11 November 2022

Secretariat, Quality of Advice Review
Financial System Division
Treasury
Langton Cres
Parkes ACT 2600
By email: AdviceReview@treasury.gov.au

Dear Sir / Madam

RE QUALITY OF ADVICE REVIEW CONFLICTED REMUNERATION PROPOSALS PAPER RESPONSE

The group of Licensees ("Licensees") welcome the opportunity provide feedback to Treasury on the Quality of Advice Review Proposals paper ("the Proposals paper").

About the Licensees in this submission

The Licensees are a group of industry participants within the Financial Advice market comprising:

- AMP Group Limited
- Australian Unity Personal Financial Services
- Diverger Limited
- Fitzpatricks Private Wealth Limited
- Fortnum Private Wealth Limited
- Infocus Wealth Management Limited
- Otivo; and
- WT Financial Group limited

Collectively we manage 21 Australian Financial Services Licensees which include 2,690 Authorised Representatives, 187 employed representatives and one digital advice platform; representing ~18% of the financial advisory profession. We provide financial advice to circa 433,000 retail consumers.

Our overall comments

We support the overall recommendations in the Conflicted Remuneration Proposals Paper, however we believe the proposals do not go far enough to address the serious decline in access to life risk advice for middle and low-income families.

There is an increasing inequity of access to life risk advice as well as the quality of cover provided to low and middle-income families. These families are the least able to withstand the financial shock of an insurance event and many work in higher risk occupations where injury or death may result. Research shows that when an insurance event occurs for these families, many do not financially recover.

Financial advisers (particularly risk specialist advisers) are the predominant intermediaries who provide life insurance advice on individual life policies. Risk specialists have been exiting the industry as the economic returns are insufficient to sustain a viable market. These exits have effectively decimated the new business policy pipelines for life insurance providers and, if not urgently addressed, will lead to further sustainability issues for insurance providers as the level of new business does not replace the natural policy run off from insurance books and increasing numbers of advisers disengage from insurance only clients.

There is an urgent need to review the limits in place for commission-based remuneration. There are significant up-front costs borne by both advisers and the Australian Financial Services Licensees who support them in order to ensure advice and product solutions meet the clients best interests. Whilst proposals recommended by the Quality Advice Review will reduce costs of advice overall, for life insurance advice the majority of the costs will remain, driven largely by the processes required to investigate client needs & objectives, then implement recommendations – including the application process, and underwriting process (medical and/or financial). We refer the Quality Advice Review to the original recommendations made by independent expert Mr John Trowbridge in 2015 where recommendations were made for an initial advice payment and a licensee support fee of 2% of Premiums in Force were not incorporated into the final legislation. All of these payments need to be reviewed in light of today's circumstances and the growing gap in insurance advice.

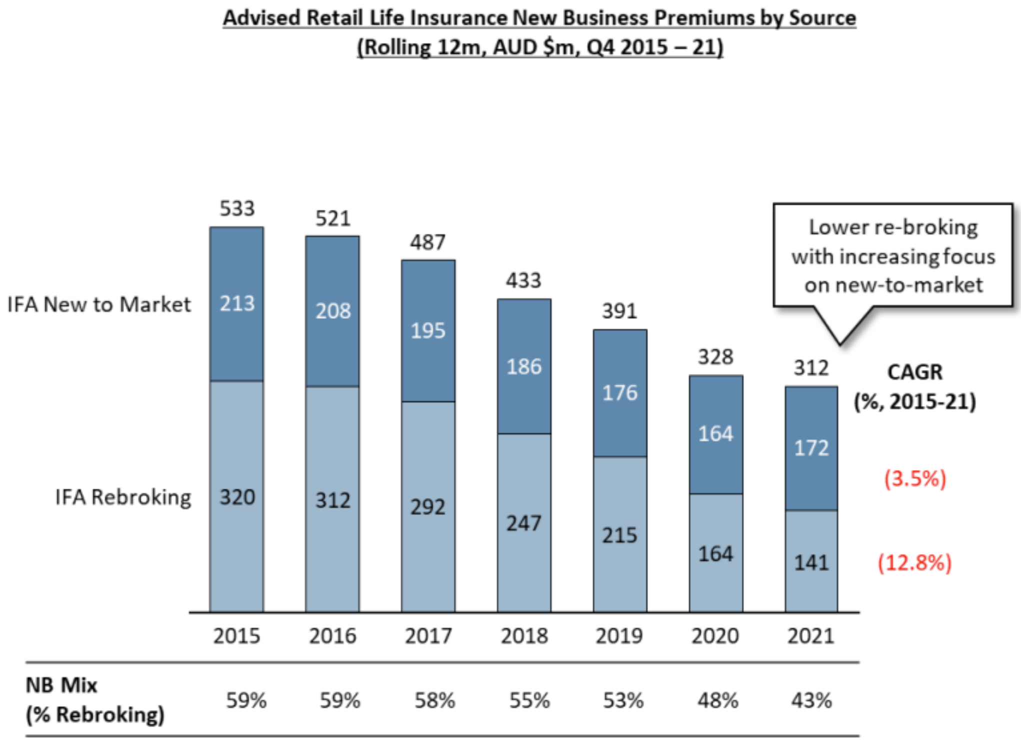
We acknowledge that there have been historic concerns in relation to commission-based remuneration driving poor consumer outcomes. The financial advice industry has been subject to more than 20 years of overlapping regulatory change and it should be noted that post the introduction of FOFA in 2013 virtually all other forms of conflicted remuneration, volume related payments and any form of incentives that generate a financial product bias have been removed from the industry. The introduction of commission rate harmonisation across insurance product providers has removed any inherent bias between providers, and hence focuses the advice on client best interests. The introduction of the professional code of conduct, strengthening of disciplinary standards as well as years of compliance uplifts have removed the majority of poor advice and unsustainable business models from the market.

