



**MAWSON  
GROUP**

OF COMPANIES

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The Secretary  
Parliamentary Joint Committee on  
Corporations and Financial Services  
Room SG64  
Parliament House  
Canberra ACT 2600

**Re: The Disclosure of Commissions on Risk Products**

**The Committee**

Mawson Group Australia Limited, is one of the largest independently owned licensed Security Dealers in this country. As well as supporting Licensed Financial Advisers and Life Broker Representatives our background includes operating as General Agents supporting Life Insurance Advisers.

The substantial changes that have been imposed on our industry has had a major impact on our business. Complex compliance regulations has led to our management team having to be upskilled and huge costs to our business associated with this. We believe that our vast experience on the Life industry gives us a certain responsibility to provide your committee with our comments.

**Mawson Group Australia is opposed to the Disclosure of Commission on Risk Products.**

A number of different government inquiries over the past 10 years have discovered the same result.

- The disclosure of Commission in a Risk Contract does not change the benefit due to be payable to the customer in an insured event.
- Disclosure adds complexity to the insurance process that does confuse the customer.
- Misleading Customers with inaccurate information on commissions
- Further it supports the development of the big end of town at the cost of the small business, the adviser.

Further comment supporting our stance is included in our submission.

Yours faithfully

Peter Johnson  
Chairman  
Mawson Group of Australia Limited

# **The Disclosure of Commissions on Risk Products**

## **A Submission from Mawson Group Australia Limited**

### **1. The Impacts on Risk Contracts**

The insured Risk Contract supplies a Benefit in money if a specified event occurs, such as the Death or Total and Permanent Disablement of the insured. The benefit to be paid if an event occurs is in no way linked to the level of commission paid. Neither does the level of commission determine the length of the contract or the terms at the termination of the contract by the insured.

The customer is most concerned with the adequacy of the benefits to be paid in what event and to the premium that is payable for coverage of those events. Commission is not important to the customer in the exchange, unless the adviser is representing only one contract with one company and can select commission options. (Sole Agent Companies and banks are able to manipulate the situation but there is no evidence of this happening.)

### **2. Disclosure Adds Complexity**

The consumer today is faced with information overload. In meeting the life adviser for the first time before the consumer even gets to talk about the issues he or she feel are important the adviser needs firstly to provide their Duty of Capacity or the Adviser Services Guide, a copy of the Privacy Policy of the Dealer. As well our Dealer/Broker requires that the customer sign off that they have received these documents as a part of the dealership compliance.

The issues revolving around risk are highly personal and require thoughtful maturity from the customer as they deal with their own mortality and morbidity. Not many people are happy to consider their own death and the consequences to the family. The inclusion of commission disclosure in this way at this time is offensive and inappropriate.

### **3. Misleading Customers with Inaccurate Information**

*“Treatment before Diagnosis is Malpractice”*

Almost all industry distribution payments are structured around a base level with volume incentives. The actual rate of the remuneration to be received is actually not known by the adviser at the time of the interview. This is because of the long lead times to complete business. It is normal for cases to take over three months from inception of payment assuming only moderate issues and delays in relation to medical information. The adviser will be unlikely to be providing accurate information on the commission involved to the customer. If it is not accurate it is likely to be misleading.

Also, regularly customers have the proposal re-rated by the assessment and underwriting process. These changes often change the commission structure for the adviser. Each change will mean another advise to the client changing the focus from

the benefits and needs for the cover to the amount of commission received by the adviser.

The customer does not see the full scale of the work the adviser undertakes on behalf of the customer. The skills and business training needed. The ongoing file maintenance and service responsibilities as well as continuing professional education. The interaction between the customer and insurer at time of claim. It is unlikely the customer will recognise or pay for the level of commitment the adviser needs to carry in this personal relationship.

The submission from the regulators calls for commission disclosure up front before any discussion begins. This is impossible, because unless the needs are discovered, the solutions can not be identified and the price of the solution cannot be disclosed. It is absurd. "I want to talk to you about your life insurance, I don't know what you want or need, or what it will cost you. But I have to disclose my commission will be between 10% and 100% of the premium." Would any person continue that interview?

#### **4. Movement Disadvantaging Small Business**

Historically individual agents running small businesses have sold Life Insurance. The companies were supposedly responsible for the actions of their agents. The regulation moved to make the companies really responsible for the actions of their agents and the companies quickly distanced themselves from the distribution. In place developed distribution companies to supervise agent businesses, often these were subsidiaries of the major insurers and banks.

The face to the customer is still human and still likely to be a small business. But we are seeing the development of practices and the introduction of one-stop shops for all financial services from loans to investments to insurance. There is a concerted move towards having salaried advisers attacking an attached database for product solutions whether an accountant's practice or a bank customer lists. The difference being the bank through privacy infractions can require insurance cover to protect loan or mortgage positions.

A small change in the commission structures would make many individual small business advisers both non-competitive and unprofitable. Many small business advisers have left the Life Insurance industry in the last 10 years of change, not all were rogues. There is now less competition but remuneration has also decreased substantially, making more advisers businesses marginal.

Not every appointment for a small business adviser leads to a sale. It may be only one in three prospects actually become customers. Like all small business in Australia it is largely results focused. You can do plenty of quotes, but only the business you get do you get paid for. In previous administrations we have seen substantial differences in what a bank adviser has disclosed (sometimes nothing) to what a small business adviser has been required to disclose. This difference has created anger and frustration in the industry.

Many advisers (even those who run small business) are now paid a salary with incentives based upon performance. The business receives a gross amount of remuneration for a case and pays all the expenses to run the business including salaries with a profit distribution at the end of the period. How can the small business operator compete with the large institution if disclosure is not uniform?