SUBMISSION TO THE REVIEW of the QUALITY of FINANCIAL ADVICE

ABOUT ME

I am the Managing Director of an Australian Financial Services Licensee and a number of Corporate Authorised Representatives.

I have been a specialist Risk (Insurance) Adviser for 33 years both in Australia and a further 8 years in South Africa. I am extremely passionate about the industry and the wonderful work we do and purpose we serve and am very proud of the practice we have developed over the last 16 years and the reputation we have amongst our peers.

We provide personal advice only and have particular expertise in the area of insurance for impaired lives ie. people with a history of a chronic illness and are acknowledged experts in this area and regularly have other advisers refer clients to us when they have been unable to assist their them. Unlike most advisers, we also manage claims. For clients, this is part of our service and for non-clients, this is done on a fee for service basis and are regularly referred clients by other advisers for this service.

THE REVIEW

Whilst the review covers several topics I have chosen only to opine on those that I believe passionately about and on which I believe I have the required expertise and experience to comment.

KEY ISSUES

THE CONCEPTS OF GENERAL ADVICE AND PERSONAL ADVICE

It is my belief that consumers do not understand the difference between these concepts and neither do many advisers.

I am firmly of the belief that a licenced adviser, an Authorised Representative under an AFSL, should not be allowed to give General Advice because the consumer has an expectation, and rightfully so, that any advice received from a professional adviser will be Personal Advice and take their circumstances in to account.

The concept and description of General Advice should be changed and the word “advice” removed. Advice in any profession or industry should never be provided without an understanding of circumstances. The current concept of General Advice is merely the provision of facts eg. “what is Income Protection Insurance” or “Under what circumstances would my life insurance policy pay out?”

As soon as a client asks a question such as “how much cover should I have?” or “which policy is best for me?”, that is unquestionably Personal Advice and should not be allowed to be treated any differently.

I am aware of a significant trend of advisers who have been unable or unwilling to meet education requirements planning to start providing General Advice only in order to bypass regulation. This cannot work, is fraught with danger and should not be allowed.

Consumers should be made aware at all times when speaking to any person whom they may consider "qualified" that when factual information only is provided that it is NOT ADVICE and should not be used to make a decision and further that the person providing the information is not permitted to provide advice if that is the case. The types of people would include call centre personnel at financial institutions, insurance companies and superannuation funds.

The solution to this issue could be in a Professional Designation similar to the medical profession.

An holistic adviser should be designated a General Practitioner and the public made aware that they offer advice in any and all areas such as investment, superannuation and insurance and as a result, like a medical General Practitioner, would have a broad, but not specialised knowledge across all areas.

Then there should be Specialist Advisers who give advice only in one area and due to this may be considered expert in their field.

Client's with complex needs would be educated to seek the advice of a Specialist whilst clients with simple needs would use the services of a General Practitioner.

RECOMMENDATION 2.5 of the HAYNE ROYAL COMMISSION – LIFE INSURANCE REMUNERATION

For many years life insurance has been sold via a variety of intermediaries including specialist risk advisers. These intermediaries have included bank branch staff, mortgage brokers, accountants and financial planners specialising in fields other than risk advice. The attraction of life insurance sales to the latter group was the perceived simplicity of the product, the perceived lack of need of sophisticated advice and the perception that it was "easy money". How wrong they were!

Life insurance remuneration has always been based on commission and consumers have always been aware of this and comfortable with it. In Australia the rates of commission have been uniform across the industry for many years thus ensuring the adviser has no financial incentive to choose one insurer over another.

Recent reforms have seen the maximum upfront commission reduced from 110% to the current 60%. Like most regulation this had some unintended consequences. The first was that a significant number of the group previously mentioned no longer felt the reward was worth the effort and stopped selling insurance which resulted in the second consequence being less insurance sold and the underinsurance problem in Australia exacerbated. In my opinion the first consequence was a good thing but a solution needs to be found for the second as the economic cost to Australia is in excess of $600m per annum.

