Risk Commissions Key Focus of Government Discussions

18 May 2010

Financial Services Minister, **Chris Bowen**, has confirmed that risk insurance commissions will be one of the key issues as the Government consults with the industry on its *Future of Financial Advice* reforms package.

Addressing an industry function in Sydney hosted by the AFA, Mr Bowen said that full and open disclosure does not make up for fundamental conflicts of interest associated with commissions, whether those conflicts are real or perceived.

But on the question of whether commissions on risk products should be included when other commissions are banned in 2012, Mr Bowen told his audience of 430 advisers and industry stakeholders that he can see both sides of the argument.

On one side is the issue of conflict of interest, but this is balanced against what Mr Bowen sees as real concerns about the potential impact the banning of risk commissions may have on Australia's underinsurance dilemma.

Following his speech, Mr Bowen reaffirmed to reporters that he has a "…genuinely open mind…" about the future of risk insurance commissions, and this will be a key topic in the Government's consultation process with the industry, announced earlier this week.

Mr Bowen also remarked he has received feedback that more people will now be seriously considering a career as a financial adviser because commissions will be banned from 2012.

Other key points made by Mr Bowen in relation to financial advice issues include:

- A clear indication that the Government will not be pursuing the possibility of making financial advice tax deductible. Mr Bowen said this was a very expensive measure that needs to be justified and that it is not something the Government is considering.
- There is a place for simple, one-issue advice to be provided, particularly to superannuation fund members, rather than providing all clients with a comprehensive, 'holistic' advice solution. Mr Bowen is mindful of those mums and dads "… who only need simple, basic advice."
- The Government is two thirds through its comprehensive superannuation reform package, already announcing measures it will adopt from the Henry Review and Ripoll Inquiry; the final component being the measures that will stem from the Cooper Inquiry, to be handed down on 30 June 2010.

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This entry was written by riskinfo, posted on May 18, 2010 at 5:51 pm, filed under Compliance & Regulation, Remuneration. Bookmark the permalink. Edit

25 Comments

1. L
Posted May 19, 2010 at 2:35 pm |

Unlike investments, insurance is a product bought and sold by consumers like any other commodity. Consumers can compare products and premiums for themselves quite easily and advisers selling cover based only on Commission are quickly found out. Should commissions be disclosed on all other commodities - maybe on a car for example, which is a more costly expense over one's life than an insurance policy? The commission usually has no bearing on the premium or the quality of the cover provided, and these are the more critical issues for the buyer. Paying fees to buy insurance will not be palatable to consumers and they will either then be driven to large institutions, or away from purchasing cover altogether. Neither of these will provide a better result for the consument than the current position.

2. S L
Posted May 19, 2010 at 2:44 pm |

I have been watching all these articles and comments over months and am still waiting for an insurer to tell it like it is. The reason they are so silent is that they have to hope this will go away. The implications for them as manufacturers are huge. The manufacturers' cost-of-acquisition of life insurance under the current model of business is amortised over many years by our esteemed actuarial colleagues. They have not ever, in the retail space, been required to re-price premiums based on nil commission bases and they would struggle to remove this acquisition cost if they were asked to. Certainly any saving to policyholders would be very difficult to apply over the whole life of a policy.
Have you ever wondered why direct insurance - NO COMMISSION - is often even more expensive than retail, intermediated products (less stringent underwriting aside, there is still acquisition cost of business). Name one insurer who currently has (i) the capacity to dial down commissions fully AND (ii) the capacity to then apply a FULL allocation of that saving back to the client on an ONGOING premium saving basis. Doesn't exist. Insurers currently all apply a model that sees them making the most gains from such a transaction, not the client or the adviser. Besides, insurers have not got the technological capacity to rejig all their pricing and systems to do this without massive capital investment in mainframe programming - and who will pay for that infrastructure? The end-consumer.
If all those in favour of removal of commissions (as opposed to rebates, with fees) are expecting the consumer will receive commensurate benefits in return, then they will be very disturbed when the industry has to admit that cannot happen in the way and to the extent expected.
Watch this space as insurers are forced to comment on their role in these tectonic changes. The UK industry has had to scramble their way through the massive upheavals forced on them and we have yet to see how their consumers really benefit in effect.
This discussion MUST enter the debate. Politicians and regulators are not receiving sufficient input of this knowledge about the real benefits (or not) to the consumer, to assist them in their deliberations either.
This is not an insurance company bash although it might sound like one. I am not envious of their enforced role in this potential change. But they have been thunderously silent on this because they don't have the answers everyone wants to hear. If we all understood exactly how the future might look for premiums - long-term - in a nil commission environment, then some views might have to be re-visited. Why aren't we asking these questions and seeking that information??

3. D
Posted May 19, 2010 at 2:48 pm |

Is it not prudent to leave Risk commissions alone-does the government want the masses to have insurance coverage that they can afford or is the government hell bent on cow tailing to the minority faction again! The Risk market has done far better with less regulation than Super! Think carefully we want as many Australians as possible to be insured,for their benefit if we derive income from our services what is the issue son long as they have great advice!

4. D L
Posted May 19, 2010 at 2:57 pm |

Why should risk insurance be treated any differently to general insurance or any other product or service that pays the sales person a commission? One of the arguments that the government and industry funds used against people being charged commissions on super was that it was compulsory and therefore unfair to charge commissions on something that was mandated. Risk insurance is not compulsory and has to be sold. Commissions have been paid on insurance products for hundreds of years. There hasn't been a problem with this remuneration structure over this period so why change it now? The industry needs to fight this proposal!

5. P
Posted May 19, 2010 at 2:58 pm |

I think consumers will not be prepared to pay a reasonable fee to cover the compliance burden, (Fact Find, SOA, SOAA, ROA). The advice process is subsidsed by ongoing commission/fees. What is the difference between a fee for service and commission if it is always fully disclosed.

6. M T
Posted May 19, 2010 at 2:58 pm |

Australia has been chronically underinsured since life insurance premiums were made o non-deductible. The cost to the taxpayer pool - and we do pay it - of underinsurance should be explored. My belief is that it runs in the $trillions and destroys lives of those left behind without funding. We need a long-term view and strategy because insurance is very rarely bought. It has to be sold. Banning Agency relationships and requiring all life insurance sellers to be brokers and standardising commission rates might bw worth a serious look.

7. D E
Posted May 19, 2010 at 3:04 pm |

Why don't we all become lowly paid employees of Industry Funds and forget about the client

8. G
Posted May 19, 2010 at 3:05 pm |

So, Mr Bowen has received 'feedback' that more people will be planners because of no commissions. What a load of typical, unsubstantiated tripe! Who gave him this feedback? I can't believe you would even re-print such rubbish and I hope like hell someone at the conference quized him on this. If someone was considering joining the industry, it means they aren't in it now and would have no idea what they are talking about. That's like me saying I might join the health industry now that Ruddy has pledged to overhaul it! Go the unions, go the banks. Your're getting your way.

9. K W
Posted May 19, 2010 at 3:13 pm |

Re risk remuneration.

Be aware of the Zealots…

We have one in Perth, busy on the radio and writing in the West Australian, condeming the way Risk writers are paid and believes that all Life insurances should be purchased through one's super or apply to a firm in the Eastern states that " rebates" all commission.
I know this person and his experience of risk writing, servicing , let alone handling claims is minimal, if any atall.He hates Risk writers and through his hatred, displays such a misunderstanding of the business of writing risk cover, that it is embarrising and harmful. There are many people like this about, beware for they will greatly contribute to the continual underinsurance in Australia.

10. R C
Posted May 19, 2010 at 3:23 pm |

Where then does this avalanche of commission cessation & opportunity of Free Enterprise & choice stop?
Do then, General Insurers Brokers only receive or charge a higher Brokerage fee & receive NO commission. Do mortgage Brokers, (already discussed), not receive commissions but charge fee's. The list could go on indefinetly.
No Financial Planners, General Insurance Brokers or Mortgage Brokers to offer the freedom of choice for a client to consider. You will end up creating a monoply, where the larger institions in there respective fields will ONLY get bigger & swallow up the smaller players. Costs will not decrease but increase over time. DO we not see it now with our Supermarkets? Coles & Woolworths. We pay more in Australia for Australian goods & groceries then our NZ & US counterparts.
Has it ever been considered that if it were not for the Fin. Planner, Broker actively working for their client,researching & offering the best "DEAL" the Planner/Broker will not get the business.
In particular in life insurance ove the past 20 years, products have improved immensley & costs

reduced dramatically, for one reason & one ONLY, Life Insurance companies know that if there product is not competitive or cost effective, the ADVISER will NOT offer it. Maybe the rethink should be, the impact loss of our valued services to the country as a whole. Mr Bowen stated himself, the average Australian is under insured & does not instictively go out of his/her way to buy insurance. They are SOLD, by an ADVISER working on their behalf. Take away commissions on insurance, put advisers out of business, where do these people then buy it from? BANKS! Who now own most of the insurance companies as it is. DO YOU REALLY WANT THAT.

11. B
Posted May 19, 2010 at 3:28 pm |

It's no secret that our Government loves the 'Woolworths Model' of monopolised business. This model wiped out bakers, deli's, butchers, fruit shops, grocers, service stations, liquor outlets, and currently working on pharmacists, newsagents, and hardware.
We now have 2/3rds less people employed, and prices 5 times what we should be paying.
This same model will soon apply to the 'Financial Services' where the big four banks dominate our market. Sure there will be no commissions, but the big 4 banks will be providing you there 'home brand' advice at massively over-inflated prices. Do we not yet understand that when the big 4 gain control your choice is limited to 4 'price fixing institutions' with the full backing of the Government and FPA.
We have all been rail-roaded into this and there is no way back. The consumer gets ripped off yet again. Good on you Rudd. Spent all our savings, stopped the mining boom single-handedly, and now working on stuffing up Financial Services. Genious

12. M S
Posted May 19, 2010 at 3:29 pm |

I think the whole conflict of interest issue is BS. The risk industry is the easiest to remove any conflict from by doing the following:

1. Remove APL restrictions and force all dealer groups to allow advisers access to all players in the market.

2. Ban commission overide payments to dealer groups based on volume. Maybe that will force some groups out or adviser splits up, who knows.

3. Place a longer responsibility period on the cover, only for re-writes to another company and not client cancellations.

I also agree with Sue Laing's comments and extend them by saying I believe consumers will turn to large companies offering general advice. I also believe that any savings made on commissions will not be passed back to consumers. The same thing will happen once trail comms are removed, I will be surprised if admin/management fees for investment products will be reduced for new investments.

13. S B
Posted May 19, 2010 at 3:30 pm |

Note to the FedGov. You have NO role is legislating on perception, only reality.
This rectoric is getting rediculous!

14. B
Posted May 19, 2010 at 3:34 pm |

I keep reading about conflict of interest, putting someone into 1 product in order to earn more revenue/commission.
If they are going to change something in the insurance industry, why don't they get all insurers to pay the SAME %, therefore removing the bias ????
How can people afford to pay the premium and a fee for insurance ????
Insurance is very different to Investments and Superannuation which can increase in value, and have the fees debited from the portfolio.

15. A
Posted May 19, 2010 at 3:54 pm |

Bowen obviously has too much free time !

He would be better served understanding our industry rather that listening to the industry funds B.S.

Who's more biased ????

16. P
Posted May 19, 2010 at 4:25 pm |

All the above comments are well received and true. It is all directed so industry funds and banks win this battle. Who will lose, the clients of course, with crap products from employed people who have no idea what they are doing. Bowen is has no idea of this industry and his leader, Mr Rudd is a goose out of control.

17. W
Posted May 19, 2010 at 4:38 pm |

The balance Mr Bowen is wrestling with is not whether to ban commissions on insurance products, which is unconstitutional anyway, versus the underinsurance gap. But to balance attempting to direct insurance to industry funds (for more profit to Unions/Labour/G'ment)and whether the underinsurance gap will widen therefore costing government more. We all know that if salaried people are selling insurance they are not rewarded for insisting on the correct amount of cover for clients as well as follow up in underwriting medicals revised terms etc, they will drop the ball and Australia will be REALLY underinsured. You Watch they want the profit!! It's time these meddlers were booted out.

