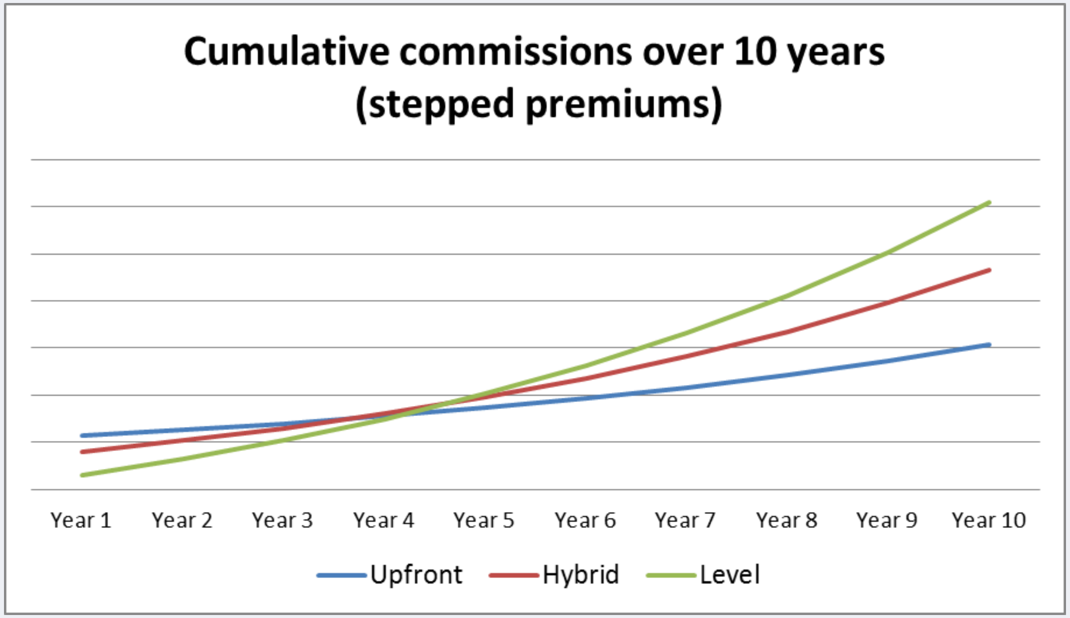
Hybrid and level commissions can be materially more expensive for insurers



Level 98%

Hybrid 51%

Assumes same policy/no lapse

Will insurers assume a fall in lapse rates if upfront commissions are abolished ?

Will hybrid and level commission rates fall or will customer prices rise ?

Surely the goal from these changes can only be to reduce prices for clients ?

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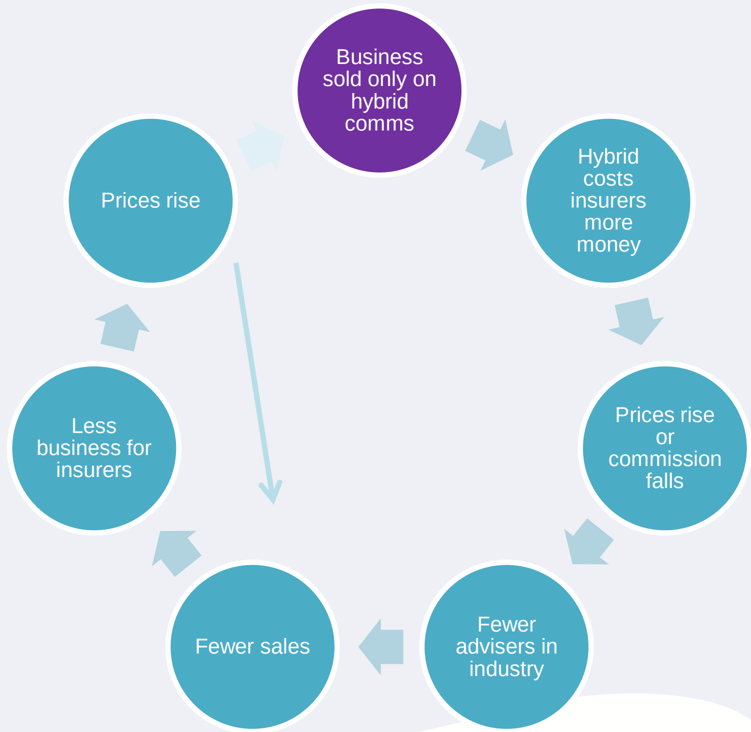
What outcome are we trying to achieve ?

Lower customer prices scenario

or

Abolish upfront structure and lower hybrid commission rate scenario



Financial Services Reform raised education and compliance standards in 2001…but tertiary qualifications may now be required……..

