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POLICY MAY ADD TO UNDERINSURANCE

Q As part of the FOFA announcements, is the Government right to ban life insurance commissions in superannuation? How will this impact you, your clients and business?

Daryl La'Broy CFP®
Financial adviser, Iris Financial Group
(Licensee: Iris Financial Group)

Life insurance commissions have been in existence for hundreds of years, ever since the product was invented on the back of general insurance policies which became common in the late 1600s. The FOFA reforms were announced by the current government following two separate inquiries launched by the Rudd Government after the collapse of Storm Financial and product failures cost consumers billions of dollars in investment losses. None of the scandals and collapses involved misselling of risk insurance policies. However, the Government took the opportunity to look at the payment of commissions on risk products because it was also looking at the issue of commissions on super and investment products, and the fact that financial advisers were involved in the sale of all three.

If the FOFA reforms are all about preventing future product failures, poor advice, avoiding conflicts of interest and lifting standards; banning life insurance commissions within super doesn't address the problem. It can be argued risk commissions lead to a conflict of interest but then why allow it to apply to non super products? Conflicts of interest exist in most professions, they have to be managed rather than eliminated. For example, a doctor recommending elective surgery to a patient creates a conflict of interest as he/she gets paid for the operation. An accountant recommending a Self-Managed Super Fund (SMSF) to a client also creates a conflict of interest at face value as he/she gets paid for the ongoing work associated with the SMSF. Both professionals would provide very good arguments as to why their patient and client were recommended these courses of action.

If the ban on risk commissions gets through Federal Parliament it will have a big impact on consumers as they'll have to pay for risk advice even if they can't actually get risk insurance (currently it's on a success fee basis via product commissions) and it won't be tax effective.

If consumers aren't prepared to pay for my advice on a fee-for-service basis, then it will impact my revenue and business. Some consumers may be prepared to pay for advice on risk cover within super but the amount of the payment may not be high enough to cover one's time.

Charles Badenach CFP®
Private Client Adviser and Principal, Shadforth Financial Group
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— Pricing insurance advice on a 'fee-for-service' basis is going to be difficult as there is a reluctance by the public to pay for this advice.

The Federal Government's decision to ban life commission in superannuation is difficult to understand. This approach lacks consistency in that if the government has made the decision to ban commissions on insurance products, then surely this should be applied uniformly both inside and outside of superannuation. Banning commissions on insurance products within superannuation has inadvertently created a two-tiered system, and as such undermines public confidence in the system.

Pricing insurance advice on a 'fee-for-service' basis is going to be difficult as there is a reluctance by the public to pay for this advice, particularly when seeking single issue advice such as how much insurance should they have. Accordingly, this is likely to substantially increase the level of underinsurance in Australia, as people opt to 'self insure'.

The ban on commissions will have a significant impact on the industry generally. However, a number of years ago the Shadforth Financial Group transitioned to a 'fee-for-service' model, and as such we do not rely on insurance commissions as a revenue source.

Whether or not the insurance is held within or outside of superannuation will still depend on the circumstances of the client and what is the most appropriate for the client. Being paid a commission for one structure versus another would have no impact on the advice that we would provide.