18. G
Posted May 19, 2010 at 5:51 pm |

Why is it that this government, so deparate to raise taxes, want to direct more of the financial services industry into instituations that don't pay any tax? Not for profit does not mean don't make a profit - it means get rid of it. Lets sponsor some football teams or send our executives on first class overseas junkets. Imagine if the $1.3trillion (and growing)industry was all in the hands of industry funds. The country would get a great return, wouldn't it. At least the banks pay tax!

19. K W
Posted May 19, 2010 at 6:16 pm |

Dear Mr Bowen.
Given the record of your Government in many policy and funding areas, I am afraid that I do not take any confidence from the comments attributable to you.
However, what I can tell you is that my business has 10 staff,we have 15 years of commitment to this industry and we have invested heavily in securing both the futures of our staff and the relationship with our thousands of wonderful clients.
Which leads me to ask how you intend to consult with those at the coalface in order to formulate the future of my industry, and the future for my staff and clients.
If it resembles the super tax mining industry negotiability, I hold grave fares for the future.
Can you please advise, in exact deail, how you propose to manage the issue.
Records to date do not create any confidence whatsoever.

Kenn Williams, Lifenet wa.

20. M M
Posted May 19, 2010 at 6:35 pm |

I applaud Sue Laing for her overview of the situation and would add that the industry as a whole has to quickly phase out up-front commissions in favour hybrid or level as as a consequence, reduce churn. Will the life insurers tell us what the impact on premiums would be if discontinuances were less than 5%

21. R L
Posted May 20, 2010 at 8:11 am |

Anyone suggesting to the minister that they would join the industry based on current reforms is going to be sadly disappointed. The financial planning industry is almost entirely a sales distribution channel for product groups.

Qualifications above the minimum 4 module Certificate of Financial Planning are currently not needed as only product sales skills really matter.

The only opportunity to work outside of the product groups or product sales targets is to invest personal capital to cover compliance, group licence and other start-up costs. Meanwhile the market is skewed in the interests of the product groups who can give free/subsidised advice.

The minister has got it completely wrong. The opportunities for current and would-be financial advisers are looking increasingly dismal, especially anyone wishing to be professional or advice focussed.

Long live the commissioned risk advisers who are the only ones in this grubby industry who deserve to hold their heads high. Let us all hope that commissions on risk insurance remain intact.

22. M, an adviser with over 20 years experience
Posted May 20, 2010 at 11:47 am |

In outlining the Federal Government's so called reform package "Future of Financial Advice" the Minister has demonstrated his total failure to understand the financial services industry and the function advisers perform in the community; just another example of Rudd Government abysmal incompetence in again getting it wrong.

23. J
Posted May 20, 2010 at 2:48 pm |

I am a proud risk writer of 20 years experience and run a country Risk Insurance Practice. I help my clients analyse their position,I give recommendations to help them solve underinsurance problems and I help them in time of need. Do I get an initial commission payment & servicing commission payment- to right I do as this is the only way most of my clients would like to do business or could afford my advice/ongoing service. Mr Bowen, here is an invitation for you. I offer you the opportunity of coming to my office and spending a day in the car with me(or more if you like)travelling around talking to my clients. Don't listen to the BS coming out of certain parts of our industry, and especially those people who have never sat infront of a injured client or a person whose just lost their spouse. Come and talk to a real "risk writer" who deals with mums and dads on a daily basis and come and meet those people I am supposedly "ripping off" by charging a commission. Do I believe you will take me up on my offer- not a chance as I believe you are not interested in hearing the real story. You say underinsurance is a problem in Australia- banning commissions will now just make it worse.
My competition as a Risk Writer should be making sure I beat death, injury & tramatic events for my clients- not having to try and educate and compete against a govenment that should know better.

24. R
Posted May 20, 2010 at 3:43 pm |

Is there anyone in Australia who has sold an insurance product or had a claim paid to a Politician?

If so please ask them if there were any problems with you receiving a commission payment?

In 34 yrs I have NEVER had anyone who has made a claim complain about me receiving commission!

25. C P
Posted May 21, 2010 at 4:27 pm |

Oh Dear! Smells, feels and looks like change for the sake of change.
Do the members of this Govt have a clue about any portfolio at all?
On one hand they wish to sell the Australian Financial Services to the world, on the other they want the entire sector to live on welfare…. we won't be able to pay our own premiums.
To think it gives me enormous pleasure providing valued advice for clients to ensure their family is financially protected in the event of medical misfortune… Guess the Govt can just hand out payments when their business falls over or they lose thier homes… Govt money is treated like a bottomless pit after all. Not that it will matter as the client won't need a bed, they'll be sitting in hospital waiting rooms waiting for public treatment!

Must be Friday afternoon

Adviser Backlash on Banning Risk Commissions

25 May 2010

VOTE NOW!

Financial advisers have been highly critical of the move to consider banning risk insurance commissions, but the issue of conflict of interest remains.

Our latest poll question asks:

Do you believe payment of commissions on risk products represents a conflict of interest to the consumer, real or perceived?

Our poll is based around statements made by the Financial Services Minister, **Chris Bowen**, on the question of banning risk insurance commissions.

Mr Bowens' statements were made as part of the announcement last week of the Government's industry consultation process for its Future of Financial Advice reforms, which Mr Bowen has said will include discussion about whether to extend the ban on conflicted remuneration structures to risk insurance.

Our article last week on the Government's industry consultation agenda sparked a passionate response from advisers who were highly critical of the prospect of banning commissions on risk products, many challenging Mr Bowen to spend more time with advisers, in order for him to better understand the nature of life insurance and how, in reality, it must be sold, not bought.

Mr Bowen … must address the issue of conflict of interest, real or perceived, from the point of view of the consumer

Mr Bowen told an industry audience last week he accepts that banning risk commissions may indeed have an adverse impact on underinsurance, but at the same time, his Government must address the issue of conflict of interest, real or perceived, from the point of view of the consumer.

So, while advisers have presented a good case about the potential damage that could be caused by banning commissions on risk products, has enough consideration been given to addressing the other side of the coin, namely the issue of conflict of interest?

The issue of conflict of interest in relation to adviser remuneration has been brought into focus mainly by well-documented collapses of financial services firms, which have wiped out the long-term savings of thousands of Australians, but where risk insurance commissions were not a factor.

The Government is now considering whether the banning of all commissions, including risk insurance commissions, will lead to the development of greater public confidence in the financial advice sector. In relation to commission on risk products, Mr Bowen appears to be considering the trade-off between a blanket banning of all commissions and the greater public confidence that may be generated, against the potential worsening of the underinsurance dilemma.

One adviser last week did put forward his suggestions as to how to remove conflict of interest on risk commissions:

1. Remove APL restrictions and force all dealer groups to allow advisers access to all players in the market.

2. Ban commission overide payments to dealer groups based on volume. Maybe that will force some groups out or adviser splits up, who knows.

3. Place a longer responsibility period on the cover, only for re-writes to another company and not client cancellations.

What is your view about conflict of interest in relation to risk insurance commissions? There is a solid argument about how banning risk commissions may worsen the underinsurance crisis, but what are your views on the other side of the coin? As the Government consults with the industry on this question, this is a key moment to have your voice heard…

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This entry was written by riskinfo, posted on May 25, 2010 at 4:31 pm, filed under Compliance & Regulation, Polls, Remuneration. Bookmark the permalink. Edit

24 Comments

1. G M
Posted May 26, 2010 at 3:01 pm |

after 38 years as a risk writer and knowing the work it takes to have someone adequately insure themselves and to keep them covered, i'd say no insurance will be the norm, not underinsurance.

2. M R
Posted May 26, 2010 at 3:02 pm |

This move by Minister Bowen has not been costed. The loss of revenue to the budget from the whole of this program may well be in the range of $250m and the resulting staff spills as Advisers reduce costs will add a further $250m in lost PAYG.
When they cost it I will believe it.

3. S L
Posted May 26, 2010 at 3:06 pm |

Well done riskinfo for asking the REAL question that should be asked and answered. These days, it's the advice that matters to clients receiving life risk products as solutions. It's the sums insured that will count in the outcome and although I will alienate many of my dear colleagues in the research space, I contend that in 99.9% of claim situations there is no retrospective proof that the client was sold the 'wrong' product. There is no such thing as a bad product. If the regulators believe there is a conflict of interest in the life risk area because of commissions, then we should be educating them that even if an adviser sells Company X's product rather than Company Y's, it will NOT be to any recognisable detriment of the client. But not selling the right sums insured and product mix WILL be to their detriment. Commissions or no commissions will have ZERO effect on that outcome.
I don't believe any regulator education has occurred on these facts. Or it could simply be that the regulators are hell bent on 'being seen' to be removing conflict of interest, and they care not if it's a valid move with a basis in fact or not.

4. A
Posted May 26, 2010 at 3:22 pm |

Memo for Bowen and the Government : If you were to ban risk commissions then you can say goodbye to 26 years of experience giving any further risk advice as without an incentive of being rewarded there is simply too much work and effort involved. Fee for service does not work for the majority of risk cases applied for but does have a place for some. The answer is simple - if risk commissions stay then underinsurance will reduce whereas if they go then underinsurance will increase. Your call Minister.

5. P K

   Posted May 26, 2010 at 3:23 pm |

   Chris Bowen needs to consult advisers and not just his mates running the industry funds.
   Talk to me Chris Bowen.
   I am sick of this government thinking that it is allowed to restrict citizens/industries. Feel free to educate and influence Australians as much as you want if you feel that you need to protect individuals(Industry funds have been trying to do their best spreading convenient sides of the commissions story for years). However once the government starts restricting how Australians can operate businesses/pay for services this is where we lose our freedom.
   We get paid well for what we do as it is a tough job. People don't like to speak about life insurances, let alone pay upfront for advice that they aren't sure that they want.
   When we do our job, it results in less expenses for government in areas of health and welfare payments as our clients can look after themselves/their families.
   By removing commissions on insurance, you will be adding a cost issue to advice. This will mean that low cost, call centre type advice centres where 'advisers' with 3 months experience will dominate and underinsurance will increase as the easy-sell will become the norm.

6. D E

   Posted May 26, 2010 at 3:31 pm |

   This ideological blah the ALP comes out with is getting boring. Mr.Bowen would not know and has not bothered to find out how a risk practice work. If he thinks we place business on who pays the most he is off with the pixies at the bottom of the garden! The cowboys were pushed out of the industry when we had to disclose commissions,it made it a better place. I disclose all commissions to my clients and they could not care less,they know I run a business,pay wages and taxes just like every other business. More spin from Industry Funds and Banks! My clients get ADVICE! The product is use to fix their problems does not depend on who pays the most. If you want a conflict of interest he should check out the Motor dealers in this country and see how much they make on a used car trade in! RIP OFF! Sounds a bit like Ripoll doesn't it.

7. D D

   Posted May 26, 2010 at 3:37 pm |

   Unless the dismantling of the commission structure for risk products is accompanied by a simplification of advice requirements, then it will be uneconomic for advisers to provide risk-only advice to a significant proportion of their current served market. By extension, less people will receive risk advice in future from financial advisers.

   In respect of risk insurance, I do not believe the case has been proven that a "conflict of interest" exists from a consumer perspective. And by insisting the industry must address such a conflict - real or perceived, is as absurd as treating a patient for an illness they dont have.

8. A

   Posted May 26, 2010 at 3:43 pm |

   Why not just follow the general insurance sector and have all insurers offer the same commissions, and remover vlume inentives. Where is the conflict if all insurers are paying say 80%/15%

9. I A

   Posted May 26, 2010 at 3:52 pm |

   Advisers have to be paid. Not all clients can afford to pay upfront. Make a level playing field by setting maximum commissions/trails to be paid.
   Adviser/client can then agree to payment within that level and or fee for service

10. B

Posted May 26, 2010 at 3:54 pm |

If they are going to ban commissions, what about real estate agents, mortgage brokers, car sales and Doctors who bulk bill (arnt they getting a commission from medibank?)
In my 21 years of being an adviser, I have never come across a client who knew the exact amount of insurance he needed (many have a guess, but none have done a needs analysis)
How many Mums and Dads would pay $1500 to impliment insurance as a fee for advice and then pay for the insurance as well?
Instead of costing say $2000 for insurance they would have to pay $3500.
Sherry and Bowen, get a real job in private industry or run your own business before commenting on something you have no idea about.