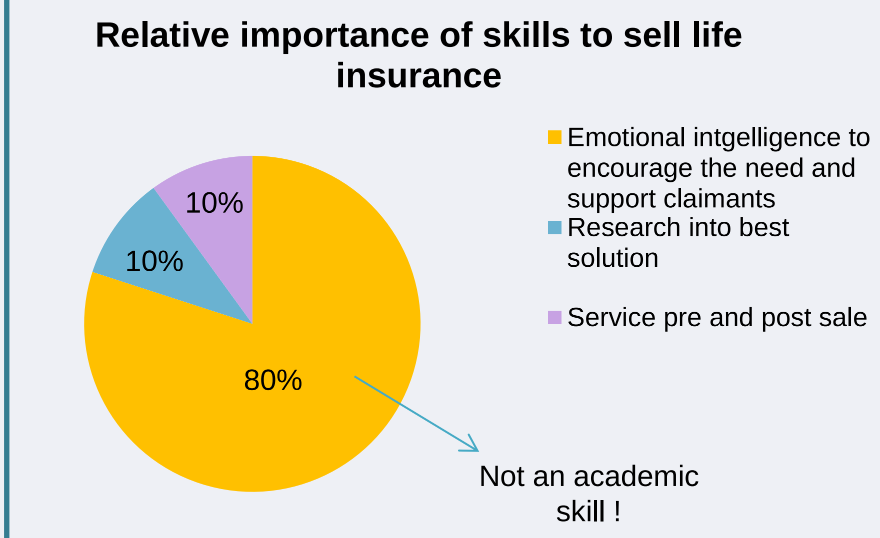
FSR was good……………….but don't now try get academics to sell insurance !

Never used to have :

- PS146
- FSG
- SOA
- PDS
- Licensing/ARs
- Audits

✓

Profession	Annual independent audit ?
Insurance adviser	Yes
Lawyer	No/sometimes ?
Accountant	No/sometimes ?
Actuary	No/sometimes ?



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Life Discussion Group

Life Insurance Lapse Rates

The views of an actuary working in distribution

Sep 2014

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Experien Insurance Services

- Life insurance brokerage dealing with 10+ insurers (IFA)
- National offices - staff of 30
- **We help people to buy life insurance and get claims paid**
- **Helped nearly 100 clients with claims for over $10m in payouts**
- 4,500 life insurance clients under advice
- Our company view
  - Lapse rate of clients < 4% per annum
- Insurers' view of Experien clients
  - Lapse rates with competitive insurers consistently < 4% per annum
  - Lapse rates with uncompetitive insurers 10-15% per annum

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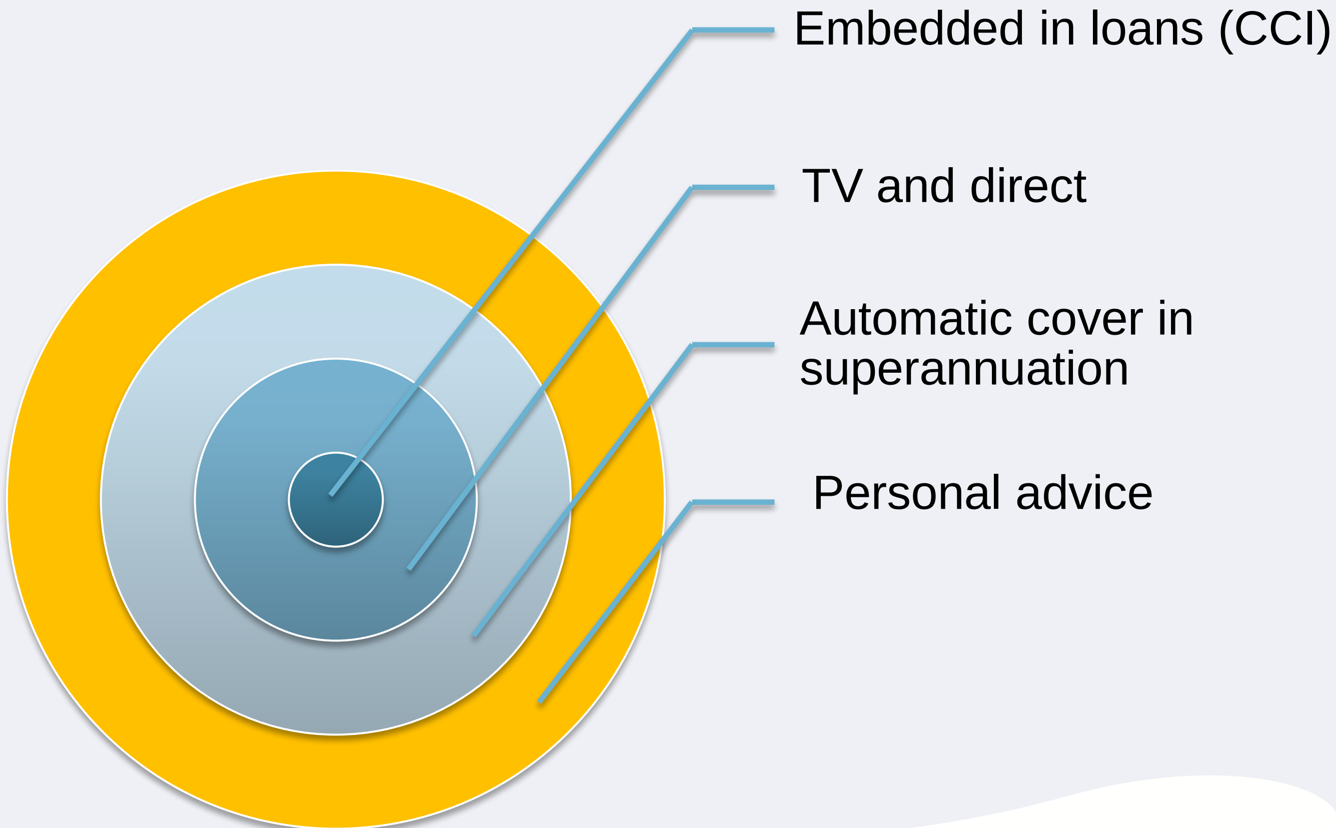
How do people buy life insurance in Australia ?



