The perceived impact of banning commissions on Life Risk sales is noteworthy, with many advisers predicting a significant decline in Life Risk sales as a result.

Beaton IFA Market Pulse

Adviser Sentiment Report on Banning of Commissions

About the Beaton IFA Market Pulse

The Beaton IFA Market Pulse is a quarterly survey among financial advisers in Australia.

The survey provides a platform for participating insurance providers to get feedback from advisers on topics of interest and gives advisers the opportunity to share their views and opinions on topical industry issues with their peers.

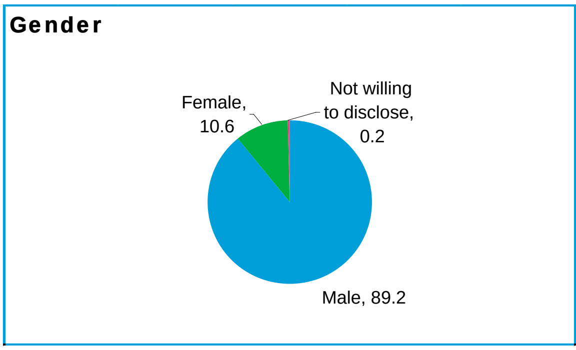
Participating insurance providers are Asteron, AIA Life, CommInsure, Macquarie Life, OnePath and Zurich. The first wave of the survey was conducted between 21 March and 30 March 2011 with 528 advisers across Australia completing the survey.

Beaton Research and Consulting would like to extend a special thank you to all advisers who participated in the first wave and made this report possible.

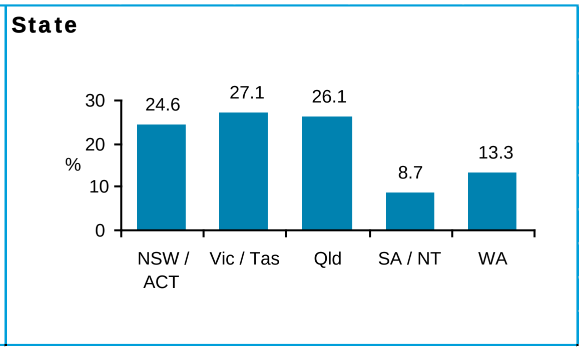
Our respondents

What follows is a profile of the 528 advisers that completed the first wave of the Beaton IFA Market Pulse.

- The majority of respondents are male (89%) and most reside on the East Coast (78% across NSW/ ACT, Vic / Tas and Qld).

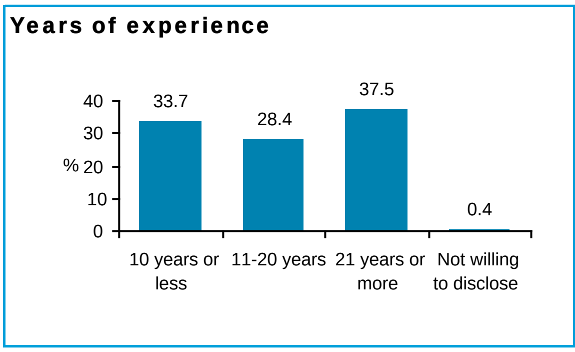


Question: What is your gender?

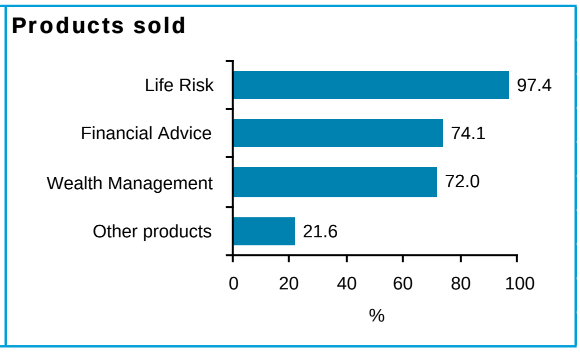


Question: Where are you currently working?

- 66% of respondents have been advisers for more than 10 years. Products sold most are Life Risk (by 97% of advisers) followed by Financial Advice (74%) and Wealth Management (72%).

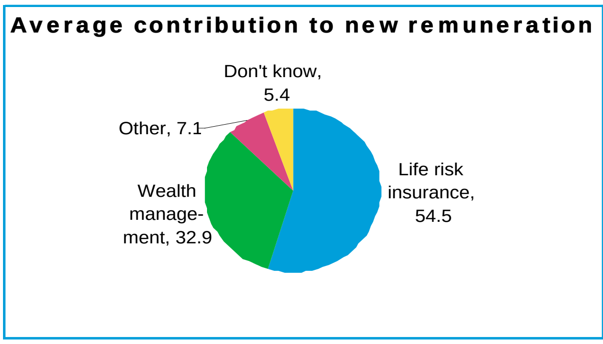


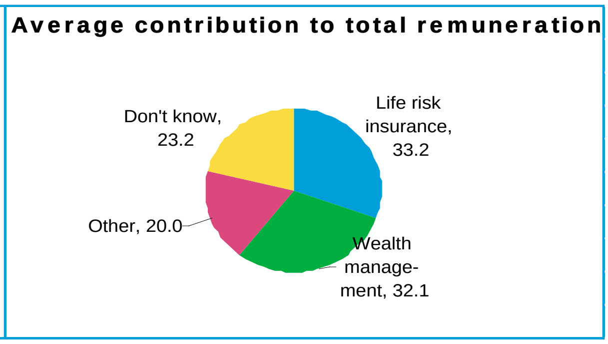
Question: How many years have you been working as adviser?