11. B
Posted May 26, 2010 at 4:11 pm |

I hear the term "conflict of interest" mentioned all the time.
Why don't all the insurers pay the same % commission rates therefore removing the conflict of interest ?
Risk insurance is selling an in-tangeable trigger event that may or may not happen, it is very hard to commit someone to pay the premiums every year.

12. M A
Posted May 26, 2010 at 4:26 pm |

I believe Mr Bowen should show some consistency with the issue of commissions and financial products. If he is truly serious about conflicts of interest with commission based revenue strucures, then I believe I would prefer the option to pay an adviser fee on my House, Contents, Valuables, Car insurance and mortgage. Let me have the option to opt-out when it suited me. Bring on a truly level playing field, or leave well enough alone.

13. C L
Posted May 26, 2010 at 4:54 pm |

Mr. Bowen, my suggestion to you and your Government stop stuffing up different industry eg financial industry mining industry and the likes concentrate on Governing the country and not interfere with things outside your field.
in regards to the risk Business eg Life Insurance,TPD,Trauma and income protection these types of covers have to be sold people don't rush to our office to buy them because Human nature is we all procrastinate and most of the time we end up doing nothing about Important things need to be done, may I also remind you that the commission paid on risk products is paid by the provider and it is not an additional cost to the client as a financial planner with 36 years of experience I personally have always put the client interests ahead of commission or any other benefits as good financial planner will always do

14. D L
Posted May 26, 2010 at 5:04 pm |

Conflicts of interest are present in all walks of life! Doesn't a Doctor who recommends an operation to a patient face a conflict of interest? No operation no payment! Doesn't a lawyer who suggests a client should sue face a conflict of interest! The list goes on including amongst government ministers. The main argument run by industry funds in relation to commissions on super contributions were that these were mandated (by government) and therefore it was unfair to charge a commission on something that is compulsory. They have won this battle. With risk insurance a purely voluntary decision to buy or not to buy, why should commissions be banned. Risk insurance commissions have been around for hundreds of years it has worked well why ban it now? If risk commissions are banned why shouldn't the ban be extended to general insurance, real estate, travel agents, mortgage brokers & retail sales staff to name a few areas where commissions are prevalent?

Minister Bowen apparently has a Financial Adviser, he wouldn't have one if he or she was doing a bad job. Why doesn't he come out and endorse Financial Advisers?

What is the Life Insurance industry doing to lobby the Federal Government to leave the status quo alone? May be a comment from IFSA would be useful?

15. P H
Posted May 26, 2010 at 5:04 pm |

As a risk insurance advisor for more than 26 years, not that this illiterate Government cares, but the day that commissions are banned, will be the day I leave the industry and I suspect many other advisors will do the same. I once thought that the Whitlam Government was the most incompetent Australian Government ever, but compared to Rudd, Swan, Bowen and crew, Gough's mob were a shining light!

16. P S
Posted May 26, 2010 at 5:11 pm |

What about commissions paid to stockbrokers? What about commissions paid to real estate agents? Let's just ban commissions altogheter. What the minister needs to understand is that insurance is sold, not just a compulsory matter like superannuation. If they think there is an underinsurance problem now, then think again. The prospect of more and more people dying underinsured, or becoming totally disabled without adequate insurance will leave any government with an even larger social security problem in the future. I'd like to know what the complaint ratio is against Risk Advisors compared to Financial Planners. Negligible, I expect. What business is it of the government how an insurance company chooses to remunerate it's advisors? This reintroduction of socialism by this government will stiffle incemtive and kill off industry. All that need to be done is to standardize commissions across the industry as in real estate and work out a suitable means to stop churning and the problem is solved.

17. G B
Posted May 26, 2010 at 5:11 pm |

Since when is looking after someone`s ability to meet living costs in the event of a serious sickness or accident been a conflict of interest. I`ve been doing this for 20 years Mr Bowen and when have you really helped anyone.? When have you given a weeping widow a way to pay the mortgage,keep the kids at school let alone keep food on the table.? This government is an absolute joke.? What`s the FPA and the AFA doing about this.? We pay our fees every year and what we are losing is more & more each time. My risk clients truly don`t bat an eyelid at what my commission is on a deal for them because they know it`s not a separate cost. However, I`m not sure what would happen if I had to ask them to pay this amount upfront.? Probably go to one of those TV insurance mobs. I`m so disappointed that something I`ve worked very hard on for 20 years could all go up in smoke.!!

18. J
Posted May 26, 2010 at 5:25 pm |

Seems like there is no stopping the whale hunters. Chances are that they have never taken the opportunity to see the beauty (the claims results). They don't give a damn about the suffering families or the disabled (and the baby whales are just left to starve). They just love the blood of the sport.
This industry was born with an opportunity. Take it away and you kill the goose that lays the golden eggs.
Don't worry, the Department of Social Security will grow with the demand.
It is a system that the user demands when they have not been sold what they need.
Intangibles are never purchased, so remove the sales and the intangibles will not be delivered.

19. I F
Posted May 26, 2010 at 6:31 pm |

How will Minister Bowen guarantee that the amount of trailing commission that the evil financial planner will no longer receive will be now paid to the policy holder by way of reduced premium. He will not be able to.
This will be a disaster for Australia and the ones that will be hurt the most are the Labour Party supporters - the workers

20. B M
Posted May 27, 2010 at 12:27 pm |

I am in my 39th year as a risk specialist, have over 2000 clients, employ 2 staff to service my clients– we do not charge a fee.
New business is written based on the following
1.Best product and benefits available for client.
2.My relationship with the underwriters(only 10% of my business are clean skins)
3.Life companies attitude to service and claims.
Commission is never an issue.
There is no conflict of interest.
Placing my client in the right contract is the priority.
100% of my clients are happy with this arrangement, but would they be as happy if I charged a fee to handle their claim or change their bank details?
I welcome any politican to visit my office and see the REAL world not a perceived one.

21. T D
Posted May 27, 2010 at 1:01 pm |

Most of the above have stated the obvious BUT they are only obvious to us in the industry. This Bs that the industry funds have perpetrated and the likes of Storm and others have brought about by their failures will kill any real chance of a client being properly insured. Incentive selling wow a new concept!!? Sure we get paid well when we insure a client and i have no problem telling the client how much. The government needs to stop interfering in how we get paid and start looking at the issue of ensuring the right people are giving the advice. Risk writers surviving since FSR generally are of good character and provide well for their clients. Those that churn weelll the new insurance compmnay should call the client and ask why they are rewriting the business? If this was done and the client could give reasonable reasons apart from miniscule price reduction. Things like improved benefits such as , needlestick or Trauma reinstatement or whatever the improved benefits were to the client THEN this practice would stop. I saw a client last week who for the past 4 years has had his IP cover renewed with a new company each year!! These are the types of advisers that need to be trapped NOT the adviser giving the correct advice and ensuring our clients are protected. I handled a claim for a client recently it required me to fly to her side [airfares $400] and get the documents done fly home and see her specialist and organise the report etc. i didn't charge for this because i believe I have been paid for this as part of the ongoing service the cleint recieves from me. This is the sort of thing Minister Bowen needs to be told about and get off his backside and get out there and see how the responsible advisers operate and stop this stupid witch hunt. I have been in the industry 27 years.

22. J G
Posted May 27, 2010 at 3:06 pm |

Recently the Lifewise Underinsurance Report highlighted a staggering 95% underinsurance problem in Australia today. That report suggested a social security burden of over $1.3B in increased payments to uninsured households.
Any responsible government would recognise that INCREASED access to advice is needed, and that interfering with the industry will decimate our advisor pool, and significantly impact access by average Australian families.
Bowens statement is underpinned by an arrogant misconceived notion of the public interest, and smacks of gameplaying at the expense of the families of the future.

23. D
Posted May 29, 2010 at 11:00 am |

I have been in risk business for 12 months, using the research software clearly gives the most appropriate cover for the client which I as adviser recommend.
The notion that advisers give advise based on commission is offensive.
To really avoid this percieved conflict I think is to force product providers to pay the same commission.

24. A
Posted June 11, 2010 at 11:23 pm |

The issues we are faced with in the risk/insurance industry are as follows: an un-healthy population due to people eating unhealthy, not having sufficient time to exercise, working longer hours, people who smoke, the tightening family budget, selling a product that the client may or may not receive any return or money on. And now there is this topic that we are all commenting on.
There are a number of risk only advisers in the industry, we should be trying to attract people to this industry in order to have more advisers seeing people in an attempt to sell the notion of protecting your assets, lifestyle, income and family by paying premiums. I agree with the suggestion to standardise the % commission the companies pay to advisers.

56 Comments

1. T
   Posted May 26, 2010 at 2:58 pm |

   It seems that after viewing “4 corners” on Monday night is is OK for the Res. Bank of Aust. to pay commissions, up to 10% to win business via it’s 50% ownership of another company. Maybe they are not in the financial services industry! as they do not believe they have done anything wrong, but the pollies tell us it’s a level playing field.

2. D F
   Posted May 26, 2010 at 3:01 pm |

   The more the discussions that occur on this topic the closer we get to some of the real deep seeded issues.
   Are the Dealer Groups really relevant or like our 3 tiers of government, is one tier, One Tier Too Many?
   They are there not to benefit the members, they are there to look after themselves always seeking bigger cuts of the pie from the Suppliers and then the Advisers are the tarnished ones.
   Just food for thought.

3. J L
   Posted May 26, 2010 at 3:03 pm |

   If they want to remove conflict of interest with Risk Insurance, mandate that all companies must adopt a Hybrid or Level commission model and cap the amount of commission, this would remove advisors churning especially if it pays a Level commission, this will effect cash flow in the short term but increase business values in the long term. Maybe then the perceived lack of confidence from consumers may change (I don’t think there is one when it comes to Insurance)

4. S C
   Posted May 26, 2010 at 3:04 pm |

   I really do not believe that commission on risk insurance is a bad thing. A client would be very adverse to pay for insurance advice, historically it has been deemed to be “free advice” to them. By paying a commission we are carrying out a dual process, firstly transferring payment for the advice across to the insurance company,therefore ensuring the adviser gets remunerated, secondly we are addressing the under-insurance problem we currently have in Australia.
   I would like to see comments from actual advisers and not from salaried politicians (who lets face it act under completely different rules than we do, especially regarding superannuation) do-gooders who have NEVER ran a business and therefore do not understand that nothing is for free…

5. L
   Posted May 26, 2010 at 3:04 pm |

   Commission has been disclosed to clients for many years and not once has any client raised the issue of possible conflivt of interest with me. Charging a fee to the client is not going to improve anything around this issue, In fact, there will be less advisers to work in the “mum and dad” market, which is where the advice is lacking most at the moment. If there is a perceived conflict, the easiest way is to legislate a cost built in to each product to allow for standard commission across the board, for both salaried and commission earning advisers. Then let price and quality dictate as it does in any marketplace.

6. D P
   Posted May 26, 2010 at 3:04 pm |

   Fiduciary requirements should address any possible conflicts. Will consumers be prepared to pay a fee in addition to premium? What if their application is declined? The current system is not causing any problems for consumers and they can cancel their policy at any time. Leave the system alone!

7. R L

Posted May 26, 2010 at 3:09 pm |

I always explain up front that we (the adviser company)are generally paid up front, the equivalent (and sometimes more)of one year's premium, whichever life company we use. They don't have frontline salesmen, so this is the way they do business, through advisers. At the same time this allows us to reduce our fees for the advice we give to clients. I usually get nods of approval, or oh, ok then, that makes sense, etc. I've never had a complaint, and I actually believe it makes sense!