Which is the best channel ?

	Embedded in loans	Sold direct	Automatic in super	Advised by institutional adviser	Advised by independent adviser
Lapse rates	×	×	?	?	✓
Quality of cover	×	×	×	×	✓
Do customers know what they have ?	×	?	×	✓	✓
Suitability of cover	×	×	×	✓	✓
Price of cover	×	×	✓	×	✓
Sustainability	×	?	×	✓	✓
Insurer profits	✓ then ×	✓	×	?	✓
Risk of legacy	×	×	✓	✓	✓

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Risk selection

“Advisers assist insurers by convincing clients to undergo rigorous health assessment questionnaires and medical tests that are one of the most crucial tools to manage an insurer’s claims and hence its solvency”

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Advice is needed !

Misunderstandings

- 81% say life insurance is too expensive, yet 61% over-estimate cost
- A lack of understanding stops 1 in 3 Australians without life insurance outside their super from taking adequate cover
- 41% say life insurance is too complicated
- 1 in 4 don't know where to start
- 83% of Australians say they have insurance for their car, but only 31% insure their ability to earn an income with income protection

How a broker can help

- Which of the 11 or so insurers is best ?
- What products are needed (IP, trauma, TPD etc) ?
- What sum insured amount is needed ?
- What should the product structure be ?
  - Super vs non super
  - Linking
  - Waiting period, product options etc
- Medical issues
- Stepped vs level premiums
- Payment : rollover ? Business ? Credit card ? Annual ? Monthly ?
- Claims management

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Challenges running a business that provides life insurance advice

High costs

- **It is expensive to fund a life insurance adviser !**

  - PI costs > $5k per annum
  - Assistant costs $50k + per annum
  - Software costs $10k per annum
  - Experienced adviser costs at least $100k per annum base and bonus in addition
  - Rental costs $10k per annum
  - IT costs $3k per annum
  - Marketing costs $10-20k per annum
  - Training, travel, phone, workers compensation, compliance training, accounting +++

- **Need to sell a lot of insurance to cover these costs ! This is without allowing for :**

  - Difficulty, time and cost in finding someone
  - Key person risk
  - Risks of losing clients on level premiums and hybrid commissions
  - Operational risks
  - Long lead time to make a sale
  - High compliance costs

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It is difficult to make a sale

- Most people are not interested in insurance
- No compulsion like health insurance, super and some general insurances
- Finding people to discuss insurance with is hard. Convincing them to proceed is harder !
  - 20% of people that are spoken to agree to receive a proposal
  - 60% of these submit an application
  - 80% of these progress with application after underwriting process
  - **So, a good adviser will need to speak to 20 people to make 2 sales a week**
- Lots of time per client !
  - Initial client visit to conduct fact find (at least 2 hours)
  - 3-5 hours to prepare a high quality SOA
  - Presentation of SOA and completion of application (at least 2 hours)
  - Many hours following up underwriting (assume 3 hours)
  - Annual reviews (at least 5 hours)
  - Claims (days)

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Covering the costs…….

- Costs per annum = $200k+
- Sales per week = 2 (48 weeks in the year)
- Average premium per sale = $2,500 pa
- Sales of slightly more than $200k per annum in premiums
- Commission choices (we don’t earn the GST ☺)

