Reform agenda 2022

ClearView is an active and passionate advocate for public policy that strengthens consumer protections and underpins a strong, vibrant financial services industry.

This document details our reform agenda for 2022.

In summary, our top priorities are:

- Simplification of advice to improve accessibility, affordability and quality
- Stable life insurance commission rates
- Sustainable income protection solutions

Simplification of advice to improve accessibility, affordability and quality

The cost of operating a financial advice business has steadily increased, due to heightened regulation and compliance. This is driving up the cost of professional financial advice.

According to the Financial Planning Association (**FPA**), consumers pay around $3,300 for a financial plan or statement of advice (**SOA**) and $4,300 for ongoing advice.[1] That is a 23.5% increase on 2019 for an SOA ($2,671) and 35.5% on 2018 ($2,435).[2]

Furthermore, advice fees are expected to continue rising, reflecting higher costs associated with education and training, industry levies, licencing and professional indemnity (**PI**) insurance.

Consequently, fewer Australians will be able to access affordable, professional advice, despite research by ASIC that quality advice can significantly improve a person's financial position.[3]

ASIC Report 627 - *Financial advice: What consumers really think* found 27% of Australians had received financial advice in the past but only 12% currently used a financial adviser.[3]

The report also found that 41% of Australians intend to get financial advice in the future.

Under the current rules, whether a client is seeking complex or simple advice, the process is the same; clients must complete a detailed fact find, research multiple strategies, stress test each strategy against various scenarios, and present a SOA that justifies the recommendations they make and don't make.

At a time when household debt levels are at an all-time high; more Australians are in or approaching retirement; and the superannuation, tax and social security rules are increasingly complex, there is an urgent need for reforms to simplify advice processes and encourage more Australians to seek advice.

Proposed solutions include:

- The ability for a slimmed down Record of Advice (**ROA**) to replace SOAs in simple cases;
- Tax deductibility of financial advice fees to reduce the net cost to the client and increase affordability;
- Harmonising the regulation of advice to remove duplication and confusion;
- Removal of Safe Harbour steps, as floated by Commissioner Hayne, while retaining the requirement to act in the client's Best Interests; and
- Greater flexibility for advice to the funded by superannuation.

We also urge the government to consider tax deductibility of life insurance premiums to reduce the net cost to the client and increase affordability.

> ***"There is an urgent need for reforms to simplify advice processes and encourage more Australians to seek advice."***

1 2020 FPA Member Research by CoreData

2 https://fpa.com.au/news/the-national-opportunity-that-is-financial-planning

3 ASIC Report 627 - Financial advice: What consumers really think

Stable life insurance commission rates

In most countries, including Australia, consumers can choose how they pay for life insurance advice, be that fees, commissions or a combination of both.

While commission rates vary from country-to-country - climbing as high as 200% upfront and 8% ongoing in New Zealand - we believe current life insurance commission rates in Australia are appropriate, capped at 60% upfront and 20% ongoing.

Further changes are unnecessary and would have a detrimental impact on consumers, society and the life insurance industry, which is already dealing with challenges including:

- Heightened regulation and compliance;
- A widening underinsurance gap;
- Deteriorating advice affordability;
- Declining new business;
- Poor financial performance; and
- Declining adviser numbers.

The commission model is globally-accepted, economically rational and reflects how consumers prefer to pay for life insurance advice.

It enables product manufacturers to cover the full or partial cost of life insurance advice. Without this subsidy, the majority of Australians would not be able to get adequate protection.

The potential unintended consequences of reducing or banning life insurance commissions include:

- Fewer people seeking professional advice and getting adequate cover;
- Fewer advisers providing life insurance advice and those who do focusing on wealthier clients; and
- The financial cost of caring for the sick and injured falling back on families, society and the government.

At claim time, life insurance provides funds to cover living expenses, medical bills and other costs, and enable households to focus on recovery.

Sustainable income protection solutions

The best interests of consumers are served by ensuring life insurance cover is guaranteed renewable. This is how life insurance contracts in Australia and around the world are currently structured, requiring insurers to renew an insured person's cover each year on the same terms until expiry.

We support the recent decision by the Australian Prudential Regulation Authority (**APRA**) to suspend the introduction of a maximum five-year policy term on individual disability income protection (**IDII**) products for at least another two years.

This will allow the impact of recently introduced measures, including the requirement for insurers to design and reprice their IDII products, to flow through.

ClearView has been a strong supporter of APRA's measures to move income protection to a sustainable state and agree that mechanisms other than price must be available to address the risk of unsustainable product terms, however, five year contract terms will significantly disadvantage consumers.

It will give life insurers the opportunity to alter an insured person's cover, increase their premiums or introduce restrictions every five years, if there is a real or perceived change to the portfolio risk, and the insured's duty to disclose changes.

Consumers would be required to declare changes to their circumstances, which may adversely affect the acceptance and underwriting of their policy.

Potential unintended consequences include:

- A significant reduction in the ability of customers to manage their medium and longer term protection requirements;
- A requirement on customers to obtain and incur the cost of detailed advice at the five year point regardless of their personal circumstances;
- Higher lapse rates;
- Reduced ability for customers to claim on cover; and
- Added complexity for consumers, financial advisers and life insurance companies for no material benefit.

An important step towards making financial advice more assessable and affordable is to simplify the advice process and remove unnecessary complexity.

It is also crucial for life insurance solutions, including income protection insurance, to be stable, sustainable and simpler for consumers.