8. M M
Posted May 26, 2010 at 3:10 pm |

Acceptance of another insurer's terms for the purposes of replacing cover (take-over terms) must be banned as this practice must have an adverse bearing on costs. Urgent attention must be given by all insurers to increase the retention of in-force business and this would be best served by ceasing up-front commissions.

9. T M
Posted May 26, 2010 at 3:23 pm |

If commissions are so evil why not ban them on loans, share sales, property, general insurance, hotels, flights etc etc. Commissions for some of these services don't even need to be disclosed and there are always incentives to use one product over another. Whilst I believe our industry continues to need some cleaning up, banning life insurance commissions is going too far.

10. M S
Posted May 26, 2010 at 3:27 pm |

The following can be applied to any banned commissions: Product providers will find another way under the law to make payments to dealer Groups and/or advisers anyway. There may not be an agreement about volumes etc, but those that place the most will get the most.

Consider this - All the life industry has to do is encourage advisers to charge a fee equal to current commission rates and invoice the client. The products have a feature offering to pay advice costs. As part of the application, the client signs a form authorising the life company to pay the adviser on their behalf. Invoice is attached to application and payment made to dealer group on acceptance.

Honestly, those in government who make the laws often don't understand the industry they're making them for, which leaves the way open for those a bit more clever to find the loopholes.

11. J
Posted May 26, 2010 at 3:28 pm |

AT THE TIME OF MY VOTE, 82% OF ADVISERS SAY THAT NO CONFLICT AT ALL EXISTS, 10% SOMETIMES & 8% YES. IS THIS 8% THE REASON WHY THIS ARGUEMENT EVEN EXISTS. ONCE AGAIN, IS IT THE SMALL PERCENTAGE OF PEOPLE WHO SEEM TO YELL THE LOUDEST, SAYING THAT THERE IS A CONFLICT OF INTEREST, THAT THE GOV'T LISTENS TO. I WONDER HOW MANY PRACTICES WILL STILL BE IN BUSINESS IN A FEW YEARS TIME. YOU WANT UNDERINSURANCE, ROLL OUT THIS MODEL OF PAYMENT & SEE WHAT HAPPENS. I FOR ONE WILL BE OUT OF THE INDUSTRY- MY CLIENTS JUST WILL NOT PAY OR CANNOT AFFORD AN UPFRONT FEE AND A PREMIUM COST.

12. H G
Posted May 26, 2010 at 3:29 pm |

If commission on all products across all companies was at a standard percentage then the agent would be providing all products on their merits and not have the drama of making financial rewards a point of justification. There should be no such term as soft dollar benefits as the Dealer group is paid to provide these items in their fee.

13. M

Posted May 26, 2010 at 3:34 pm |

We have to provide the client with a Statement of Advice which tells the client who the insurer is, how much the commission is and who it is paid to so whats the problem? We aslo offer a fee arrangement based on a time sheet and charge out rate - guess what not one cleint in the last 8 years has chosen this method.

Michael, some times I find a client who has a totally inadequate policy with one insurer and more appropriate and cost effective cover is available eleswhere what would you have me do?

It is time the politician's got of their bums and joined the real world, perhaps we should invite them to spend a few days with us, I acctually invited Mr Sherry to do just this but he declined!

There is nothing wrong with commission so long as the cleitn is fully informed.

14. J M
Posted May 26, 2010 at 3:36 pm |

Hmmm absoulte idiots who support banning of commissions. We will have mass underinsurance and laqck of financial advice for many mums and dads who will be put off high up front fees…
How about we ban commissions in the real estate industry?

15. D R
Posted May 26, 2010 at 3:58 pm |

I would like to understand what is meant by conflict of interest because it seems to me that the payment of commissions doesn't cause a conflict of interest, it is the way they are paid that can cause a conflict of interest and in my humble opinion 3 things would eliminate this problem;
1. Legislate standard commissions which all insurers have to build into their policies. This will eliminate advisers recommending one insurer over another because of a higher commission rather than the benefits of their policies.
2. Only allow level commissions. This will eliminate an adviser moving a client from one insurer to another only to obtain 1st year commissions again instead of moving them only because it is in the clients best interests. If I am earning level commission I have no personal interest which insurer the client is with as I will earn the same.
3. Ban overrides/volume bonuses etc which will eliminate any other financial motivation to write more with one insurer over another.
I know some of these suggestions will seem unpalatable to some advisers particularly those (me included) who will struggle to move from upfront commissions to level, however isn't it better to be proactive rather than rolling over and letting the government dictate our destiny for us?

16. D R
Posted May 26, 2010 at 4:20 pm |

Independent advisers on commission are working for the client not the insurance company they recommend. Advisors on a salary working for a bank or super company have the real conflict of interest. Government regulation fixed the conflict of interest issue on insurance from independent advisers 10 years ago.
It is not broken and if the minister wants a political scalp hold the banks to the same standards on basis of advice the independent advisers have met for 10 years.

17. N
Posted May 26, 2010 at 4:29 pm |

If you want to eliminate all conflict of interest on risk commission, then have one menu of risks covered for all companies, and provide the same premium from every company and all paying the same commission.
Now the companies will be selected by the adviser on the real service the company provides, not the deals they are prepared to do to get the business.
That should wake a few of the companies up out of their complacency!

18. A
Posted May 26, 2010 at 4:43 pm |

Look all of the independent advisers like myself know there is absolutely no conflict of interest with being remunerated by commission. Let's stop this silly argument about how we are remunerated, whether it is a disclosed fee or disclosed commission is not the issue, it's the quality and appropriateness of the advice! But I would like to ask this, if the insurance companies are banned from paying commission, how are we to be remunerated? The only practical way is by disclosed commission OR the clients chooses to accept a negotiated fee/commission combination. But I wouldn't trust anything that this government is likely to do.

19. C
Posted May 26, 2010 at 4:56 pm |

Why are advisers getting all the heat? The product manufacturers designed the commission system and laud the minority who churn business. Advisers who place clients' interest first and retain business (using level premiums etc) are largely ignored. Does the government know these facts, or do they just ignore them because they prefer cheap jibes at the politically weak. Have you heard the leaders of our 2 main associations provide any public support for the bulk of advisers who they know do a great job? I haven't.
If insurers are forced to ditch upfront comm. and pay only hybrid or level at common rates, maybe the product differences would be clearer. Banning risk commissions and increased regulation will only create problems & costs for good advisers and clients. It will never change selfish people's preference to serve their interests ahead of the clients. Just look at what disasters occurred after FSRA was introduced.
Disclosure is great and has never caused an issue with any client. So far, all have preferred to pay a premium that includes comm. instead of having to write a cheque for my advice which has been based on an hourly rate for many years (for both risk & investment work). They prefer having "24/7″ access without needing to consider if I will invoice them for each query. Be aware, the banning of comm. on investments (and insurance will be no different) plays directly into the hands of banks and institutions who will keep most of what they previously paid to an adviser whether the bank or insto. does any work for it or not. Why is it bad when an adviser receives a % based fee, but it's alright for the fundies to get management fees that are % based. Same with lawyers who charge % based success fees. Must be something to do with political power. Advisers clearly have too little.

20. M T
Posted May 26, 2010 at 4:58 pm |

I have more than 20 years as a Lifewriter. In all that time I have met just 4 "Churners". Level commissions would have stopped them doing that except on policy merit. I sell to the clients' needs and as a Broker I am legally accountable to the client. Conflict of interest applies to tied agents. Bowen needs to look at the cost to the Taxpayer , through Medicare. TAC. Centrelink, the Courts of under-insurance. That's where the focus should be, not fiddling with the edges of marketting/selling structures.

21. L S
Posted May 26, 2010 at 7:46 pm |

Mr Bowen how is it possible that you can make such a bold statement that can effect so many lives with out considering the outcomes first. The current government can't manage their own bank balance nor can the US, or for that matter any government in the world. The economic downturn is a fact of life and will continue to occur as time goes by. It is the nature of the beast to complain when clients lose money however i don't know any clients with risk insurance products complaining. DON'T TRY AND FIX IT IF IT'S NOT BROKEN.

22. M
Posted May 27, 2010 at 10:35 am |

I really struggle with this issue of conflict of interest,when I am being lectured to by politicians, industry fund and union reps.Credibility in any arguement is essential.If you are not careful the industry will be left in tatters and may not recover.Let the dust settle,see what the effect of ffs is and if required review the system at a later date.

23. Interested Observer
Posted May 27, 2010 at 11:35 am |

The issue with commissions will always be that some clients subsidise others. Low premium paying clients will almost always be subsidised by high premium paying clients for the work that is done by a planner in setting up risk insurance policies. Financial Plannners seem to accept this as logical and fair. Until we get to a fee for service model on insurance, however, it will never actually be fair on the client that pays the higher premiums.

24. Mark T
Posted May 27, 2010 at 11:43 am |

It's not a conflict of interest issue for advisers, it'a all to do with Dealer Groups and their Volume Bonuses and Banks aligned with one life office. Fee for service will only work for insurance when the adviser can access true wholesale products.

25. A
Posted May 27, 2010 at 12:03 pm |

Must have been Bowen + the Industry funds that voted Yes! Listen to the majority for goodness sake. Do you believe payment of commissions on risk products represents a conflict of interest to the consumer, real or perceived?
No (86%) Sometimes (8%) Yes (6%) Not sure (0%)

26. G
Posted May 27, 2010 at 12:14 pm |

Re-introduce the Twisting Agreement that existed before the Fair Trading Act came into being, to stop some advisers continually re-writing cases to generate new upfront commission. That incentive is the only conflict of interest that I see that exists on risk insurance. With so many products being auto-upgraded, there is not often a genuine case to re-write a client every few years.

27. J
Posted May 27, 2010 at 12:20 pm |

I agree that APL restrictions should be lifted and volume bonuses to dealer groups stopped. Where is the real conflict of interest!

28. K W
Posted May 27, 2010 at 1:16 pm |

Conflict of interest.

We run our own AFSL and do not receive any inducements from a life office nor a fund manager to promote their products .It works well, as all the insurers pay virtually the same commission, so it depends on their price, quality of product,on going assistance regarding such matters as increasing the cover,etc, experience of their underwriting team and how good they are in handling claims.
Regards,
KW.

29. W H
Posted May 27, 2010 at 3:30 pm |

What a stupid argument this fatuous government is pursuing in the name of protecting the public. Of more regimentation for our already over regimented industry.
I don't see long queues of an eager public lining up outside insurance companies waiting for the doors to open so that they can insure themselves.
Life insurance is seldom purchased, it is sold !
Why is there such a shortfall of cover in Australia today?
Possibly because people are ignorant of their vulnerability and prefer, in their wild charge for

"we want it now" materialism, to ignore the burning question of what really happens if "anything happens to me"?"
With claims paid across the broad spectrum of insurance products, to families and business, not one client has been aware of the cost of not insuring until I presented the facts and persevered against their initial reticence to act responsibly.
If I were to charge a realistic (?) fee for service I have no doubt that this would have a completely negative effect on the decision making process which is currently based on the premium to be paid.
My time is extremely valuable as are the result of many years in a business which is valued on a multiple of trail commission.
Why would you trust this government with anything? Leave risk insurance commissions alone as the system works and the public accept it.

30. K W
Posted May 27, 2010 at 4:04 pm |

The more I consider the issues associated, the more the realization that this is about the politics of power rather than some "percieved" consumer betterment.
Think the relationship between our current ,one term government and the unions/industry funds, the labor market controls and the big employer banks, and the willful lack of understanding of freedom of choice and enterprise represented by Mr Bowen.
Any thoughts we have of being called in for "Consultation" is pure dreamtime.
It does not make happy thoughts!!
By all means lets have a common level of procurement fee availiable from all supplliers, extend the responsibility period with some relief for consumer confirmed early cancellations, move away from up-front to hibred/level procurements and have signed and agreed Adviser/supplier service standards in order to qualify for service fee entitlements.

