Planners divided on life insurance reforms

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Among proposed changes for the life insurance sector are a cap to controversial upfront commissions to 60 per cent of a policy's premium in the first year by 2018. *Photo: Peter Braig*

Financial planners are split over the impact incoming regulatory changes will have on their life insurance businesses, with some arguing the proposals will deal serious blows to the profitability of their companies.

It has been more than a week since Assistant Treasurer Josh Frydenberg unveiled a series of changes proposed by the life insurance industry to improve business conditions in the beleaguered sector. Among the proposals are a cap on controversial upfront commissions to 60 per cent of a policy's premium in the first year – a massive fall from the current 120 to 130 per cent – by 2018.

Financial adviser Russell Cain, who is also the chief executive of Life Insurance Direct, said more data was needed before the government and industry made changes to the ways advisers were remunerated.

"Fundamentally I think it's extremely challenging. We would think that 60 per cent upfront commission would be challenging and basically the revenue line is too low," he said.

But Matthew Walker, a financial adviser with WLM Financial, said the reforms were a "very positive" first step to restructuring the life industry.

WLM, which charges clients fees instead of commissions, believed the proposed changes struck a "reasonable balance between trying to get commercial viability while making life insurance affordable for consumers".

"Hopefully it will be implemented without too much fuss," Mr Walker said.

Commission cap

Advisers would face a commission cap of 20 per cent on life insurance premiums in the trailing years of a new policy from January 1 and a ban on volume-based payments. The reforms will also include a three-year "clawback" period that will force advisers to pay back 100 per cent of their client's first-year premium if a policy is cancelled, before tapering to 60 per cent for the second year and 30 per cent for the third.

Calculations show that financial planners could lose more than $225 million a year in revenue by 2018 if changes to commission structures were to be fully implemented.

Former Australian Prudential Regulation Authority member John Trowbridge tabled a report to tackle the problems in the industry earlier in 2015, including caps to commissions. Mr Trowbridge has echoed his support for the latest set of proposals, but pointed out that they should be the first steps in a larger plan to tackle the life insurance industry's problems.

John Flavell, chief executive of Mortgage Choice, which has a financial advisory business, said capping controversial upfront commissions was "too extreme".

"We have a massive under-insurance problem in Australia – a problem that would be exacerbated if commissions were cut and fees were charged by advisers.

"We believe advisers should be given greater upfront commission – in the realm of 70 per cent. In fact, a better commission structure would be 70/30 – 70 per cent upfront and 30 per cent trailing commission."

One financial adviser who declined to be named said he did not see any commitment from insurers to lower their premiums as a result of the changes.

Lower prices

"The insurers are all out in the marketplace telling advisers they should now charge fees to top up commission payments. I thought these changes were meant to result in lower prices for consumers, not higher prices," he said.

"[It] will be interesting to see where things sit in three years, but I think that this whole discussion has been driven by the insurers, without regard for anyone other than themselves."

Insurance giant TAL has backed the proposals and said they were an "important step forward for the life insurance industry".

Commonwealth Bank of Australia group executive of wealth management Annabel Spring said the phased commission changes provided clarity for advisers as they adjusted their business models.

"We are committed to ensuring advisers are supported as the changes are implemented," she said.