Introduction

This submission is prepared by Paul Noble of Elbon Financial Services Limited and represents the views and opinions only of the Principal of that business.

Paul is an AFA having started work in the industry in 1975 as an employee and from 1996 as a tied Adviser to AMP and more lately Tower and then Fidelity Life. The business specialises in the provision of risk products, KiwiSaver and employee benefits for both superannuation and health insurance. We use five providers for Life products, three providers for health products and two providers for KiwiSaver products. Over 95% of our income is derived from commission both as new business sales and renewals. We also provide a retirement planning service on a fee for service basis. Other than KiwiSaver no other investment product recommendations are made other than the obvious need to have ready savings for emergencies. We are members of the IFA.

This submission deals only with the provision of Term Life insurance and related products (Trauma, Lump Sum Disability, Income Cover and Health Insurance plus the variations to these) as provided to both the Mum and Dad, family market and the business market.

Providing an advice rich service

The majority of clients see insurance as a "***need***" and not a ***"want"***. This is a clear distinction and that is why traditionally these products have had to be sold by salespeople as opposed to bought online. If this was not the case then more people would be providing this service.

Despite this the new age is to shop around online to see what's available and given that life insurance alone can be likened to a commodity (i.e. you are either breathing or not to effect a claim) then there is room for price sensitivity and online no-advice buying – like the current Cigna television adds do! There is also anecdotal evidence that we have a large underinsurance problem in New Zealand and on line buying without good advice will only continue this trend.

It takes some measure of skill and training to provide advice on more complicated products within the range such as disability, trauma and income covers etc. In my humble opinion, people in New Zealand are not yet willing to pay for such advice up front, especially in the Mum and Dad market where disposable income (after tax and mortgage payments) is just that, fully disposed of!

I firmly believe that Advisors need to be reasonably recompensed for the time and effort needed to provide a personalised service and that this compensation can only come from commission. Limiting the amount of remuneration available to an Advisor can only impact on the amount of time they make available to that client and can have serious repercussions to the client if as a result they receive a less than satisfactory service. The decision as to the amount of remuneration received is a matter between the Advisor and the Client and, as long as it is simply transparent in amount, should not be capped/limited by any authority. Like most items for sale – let the market decide the price!

Advisors can then provide an advice rich service for the initiation of any new product and the continued servicing of that product. In a placement only service then a lessor up-front commission could be received and acknowledged by the client.

Servicing a client

An advice rich service means that a proper analysis is made of the client's needs at the start of the policy. The client then acknowledges the implementation of the recommendation or a lessor version at their own request. Both are signed off. In order to continue to receive the renewal commission – an Advisor must be able to demonstrate the review of the original needs analysis and the initiation of changes or again the client's acknowledgement to not make changes. Thus the renewal commission is earned. Simply sending the client a letter saying this is the annual review is not servicing.

At the end of the day – the Client owns the Client. Not the Advisor and certainly not the insurance company. The key problems within the industry at present that lead to "churning" of business are:

- Not being able to access the renewal commission on any policy by an Advisor Business where that authority has been granted by the client to deal with the existing policy.

- Not being able to increase and be remunerated for that increase to a client's existing policy because the Advisor does not hold an agency agreement with that provider.

That combined with the lack of desire on client's part to pay for a service (as mentioned above) mean that churning by a percentage of the Advisors in the market takes place.

A lot has been made about the chance to earn high up front commissions on policies which drives the continued replacement of business. This is due to the fact that for some insurance providers they will not transfer servicing rights unless agreed by the original Advisor in a buy/sell arrangement. They will not do a one-off agreement with an Advisor to hold an agency with that provider without making them a "full-blown" Advisor representing that provider including sales targets, commission bonuses etc.

There are many examples of Advisor's sitting on renewal commissions without providing any formal review to those clients.

Commission recommendations

I would recommend a regime as follows:

- Up-front and renewal commissions are negotiated between the Advisor and the Client and are not set by industry.
- Renewal commissions are fully transferable without needing to "buy" clients from other advisors who are not servicing those clients. This would need the client's authorisation to happen.
- Advisors must be able to demonstrate (under audit by the insurance company at agreed times) that they are providing a proper renewal process and review of the clients original needs.
- Renewal commissions must be paid to the Client's Advisor regardless of if that Advisor holds an agency with the provider for new business. This would stop a significant amount of churning! The Advisor needs to provide an agreement to service from the client in order to receive these renewal commissions and make changes to their policy as agreed between the client and the Advisor. My business holds agencies with four providers covering five brands. I cannot receive renewal commissions from Redacted or any of the other banks selling life insurance. Therefore unless a client agrees to pay a fee for my service as well as a commission rich premium to reward the existing advisor, (so in effect paying twice), then I cannot afford to service those clients.

Replacement Business Advice forms

Quite frankly these are a joke and do not fully reflect the changes being made to some clients policies. These need to be updated to reflect the full reasons why a change of provider is being made. These then need to be lodged with the previous provider to ensure that they have redress for the loss of business. At present providers are being changed without proper redress. Examples I have had from recent clients are:

"My friend has just started in the business and I wanted to help them out"

"The bank said I had to have these covers to get the mortgage"

These are not legitimate reasons to change a provider. Maybe if the FMA was to audit some replacement business – this might bring a higher standard of recommendation by existing Advisors?

Types of Advice

I would recommend two types of Advice being provided to clients.

Personalised Advice – this is specific to a client's needs, includes a full analysis of their needs with written recommendations, an implementation and review plan. Only those with the equivalent of today's AFA qualification can make such recommendations and plans with a client. Advisors with such a qualification could hold agreements for selling new business with more than one provider.

Class Advice – this would cover placement only and specific advice on any employee benefits provided in an employment agreement managed by that Advisor. Advisors without the today's equivalent AFA qualification should only be allowed to provide such advice and only hold an agency agreement for sale of new business with one provider.

The industry should promote personalised advice only as an option for the public to consider when seeking advice.

Types of Advisors

I would recommend two types of Advisors or two classifications for Advisors.

Registered Insurance Advisor – This would be the equivalent of today's AFA Advisor, could hold an agreement to sell new business with a minimum of three providers and specialise in personalised service – 95% of business written must be personalised.

Insurance Agent – This would be a class advice type Advisor – could only hold an agreement with one insurance provider as a tied ***agent*** to that provider. Would provide a quotation and placement only type service. These people should be salaried agents. These types of Advisors have no authority to advise a client to replace existing cover because they do not hold the relevant qualifications.

Insurance Providers – This terminology relates to companies authorised to offer life insurance products in New Zealand. They can either offer products directly to the public or through salaried Insurance Agents as above. They can also off products through Registered Insurance Advisors.

Other Remuneration

Registered Insurance Advisors should only be paid commission. In my view there should be no other incentives such as overseas trips, vouchers or gifts for volume or subsidised services from the Insurance Providers. The Insurance Providers should compete on quality of product not benefits for volume.

Gross up commission and set bonus commissions for volume based on the profitability of the Advisor to the Provider. This would allow more money to be spent on training on product knowledge and skills practice.

I also believe there needs to be more industry training on ethics and how these are applied. In my years as an employee and an advisor I have seen numerous examples of Insurance Providers throwing themselves at Advisors based on the volume those advisors have written without any consideration to the quality of the business or the advice behind that business – usually to the detriment of the client and the industry and cost to the insurance provider. For this reason I think it beholds insurance providers to expect to see the recommendations behind business that is placed with them. Electronically today – a lot is possible and easy.

Paul Noble
Authorised Financial Advisor
147525
IFA Member - 2113
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