31. J C
Posted May 28, 2010 at 2:28 pm |

In Risk insurance there is no such thing as conflict of interest. You sell what is best for the client because if you don't someone else will. If you ban commissions this will lead to a conflict of interest as it will cause less competition between the providers as there will be less advisers to sell these policies and in the long run you will be left with the Banks who will only be selling their products. Talk about conflict of interest then.

32. F T
Posted June 2, 2010 at 2:32 pm |

I also viewed the Four Corners episode the other night regarding the RBA & their conduct,paying Commissions to win business who do they think they are kidding. Westpoint, Aust Capital Reserve, Storm Financial,Opus Prime. None of these failures had anything to do with Risk Insurance. So does this mean that the Government will wipe out commissions in every other Industry that operates in this country ie: Real Estate agents, Sales Reps. I doubt it. There is a huge problem of Under Insurance in this country & the Government will only add to the problem if they continue on this path.

33. M R
Posted June 2, 2010 at 4:22 pm |

If the Financial Services Authority in the UK could not find a way to introduce another nanny state type law then I have my doubts that these guys can do it. If they do and they destroy financial services sector employment then they will have fulfilled their destiny of less jobs and higher taxes to pay for the expanding centrelink queues.

34. J C
Posted June 2, 2010 at 4:32 pm |

I do not think that there is a conflict of interest with commission when paid for the placement of the appropiate life protection when it is put in place, I think the problem is the subsequent churning that some advisors resort to boost their annual income by replacing exsisting protection under the guise that I have found a better deal for you which is offensive and gives those who receive the payment of such a commission a bad name. If we are able to overcome that then who really cares, as the client is fully covered in the period that the commission is paid and the insurer will pay out the agreed benefit no matter how much commission is paid on the product.

35. T R
    Posted June 2, 2010 at 4:35 pm |

    I agree with comments made by all of my colleagues who are in an uproar over this rediclous notion that commission on insurance is an issue. Practically nobody thinks its a problem except for a handful of people who write articles for newspapers and are looking for a headline or a very small number of advisors who only deal with high net worth individuals. It is really disappointing that the great stories about what we as risk advisors do to help our clients is not being told or considered, recently I heard the industry pays out $10m per working day, that is the story which needs told along with testimonials from our clients. I have at least 5 I could call in the next hour who would agree to provide such as they know as well as I do that without my company's help they would have been financially ruined.

36. J C
    Posted June 2, 2010 at 5:05 pm |

    It all comes down to the "working Australian family" being able to receive Quality Advice. Removal of commissions on Risk products will go a long way to ensuring longer Centrelink lines & additional strain on an already "unhealthy" health system. My concern is that many clients I have helped over the years with managing their claims, would never have had the opportunity to be in front of me or any quality adviser due to the perceived "upfront fee" they would have to pay. What are they actually paying for? Advice? Until an Adviser sits down in front of working families, they generally don't understand what Advice actually is, so why would they pay for something they know very very little about. No commissions = no advice = underinsured = social & economic turmoil. Tragedy strikes everyday, insurance is the only thing which financially assists these families and give them a chance at a future!!!

37. M
    Posted June 2, 2010 at 6:22 pm |

    I deal with minimum 20 referrals per week - general public making enquiries for this personal insurance - Clients don't mind seeing us being paid commissions - as they feel comfortable they are recieving advice and service and we need to now more than ever with the banks recommending their own products and nil advice products flooding the media. This dopesn't address the underinsurance problem - people are just underinsuring themselves!

    Clients now churn themselves on the internet!! they realise insurance companies change and enhance features naturally to compete in the market place.

    'There is absoluteley no way these clients will pay a large upfront fee to receive a recommended quote (which is basically all it is).

    It's simple - give the client the option - you can't get fairer than that! I know cause I'm asking the question.

38. M P
    Posted June 2, 2010 at 9:59 pm |

    While ever we're not paid directly by the client, I don't see how we can escape the criticism that a conflict of interest exists. Most people understand that you work for whoever pays you. While we do provide valuable advice, the bottom line is that in the area of risk advice, the industry is structured to reward a product sale, not to reward the advice provided.

    Unless we charge a fee for our advice, no sale means no payment. So if the best advice given the clients individual circumstances is for the client not to be placed with the range of products on an advisers approved product list, the adviser's need to generate an income for the time spent advising the client conflicts with the clients interest in not being sold a product that may not be appropriate.

In my opinion this is an obvious conflict that can only be defended emotionally, not rationally. I'm sure we all want to do the right thing by clients and give them the very best advice and protection that we can. But I don't see how we can gain public respect by denying that commissions produce a structural conflict of interest in the provision of risk advice, when they clearly do.

It doesn't mean that advisers are swayed by that conflict, but it does mean that a conflict of interests exists, and that this conflict needs to be navigated by every trusted adviser, every time.

39. P F
Posted June 7, 2010 at 8:49 am |

The removal of commissions on risk insurance would be the death of the Life Insurance industry. Life insurance is sold and clients will not pay fees for being sold something, therefore the underinsurance problem in Australia would get infinitely worse.

40. A P
Posted June 7, 2010 at 11:44 am |

Commissions are not evil. The people who receive commissions are not evil.
But thanks to Industry Super Funds, the public has been given the perception that advisor commissions automatically mean poorer retirement outcomes.
How many ads from the dark side of the industry (that being the part of the industry that pays commissions to advisors) have you seen on TV refuting this point? - NONE
So through a very loud and persistent campaign the voting public believes commissions are evil. Product manufacturers have done nothing to change this.
Does it really matter now what we in the industry think?
The public believe commissions paid to advisors are evil and the labor politicians will now use that to win votes. Treasury and ASIC have already made their intentions known. If the risk insurance manufacturers don't amend their remuneration structures it will be legislated - (unless of course the Federal government looses at the next election).
Volume based bias must stop. Nearly all of the insurers offer some form of override based on volume.
The industry must agree on a standard commission model, the commissions paid must not be any different, regardless of the volume written or with whom the business is placed.
Research must be independently owned. Research that in any way places a bias on the rating based on price or commission must banned. Quotation software will tell you the price, the research should tell you about the product's technical specification. The c omission paid should not come into the picture, your bookkeeper should be the only one who is worried about the commissions.
On the flip side if override stops then dealer fees will rise. In turn our costs will rise and our income will fall.
I'm not happy about this but I'm not going to stick my head in the sand either.
Remember also that the public servants and politicians who are driving these changes are all in defined benefit super schemes. They don't know nor do they need to care what difference an advisor makes because for them at least, nothing any of us could do would improve the benefit structure they currently enjoy.

41. B H
Posted June 8, 2010 at 3:45 am |

I truly believe it crucial for risk commissions to continue for the benefit of the client. There are many clients for whom the only way of possibly affording advice on insurance is to have that advice fee paid by the life company. Whilst I can see a small minority of advisers choosing one company over another for a bit more commissiion, this could easily be rectified by standardizing the commissions paid by all insurance companies. Conflict problem solved - consumers win as commissions still paid so the adviser is there for the client when they need advice, especially at claim time.

42. D
Posted June 9, 2010 at 1:08 pm |

What is so wrong with "commissions" being paid for great advice-we are problem solvers,we provide peace of mind and should be damn proud of it why should we have to charge a fee to satisfy the undemocratic processes being forced upon us!The populace need insurance badly,charge them a fee and they will defer this time and time again!Who is protecting who-not the Government thats for sure it is us the Risk adviser/Financial Planners who meet face to face with our clients commissions are fully disclosed they are aware-it is not an additional impost why do so now?

43. M H
Posted June 9, 2010 at 1:19 pm |

So if an adviser could charge say a flat fee lets say as an example they charge $2000 for the provision of risk advice and implementation whilst at the same time the client gets max discount on ins premium and no commission is paid. OR the adviser doesn't discount the ins premium (and doesnt advise the client that they could even get a discount if a flat fee was charged) and as a result the adviser collects say $10,000 in commission or perhaps places the business with another insurer who pays even higher commission, how on earth could there be no conflict of interest.

44. M O
Posted June 9, 2010 at 1:27 pm |

I am a lifewriter and also work for a trustee company so already have a fiduciary duty to my clients. I also take commission on cover effected for clients. As part of my FSG delivery, I explain how insurance companies & commission works and the initial and trail amounts applicable. I also inform clients that they can elect to pay a fee instead. I reiterate this in my SOA. In the last five years, I have written $4 million in retail premiums and guess what? Not one client elected to pay a fee instead of commission!! I believe clients should be offered the choice of how they want to remunerate me (not the Government, representative bodies or insurers who lobby the Government) and with this approach, I believe that I have no conflict of interest.

45. D
Posted June 9, 2010 at 1:57 pm |

I cannot understand why people think there is a conflict of interest with insurance products. Whether you are attached to an independent licensee or one owned owned by a product supplier, they all allow the adviser to choose from a range of insurance products. It is then up to the adviser to research which product will do the best job for the client's occupation and then present it to the client via an SOA.

Regarding being paid a commission for this, once again I cannot understand why there is such condemnation on the adviser receiving a commission. It is factored into the premium and is a way of being paid for doing the research, providing an SOA and ensuring the client is covered against any losses caused by death, trauma, TPD or loss of income. The next time someone rings your office enquiring about personal insurance protection, tell them you are going to charge a minimum $1,000 to do the research and recommend a product that best suits them so they can make an informed decision as to whether to go ahead or not. See how you go and good luck!

46. S B
Posted June 9, 2010 at 2:09 pm |

If the government can guarantee that getting rid of commissions will decrease the cost to the end user proportionately, then there would be some sense in them banning commissions. the truth, however, is that the cost to the consumer will increase AND the chronic underinsurance problem in Australia will escalate to new levels. I'm sure no client will want to pay fee for advice for buying insurance - it is hard enough getting them to see value in getting advice on complex financial issues that they have no understanding of. It is amazing to me that clients will pay $1,000 to a plumber for a one off visit but shudder at the thought of paying $2,500 to sort out a retirement plan which will last their whole life. The government is just adding fuel to the fire by its irresponsible and tunnel visioned approach.

47. N
Posted June 9, 2010 at 2:34 pm |

Maybe the Life companies need to start supporting the advisers being paid commissions in this debate or they will need to employ alot more admin. staff!. Because if we end up having to charge a fee to provide life insurance services and not be renumerated by renewal commissions, it will be the Life Offices who will end up having to do all the admin. work we currently undertake on behalf of them !

48. S M
Posted June 9, 2010 at 3:04 pm |

why dont we stop paying commisions to ALL levels of government and have them send an invoice for services rendered

49. G M
Posted June 9, 2010 at 3:35 pm |

Re level comm. Instos love the idea because it allows old but highly profitable, non competitive products to stay on the books.
Imagine the adviser with a $4000 pa life premium (earning $1000 renewal). They find the same product with another insurer for $3200 (renewal $800).
Are they going to devote the 10 or so hours required to educate the client, prep SoAs and other req docs, complete the app and get it through underwriting if their net position is a $200 pa loss? No way!
Another thing. Stop parroting the propaganda that says we get paid "servicing" commission. It has nothing to do with the levels of service you give or are going to give in the future.
The adviser is being paid a portion of each premium for one reason. To see that the client maintains the policy.
Have doubts? Years ago I spent a lot of time with a client going through tough times, trying to figure out how to maintain his cover. Lots of service. He lapsed the cover.
If we were being paid "servicing" commission the company would have paid me lots for all the hours I put in. Instead the payments stopped.
On the other hand, we all have clients who, for whatever reason, receive little or no attention (until they have a claim). We get paid if they pay their premium. It is renewal commission.

