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# Counting the cost

## IFA Cover Story

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A ban on risk insurance commissions in superannuation would wipe away at least $1 billion in commissions in 2011, rising to $2 billion by 2017, according to estimates by Rice Warner Actuaries.

However, industry participants are still scrambling to put a price tag on what Financial Services Minister Bill Shorten's proposed ban on commissions on risk insurance within superannuation might cost the industry in terms of lost business or even lost jobs.

The ban is part of Shorten's Future of Financial Advice (FOFA) reforms and, if approved, it would take effect on 1 July 2013.

"Ultimately, it depends on what form that takes," Count Financial managing director and chief executive Andrew Gale says.

"The concern people have with removing commissions on insurance, especially on individual insurance, is the extent to which it might exacerbate the underinsurance issue.

"If that ends up being an obstacle to people taking up the cover which they otherwise might, I think that would be unfortunate for the consumers."

CommInsure retail advice general manager Tim Browne says it is too early to tell how much the ban would cost the industry, but it is likely it would boost insurance prices, putting risk protection out of reach of a great number of Australians.

As a result, the big cost would be borne by government, Browne says.

"This is where people will turn when ill or injured and unable to work and without personal protection in place," he says.

CommInsure's insurance income for fiscal 2010, the latest available, totalled $945 million, up about 2 per cent as solid volume growth was partly offset by higher claims.

### Would the move shrink the workforce?

Browne says the measure could lead a greater number of advisers to retire earlier than planned, rather than grapple with costly legislative changes.

Gale says the ban, if effected, would have an impact on the wealth adviser's operations.

"To the extent that it had an impact on demand or the level of business done with us in the individual risk business, it would have some impact on us in that regard," he says.

Rice Warner director Richard Weatherhead says the numbers in the company's survey, released a year ago, remain accurate - save for one thing.

"Clearly they are before any FOFA changes," Weatherhead says.

Investment Trends analyst Recep Peker says financial planners derive 15 per cent of their practice revenue from upfront risk commission and 10 per cent from ongoing, or trailing, risk commissions.

A recent survey by the financial services research company found the percentages had been expected to remain at those levels next year and beyond.

"When we conducted the survey, the government had not announced that they would be banning risk commissions so they were expecting to derive a similar proportion of their revenue from commissions in 2013 - but we will have to see whether that changes," Peker says.

However, Gale says the issue has a long way to go due in part to the debate that is sure to accompany the proposed ban.

"In our case, we still have a very strong focus on growing our wealth protection business," he says.

Count's annual results for fiscal 2010, the latest available, showed its wealth protection division's premiums in force rose 17 per cent to just over $40 million and new business was up 22 per cent to $8.6 million.

"Growing the estate planning area is very important to us because growing the estimate planning and wealth protection typically go hand in hand, so that will be a strong driver of future growth. We are expanding the panel of insurers, so we've actually got a fair push on in terms of being stronger in the wealth protection space," Gale says.

Questions remain over the best way forward for risk insurance within super, dividing the industry over the best way to charge for the insurance without worsening Australia's dire underinsurance problem.

### The high cost of confusion

Association of Financial Advisers (AFA) chief executive Richard Klipin says the policy is confusing because it only bans commissions on risk insurance obtained within

superannuation. And confusion costs money.

"Anything that's going to make it more complex and more difficult for Australians to get appropriate levels of advice will shrink the pie before it grows it," Klipin says.

Asked about the potential cost to the industry, he says the government may have an idea.

"Before you make significant policy changes, you would expect the government would have commissioned some modelling on the impact that this would have on the industry, on employment, on the cost to consumers, on the likely impact of cover on the marketplace," he says.

"We expect the government to have commissioned this research. We would welcome and we're calling on the government to release it because this will provide clear evidence as to the impact of the FOFA broadly, but particularly in this area of insurance."

However, Quantum Financial Services says the real cost comes from the commission system.

Quantum says the average life insurance commission is 30 per cent. However, the Sydney-based wealth manager says the commission system actually adds 43 per cent to the price of insurance because the price of advice is buried within.

"That means 70 per cent is product and 30 per cent is commission," a Quantum spokesman said.

"Without that commission in there, it would just be the product price. Put 30 over 70, you get 43 per cent: so the commissions drive up the prices by 43 per cent.

"We believe that commissions actually cause underinsurance. They reduce competition at the consumer level, keep prices artificially high and dampen demand.

"Price is a key driver of demand of any good or service, and when it comes to life insurance, commissions are a key driver of price. We think it is a no-brainer that lowering the price will encourage demand."

Rob Walsh, who oversees Ernst & Young's regulatory and compliance practice, says there are a range of assumptions making the rounds.

However, if Quantum is right, 43 per cent of the price of life insurance is effectively commission.

"I think most people accept that if there's a problem with the quality of advice, it relates to how people are compensated for that advice," Walsh says.

Mackay says the market has failed to regulate itself in terms of commissions on insurance products, leaving only two options.

"One, the government has to step in. You could argue that they've done this with the insurance cover in super and the MySuper default protection," he says.

"The other solution is, what else motivates consumers? The key thing is price."

## A better way

Gale says Count wants to get involved in public policy debate on the matter because the proposed ban, as it stands, would distort insurance advice across the market, weakening the level of advice given to consumers looking to get life insurance within super.

"I think it's pretty obvious that that can lead to potential distortions in advice. Given that one of the key objectives of the reforms is to minimise, reduce conflicted advice, this looks like an adverse policy setting," he says.

"It would be more sensible, and far preferable, if one is going to make the distinction, to have the distinction based on group and individual, rather than whether things are inside or outside super."

## Controlling one's own destiny

Deep change often sparks innovation and Klipin says the advice industry will adapt.

"There is a range of doom and gloom scenarios out there that proposes that in 10 or 15 or 20 years' time, the number of advisers out there will shrink. The AFA has rejected this as alarmist data," he says.

He adds that only two in 10 Australians get advice and even fewer have appropriate levels of insurance cover. "As a profession we haven't touched the sides in terms of providing advice to the Australian community," he says.

The financial advice industry is full of savvy people who will work through the FOFA changes, he says.

"In a sense, they'll prevail because their community and their clients need their services. We operate in an industry that is a necessity, but we need to communicate more effectively the value of that," he says.

Meanwhile, Gale says Count is certainly not sitting around awaiting a government decision on risk commissions.

"To a certain extent, even if there were any deleterious effects from the public policy settings, we're great believers that you should manage your own destiny," he says.

"We're putting in place the changes to make sure that we get growth in that space in any case."

He declined to elaborate, as did Count wealth protection manager John Mihail, appointed in June to expand that arm of the business.

Browne says CommInsure is well positioned for change and remains committed to the advice channel.

"We have kept a watching brief on these developments. As part of the broader Commonwealth Bank Group, we are well placed to adapt to potential changes in legislation," he says.

"We believe that the best client outcome will always come through individual, tailored advice and we remain committed to the advice channel."

Klipin says innovation or no innovation, the proposed ban fails the clarity test for consumers.

"From the insurance point of view, whilst there'll be innovation and change, bad policy is bad policy; confusing policy is confusing policy. That debate will continue until it's either won or lost," he says.

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