Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 85

Topic: Insurance

Hansard Page: Written

Senator Bushby asked:

1. Can you explain the rationale for why commissions have been banned inside super?
2. Why has the same type of insurance advice been treated differently depending on whether a client pays for it out of superannuation of other moneys?
3. Has Treasury considered how advisers are to discharge their best interest duty in the context of differential remuneration arrangements? Is Treasury concerned about the conflict this will create - a conflict that does not exist today?
4. If the total cost (advice plus premium) is lower when the premium is bundled with a commission, why are superannuation fund members not able to choose the most affordable mechanism to take out their life insurance?
5. Has Treasury modelled the impact on under-insurance of this measure?
6. If this measure results in a reduction in insurance coverage, will this ultimately cost the government through increased social security/welfare outlays?

Answer:

1. Commission payments from product providers have the potential to conflict advice provided to consumers. Within superannuation there is an investible amount of money from which to pay for insurance advice as an alternative to commissions. The Government continues to consult with industry on this measure.

2. For insurance outside superannuation there will not always be an investible amount that can be used to fund the cost of advice.

3. It is up to the professional judgment of the adviser, once they have taken into account the personal circumstances of the client, to determine what is in the client's best interests. If an adviser places a client into a product which pays a commission, the adviser will need to be able to justify why that was in the client's best interests.

4. A commission structure does not necessarily result in lower costs for consumers. Payments which have the potential to conflict advice, even where they cross-subsidise advice, can result in sub-optimal or inappropriate cover for consumers or fund members.

5. The objective of the reforms is the provision of conflict-free advice. This is likely to lead to more appropriate coverage for consumers, resulting in greater levels of voluntary insurance take-up and, ultimately, higher levels of appropriate insurance coverage in the community. Ultimately, this would result in savings for Government and the insureds/beneficiaries of life policies.

6. See answer to question 5.