The question is - why is it wrong for a business to pay people (in whatever form) to help them retain clients?
Remember that once the client pays the agreed premium, the money becomes income to the institution and they should have the right to do with that income as they see fit, be it on paying staff or dividends to shareholders, advertising, promotions or sponsoring the Melbourne Storm.
Every business devotes time and energy into getting and retaining profitable business. If it wasn't efficient and profitable the system would have been dismantled long ago.
Last thought.
Are we advisers who are paid to theorise about how a client should best structure their insurance portfolios or are we practitioners whose job is to get an outcome?
For the last year or so I've been asking my new business clients 3 questions about what they believe I am actually doing for them and why they have used my services. Invariably, when all the fluff is removed, the response is that I get them insured effectively.
When I then ask what use they would have for my wonderful advice and 30 year's experience if the insurer ultimately declined their cover, the answer is invariably along the lines of "none".
My final question is whether they'd pay me enough to support me and my 5 staff under a fee for service model if we'd done all this work and they were ultimately declined cover.
Without exception the answer was, "no, why should I? You didn't get me insured".
Insurance fee for service will never work. It will simply kill off a great industry that has a history of doing wonderful things to help people when they need it most.

50. C F
Posted June 9, 2010 at 4:01 pm |

If the client is not prepared to pay an hourly rate to get a diffcult case through underwriting then how is the adviser paid.
There are plenty of other professional careers that exist on commissions,often with less transparency,

51. M B
Posted June 9, 2010 at 4:35 pm |

Tell me one thing this labour government has achieved, apart from upsetting the overall community, since coming to office. It is very clear its days are numbered following the creation of one failure after another. It does not understand the financial services industry and shows little inclination to learn, other than listen to industry and institutional no hopers. What we are now seeing is the total destruction of all the work done in the lead up to FSR. The majority of us who conform to time consuming mandates of current legislation and have had nothing to do with Storm, Westpoint and all the rest are being placed in an invidious and disadvantaged position. Costs to operate will sustantially increase in order to survive with the likely end of forced liquidation of businesses which have served the population for many decades longer than these polititians have been around. Another Rudd Government failure is on the way folks.

52. M
Posted June 10, 2010 at 10:41 am |

I have been in the Life Insurance Industry for over 31 years, advising for just over 9 of them. I simply can't understand what the Government would achieve by banning risk insurance commissions. Here are a few facts:

1) Commission is a cost of distributing a product. Insurance companies have for years resented the amount of commission advisers receive, however it simply the most cost efficient method of distributing the product.

2) In today's times the majority of advisers have their clients interest at heart when recommending products, both in relation to recommending the most appropriate level of cover and a value for money product.

3) The general public simply won't pay a fee for advice on insurance. They expect all costs to be absorbed into the premium.

4) If customers won't pay a fee they will use one of the direct marketing insurance companies that we see advertised on daytime TV to organise their insurances. They will get no advice in relation to the level of cover and could well get the product that the person at the end of the phone sells, not the most cost effective product. I have done some comparisons with those policies and have noticed that while the benefits on them are comparable to the products we recommend the premium can be up to twice the rate of comparable policies that I would recommend.

So by banning commissions, the Government will effectively:

- Kill the advice business for Life Insurance.
- Contribute to the chronic under insurance of the Australian public.
- For people who then go the effort of arranging their own insurance will probably receive a inappropriate product in relationt o value for money and amounts of type and levels of cover.

I know that Life Insurance is caught up in the financial services industry and we need to restore faith in the industry due to our recent disasters, but no good at all will come from banning commission on risk products.

53. W
Posted June 10, 2010 at 10:48 am |

Our staff / management are on wages and commission levels are not a consideration when placing business. We concentrate on providing the client with the product that suits their needs. Writing new business is only a small part of the client relationship-what about the claims service we provide plus all the admin matters we attenmd to such as change of address / banks / reviews/ change of beneficiaries. If fee for service applied we could charge for every minute we spend looking after a client's interest. We would be better off but the client would be disadvantaged.

As an industry what has been achieved over the last 16 or so years? The industry is much more professional but no amount of legislation will stop the crooks from fleecing the public.

Like most industries today, Advisers have to have suitable qualifications to operate but what qualifications do you need to be a politician? Judging by the performance of most politicians, Government should focus on their own skills before harassing industries such as ours. If they were just a bit smarter they would make a point of understanding how the industry works and would then realize the harassment is unwarranted.

54. G F
Posted June 10, 2010 at 11:11 am |

Although not directly linked to insurance commission (not yet anyway), please ask Mr Bowen & Co. if they would be happy to apply the same opt in / opt out option to members of their beloved trade unions. I know that his answer will be 'that's different because membership of unions is completely voluntary and no individual is pressured to join - regardless of the industry'. Even if him and the tooth fairy believed that, couldn't the same freedom be afforded to members of super funds, investment products and insurance etc? No one should be forced to be in a particular fund - this was supposed to be law. Nobody, at the start of one particular year, knows what may happen to them in the year ahead. They may change jobs, lose their job, die, get sick or simply move house or change bank accounts. If they had 'opted out' to save a few bucks, do we tell them to go jump when they need help? So, back to the union example, are the unions happy to just accept someones dues when they need help or would that model cause the dimise of such bodies? Same could apply to the likes of the FPA.

55. J N
Posted June 10, 2010 at 1:04 pm |

Change commission to management fee. Simple

56. L
Posted June 10, 2010 at 5:44 pm |

Not sure if this as already been discussed? But why don't all Life Companies pay the same commission rate? i.e 100% Upfront, 70% Hybrid and 35% Level? This takes commision out of the equation when recommending a product? And maybe limit the commision type when replacing business?? I.e replacement business must be writen Hybrid or Level rates?

Just a thought??

No Conflict in Risk Commissions

1 June 2010

VOTE NOW!

The vast majority of advisers say the payment of commissions for risk advice represents no conflict of interest to the consumer.

As our story goes to press, 85% of the many hundreds of advisers who have taken part in our poll believe there is no conflict of interest, real or perceived, in paying commissions on risk products. Only 6% believe a conflict does exist, while 9% believe a conflict can exist sometimes (see: Adviser Backlash on Banning Risk Commissions).

While the large majority of advisers believe conflict of interest does not exist on risk commissions, there have still been many suggestions made as to how the current system can be advanced.

For example, many advisers have commented that if commissions were standardised, this would remove any temptation to place business with a particular insurer for additional financial gain.

Some advisers have taken this argument a step further, calling not just for standardising commissions, but also for the removal of upfront commissions. In addition to removing product preferences based on remuneration, it is argued this would also have the effect of substantially reducing the practice of churning policies.

On another level, the risk store's **Sue Laing** points out that at claim time, when the policy counts most, it is the level of cover and the product mix that will have an impact on the claim outcome and that any conflict of interest, real or perceived, would play virtually no role in any case:

… in 99.9% of claim situations there is no retrospective proof that the client was sold the 'wrong' product. There is no such thing as a bad product. … even if an adviser sells Company X's product rather than Company Y's, it will NOT be to any recognisable detriment of the client."

Ms Laing adds, *"But not selling the right sums insured and product mix WILL be to their detriment. Commissions or no commissions will have ZERO effect on that outcome."*

Other advisers have called for a level playing field, arguing that related sectors such as general insurance, mortgage broking, share broking and real estate services are no different in terms of potential conflict of interest.

However, Financial Services Minster, **Chris Bowen** has indicated that while the Future of Financial Advice reform measures are focussed on the authorised providers of financial advice, he will in future be turning his attention to other areas.

A number of advisers have suggested that when it comes to risk insurance commissions, any conflicts of interest exist at the dealer group level, and not with individual advisers. This point of view argues for:

- Removal of all dealer group approved product list restrictions, thereby allowing a 'level playing field' of access by advisers to all risk products
- Removal of volume bonus payments made by product providers to dealer groups

Many adviser comments addressed the potential adverse impact on middle Australia if risk commissions are banned, their arguments centering on the large proportion of their clients who would not be able to afford the payment of a fee for the advice, in addition to the premium cost.

But the Government's agenda, expressed by Mr Bowen, relates to the real or perceived conflict in the eyes of the consumer and how the Government should address this issue in order to restore public confidence in the financial advice industry following the collapse of Storm, Opes Prime and others. As one adviser pointed out:

"Most of the above have stated the obvious BUT they are only obvious to us in the industry…"

What appears obvious to the large majority of advisers (although a number strongly believe all commissions should be banned), may not seem as obvious to consumers. Therefore, the challenge facing the life insurance industry on risk commissions is to communicate its arguments to the Government and consumers so that clients will be confident the risk advice they receive will always be in their best interests.

The consultation process between Government and the financial services industry on the Future of Financial Advice reforms continues, which is why it is important to voice your opinions now. At the completion of this poll, we will be collating and sending all adviser comments to Mr Bowen's office…

VOTE NOW!

ADD YOUR COMMENT NOW
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This entry was written by riskinfo, posted on June 1, 2010 at 11:19 pm, filed under Compliance & Regulation, Polls, Remuneration. Bookmark the permalink. Edit

23 Comments

1. F H
Posted June 2, 2010 at 1:21 pm |

People see an accountant and do not pay a commission…people see a doctor and do not pay a commission…people see a lawyer and do not pay a commission…all of these services are used without the need to fund the service from a 3rd party provided sales commission…are these services experiencing difficulty?

If a good adviser (which the majority of advisers are) can articulate the need for insurance (to protect ones life-style and wealth etc) and the value they add…then regardless of how remunerated the client will take the cover and pay the cost of the cover and the advice.

If the adviser cannot articulate the value (of the cover and the advice) then the client is only thinking of the cost…and will not arrange cover regardless…or at least not sufficient cover.

The issue is - commissions are going…may as well be prepared and move how one does business to an ADVICE BASED business and not a SALES BASED business…and charge a fee for the advice that you provide, which is off-set (possibly not 100%) by the lower cost of premium as the commission is removed from the equation.

Maybe the issue is NOT with the client not being prepared to pay for the advice….but with adviser's confidence that they are indeed adding value to the client and hence having difficulty liaising with the client with regard to their fee…just a thought.

Good luck to us all.

2. S L
Posted June 2, 2010 at 1:36 pm |

Well described, Peter.
As a further comment to those of mine you have quoted above, let me expand on the ‘quality of advice’ point I made, re the right sums insured and generic product mix.
Firstly I should add to that comment that the right ownership is the third element that must be done well if the consumer is to be properly looked after at claim time - again that will in no way be influenced by which product an adviser may be tempted to use due to commission size.
Secondly it could reasonably be argued that fee-based advice will drive LESS attention to getting all this right. Take this scenario: there is a lot of information that an adviser has gathered on a client and he/she is then under pressure to get the advice (and the advice document) structured correctly, clearly and concisely while also running up hours in work. So how many advisers will be likely to try to keep the fee cost down for the client otherwise they will potentially lose the client AND the product sales! This means that it’s also likely that less time will be devoted to all these key strategic issues and the advice might come down to a rushed and less than perfect outcome, to ’save the client money’ (dare I suggest it could become close to commoditised!). Even the client themselves may drive this restriction on time spent, by demanding that the adviser take ‘the shortest time possible’ to construct the advice. Clearly this is less of a concern if the initial advice is flat-fee based - but if commissions are removed, then how does this cater for covering the adviser’s costs of all the time managing the underwriting?? The flaws for the consumer in this model in this industry, are simply not understood let alone being addressed in the debate.

3. S L
   Posted June 2, 2010 at 1:43 pm |

   Fergus fair comments re advice not sales and that supports my contentions about the importance of hte quality of the advice. However: re “which is off-set (possibly not 100%) by the lower cost of premium as the commission is removed from the equation.” please read my comments last week on the myth of lower premiums in return for removal of commissions - you are one of the thousands of people who believe this is a given, and it is far from probable and certainly if it is, it will be VASTLY less than 100%. Ask any life actuary how likely this reduction will be…if this remains part of the argument then there will be a lot of confused and disappointed commentators.

4. M
   Posted June 2, 2010 at 1:52 pm |

   What if the client can’t afford an upfront hourly rate or the up front cost of the advice but can afford the monthly premium?Some of us are missing the point.I must admit to being concerned when this ffs debate started because all the ffs practioners to a man/woman, told me they had never had it so good,and that their incomes had increased since they transitioned to ffs??????????

5. A
   Posted June 2, 2010 at 1:58 pm |

   Perfectly put Fergus.