Net of GST	Upfront	Hybrid	Level
Year 1	100%	72%	27%
Ongoing	9%	18%	27%

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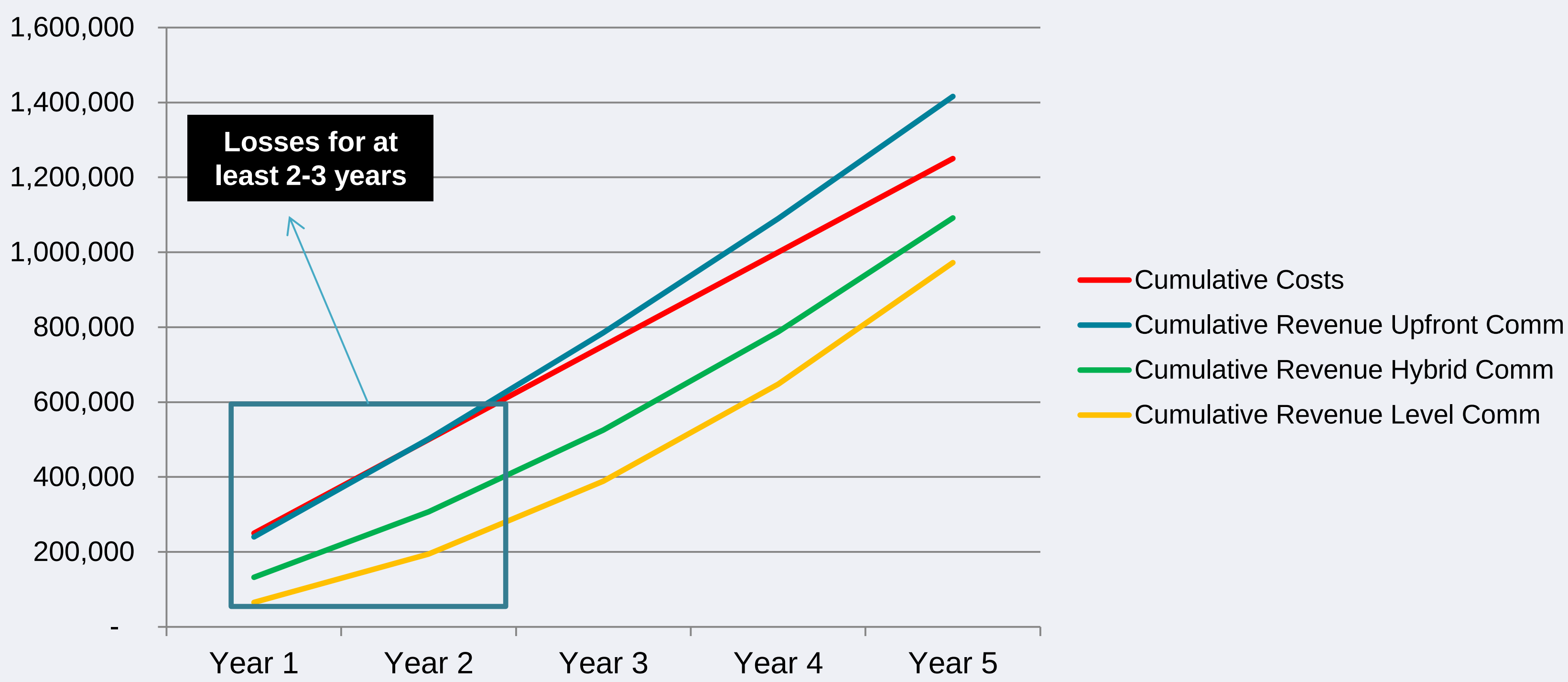
Will you make money ?



Assumes CPI nets off lapses

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…….will you ever make money ?

- Need to be very patient !
- Need to make more than 2 sales per week
- Need to sell higher value policies only
- Insurer pricing allows for a rebroke to take place
    - A rebroke every 7 or so years helps cover costs (not on level commission)
- Need to have low lapse rates
- Terminal value of trail commission is where advisers can make money (ie selling their business)

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How do you get into the industry ?

- No comparable model to other industries :
  - Medicine
  - Teachers
  - Skilled trades (eg electrician, plumber)
- Earnings challenges
- Will it remain a family business model relying on tax efficiencies to remain viable ?
- How do you stop accountants and financial planners stealing your trail commission ?

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Why so much talk about lapses being to blame for insurers' woes ?

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Obsession with advisers, upfront commissions and churning……

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Obsession with advisers, upfront commissions and churning……

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Life insurance policy 'churn' still a problem

April 22, 2014 Read later

Duncan Hughes

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Who is responsible for life/risk insurance churn?

16 July, 2012 Col Fullagar 0 comments

Tweet 0 Pin it

Churn in the life/risk space remains a contentious

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Push to end life-insurance churning

THE AUSTRALIAN | AUGUST 01, 2011 12:00AM SAVE

Andrew Main
Wealth Editor
Sydney

PROFESSIONAL PLANNER
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Life companies to blame for churn: Dunsford

June 11, 2013 Mark Dunsford 1 0 Share This Email Print Reprint & Permissions

Principal of Dunsford Financial Planning, Mark Dunsford, says life insurance companies will need to put consumers ahead of profits if they ever want to get serious about addressing lapse rates and churning.

I have noticed that Bill Shorten and The Financial Services Council (FSC), have put

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Headlines can be misleading….

Risk policy switching 'remains high'

Written by Scott Hodder
Tuesday, 02 September 2014

The number of advisers switching consumers' insurance policies "remains high", despite an increase in the range of insurers they use, research by Investment Trends has found.

In its June 2014 *Planner Risk Report* – which surveyed 885 financial advisers on their use of insurance – Investment Trends found advisers are expanding the number of insurers they use. However, levels of switching have increased, up five per cent from last year.

"The typical planner now uses 3.7 insurers each, up from 3.4 in 2013. However, levels of insurer switching remain high with 40 per cent of planners saying they stopped using at least one insurer in the last 12 months, up from 35 per cent last year," the report said.

Different point !

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A better headline ?

