ARA
Authorised Representatives' Association

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Joint Committee on Corporations & Financial Services

Senator Grant Chapman
Chairperson
Parliamentary Joint Committee on
Corporation and Financial Services
Parliament House
CANBERRA ACT 2600

Dear Senator Chapman

INQUIRY INTO THE DISCLOSURE OF COMMISSIONS ON RISK PRODUCTS

The Authorised Representatives' Association has much pleasure in providing a submission to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the Disclosure of Commissions on Risk Products.

The ARA represents the views of Authorised Representatives to AXA Australia. We are a non-for-profit organisation, financed predominantly by our members. The organisation has over 600 members who are active Financial Planners. Our objective is to provide support and guidance to members through paid staff, board and member sub- committees.

Although we are a small industry body within the Financial Planning Industry, our structure allows us to accurately identify the needs and expectations of our members and their clients. We are able to highlight and act on a range of issues that may influence generation of business for our members. AXA views our association as vital to helping them achieve their goals and objectives. The ARA is also a vehicle that can identify potential problems from the consumer's perspective, so they can be acted on quickly, and solutions provided.

On average our members have between 10-20 years experience in the Financial Services Industry, many are well regarded as key advocates of the industry. Our members are either part of a business or are running their own businesses. Revenue in the form of commission paid to advisers for risk insurance products, provides a large portion of our member's business income and is the lifeblood of these businesses. Our members consider any issue regarding commission is a matter of high priority for their association.

Consultative body to AXA Financial Planning, Charter Financial Planning and Altius Financial Services

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Position on Risk Commission Disclosure:

The ARA (endorsed by a recent survey of members) takes the view there should be a comprehensive disclosure of commissions, fees and bonuses on investment products as these fees and commissions have a major material impact on the investment outcomes for our clients. However, we view Risk Products as a different product and service to investment products and consider disclosure of commission will have a detrimental impact on both the adviser and consumer.

Reasons for Non – Disclosing Risk Commission

The ARA believes the consumer has no interest in the level of commission when purchasing a risk product. The client is interested in only the following 4 criteria:

1. The ability of the institution with whom he is insured to pay the claim. i.e. The institution must have a AAA claims paying rating.
2. The attitude of the institution to paying claims. i.e. The client wants to deal with the claims department, not the legal department at claim time.
3. The policy or contract wording. i.e. Is this the best/most suitable contract in the market for the client.
4. The cost of the contract. i.e. Is it competitive if the first 3 criteria are met by alternative underwriters.

The consumer's concern at the point of sale will always be, the benefit at claim, and if the product will meet his or her needs. Value for money will always change with risk insurance products. It changes significantly at the point of claim.

We believe commission disclosure will harm the support to the client at claim process. If as a result of disclosure, there is a reduction in commission, there will be a reduction in the support to the client at claim time. Following the September 11 New York Trade Centre disasters, those clients, who had purchased life insurance over the internet or directly from the institutions without the aid of advisers and therefore without commission, had no support whatever with their claims. The association of commissioned advisers, the MDRT, arranged volunteers from their membership to provide that support.

The support for the victims of the tragic bush fires in Canberra, will come from insurance advisers who received commissions at point of sale and do not charge extra fees to provide assistance at time of claim. This is a significant part of our argument for non-disclosure of commission.

We also consider commission disclosure on risk products is of no assistance to the consumer in making the buying decision, as it does not provide information on the relative cost structures of the competing product.

Presenting a Risk Product and disclosing commission therefore has no impact on the value of the product. The premium will always remain the same. If commission is disclosed up front, say for example is stated in a product document, the consumer may wish to purchase off the shelf risk products based on price alone. He may not wish to engage an adviser and will not fully understanding the true value he will receive is from the adviser, often at the point of claim.

Our ARA members, who are all involved in providing risk products, are able to provide case studies where commission paid by the client covers not only the advice at the point of sale, but at the point of claim. This is an important point and often overlooked by government and industry bodies that do not have an intimate knowledge of the insurance business of financial planners.

Our members are the first point of call by consumers when a claim process begins. The adviser will in most cases have built a relationship with the client and it will be the responsibility of the adviser to follow through and support his client to ensure they receive adequate compensation. Often our members will take issues on behalf of the client to the product manufacturer.

The adviser will not charge for this service as it is covered by the commission. To pursue disclosure of commission of this product within a competitive market place will force advisers to reconsider the service levels. Our members believe that with disclosure of commission, competition will force commission rates to fall but premiums will stay the same. The savings will not be passed to the clients but will go to boost the profits of the companies. The clients will be the main losers.

This will have a detrimental impact on the community, in particular where there is large number of claims arising from community tragedies. In those most recent bush fires in NSW and ACT, our members were actively meeting with clients who were needing to make claims and working through all their issues and ensuring they were following the correct procedures to achieve an appropriate settlement.

Risk Insurance products can be complicated and in some cases required Risk specialists to ensure the products are presented and sold effectively. The ARA acknowledges that a number of their members are specialists in provision of risk insurance and any reduction in commission due to disclosure, may have an serious impact on their business viability.

Small business owners are in a vulnerable position, if there is an onus of the self-employed small business adviser to disclose commission on risk products; this provides an unfair advantage to any competitor working in a salaried position. Banks employees on salaries will not have to disclose commission and this could be perceived and promoted as providing a more cost effective product to the consumer.

The cost to the consumer of product distributed by commissioned advisers or by salaried employees has little difference. If it were so, the salaried distribution process would have the majority of the product sold. The price of the product is determined by the manufacturer and he must factor in the cost of distribution in the price.

Online purchases are available but the reason that it is not the norm is because the consumers are not provided with adequate advice. in one recent example a consumer trying to access cover via the internet was declined cover as he failed the risk threshold. He is still not insured against sickness, trauma or income protection. This is a common problem where special insurance needs are not met by insurers. In contrast, advisers would work with their clients to find a range of options. The cost of the service must be recovered through commission. Discloser of commission in this scenario would put further pressure on the adviser-client relationship

Our members also argue that if risk insurance commission is to be disclosed then all commission based goods or products must disclose their commission. There are ranges of products that attract commission and must be considered.

Conclusion

The ARA view is that disclosing risk commission is detrimental to the welfare of our clients because of a definite decrease in service that will result. Statistics show that financial advisers who don't have a background in risk underwriting, do not provide this advice to their clients as a priority within their businesses.

The reasons are the perceived difficulty in this market and lack of experience and also in determining the appropriate method of remuneration. Charging fees at time of claim is very difficult and if there has not been adequate provision for remuneration at some time in the delivery process of the product for the adviser, and then he will simply leave that market. This will be the result if commission disclosure is introduced for risk products. We believe this process is unnecessary and does not add value to the client during their decision making process.

We sincerely believe if the disclosure of risk commission is pursued, consumers will seek the cheapest commission rate without fully understanding the consequences. Professional Insurance advisers will not benefit from remaining within the industry and will cease writing business. At that stage clients will be unaware of the stress that happens during a claim. By then it will be too late.

We encourage the Committee to view our concerns as a true and accurate representation of the financial adviser and make your recommendation and support the non-disclosure of commission on risk products.

Yours sincerely,

Nick Koerbin
ARA General Manager
On behalf of the Board of the ARA.