   Look forward, don’t rely on the crutch of commission to help grow and protect your business. The institutions built commission, not you, and they control distribution for this very reason.

   The government should legislate against products being sold with out advice.

   Products are a commodity, but the Advice on how to use them requires expertise and is valuable.

6. F H
   Posted June 2, 2010 at 2:13 pm |

   I must say that I find it comforting that advisers (who advise on risk mainly) care so much for their clients - and wish to keep the price down so all Australians can get cover - it is commendable, especially when those advisers who advise on investments charge such high fees (eg. 2% upfront on a $1m investment to fill in some forms)…

Excuse the slight tone of sarcasm. Even if the cost of cover does not fall because for some reason the life companies remove the commission and then add back in to improve their profits or what ever…there is a NEED for cover - and those clients who see the benefit in getting ADVICE will arrange cover - for those that do not - then they will experience the painful consequences…advisers in the main want and do the right thing and are nice caring people…but we are also running businesses.

If we are to be concerned about clients not being able to afford the advice etc - then why not institute a type of pro-bono service like some legal firms do - as part of becoming a profession…ie service to society and the community.

Again a robust discussion is good for our industry one day to become a profession - I hope!

7. J
Posted June 2, 2010 at 3:41 pm |

I have run a 'straw poll' amongst people I know, all of whom are insured. There have also been claims within this group, so there is no question as to whether they understand the value of insurance.

I offered them the theoretical option of paying for my service, in which case I would advise them on how to best protect their financial position and lifestyle against premature death and disability. There would be a small upfront fee of $500 for my advice, and an ongoing service fee accounting for 30% of the premium. All commissions would be refunded. The ongoing service would be no more expensive than paying the insurer directly, and would mean they are supported if changes need to be made or if they need to make a claim.

I explained that the benefits would be I am not being paid by the Insurer (so as to remove this potential conflict of looking after their interests).

I then provided the 2nd option. As above, but just pay the Insurer directly. The Insurer pays me.

In every case, the response was the same.
- "I dont know if I could afford the $500 advice fee."
- Re ongoing service, "does this mean I have to pay two direct debits?" Everyone found this inconvenient.
- "If you know your stuff, I don't care if the Insurer pays you directly. Just look after me".

I venture that in investemnt and super advice, the Fee For Service issue will mean more and more of middle Australia will move to the lower-cost intra fund advice. It will be HNW clients who want Fee For Service.

However in insurance, it is middle Australia who need this service the most, more so than HNW individuals. Intra-fund advice doesn't cut it, the products are not there. FFS would definitely price this service out of middle Australia's range, and while I am confident in my skills as an adviser to service an 'upmarket' client-base, those who need it most will miss out.

By all means, consider removing upfront commissions, and standardising commission rates across Hybrid and Level.

But moving to Fee For Service for insurance doesn't add up!

I'm beginning to think that whose who religiously advocate FFS lack the experience of seeing lower/middle income workers struggle with the Workers Comp and/or Disability Pension!

As for becoming a profession, my suggestions are:
- Raise entry level education requirements significantly
- Increase exposure to real life claims handling as part of the minimum training requirements. Include analysis of medical reports, impact on client, etc.
- Better training on medical terminology, health conditions and epidemiology for all insurance advisers

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8. N
Posted June 2, 2010 at 4:11 pm |

When the claim cheque is paid to the surviving family, who is going to argue the merits of commission or fee?
Doesn't it make sense to get the client cover through whatever means!
My previous experience was that clients who wanted the cover would suffer through the paperwork, but not so ready to pay fee for service. So I had done my job in selling the need, just not the cost!
Advisers are a dying breed - thank goodness I saw the light and left before I died!
The other side ofcourse is that it is unlikely the current government will be in place to implement any further stuff ups to this country!
Long live the client!

9. M Hr
Posted June 2, 2010 at 4:32 pm |

So if an adviser could charge say a flat fee lets say as an example they charge $2000 for the provision of risk advice and implementation whilst at the same time the client gets max discount on ins premium and no commission is paid. OR the adviser doesn't discount the ins premium (and doesnt advise the client that they could even get a discount if a flat fee was charged) and as a result the adviser collects say $10,000 in commission or perhaps places the business with another insurer who pays even higher commission, how on earth could there be conflict of interest.

10. J
Posted June 2, 2010 at 4:48 pm |

RE: Martin Hunter, Posted June 2, 2010 at 4:32 pm

Martin, I take it you have a lot of $10,000 commission clients?

I believe the industry average premium per client across most advisers is about $1750 p.a., which would make a 1st yr hybrid commssion $1194 in Year 1 and ongoing commission of $318(excl. GST).

Can you see your average mum and dad client paying for that (x 2)?

And what happens if they cancel the ongoing service fee. Do you charge them an hourly fee or a percentage at claim time? Would you like to negotiate that while their spouse is in hospital or facing delays with the Insurer?
Like they dont have enough emotional baggage to deal with at claim time?

This debate totally misses the greater picture. It is insular and bureaucratic.

The priorities should be (1) increasing educational standards, (2) increasing entry requirements, and (3) increasing awareness of the need for cover and reliability of insurers and advisers amongst the public.

11. J G
Posted June 3, 2010 at 9:36 am |

Mr Bowen, I'll offer you again the opportunity of coming to my practice in Rosedale, Gippsland, Victoria and meeting some of my rural clients. Only then will you understand the plight that myself and these clients will have if I'm forced to charge a fee for service rather than commission. I could give you many reasons here why this action is of major concern but rather than reading about it, get in the car, and meet real people to find out the true feeling of ordinary mums and dads, farmers and small business owners- not just wealthy people who "fees" mean nothing to.

12. J W
Posted June 3, 2010 at 9:53 am |

The obvious way for the Government to see if there is any conflict of interest and determine appropriate advise and fee/commission arrangements, is for Mr Bowen to spend a day in a specialist risk advisers office. Then he will be able to see the huge work load and behind the scenes work that must be done, (which clients, Insurance Companies and non risk Financial Planners have little understanding of) in order to provide advise upfront and on a ongoing basis.
I am a specialist risk insurance adviser and have 23 years experiance with Six people working in my office, so I am in a ideal situation to give expert advise to Mr Bowen.
The mistake many organisations and Government make is to listen to self interest groups and lobbyists with little experiance in the field they are so vocal on.
You must talk to the very people who are at the coal face, who can cut through the inane, irrelevent rubbish and go straight to the important and relevent issues.
I welcome Mr Bowen to visit my office and can guarantee that he will learn more about the Life Insurance Industry and how it really works in one day, than in months of meetings with people who may talk the talk, though have never actually advised, or ran their own Life Insurance Business.

13. B
Posted June 3, 2010 at 10:46 am |

- Most people do not want to pay the premiums for insurance EVERY YEAR. Especially if they need multiple cover ie. Life, Trauma and Income Protection. At each anniversary of the policies, people ring me to say is there a cheaper product, do I decrease the benefit amount to reduce the premium.
- If we have to ALSO charge a fee for our services: meeting/s, advice, research, processing paperwork, review meetings, processing claims, ordinary people will not be able to afford this.
- The other problem is advisers would not influence people to take appropriate levels of cover, comprehensive products, cover for the wife and the kids, as this will increase the overall premium cost. How would they then afford our fees ??
- Why don't the commission (revenue/payment) % be the same across ALL companies so THERE IS NO CONFLICT OF INTEREST AND NO BIAS TOWARDS COMPANY X TO COMPANY Y ?
- Then as advisers we could focus on our role which is to educate people to understand the importance of paying for insurance to protect their assets, lifestlye and family !

14. A
Posted June 3, 2010 at 10:55 am |

Currently there is choice for clients:
1). Pay the premium to the insurer, with built-in commission going to the adviser IF the business is accepted.
If the application is not accepted due to pre-existing medical conditions, the client does not get any cover and the adviser earns $0.
2). Rebate the commission, this decreases the premium by 30%, and then charge a fee to the client for all services, which can add up to alot of hours over weeks or even months.
What is the problem with the current model?
We give all clients the ability to choose the model and it works very well.
99% of people choose option 1, as option 2 is more expensive (discounted premium + our fees).
I think we should be focusing on the bigger issues facing the Australian public, under-insurance and processing claims and providing cheques to people or families who suffer illness, injury or death.

15. C
Posted June 3, 2010 at 11:08 am |

Financial planners who give advice for superannuation and investments are able to charge a fee debited from the portfolio either monthly or annually.
The client is indirectly paying the adviser a fee eg. for super: the employer puts super contributions into the portfolio, and hopefully the portfolio increases in asset value with the market.
Those in the risk/insurance only area do not have this option. People have to pay for the premium out of their credit card or bank account, and they feel it every month.
Make all the insurers have the same commission % rates and the conflict of interest will be removed.

16. M P
Posted June 3, 2010 at 11:17 am |

Rather than argue that a conflict of interest doesn't exist, risk advisers would be on a stronger footing in this debate by admitting that conflict is there and then arguing why it is appropriately managed, if you believe it is. The adviser's conflict is obvious. If the best advice for a particular client is to take out insurance through their industry super fund because the families cash flow is too tight to fund it any other way, the adviser is not going to get paid unless they charge a fee for providing this advice. If the business model depends on being paid for making a product sale on behalf of an insurance company, the adviser's need for remuneration conflicts with what may be the best advice for the client. Arguing that no conflict exists only increases the distrust that the wider community of consumer advocates feel.

As an industry, we would be better off being upfront about the fact that a conflict of interest exists and then providing a robust argument about why it doesn't matter, if indeed that is what you believe.

Arguing a case that underinsurance will be greater if commissions are removed also doesn't make sense. Removing upfront commissions reduces premiums by around 30%. Using the 30% premium reduction as an advice fee, as a simple example, means that an adviser will be in a similar earnings position over a 5 year period. With upfront commission on a $1,000 premium, the adviser might currently earn $1,100 Yr 1, $110 in yr 2, $110 in yr 3, $110 in yr 4, and $110 in yr 5. Total earnings over the 5 years are $1,540. Obviously this doesn't account for indexation and stepped premium increases etc.

If commissions are removed, the client's premium in year 1 would be $700 and the adviser's fee would be $300. In yrs 2 to 5 the fee would also be $300 p.a. Over 5 years the adviser earns $1,500. Not much different to what they would earn on a commission basis. The client's total cost is still $1,000 p.a. including the $700 premium and $300 advice fee – the same cost as they would have paid for a premium on an upfront commission basis.

I agree with the comments that this doesn't have to be a big deal if advisers can confidently communicate their value and sell the package of risk products plus advice, rather than risk products only.

17. D
Posted June 3, 2010 at 7:36 pm |

Firstly I refute Matt Pack's comment that it may be best to place the client's life cover through superannuation because they can't afford monthly premiums. What is overlooked here is how the cost of taking premiums out of member's accounts will impact on the accumulation of funds required at retirement. As we are aware, not many Australians will have sufficient funds to retire on as it is. Why deplete them further? Furthermore, super fund trustees often add complications to claim payments, and who in the industry funds (or any funds for that matter), are going to hold the claimant's hand (or their survivors' hands) through the claim process? Let's start being real about this. We, as risk advisers, should be mighty proud of what we do for our clients at the most important time…claim time. Under Bowen's proposals, imagine how the client or survivors will feel when we invoice them for the time spent on a claim!!
Secondly, show me the members of the public who have complained about conflict of interest with regards to risk protection. This issue has NEVER been raised with me in 20 years in this industry. Client's rarely even look at the "Commissions Paid" section of the SoA, and even more rarely comment on the amount paid. In addition to this, if the adviser has the trust of the client (and we don't gain clients if we don't win their trust), they very rarely contest the particular life company recommended.
Bowen's idea is bureaucracy at its best. It's time to get some politicians in power who have actually had business experience, rather than unionists and public servants!! (and I don't regret the political comment)

18. A
Posted June 4, 2010 at 12:11 am |

Matt Peck you are joking? Conflict….Try this…..Industry funds provide square hole square hole answers not tailored solutions. Have you ever tried to complete not just recommend a high sum insured offer with an industry fund without causing your client or yourself distress? Good luck with that. Why ask an industry fund to provide a service for the client that they are not equiped to deliver? Do they have underwriters? No. Do they have the ability to communicate with advisers? No. Do they have a claims offering? Not in my experience. You must be a journo or are an industry fund mole as you clearly not an adviser.