Question: Which of the following product groups do you currently sell?

- While Life Risk insurance represents on average 55% of advisers' new business remuneration, its contribution to total remuneration is almost equal to that of wealth management (33.2% for Life Risk vs. 32.1 for Wealth management).



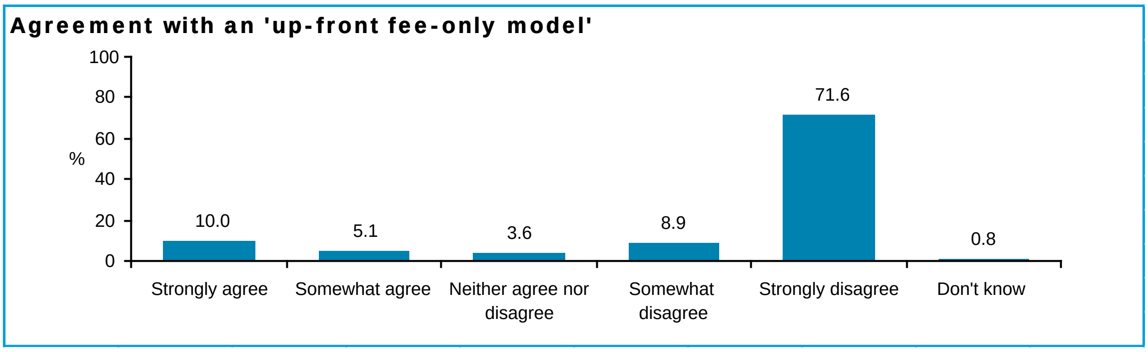


Question: What percentage of your new business remuneration in the last 12 months came from the following product groups?

Question: What percentage of your total business remuneration in the last 12 months came from the following product groups?

Findings

Key Message #1: Most advisers strongly disagree with the proposed 'up-front fee-only model'



Question: The Future of Financial Advice (FOFA) reforms has caused much debate over proposed changes in remuneration and banning of commissions in Life Risk insurance sales. To what extent do you agree with an 'up-front fee-only model' for pure Life Risk sales?

Disagreement with an up-front fee-only model is significantly more pronounced among males (73%) and advisers aged 55-64 years (79%).

Reasons given by advisers for disagreeing with the proposed model:

"Insurance is seen as a necessary evil. If you put up any road blocks the client will use that as an excuse to avoid the process. Plus, it is hard enough to find clients, convince them of the need and then get through the mountain of paperwork to bother if it is made any harder. I would stop selling insurance."

"It didn't work in England when they tried it. It will cause massive underinsurance in the Australian community and lack of competition. It will lead to monopolization of banks doing the insurance without quality advice or having the experienced insurance advisers on the ground."

"People won't pay a fee for this service and will just buy from the advertisements on the TV."

"The system works now - why change it?!"

While only 10% of advisers agree with the proposed 'up-front fee-only model', this is significantly higher among advisers 65+ years of age (20%) and those who consider Macquarie to be their main provider (20%).

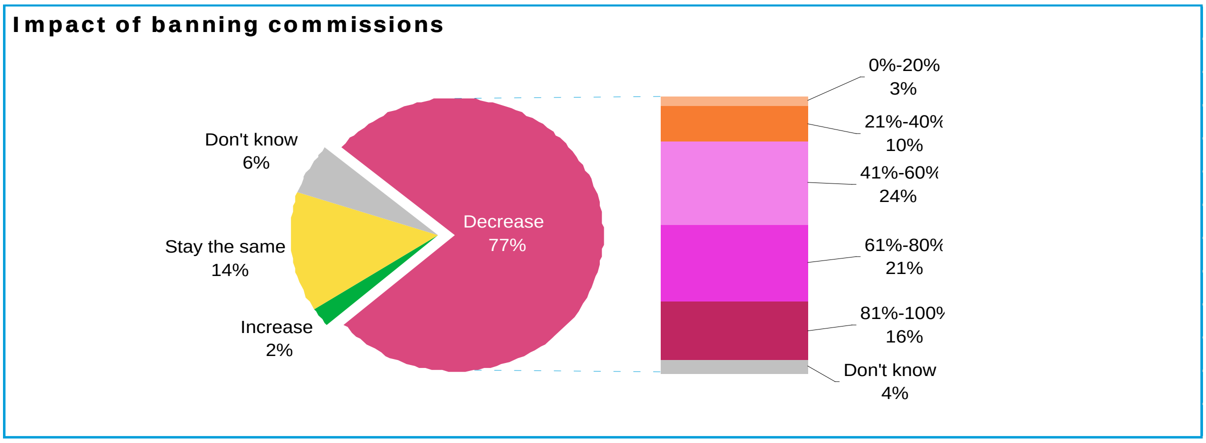
Reasons given for agreeing with the proposed model:

"The cost of insurance is too great for most people to take out adequate cover. A fee for service model better protects clients down the track with reduced premiums at times when likely to be most needed."

