

The Chairperson
Parliament Joint Committee
Future Of Financial Advice
C/O corporations.joint@aphgov.au

27th January 2012.

Dear Chairperson, Your Honourable Senators and Committee Members,

I refer to the ongoing hearings regarding the FOFA proposals. I appreciate the stellar work that you have done with regards to the same.

I noted that comment has been requested by the chair with regards to the issues of payment of commission as a method of remuneration to an adviser when such is related to insurance inside superannuation but where no individual advice has been given to members.

I have presented at numerous past PJC all in connection with financial services. I would like the committee to consider the current Governments proposal that no such commission ought to be paid, and examine whether this is appropriate, fair or consistent.

I have written this as an individual and have not used the letterhead of my licensee so as not to prejudice either my submission or my licensee position which may be different from mine.

The Superannuation Industry (Supervision) Act 1933 Section 62(1)(a)(iv)(v) and Section 61.(1)(b)(ii) specifically permit the payment of benefits to a member prior to the member having attained retirement that are benefits generally funded by appropriate group insurance.

The provisions of those benefits are described in the act as both (core purpose) and (ancillary benefits) A number of adviser firms work entirely in this area of the market, designing and implementing such benefits usually to smaller employer groups. The work is specialist and usually determines to guarantee acceptance of a reasonably higher level of cover for every employee at commencement of employment regardless of their age, state of health or past health conditions.

An employee may not get specific individual advice with regards to the level of cover he/she needs at commencement of employment, most do get advice sometime after. This may be with regards to increasing the level of guaranteed cover, or reducing it if the guaranteed level is inappropriate. Or it may be with regards some other insurance matter

Typically such advisers work in areas where there may be less than 20 employees. A typical premium level may be in the range of \$500 a year per employee and the adviser may receive commission of about 15%. This is about \$1500 each year. If such advice was provided at a cost of hourly rates say \$200, it would amount to less than 8 hours work a year.

Some groups are considerably smaller than 20 and a few are higher.

During the year the adviser provides advice to individual employees when they have claims, and assists the employee to retain the cover should the employee leave the employer. Often at that stage the employee becomes an individual client of the adviser.

We work in this area ourselves. The design process of insurance cover, the assistance with implementing it, and the process of handling claims and employer separations take considerably more than 8 hours a year where there are 20 employees.

Yet to deny the payment of commission would in fact deny the employee access to core benefits as it would remove the ability of the adviser to provide advice in the first place. Core benefits are considered fundamental remuneration entitlements.

The ones who would lose most would be those employees who have a pre employment health condition. If they did not enjoy guaranteed insurance cover at inception they would not be able to buy insurance afterwards.

It seems quite inconsistent that group insurance commission would be allowed if it was not in super, or be allowed if individual advice was received first. Perhaps Minister Shorten has no objection to that because it is a difficult benefit to persuade employers to fund.

The objectives of super surely is to provide retirement benefits for the 75% of the population who reach retirement age, and to provide financial certainty to the 25% who die or are disabled prior to retirement age.

Surely it is an even greater benefit to families, communities and the general tax payer that bereaved families or disabled members have appropriate and adequate insurance cover first and then do not need to rely on the tax payer funded centrelink benefits instead.

I am at a loss to understand why this matter has become such an issue with Minister Shorten. Does he imagine that advisers provide advice to very large employers of thousands of employees and sit back raking in commission for doing nothing?

This is far from the case as I have already explained.

It is with some regret that I did not make an earlier submission on this matter but to be quite frank I like others have just got weary of the whole thing. Like a tired sick old lady who just wants to roll over and die, I some think that the adviser community has been worn down by the endless negativity surrounding FOFA.

To deny commission is to deny access to insurance for the employees who need it. Healthy people can get insurance easily.

It was my own personal experience to be unable to get insurance because of health. Another adviser got me cover and presumably was remunerated by commission as he did not charge me. Later I had an accident, was off work for 4 years for an event not even related to the health problem that made me uninsurable, and for 4 years I was paid my income. This experience has made me a firm advocate of group insurance inside superannuation.

Thank you for accepting my Submission now.

Yours sincerely,

Robert Ross CFP