A third unintended consequence is that reduced commissions has created a barrier to entry for new advisers. One cannot afford to start a practice with no existing client base and realistically expect to make a living for many years. This and the increased cost of providing advice caused by regulation has meant that a practice needs scale to survive. This is not feasible for most practitioners.

As stated previously, public perception is that life and disability insurance is a simple product and the only meaningful comparison should be price. The perception is also that if one's mortgage is paid in the event of premature death then your family will be fine. This is simply not the case!

A professional adviser will dig deep into a client's personal circumstances, determine their goals and objectives and do mathematical calculations based on this information in order to determine the optimal amounts and types of cover required.

Insurance policies differ from insurer to another. That is natural in an open, competitive market. Features, benefits and most importantly, definitions vary and even the slightest variation may prove to be life impacting in the event of a claim. It takes a true professional to have sufficient knowledge and resources to understand the differences and the impact it will have on a client's particular individual circumstances. A professional adviser will consider the individual client before selecting an appropriate product.

Ownership structures and tax treatment of premiums and proceeds can also be complex and should be constructed after consideration of professional advice.

Most people's circumstances continually change and one's insurance portfolio should never be set and forgotten. It requires regular reviews to ensure that it remains relevant to one's changing circumstances.

Laws are continually changing, and products are continually changing and these changes need to be considered as soon as practically possible in terms of the impact on a client.

Finally, and most importantly, in the event of a claim, the client needs to know that the promise made at the time of purchase will now be honoured. Claims management requires expertise and knowledge in order to maximise the proceeds with minimal stress to the client in the shortest possible time.

All of the processes mentioned above, if done properly, take an inordinate amount of time, resources and expertise. These resources and expertise are also required for the ongoing maintenance and management of a client's insurance portfolio.

At the time of the announcement of this review a number of surveys were conducted. One conducted by a major insurance company surveyed a large number of advisers to determine what they would have to charge for a Statement of Advice to review a client's portfolio. The average was approximately $2 000. Personally, I consider that figure to be grossly inadequate. A large cohort of the public was then surveyed to determine what percentage would be prepared to pay $2000 for insurance advice and the response was as expected. Almost ZERO!

The Australian public has long been used to not paying a fee for insurance advice and they are not yet prepared to do so.

Insurance commission to a Risk Adviser is similar to a premium to an insurance company. By this I mean that it is the income earned from the many that pay for the services to the few. Not all clients require an annual review. Not all clients may need administration services in a given year and most clients do not claim. The cost however of providing these services to those that use them are very high and if charged on a fee for service basis would be unaffordable to most. Commissions enable a professional adviser to provide these services at no additional cost to all clients.

I think that the current rate of upfront commission is acceptable. I think that the current rate of ongoing commission is manageable but ideally could be higher. I would be prepared to sacrifice part of the upfront commission to facilitate this.

Based on the above, I firmly believe that commissions should be retained. If they are removed it would be catastrophic to both the industry and the consumer. Australia has an enormous under-insurance problem which, if commissions are removed, will become significantly larger.

THE DESIGNATION “SOPHISTICATED INVESTOR”.

I believe that the current requirements of a gross income of $250 000 or net assets of $2.5 million are inadequate. Given the recent housing boom, there are thousands of people with net assets in excess of $2.5 million that would have little or no financial literacy or comprehension.

I believe that the designation was intended to capture the high net worth who are also financially literate.

Similarly to the General Advice provisions, I believe that there is a number of advisers who specifically only provide advice to wholesale or sophisticated investors in order to circumvent the regulatory requirements placed on Authorised Representatives of Australian Financial Services Licences.

This would be acceptable if those people were truly sophisticated.

I believe the requirements to be classified a wholesale investor should be a gross income of $250 000 PLUS net assets EXCLUDING your home in excess of $2.5 million OR net assets excluding your home of at least $5 million if you do not meet the income requirement.

I also believe that all wholesale clients should have to sign a declaration made in front of and countersigned by their accountant or lawyer attesting to their understanding of the basics of financial markets.