Some life insurers fail to remain competitive

Written by Scott Hodder
Tuesday, 02 September 2014

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Insurers must focus on their own problems without blaming advisers

APRA Quarterly Life Insurance Performance Statistics Profits ($m). Retail vs Group

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Insurers are not helping lapses !

- Many have stopped telling advisers when a client has lapsed
- Insurers are closing products and opening new series
  - Premium reductions not passed retrospectively
  - Features are not passed back retrospectively
  - Features (eg product options) on old products become outdated

- No certainty provided on premium increases for level premiums
- Changes in management too often
- Loss of key people with good knowledge/lack of succession planning

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Insurers are not helping to manage claims and pricing

- Limited investments in claims management technology and processes
- Limited investment in claims data
- International best practice standards
- Even more important for group insurance
- Industry lacks stats/data to use for pricing

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Insurers are geared/leveraged to new business flows

- A big issue not well understood
- When new business flows are strong, insurers are doing best :
  - Lapses are low
  - Selection effect good for claims
  - Economies of scale
  - Reinvestment into service more likely
  - Staffing is stable
  - DAC effect
  - Attract experienced staff
- When new business is weak, are insurers terminal ?
  - No new investments in product/service
  - Lapses rise
  - Selective lapsation
  - Good staff leave
  - Multiplier effect

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Mergers and takeovers – do they work for life insurers ?

- CBA (older) – Colonial – L&G – Perpetual
- MLC – Aviva
- AMP - AXA

4.3% market share lost in 24 months

Total Risk Premium Inflows

$millions	Year Ended Mar-14	Annual Growth	Market Share	Year Ended Mar-13	Market Share	Year Ended Mar-12	Market Share
TAL Group	2,151.9	36.3%	16.3%	1,579.3	13.5%	1,393.1	13.1%
AMP Group	1,822.0	2.9%	13.8%	1,770.6	15.2%	1,671.8	15.8%
National Australia / MLC Group	1,672.6	8.9%	12.7%	1,536.2	13.2%	1,492.9	14.1%
CommInsure Group	1,648.3	7.4%	12.5%	1,534.8	13.2%	1,427.1	13.4%
AIA Australia	1,554.3	18.0%	11.8%	1,317.2	11.3%	1,143.8	10.8%
OnePath Australia Group	1,323.8	-2.0%	10.0%	1,350.6	11.6%	1,225.4	11.5%
BT / Westpac Group	755.9	17.9%	5.7%	641.1	5.5%	530.8	5.0%

- Is TAL an exception ?

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Back to the advisers.......

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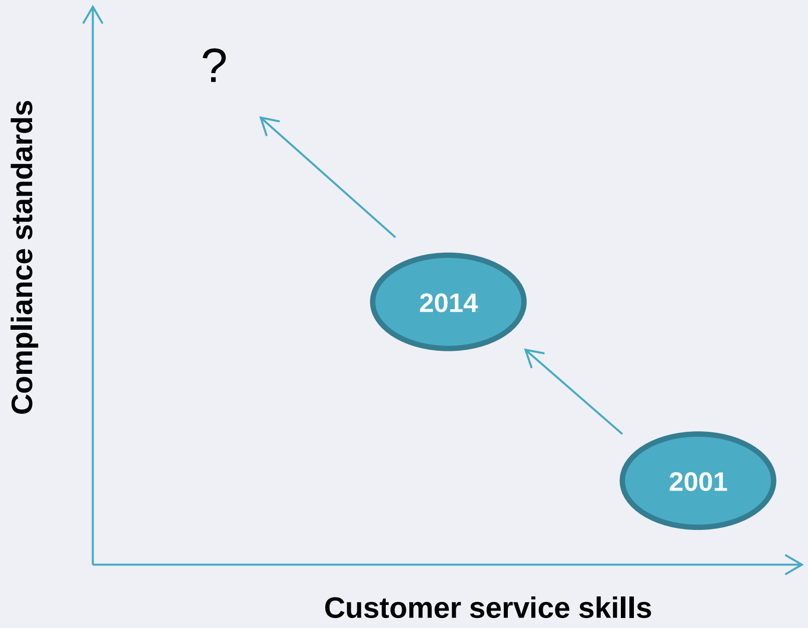
Don't forget Financial Services Reform.......