"For a range of reasons including; cheaper for client in the medium to long-term, more transparent, less potential for bias, better for public perception of the industry."

"There is a significant amount of work done to establish the average policy. Up-front commission reflects the work involved. It does not mean up front is always taken nor does it mean that commission rebate is not used where appropriate. I believe we need the choice as we currently have."

Key Message #2: If Life Risk sales commissions are banned, most advisers expect the amount of Life Risk Insurance they write to decrease with 61% estimating a decrease in excess of 40%.



Question: If the Life Risk commission-based remuneration is banned, would you expect the amount of Life Risk Insurance you write to increase, decrease or stay the same?

Question: And by what proportion do you think the amount of Life Risk Insurance you write will decrease?

Key Message #3: Advisers believe that banning of Life Risk sales commissions will result in wide-spread changes to current market dynamics, the competitive landscape and consumer behaviour.

Shifts in market dynamics and competition:

Adviser sentiment is that the amount of Life Risk insurance take up will decrease.

"Clients would be reluctant to consider insurance."

"Depending on implementation I feel it could effectively destroy the advice industry for risk."

Many advisers believe the proposed model will result in changes to the insurance advice process, requiring significant customer education.

"The change to advice process. Finding the value to educate the client into why they should pay a fee and a premium."

Many predict a flight to retirement or a "mass exodus" from the industry due to challenges of selling insurance with a direct fee to end-customers.

"A dramatic decrease in sales and possibly a mass exodus of advisers from the industry. However, how is this any different to a real estate agent, mortgage broker, car dealers, and to a lesser extent the retail industry where commissions are being paid. Some employees may not get commissions but get 'bonuses' instead if certain targets are met."

"The advisers would not be profitable in this segment of the market and would probably change their focus or leave the industry and thereby reduce the opportunity for the general public to obtain sound insurance advice."

"Many advisors would leave, and there would be an even greater under insurance problem."

"Almost everyone I know who specialises in Risk will get out of the game and find other markets such as concentrate on SMSF, retire or go dig holes in a mine and leave the industry."

Advisers believe that big players with large marketing budgets such as banks will dominate the industry by using TV or other main stream media to influence consumers.

"The insurance industry will become a 'no advice' area and the domain of the big direct marketing organisations such as the banks, large insurers and industry funds which will still be able to disguise the true costs and fees."

Shifts in consumer behaviour:

Advisers indicated that customers may not switch insurance providers as frequently.

"Less churn."

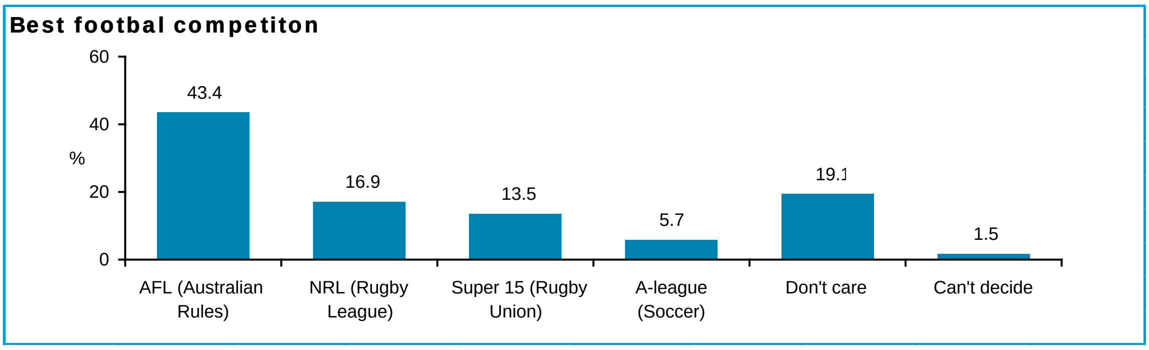
Many advisers believe that those with lower discretionary incomes, and arguably in greater need of life risk insurance may no longer be able to afford insurance.

"It would collapse almost overnight. Most clients seeking life risk are not wealthy and need the cover in case of accident or illness. Most would not be able to afford the cost of an up-front fee-only model and would therefore not take the cover up. The premiums for those left will increase as the total pool will decrease over time."

"Premiums will go up. Client's will be more underinsured as they will not want to pay a fee."

"The take-up of programs of insurance by younger families."

On a lighter note, we asked which football competition was the best. The clear winner is AFL, represented in the chart below.



Wave 2 of the Beaton IFA Market Pulse will be conducted from 13 June to 22 June 2011. Adviser sentiment on a new topic of interest will be shared with you shortly after.

Thank you for your ongoing support,

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