19. J

Posted June 4, 2010 at 9:05 am |

Re: Matt Pack.

Wow Matt, it only takes 5 years to recoup your costs?

Now there's a sustainable business proposition if I ever heard one. Do you have any idea of the work that goes upfront into researching policies and needs? Or servicing clients with pre-existing medical conditions?

Why don't we just offer interest free loans while we're at it?

If there is any distrust, it is not in the fees vs commissions debate.

Any distrust by clients mostly exsists in the following segements: "1.What am I covered for?" and "2. Will the Insurer pay when I claim?". As simple as these questions sound, they actually take a fair bit of specialist training, experience and service reliability to deliver.

No point paying a fee if you don't get what you expect at claim time.

The fees vs commissions is a moot point in that respect.

20. B

Posted June 4, 2010 at 11:01 am |

If your not a Bank, you have no say. That is the message here.
The big 4 control the majority of the Financial Services Industry, and now they control the FPA, the ministers view, and the Government(Why even have an FPA or a minister just for 4 banks). This whole issue here is not about the consumer at all. It is about market dominance, and the Rudd Government have given the Banks a free ride all the way to the finish line.
Congratulations Rudd.
Why don't you give them another big handout before you get smashed in the election you imbecile.
The Rudd Govt has pushed Financial Services back more than 20years in less than one. Well I suppose you may as well make it a pair after you have done your magic with the mining industry.

21. A

Posted June 4, 2010 at 11:15 pm |

Compare the pair. He has his insurance with an industry fund so his premiums are lower. She has her insurance with a retail advice offer so her premiums are higher. He has a no advice auto accept solution so gets less at claim time with no help. She has a tailored advice solution with an adviser to help her at claim time so she gets what she paid for. Now that would be a TV ad worth spending members money on Matt?

22. B

Posted June 9, 2010 at 2:30 pm |

I think a lot of people are missing the point as to why commissions are paid in the first place. They are set by the product providers not the advisers. The providers are paying for the sales & service that an adviser can provide to a client in placing a client within a particular product. Any good adviser will have the choice of at least 6-8 major companies with which they can compare premiums for a client, and therefore get the best 'value for money' outcome for the client. When the big 4 banks dominate this industry you won't get that choice, you will be sold their product (i.e. CBA = Colonial/ NAB = MLC/ Westpac = BT/ ANZ = ING), get my the drift. We

all know what this means.
They will collude and rip us all off because they will have no competition (as we see with Woolies & Coles/ Caltex & Woolies/ Coles & Shell in the oil industry), and the ACCC won't do anything about it as we have already seen. The ACCC is basically a lazy organisation that prefers to spend time lunching with corporations, they don't work for you & me.
Rudd and Bowen are the enemy of the free market, and the consumer.
Back to the point. With competition in the market we all know this reduces prices for consumer(Simple economics). If you allow Rudd & Bowen to kill of competition we all suffer, like the cattle farmer, and the corner shop suffers at the hands of Woolies/Coles(Colluding Duopolies).
Take out this competition and the product won't be sold, it will be rammed down your throat via your bank, or industry super fund, with little advice on wether or not you actually need this cover.
The Rudd Government is taking this industry back 30yrs to when the Unions ran super/insurance and siphoned off a portion of profits to fund Labors political campaigns. Is this what we all want?

23. M P
Posted June 9, 2010 at 8:21 pm |

What the government must do is offset any ban on risk commissions with a decision to allow a tax deduction for advice fees. The costs to policy holders will increase for those insurance premiums that are tax deductible if commissions are stripped out of the tax deductible premium costs, and the clients are forced to pay an advice fee which they are not allowed to claim.

If this is not done, even if the clients before tax premium cost does remain the same, their after tax position could be significantly worse off for income protection or some superannuation owned policies.

Final Word on Conflict of Interest - Send Your Message to Canberra

8 June 2010

VOTE NOW!

We have extended our latest poll for one final week due to strong interest by financial advisers wanting to have their say on this issue.

To re-cap, our poll question is:

Do you believe payment of commissions on risk products represents a conflict of interest to the consumer, real or perceived?

So far, almost 500 advisers and other industry contributors have cast their vote on this question, where 85% believe no conflict of interest exists in the eyes of consumers if advisers are paid commissions for providing risk insurance advice.

8% of those who have voted believe a conflict of interest may sometimes exist, while 7% are not sure.

A consistent challenge made by advisers via our Comments section to Financial Services Minister, **Chris Bowen**, is to visit the coal-face of the industry and join them as they offer their advice and services to clients.

Mr Bowen has previously acknowledged his appreciation of the value that financial services practitioners provide their clients. From Mr Bowen's perspective however, based on his public comments, the main game has more to do with re-building public confidence in the financial advice sector, post Storm, Opes Prime etc…, and the GFC.

While risk commissions played no part in the collapse of financial services firms or the GFC, the word 'Commission' itself is the issue concerning the Government. As we have said previously, Mr Bowen appears to be considering the merits of a blanket ban on all commissions, including risk commissions, in order to 'restore confidence'. This is balanced against the acknowledged damage a ban on risk commissions would have on the underinsurance dilemma in this country.

We thank the large number of advisers who have already taken the time to add their sometimes passionate and (mostly) measured comments regarding this issue, where all responses (for and against), will shortly be **forwarded to Mr Bowen in Canberra**.

We encourage you to cast your vote if you have yet to do so, and to join other advisers who have added their comments at such a key time in the Government's consultation process with the financial services industry…

VOTE NOW!

See our two previous stories:

Story 1: Adviser Backlash on Banning Risk Commissions

Story 2: No Conflict in Risk Commissions

ADD YOUR COMMENT NOW

This entry was written by riskinfo, posted on June 8, 2010 at 9:30 pm, filed under Compliance & Regulation, Polls, Remuneration. Bookmark the permalink. Edit

11 Comments

1. M H
Posted June 9, 2010 at 1:18 pm |

So if an adviser could charge say a flat fee lets say as an example they charge $2000 for the provision of risk advice and implementation whilst at the same time the client gets max discount on ins premium and no commission is paid. OR the adviser doesn't discount the ins premium (and doesnt advise the client that they could even get a discount if a flat fee was charged) and as a result the adviser collects say $10,000 in commission or perhaps places the business with another insurer who pays even higher commission , how on earth could there be no conflict of interest.

2. D E
Posted June 9, 2010 at 2:34 pm |

Why don't we ban the word commission and replace it with "Fee for Service" "The Fee to place this insurance Mr.Client is shown on page 28 of this SOA, it is expressed as a percentage of the premium and also a $ value, the insurance company pay that fee to me for placing the insurance with them." That was easy wasn't it!

3. A
Posted June 9, 2010 at 10:51 pm |

Martin Hunter, not sure what you are trying to suggest…an adviser can receive remuneration as disclosed commission or charge a fee and rebate commission, there is no conflict of interest. More to the point, Damian Eales you have hit the nail on the head, let's just ban the word "commission" and call it an adviser fee as disclosed on the SOA, after all it is just semantics. At the end of the advice, we just need to get remunerated and whichever way it is done, the client is fully aware about it. Easy to do and will hopefully shut the f… up the idiots in the industry funds who seem to have a problem with the word 'commission'.

4. B
Posted June 10, 2010 at 9:03 am |

The insurance/risk industry is very different to the financial planning area. Insurance is an option for people to either choose or not to protect their income, assets and family in the event of illness, injury or death. It is evident that there is a big under-insurance problem here in Australia, as people are reluctant to pay the premiums every year. This is becoming increasingly harder to persuade people to commit to taking policies with the high levels of debt, current interest rates, available personal/family disposable income. People definitely know what they are paying for insurance as it is usually a direct cost to the family budget. Very different to the investment or superannuation portfolio's which can have a fee built-in to pay the adviser fee. We should be focusing on the quality of the advice, providing good service and speaking to more people to proceed with insurance. There would be no conflict of interest by recommending insurer x to insurer y if all insurers paid the SAME % to the adviser rather than them all being slightly different %'s. I have been told that the average premium that people pay from the insurers is around $1,500 to $2,000pa. This shows just how difficult it is to influence people to pay the premiums every year. As noted above changing the description from the "commission" word to "fee" or "payment" paid from the insurer who receives the business from us is a good suggestion.

5. N
Posted June 10, 2010 at 9:22 am |

I have always questioned why all the insurance companies have a different % for the commission model. It would be great to tell people that ANY INSURER that we recommend pays the same % to the adviser's business for placing the business with them. It would certainly eliminate the thought that conflict of interest exists by putting people with the company that pays the highest %.
I have also questioned why there are the 3 commission options, I have rounded the % amounts as all companies are around these figures :
1. Upfront (100% yr 1,10% ongoing)
2. Hybrid (70% yr 1, 20% ongoing)
3. Level (30% each year)
In order to reduce the thought of conflict of interest, I would like to see only the Level or Hybrid model remain AND with all insurers having the same %.

6. B
Posted June 10, 2010 at 9:49 am |

In response to what you noted Martin Hunter, not sure whether you are a financial adviser, risk adviser or another occupation, but in your comment, if you are charging a fee of $2,000 to the client, PLUS they are still having to pay the premium to the insurer (every year) the majority of people/families could not afford this.
On the upfront model, most insurers pay approx. 100% of the annual premium in yr 1 to cover our time for meetings, implementation, quotes, research etc. The BDM's from some of the insurers have advised me the average premium of in-force policies is around $2,000, equating to a commission payment of $2,000. Not sure where you are getting the $10,000 figure from, unless you only look after the top 1% of the Australian population.

7. M
Posted June 10, 2010 at 1:48 pm |

It is time advisers become politically active because no one will do it for us.Start telling your client base what is going on! FFS/commission,who cares.I am sick of the rules changing needlessly leaving us to pay for all the fallout.We are a soft target and it is time we hit back.FPA/AFA etc. are a waste of time and money.I intend to actively promote an alternative to the current gov't via my client base and I suggest we all do the same.Perhaps gov'ts attitude towards our industry might change if we became a little more agressive in defence of our reputations.

8. R
Posted June 10, 2010 at 2:47 pm |

If they do away with commission based remuneration and go with FFS all that will happen is it will push most of the risk advisers out of the industry and then insurance companies will then employ people to sell their own products which brings us back to tied agencies selling the one product as was abolished years ago. If people want to compare other products they will have to do it themselves. One thing Mr Bowen has not taken into consideration is if Income Protection, Trauma etc is not actively sold to clients, less and less people will have this cover and then it will fall back onto the Government to prop them up.

9. T
Posted June 10, 2010 at 2:53 pm |

I'm not even going to comment on Martin Hunter's view, other than he has NFI. I strongly agree with Brad & Nathan's comments. I challenge Chris Bowen to take out life cover with his Indutry Funds buddies, and get them to disclose the commission to him, please Chris pass that information on to us. Lets see how the pricing stacks up, please allow me to requote it, but only after I have done a full needs analysis and SOA. (Oh yeah Martin you will like this, I will invoice you Chris $2,000 payable in 14 days!?!). MoonShine your spot on, we need to defend ourselves as the mining industy has. Bring on the election.

10. G M
Posted June 10, 2010 at 3:08 pm |

when providing risk insurance advice(and we have been doing so for 38 years) we give our clients figures from all of the risk companies we use.
the client makes the decision, not us.
how can there be a conflict of interest in this situation??

11. A
Posted June 11, 2010 at 11:11 pm |

Over the past 14 years of providing advice to clients, I have never had a client raise concerns about the amount of revenue that we receive from the companies. I don't think there is an issue with conflict of interest in the eyes of consumers for the risk/insurance industry.
Their main focus is having appropriate levels of cover, good structure, comprehensive products and receiving the benefit in the event of a claim.