SUBMISSION TO THE SENATE ECONOMICS COMMITTEE
Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016

I understand that the LIF legislation will shortly be debated by the Senate Economics Committee. I respectfully request that legislation in its current form be scrapped as it is discriminatory, does not assist consumers in any way and is based on incomplete and misleading information. In support of this, I would make the following points.

- The premise that commissions need to be lowered or eradicated on the basis of policy "churn" is flawed because:
  - The ASIC report that came to this conclusion was based on a small number of advisers, selected according to a criteria set by ASIC and were not a representative group of advisers.
  - The number of policies that were described as being "churned" by ASIC were not dissected to discover the reason for replacement by ASIC, but accepted at face value.

- The policy replacement data submitted by the various life companies includes, Policies replaced;
  - within a company by another contract,
  - death claims,
  - maturity claims,
  - policies that were discontinued by a client as no longer being needed, and
  - policies discontinued for a variety of reasons initiated by the policyholder.

- ASIC have used these figures as being an Illustration of policy churn without any attempt to identify those that were ceased for other reasons. "Churn" may be described as a replacement of a policy with another with a different company, instigated by an adviser with no discernible benefit to the client.

- ASIC is ideologically inclined toward lowering life insurance commissions and as such should not be in a position of adjudication over such matters.

- The push is being made by the Big 5 who have a vested interest in lowering commissions.

The Effect on Advisers

- Lowering of commissions would only affect self employed advisers but would strongly benefit the banks who have large numbers of employee advisers.

- Self employed advisers will exit the industry (this is happening now) thereby leaving the advice field to Bank Advisers. Banks are focused on product sales with the bulk of policies initiated by their advisers being with the bank owned insurers. This will lessen completion, disadvantage consumers and make the banks even more powerful.

- Independent Advisers will have to bear the cost of implementation of this legislation whilst at the same time their income is reducing. Bank Advisers will not have these costs.

- The advisers who remain in the industry will need to concentrate on higher earning clients which will mean the bulk of mum and dad clients will remain uninsured

- Advisers who specialise in Risk Insurance will undoubtedly have to reduce staff in line with reduced income.

- It will be near impossible to bring new advisers into the industry and they will have insufficient new income to support themselves. It takes many years to build up an ongoing income stream. This will mean the end of Independent Advice.

- The clawback period of 2 years is unwarranted. It disadvantaged advisers in a number of ways.
    - The adviser is penalised where a policy lapses (discontinues) where they may have not had any involvement in the policy being discontinued.
    - There is no industrywide definition of what constitutes a lapse.
    - It fails to recognise the work done by the adviser on the client's behalf in getting the policy set up.

The Effect on Consumers

- Savings to Clients: There is no evidence that premiums would be lower if commission drops and in fact most companies are currently raising premiums.

- There is no evidence of any consumer benefit whatsoever having been illustrated. Why is the adviser to be saddled with the extra costs and lower income where there is no benefit to clients?

- The adviser may find it difficult to comply with The FOFA Best Interest duty which was meant to protect clients as it may be to the adviser's financial disadvantage.

- Competition will be lower as business concentrates in the hands of the big banks. This will drive up the cost to consumers.

- Clients will remain in products that should have been upgraded.

Other Points

- The Trowbridge report upon which many recommendations are based, was a report by the Chairman and was not supported by any other committee member.

- ASIC Chairman Peter Kell, has acknowledged that there are probably only a few 'bad apples' and the culture and values of institutions are to blame for poor outcomes for some consumers. Why then are advisers being singled out? Should not action be

taken against the institutions? Could this be an illustration of the ideological position taken by ASIC?

Summary
I would respectfully submit that:

- The proposed legislation be dropped in its entirety.
- ASIC be tasked with ascertaining correct industry data on what the real lapse rates (as opposed to maturities and discontinuances) are across the industry.
- ASIC determine a definition of what is a lapse.
- ASIC to determine what the client benefits are from any proposed changes.
- ASIC be required to produce a cost/benefit analysis before submission of any proposed or amended legislation.

Yours sincerely

Philip Burke

I am a 40 year veteran of the Financial Services industry. I commenced as a sole agent with a life insurance company in 1975. In 1983 I obtained a Dealers Representative Licence under the then Securities Code a forerunner to today's national legislation. I have continuously held those licences until now. I am a Life Member of the AFA, a CFP Member of the FPA and a member of the SMSF Association. I have recently sold my practice but continue to hold an active interest in the industry.