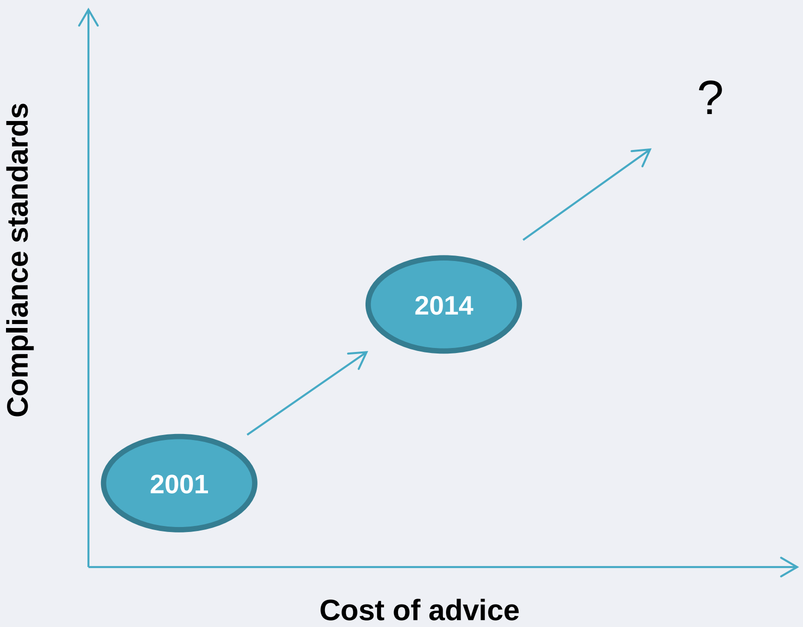
- 2001
- Never used to have :
  - PS146
  - FSG
  - SOA
  - PDS
  - Licensing/ARs

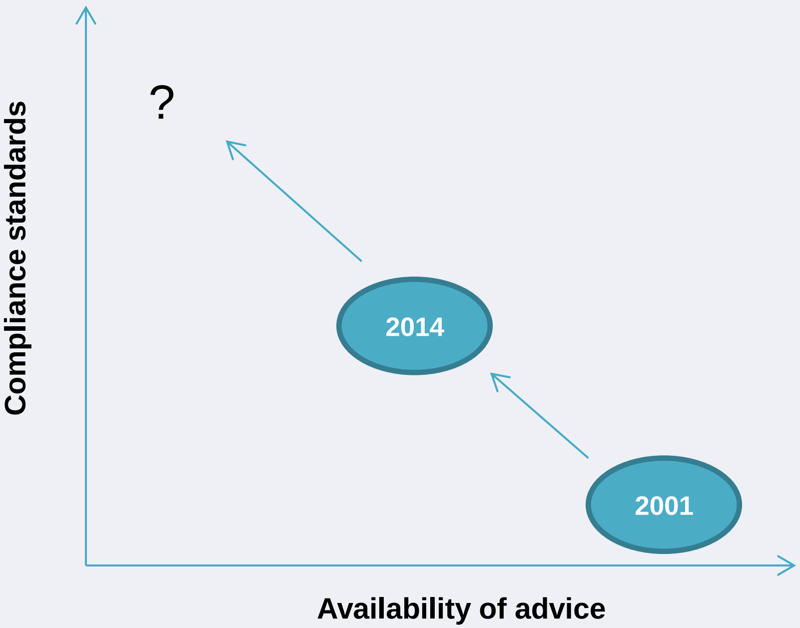


Don’t forget Financial Services Reform…….

Profession	Annual independent audit ?
Financial adviser	Yes
Lawyer	No/sometimes ?
Accountant	No/sometimes ?

Complexity increases cost and reduces availability





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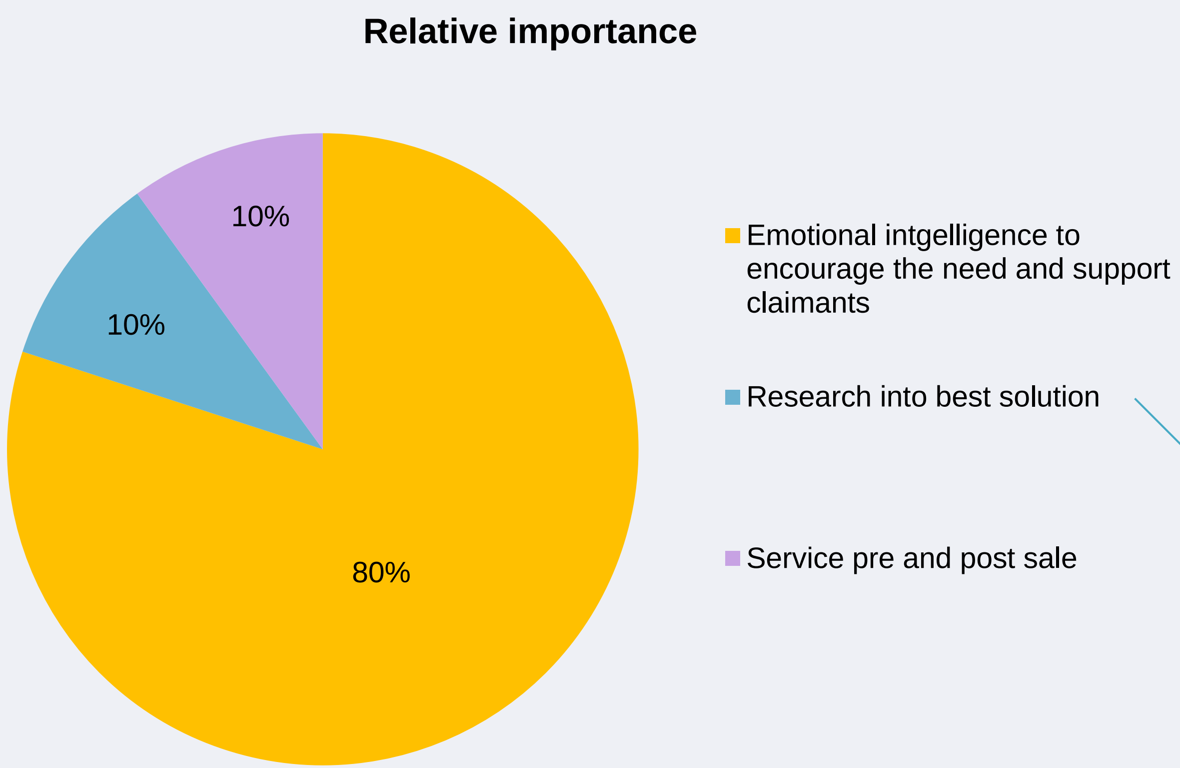
The important skills required for life insurance advisers

