CORPORATE SUPER SPECIALIST ALLIANCE

# Response to FoFA Draft Legislation Tranche 1

The Corporate Superannuation Specialist Alliance (CSSA) would like to respond to the Governments draft legislation announcement for tranche 1 of the Future of Financial Advice (FoFA) reforms.

## Best interest obligation

In principal we have no issues with the proposed best interest obligation. Our only concern is the possible impact on Professional Indemnity availability and premiums and we ask that the Government look into this impact.

## Opt-in

We remain opposed to the proposed opt-in legislation. If advisors are no longer able to receive commissions on investment products, are required to act in the clients best interest, and are required to provide clients with an annual statement detailing the fees they are charged, the services they receive in return for the fees paid and allowing the client to opt-out from paying these fees at any time, then opt-in is a totally unnecessary impost. Opt in will do nothing to assist consumer protection or reduce the incidence of product failures. To suggest the cost of opt-in is only $11 per client is unrealistic; opt-in will increase costs and these costs must ultimately be borne by the client. This will lead to a reduction in the number of Australians who are able to receive affordable financial advice. This is directly opposed to the stated objectives of the FoFA reforms.

## Enhancements to ASIC's powers

We support the proposed provisions to enhance ASIC's powers.

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**Treatment of Insurance Commissions**

We are supportive of the Government's decision to modify its position on the ban of life insurance commissions within superannuation, however we feel that the distinction between personal and group insurance policies is not the correct distinction and that if there is to be a ban on life insurance commissions within superannuation that this ban should only apply to non-advised group insurance in MySuper and other default funds.

Group life insurance that is provided within a corporate superannuation plan is often significantly less expensive than personal life insurance. There is no up-front commission paid on group insurance and therefore no claw-back and no issues with churn. Commissions are paid on a level basis, and are significantly lower than commissions paid on retail insurance policies, therefore reducing the premium cost. There is no guarantee that the removal of commissions from group insurance will result in a corresponding reduction in premium rates.

Advisors who advise on and provide services in relation to group life insurance will generally:

- negotiate better terms and conditions for their clients; such as lower premiums and higher automatic acceptance levels
- monitor the insurance policies on a continuous basis, correcting errors that occur, overcoming administrative issues, and ensuring the insured members obtain the cover they are entitled to, with the correct occupational rating, therefore reducing under-insurance
- assist with life insurance claims; this helps to ensure when someone makes a claim that they receive their full entitlement in a timely manner
- assist with underwriting additional insurance requirements, beyond the automatic cover provided
- conduct financial literacy and education seminars, personal on-site meetings, and distribute newsletters in the work place
- regularly review the group insurance to ensure premiums remain competitive and that the cover provided remains appropriate

Members of advised group insurance policies generally have insurance cover provided on a "formula" basis, which assists to provide the insured with a level of insurance cover that is appropriate to their needs at their particular stage of life. Formula driven insurance generally provides more cover when it is required, and reduces cover as members get older. The benefit of this approach is that cover is reduced as people get older and premiums become more expensive, therefore helping to improve retirement savings while still providing appropriate cover, if required. Cover can be tailored to each individual's needs at their stage of life and can be cancelled if not required.

Banning commissions on advised group policies within superannuation will in fact have the following impacts:

- reduce access to financial advice on insurance matters for working Australians
- increase the incidence of underinsurance, thereby increasing the public's dependence on social security
- make it more difficult for advisors to comply with their best interest obligation, as they will not be able to receive payment for advice on group insurance but can do so on individual insurance
- increase insurance "churn" as group insurance will be replaced or supplemented by individual policies
- if more expensive individual policies are used for tailored life insurance solutions, this will increase the cost of life insurance for working Australians

All of these outcomes are contrary to the Governments stated FoFA outcomes. It therefore makes no sense whatsoever to ban commissions on advised group insurances in superannuation.

**Extension of ban on soft dollar benefits.**

The CSSA is broadly supportive of these changes.

**Application of reforms to stockbrokers.**

The CSSA has no opinion on these reforms.

**Grandfathering of existing arrangements.**

The CSSA welcomes the proposed grandfathering arrangements, however we ask for more clarity around the treatment of corporate superannuation and group insurance contracts.