28 August 2012

Mr John Brogden
CEO Financial Services Council
24/44 Market Street
SYDNEY NSW 2000

Dear John

REPLACEMENT AND 3 YEAR RESPONSIBILITY BUSINESS

It is bad enough that we have to deal with FOFA (Future of Financial Advice), but now we have the FSC (Financial Services Council) representing Life insurance companies and Fund managers proposing restrictions on replacement business and -introducing a 3 year responsibility period on commission.

It is with due respect that I say that very few executives of life insurance companies have been advisers, albeit for a short period. Therefore I do not think they fully understand the consequences of the intended above action.

What are the consequences of this?

- Lower premiums are always a consideration for clients, but the proposed changes will stifle competitive pricing between life companies and advisers.
- It will protect inferior products
- Production of new business will decline due to these changes.
- Financial risk of new business will increase for advisers, but there will be less risk for life companies, due to the 3 year responsibility period.
- New advisers to the industry will find the responsibility period particularly difficult and many will not survive.
- De-motivation of advisers with a write-back of 75% commission in the second year 50% in the third year and reduction of earning capacity due to 5 year term and level commission.
- Online companies that provide band-aid solutions for people will have an unfair advantage when replacing policies at a client's request.
- Recruitment and employing new advisers will be more difficult.
- There will be a further reduction in the number of existing advisers even though we are considered to be a resilient and a positive group.

In the 1970s and 1980s and prior to this period, the 2 year responsibility period was a disaster, even at that time with minimal regulations and compliance because it created an extra financial burden for the advisers and achieved very little.

It is difficult to justify its return extended to 3 years when it will do little to change lapse rates. The current 1 year responsibility period has been profitable for many years for life companies. Otherwise I am sure the actuaries and management would be calling for changes.

The statistics seem to be missing regarding the number of replacement policies and in particular the percentage that “churning” represents vs policies in force. Nevertheless, it is a very small percentage who transgress, and to my knowledge these companies should be able to identify those advisors they consider to be the main culprits of “churning”, and act accordingly assisted by Licensed Dealers.

The worst aspect of the 3 year commission clawback period is cancellation of policies by clients, outside of our control, due to many circumstantial changes such as financial problems, unemployment, divorce, change of mind etc

It almost seems that the life companies are in self-destruct mode, because these changes, in a nutshell, from an advisers point of view, are anti-competitive, anti-incentive and anti-productive and not in the best interests of advisers or clients.

What we need from life companies right now, more than ever, is support for our mutual cause and image of the industry and to this end, to counteract our opponents, by using the same methods they employ against us, that is, political pressure, advertisements and the press .

Advice and selling financial services is challenging enough in fact it has become an absolute minefield ,so please, do not go ahead with the proposed changes as they will not only not get the desired result but instead will drive advisers away from the business.

Yours sincerely

Peter Corrie

Cc INTERESTED PARTIES