Life insurance data collection

We note in Treasury's Conflicted Remuneration Proposals Paper on page 2 you refer to data collected by ASIC and APRA under the LIDC. We note that caution should be exercised in interpreting the trends within the figures. Our observations are:

- The average premium increases of approximately 15% from 2017 to 2021 are mainly driven by age-based increases and increases driven by sustainability in insurer profitability rather than by underlying new policies being written with larger premiums / higher coverage;
- The fall in overall new life insurance policies is materially more significant than represented in the consultation paper. Research conducted by NMG Consulting for the FSC has forecast that under the current system, particularly with the projected flattening of adviser exits, ongoing lapses and the focus on higher value clients, the total number of in-force advised policies is expected to continue to decline, which will increase the underinsurance gap with a fall of 17% of in-force policies by 2027;[1] and
- Figure 1 below shows that advised retail life insurance new business premiums have fallen significantly from $487m in 2017 to $312m in 2021. The underlying "new to market" component of these amounts were $195m in 2017 falling to $172m in 2021. Many advice licensees, including those who are signatories to this document, are currently reporting an approximate halving of the insurance new business advice over the past 2 years.
- The overall levels of re-broking and new business have fallen since 2015. The fall in trend for re-broking we believe is due to declining numbers of advisers choosing to provide risk insurance advice as well as a view that tighter underwriting today would mean it is in the client interests to stay with existing cover.

[1] NMG Consulting. October 2022. Australia's Life Underinsurance Gap. Prepared for the FSC Submission to the Quality Advice Review.



Source: NMG Consulting. October 2022. Australia's Life Underinsurance Gap. Prepared for the FSC submission to the Quality Advice Review.

Life insurance advice file reviews

We note in Treasury's Conflicted Remuneration Proposals Paper on page 3 you note the differences between ASIC's surveillance results pre the LIF reforms and post the LIF reforms in 2021. Our comments are:

- During the timeframe assessed, not only was LIF implemented, there were also significant uplifts in compliance documentation and file working paper requirements as a result of ASIC REP 413, ASIC REP 515 and ASIC REP562. Our view is that a proportion of the files in 2017 and 2021 where ASIC had concerns about detriment / harm would have been due to a lack of documentation as opposed to the underlying quality of advice itself.
- Licensees selected for the review were not provided any feedback nor insights in relation to the findings and thus could not validate the conclusions made by ASIC nor be provided a chance to supply further explanation or evidence. In our experience of conducting compliance audits, the ability to question the adviser and to validate findings often yields relevant additional evidence and emails that a desktop only review does not provide.

The increasing inequity of access to life risk advice and quality of cover

We refer the Quality Advice Review team to Pages 25 and 26 of the Joint Licensee Submission to the Quality Advice Review dated 3 June 2022 ("our submission") where we noted:

- A Research report by NMG Consulting into the Australia Life Insurance market conducted modelling of the difference between current insurance holdings vs. a conservative community standard for each cohort of the population by age and type of policy. The results revealed significant gaps in intermediate level policy placement affecting lower to middle income demographics and gaps key life stage changes (buying a home, starting a family, and transitioning to retirement).[2]
- Low to middle income families are facing both inequity in declining access to advice yet the need for advice remains. These families have less savings and cash reserves to manage the unexpected cost of an insurance event and their families bear the cost disproportionately to those on higher incomes.
- Superannuation fund trustees may be able to provide some access for consumers to insurance through their fund however the options are limited when recommending insurance options inside a superannuation fund.
- Under the proposed "good advice" regime, Superannuation fund trustees would need to ensure that they do not simply consider what is available within their own fund without looking at a more holistic needs discussion and researching solutions that may necessitate looking broader than their own fund.

