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Licensed Dealer in Securities
Registered Life Insurance Broker

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Joint Committee on Corporations & Financial Services

The Secretary
Parliamentary Joint Committee
On Corporations & Financial Services
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam,

SUBMISSION ON ENQUIRY INTO THE REQUIREMENTS UNER THE FINANCIAL SERVICES REFORM ACT 2001 TO DISCLOSE COMMSSIONS ON RISK INSURANCE PRODUCTS

As a Certified Financial Planner with in excess of 13 years' experience I would like to voice my concerns in relation to the proposed legislative changes to disclosure on risk insurance products.

Firstly, I would just like to say that I am in full support of full disclosure of fees/brokerage and management expense ratios for all investment funds as a client certainly does need to be informed of the costs which will be deducted from any potential earnings from funds which they have elected to invest. This has now through regulation turned into quite a simple process where all fees, charges and costs can be clearly segregated, in most cases, in a prospectus. However, when it comes to risk insurance products it is quite a different proposition as the commission, be it advisory fees, is only one portion of the costs involved with the placement of a risk insurance policy with a life office. If full disclosure is to happen with risk insurance products it should therefore be mandatory that life offices disclose all their operating costs to the client so that they then can be well informed as to what the actual real cost of the life cover is and what is the actual split between the life office and the adviser. We would then be on a level playing field with disclosure across investment advice and providing advice on risk insurances.

It has been my experience during my years in the industry that clients are interested only in obtaining the best available cover based on definition for the most competitive price. Our advice has always been directed toward meeting each clients' individual needs and objectives and to this end the amount of commission we as Advisers receive from a product provider has no impact on the client's final decision.

Disclosure of commission when providing advice on risk insurance products is a complicated and complex process and if we are truly going to disclose such commission over the number of years the client holds the product, we would need to disclose the commission we would receive 'upfront' and the 'ongoing commission'

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we receive for each year the policy is held by the client. This process must then by necessity take into account a number of possible outcomes, for example, will the client accept the CPI increase and hence a stepped premium? Will the client accept such each year? How far ahead will we by law be required to project calculation of commission? Will we as advisers be required to inform the client each and every year on renewal of the policy the percentage commission we receive?

Now to the breakdown of the commission. As an Adviser under the umbrella of Associated Planners Financial Services Limited ('APFS'), the process again is complicated by the percentage of commission APFS takes, the percentage the principal of the firm holds and the percentage the adviser providing the advice retains. Taking into account that some advisers are contracted as employees (as is the case in Banks and other financial institutions) there is then concern that we need to calculate the proportion of the commission that the employed Adviser providing the advice receives as part of his remuneration package.

Of particular concern to me is the push by Banks and financial institutions who only employ salaried Advisers not to disclose commission. Do the Banks or financial institutions receive commission on placing risk insurance products? I would think so and therefore would question the validity of their not being forced to disclose commission, whether the salaried adviser or the Bank/financial institution receives the benefit of that commission. Does the salaried adviser receive a 'bonus' or other financial incentive for placing risk insurance policies? I would think so. Shouldn't then this be disclosed by the Bank/financial institution in precisely the same way we are currently disclosing commission on placing risk insurance policies?

Another area of concern is the emphasis on disclosure by advisers whilst legislation continues to ignore placing onus for disclosure on the product provider – what happens with the client's money from the placing of the product? What is the actual cost to the product provider? What happens to their premium each year? How is the sum invested so that sufficient funds remain with the product provider in the event of a claim? What is the profit margin? What percentage is used to run their international and national offices? What does their CEO receive by way of incentive or performance based bonuses? What percentage is apportioned to a person's salary?

As a consumer myself (as we all are) I have yet to question any person, other than a real estate agent or solicitor providing a service or selling me a product, the break-up of the moneys they receive from the sale of an item to me, whether it be a biro or a larger purchase.

Real estate agents have regulated guidelines on disclosing the percentage they will receive on the sale of a home which they can then negotiate with the vendor. Such is the case with Solicitors who are able to set their hourly rate or provide clients with a schedule of fees, which again can be negotiated. However, as far as I am aware, they do not then have a duty to disclose what percentage of those fees are directed towards provision of back office services or how much they eventually pocket themselves.

Whilst I am of the view that the industry will benefit from regulation, I am also of the opinion that such regulation can be 'fine-tuned' to the point of being onerous and of no benefit to the client. I don't support and I disagree with disclosure on risk insurance products as the extent of disclosure to which the industry appears to be heading is of little value to the client who, in the long term, still wants the maximum cover with the best benefits for the minimum cost.

Please contact me should you feel it would be of benefit to your Committee for me to expand on the points raised in this letter.

Yours faithfully,

SANDY DUNSHEA
Authorised Representative
Associated Planners Financial Services