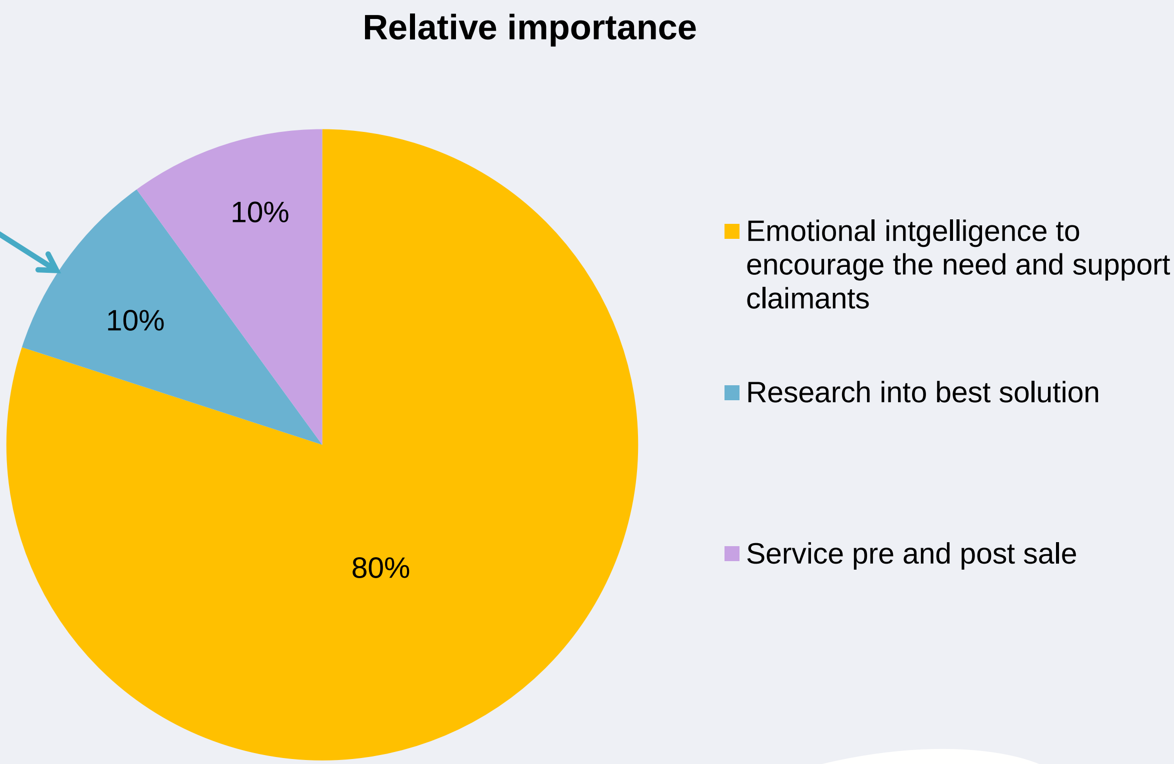


Research points not a major driver of lapses

Focus on the wrong areas

Why are all industry/regulatory initiatives being focused on just this one minor area ?