The significant costs of insurance advice

- Financial advisers are the predominant intermediaries that advise on and implement new policies for Life insurance, Trauma, TPD and Disability Income Insurance. APRA and ASIC's life insurance data collection statistics to 30 June 2018 to 30 June 2022 shows 81% of individual policies in force for life insurance, trauma, TPD and Disability Income Insurance were through financial advisers.[3]
- Life products are complex and not easily understood whilst direct life products sold via life insurers have deferred underwriting and poorer relative coverage for the cost. Left to their

[2] NMG Consulting. June 2020. Australia. Australian Life Insurance Market Research Report
[3] ASIC & APRA, October 2022, Life Insurance Claims and Statistics report.

own devices, consumers often choose to under insure themselves and use deferred underwriting products without understanding the consequences of their decisions.

- There are significant financial literacy and misconceptions around life insurance that advisers have to address in order for consumers to make informed decisions. Advisers play a critical role in educating clients on their holistic risk exposures. They invest significant time and research facilitating meaningful discussions to enable clients to make informed decisions on strategies, products comparisons, ownership structures, and funding solutions to mitigate those risks.
- A number of proposals in Quality Advice Review's recommendations paper in September would ultimately reduce the overall cost of advice, however the up-front costs of life risk advice will substantially remain the same as:
  - i. it remains necessary under a "good advice" standard to make extensive inquiries into client needs, objectives and circumstances (particularly health and beneficiary needs should the insurance event occur); and
  - ii. advisers coach, assist and follow up clients to complete the onerous pre assessment and application processes, quotations, health checks and medical and/ or financial underwriting up front in order for insurance to be submitted and liaise with clients on options and trade-offs where applications may not proceed through without riders. Anecdotally, this can amount to double cost of what is received in an upfront commission.
- Whilst some early signs are that higher net worth clients are beginning to choose fee only models for their adviser service fees, for low to middle income families, cashflow can be challenging. There is limited ability for many to both fund financial advice and the cost of insurance premiums out of their current cashflow.
- We support providing consumers clarity, control and choice of how they wish to fund their insurance advice be it via commission, an advice fee, or some combination of both.

The need to review commissions and licensee support payments to ensure sustainability of access.

- Recommendation 5.2 of our submission dated 3 June 2022 noted the need to review the cap on commission amounts to enable a sustainable return. For the low to middle income market, establishing a "floor" for commissions for life risk is also an imperative.
- The implementation of the Life Insurance Framework (LIF), specifically the capping of commissions at 60% resulted in a reduction in specialist life risk adviser numbers to just under 1,210 at the end of 2021. 609 Life insurance specialists left the industry in the year

ending 31 December 2021, at a rate of 2.5 times that of their financial adviser counterparts.[4]

- An independent review by Mr Trowbridge into the Retail Life Insurance advice dated March 2015 recommended that "the withdrawal of so many advisers from the market would most likely have the greatest effect on supply of advice to low and middle-income families and businesses rather than to higher income earners."
- Mr Trowbridge's original recommendations included recommendations for an initial advice payment that would offset the reduction in commissions to enable better financial viability during the period of transition. This recommendation was not implemented in the final reforms. It would be timely to revisit this in light of current circumstances.
- The cost of insurance advice is not only borne by advisers but also by the licensees who provide the governance, policies, infrastructure, systems, research and monitoring to ensure that the advice is in the client's best interests. Licensees invest significant amounts to support insurance advice including ongoing research of the insurers on Approved Product Lists as well as bringing the advantages of scale to negotiate better service levels and terms for advisers and their clients.
- Mr Trowbridge's 2015 report also recommended that Licensees be able to receive Licensee Support Payments ("LSPs") equal to a maximum of 2% of Premiums in force. This recommendation should be revisited.[5]
- As part of the process of submissions to the Quality Advice Review on the Conflicted Remuneration Proposals Paper, we are aware of a submission being made by Mr Trowbridge to the Review and we would urge the Review to take note of the recommendations he is making on establishing a minimum commission payment that would support the provision of life risk advice to low and middle-income families.

Our detailed response to the proposals are contained in the attachment below. Please do not hesitate to contact us below we can assist the Review further.

