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O'Dwyer takes tough line on insurance commission

Joanna Mather

The federal government will resist pressure from elements of the $60 billion life insurance industry to water down new laws banning hefty upfront commissions.

Financial Services Minister Kelly O'Dwyer told *The Australian Financial Review* that draft legislation to deal with conflicted remuneration would be tabled when the federal Parliament meets in early October.

The changes will phase down upfront commissions – typically 120 per cent of the first year's premium – to a maximum of 60 per cent.

Advisers will be allowed to receive ongoing annual commissions of 20 per cent but there will be a two-year "clawback" period to discourage "churning".

This means that if a policy lapses in its first year, the adviser will be required to repay 100 per cent of the commission in the first year and 60 per cent in the second.

Ms O'Dwyer indicated the government would not bow to pressure from the Life Insurance Consumer Group (LICG), a ginger band of advisers who have gone to war with one of the nation's most powerful lobby groups, the Financial Services Council, over the changes. They have also met cross-bench senators and Coalition backbenchers in the hope of achieving a backdown similar to that on superannuation.

But Ms O'Dwyer vowed to push ahead. "The government is very committed to these reforms. We're not watering them down."

The draft legislation, which is part of a wider reform agenda called the Life Insurance Framework, was before Parliament when the election was called. It must now be formally reintroduced. The changes were initially slated to begin in July.

In an escalating row within the industry, LICG has claimed the government is in the thrall of the FSC, and that the council is peddling policies that will benefit its members, which are big life insurance and wealth management businesses, rather than ordinary Australians.

LICG, headed by NOW Financial Group director Mark Dunsford, is seeking to convince the Association of Financial Advisers to withdraw support for the Life Insurance Framework.

Mr Dunsford said the AFA and Financial Planning Association of Australia were strong-armed into accepting the 60 per cent limit with threats of an even lower threshold.

"The FSC's proposals will result in alarming competitive advantage being gifted to the big banks and FSC members while hurting independent financial planning businesses and consumers," Mr Dunsford said.

He said if brokers were not paid via commissions attached to insurance products, they would have to charge customers a fee for service, which would exacerbate problems with under-insurance.

It is conflicted remuneration that has given rise to many of the financial planning scandals that have prompted Labor to call for a royal commission on banks. Earlier this month, the corporate regulator permanently banned former AMP adviser Rommel Panganiban after he allegedly convinced 49 clients to switch life insurance policies so he could profit from the associated commissions.

John Trowbridge, a former APRA executive who led an inquiry into life insurance, implored the government to get on with the job.

"The reforms are good," he said. "They don't go as far as they might but they are a very important step forward. There is a conflict of interest between advisers who receive big up-front commissions and their customers. It creates a number of perverse consequences."