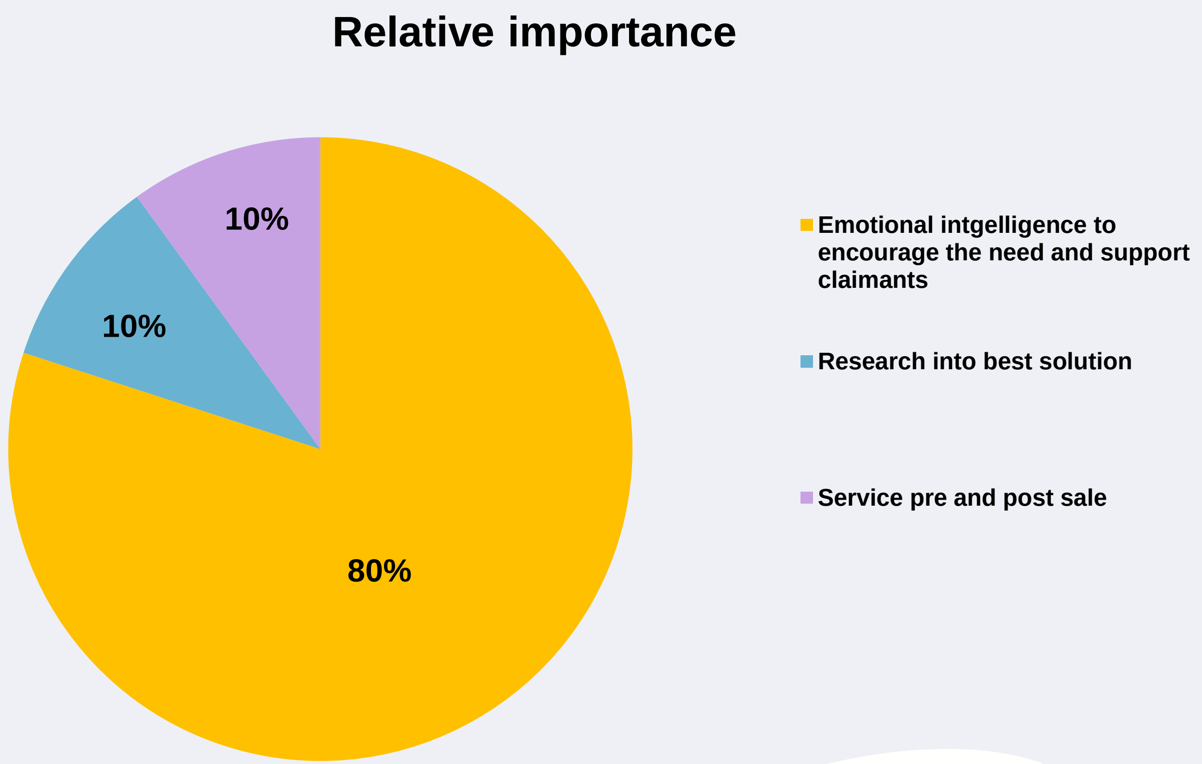
- Degrees
- Diplomas
- CPD
- Maths
- Science



Can we rather focus on the relevant areas ?

Emotional intelligence (EI) is the ability to monitor one's own and other people's emotions, to discriminate between different emotions and label them appropriately, and to use emotional information to guide thinking and behavior

Self-awareness
Self-regulation
Social skill
Empathy
Motivation
Ethics



Advisers now need to be registered as tax agents

- Why ?
- Another example of insurance being wrongly caught in regulations relating to investment advice and broader financial planning
- Industry self interest ?

What's in a name ?

- Adviser
- Broker
- Scaled advice
- General advice
- Sales
- Planner
- Independent
- Product advice
- Aligned advice
- Restricted advice
- No advice
- Trusted adviser

Who am I ?

Consumers don't understand 'independent advice' label
28 Aug 2014 1 comments

Consumers are unlikely to understand the term 'independent advice' and its use will help in the management of conflicts of interest according to KPMG.

Labelling of Advice Hot Topic for FSI

September 2, 2014

Changes to the way vertical integration and general advice are represented to financial consumers are among the most frequently addressed topics in the latest round of submissions to the Financial Systems Inquiry (FSI).

ASFA supports switch from general to product advice
28 Aug 2014 comments

Financial advice is crucial in helping retirees meet their retirement income goals, ASFA said.

Legislation Seeks to Rename General Advice

September 2, 2014

Legislation to restrict the use of the term 'advice', so that it only applies to situations where a person's individual circumstances are taken into account, has been introduced to the Senate.

ASIC recommends aligned advice be labelled as 'restricted' advice
27 Aug 2014 comments

ASIC has recommended that institutionally-aligned advisers be labelled as "restricted advice" businesses and provide statements about limited product advice.

Risk services a boost to broker 'trusted advisor' status
An insurance broker network CEO has said brokers who are able to offer risk consultancy services in addition to traditional transactional insurance broking will be able to enhance their image as 'trusted advisors'.

READ MORE

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Case study of whether brokers add value or not ?

	Life Insurance	Medical Indemnity Insurance
Prevalence of brokers/advisers	High	Low
# competing insurers	10+	Falling to 3 (was 5 two years ago)
Market share of largest insurer	< 25%	> 50%
Price competition	High	Low
New insurers emerging ?	Yes	No
Profits	Normal	High
Product innovation	High	Minimal to nil
Cost base	Falling	High
Adviser support for claims	High	Low/Nil

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Regulatory help……..

- **People don't generally want life insurance or seek to buy it**
- **Yet it is often essential to have - and an important mechanism to help society**
- **Which channel is best ?**
  - Group insurance gives cover to people without considering their needs and often they do not know they have it – but is cheap
  - Direct insurance is often sold to old people (funeral insurance) who have a high association with the risk of dying
  - Consumer credit insurance is given to people without them even knowing it
  - If the advice channel is the best for customers, then how do we increase its use and/or reduce its costs ?
    - Abolish stamp duty to help with costs
    - Compare with health insurance and superannuation where there are government incentives and penalties for not having it
    - Encourage models to attract and train new advisers with a focus on emotional intelligence training
    - Institutional vs independent advisers
    - Separate insurance adviser regulations from financial planning regulations

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Q & A