[4] RiskInfo, 26 April 2022. Specialist Risk Adviser Numbers Revealed – referencing the 2022 Adviser Ratings Landscape report.
[5] John Trowbridge. March 2015. Review of Retail Life Insurance Advice – Final Report

Yours sincerely

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Matthew Brown
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Australian Unity

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Neil Younger
Managing Director & CEO
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Darren Steinhardt
Managing Director
Infocus Wealth Management Limited

Ross Barnwell
Chief Operational Officer
Otivo

Keith Cullen
Managing Director
WT Financial Group Limited

Australian Government
The Treasury

TSY/AU

Quality of Advice Review – Conflicted Remuneration Consultation Paper

Template for response

October 2022

Consultation process

Request for feedback and comments

Interested parties are invited to provide feedback on the proposals for reform listed in the Quality of Advice Review Conflicted Remuneration Consultation Paper using the template in Appendix 1. Consultation will close at 11:59pm on Monday 14 November 2022.

While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses in a Word or RTF format via email. An additional PDF version may also be submitted.

Closing date for submissions: 14 November 2022

Email	AdviceReview@TREASURY.GOV.AU
Mail	Secretariat, Quality of Advice Review Financial System Division The Treasury Langton Crescent PARKES ACT 2600
Enquiries	Enquiries can be initially directed to AdviceReview@TREASURY.GOV.AU

Appendix 1: Consultation template

Name/Organisation:

Matthew Lawler **Managing Director** **AMP Advice**	Matthew Brown **Executive General Manager,** **Advice** **Australian Unity**	Nathan Jacobsen **Managing Director** **Diverger Limited**	Matthew Fogarty **Chief Executive Officer** **Fitzpatricks Private Wealth**
Mr Neil Younger **Managing Director & CEO** **Fortnum Private Wealth Limited**	Darren Steinhardt **Managing Director** **Infocus Wealth Management** **Limited**	Ross Barnwell **Chief Operational Officer** **Otivo**	Keith Cullen **Managing Director** **WT Financial Group Limited**

General Insurance and consumer credit insurance (Proposal 1)

1. Do you support Proposal 1, which requires financial advisers or insurance brokers to obtain informed consent from their clients in order to be able to receive a commission from a product issuer for the sale of a general insurance product or consumer credit insurance?

a) If you do not support this proposal, please state your reasons

Yes. No comments to add.

Life risk insurance product (Proposal 2)

2. Do you support Proposal 2, which requires financial advisers to obtain informed consent from their clients in order to be able to receive a commission from a product issuer for the sale of a life risk insurance product?

a) If you do not support this proposal, please state your reasons

Yes subject to some clarification below:

a. the requirement for advisers and relevant providers to disclose and obtain a client's express consent from a client for commissions to be paid up front and ongoing is only required once up front, prior to implementation of the advice and entering the relevant insurance policy contract. It is not required on an ongoing basis.

b. "In writing" will also allow for the use of electronic / digital means for the disclosure to be sent and for the client's consent to be recorded.

c. The majority of the costs are borne up front by the adviser and licensee and thus trail commission represents a continuing recovery of this up front cost. It can also enable more sustainable provision of client enquiry and claims handling services.

d. Where no explicit promise of ongoing services is made for trail commission in the consent form, we seek legal and regularity clarity that, so long as this is clearly disclosed to the client, this will be acceptable and not subject to a future iteration of an ongoing service remediation program similar to the ASIC REP 499 "Fees for no service" reviews where service obligations were inferred that were not in contract.

e. For the avoidance of doubt, once the initial consent has been obtained, it will remain effective for the lifetime of the policy and will not require a re-confirmation where an adviser purchases, transfers / sell books of clients to other advisers or entities, or where the adviser changes Australian Financial Services Licensee.

Time-sharing schemes (Proposal 3)

3. Do you support Proposal 3, which recommends that the Government conduct a separate holistic review of time-sharing schemes and the way they are promoted?

a) If you do not support this proposal, please state your reasons

No comments to add.

Other Conflicted Remuneration exemptions (Proposals 4-7)
4. Do you support Proposals 4 -7, which remove or modify the existing exemptions to the ban on conflicted remuneration? **a) If you do not support any of these proposals, please state your reasons** **b) Do you consider there to be any unintended consequences related to the implementation of Proposals 4 -7?**
a) Yes. **b)** Not that we can identify.
General
5. **Do you have any other comments or feedback on the Quality of Advice Review Conflicted Remuneration Consultation Paper?**
Please refer to our comments in the cover letter above
6. Do you have any other comments on the regulation of conflicted remuneration under Chapter 7 of the Corporations Act?
No.