

Business

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# Banking royal commission: Life insurers face 'game changer' in 2021

By **Tim Boyd**

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Analysts warned that life insurers face "years of uncertainty" over their lucrative commissions after the banking royal commission's "game-changer" recommendation for a review by the corporate regulator in 2021.

Commissioner Kenneth Hayne has urged the regulator to consider reducing the cap on commissions on risk insurance and "unless there is a clear justification" reducing commissions to zero.

"The potential changes to ongoing and grandfathered commissions on life insurance could be a game changer for the industry, depending upon how hard ASIC goes when it reviews these structures," said NobleOak Life



NobleOak's Anthony Brown says changes to commissions may be a "game changer". M Peele

"We wouldn't want a situation where advice completely dries up as adviser businesses become unsustainable. This may result in some people not accessing the cover they need," he said.

## ClearView downgraded

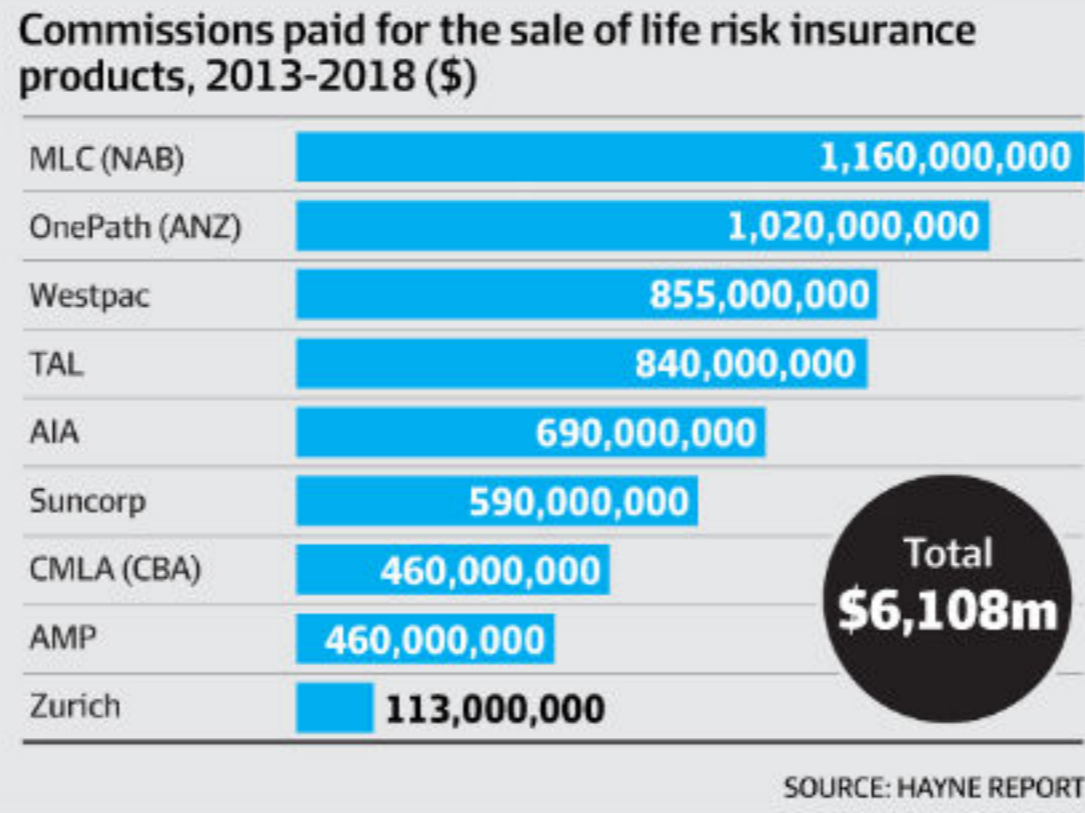
Macquarie said for life insurer ClearView Wealth this recommendation presented "years of uncertainty" for its life insurance remuneration model and other recommendations would add operational costs to the business. The analysts downgraded their outlook from outperform to neutral.

Remuneration structures are already undergoing change in the life insurance industry, said Macquarie.

From the beginning of January 2020, upfront commissions paid to advisers will be phased down to a maximum of 60 per cent of the premium paid on the policy to the insurer and 20 per cent for ongoing commissions.

Financial Services Council senior policy manager Nick Kirwan said the FSC supported this change that was already under way and thought no further change should be made until ASIC's review in two years.

"We would be concerned if any further reductions are contemplated before ASIC completes its review in 2021," he said.



Life insurer TAL Group's chief executive Brett Clark said many of the issues for life insurance identified in Commissioner Hayne's report had been on the radar of the industry for some time.

The royal commission recommended amending the law "to provide for enforceable provisions of industry codes", including the life insurance code of practice as well as recommending the prohibition of hawking insurance products among other things.

NobleOak's Mr Brown said "it's great to see aggressive selling practices, poor corporate culture, lack of customer care, and poor product value all addressed in the recommendations".

## Win for consumers

Australian Lawyers Alliance spokesman Josh Mennen said one of the biggest life insurance wins for consumers from the royal commission was the recommendation to amend the insurance contracts act.

The recommendation would replace a duty of disclosure with a "duty to take reasonable care not to make a misrepresentation to an insurer".

This would mean when a consumer and insurer talked about a consumer's history, in order to decide how much the policy premium would be and how risky it was for the insurer to take this potential client on, the onus would fall on the insurer to ask the necessary questions rather than responsibility resting with the client to disclose anything relevant.

This recommendation "will put greater responsibility and onus on insurers to understand their consumers and ensure that the policies that they're being sold are appropriate for the consumer and appropriately priced by the insurer", Mr Mennen said.

He said this might lengthen the process for devising a policy and could add additional cost, "but that's immensely better than having somebody pay premiums for years only to then have their policy avoided".

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