GUARDIAN ADVICE

Media Release

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GUARDIAN ADVICE VOICES ADVISER RESISTANCE TO FSC's REPLACEMENT BUSINESS FRAMEWORK

Most financial advisers are opposed to measures proposed in the FSC's Replacement Business Framework to stop the practice of insurance 'churn', a Guardian Advice survey has shown.

Guardian recently surveyed its authorised representatives for their views on the FSC's proposed measures on replacement business within the life industry.

Based on those views, Guardian submitted a response to the FSC's consultation paper on its Replacement Business Framework.

Guardian Advice head Simon Harris said: "We believe that only a small proportion of advisers arbitrarily 'churn' business. However, we recognise this was an issue flagged by the Government when developing the Future of Financial Advice reforms, and we applaud the FSC for taking a leadership stance to address 'churn'.

"As a risk-focused licensee aligned to growth-oriented advice businesses, we wanted to give our advisers a voice on this important issue and an opportunity to shape the outcome of the proposed Replacement Business Framework.

"Through our own survey, we gathered our advisers' opinions in the hope of working collaboratively to contribute to a sensible policy outcome on replacement business.

"Overall, our survey results show that the FSC has some way to go to convincing advisers about its proposed replacement business focus."

Guardian survey respondents were opposed to the following measures in the FSC's proposed Replacement Business Framework:

- 71% of advisers did not agree with the FSC's definition of replacement business
- 88% of advisers did not agree with 5 years being the right timeframe for replacement business
- 78% of advisers did not agree with the proposed remuneration level on replacement business
- 79% of advisers did not agree with the proposal to increase the responsibility period to 2 years with associated clawbacks

More than two thirds of advisers (65%) voted for takeover terms to be removed from any standard on replacement business.

Adviser sentiment on this question was divided. Some felt takeover terms made it easier for a client to be insured. Others believed takeover terms and bulk takeover supported the misuse of replacement business, and should be abolished.

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On remuneration levels, advisers raised a number of concerns, such as:

- The removal of high upfront commissions would discourage new entrants into an independently owned advice business. Advisers stated: "It would be very difficult to fund a new financial planning business if these payments were reduced."

- There is a need for an appropriate difference between 'upfront' and 'ongoing' commission in order to reward an adviser for their initial work, while also encouraging clients to be reviewed by that same adviser.

Guardian advisers also challenged a number of other specific elements in the FSC's proposed measures, arguing that:

- Client circumstances could change significantly over a 5 year period – so a 2 to 3-year timeframe for replacement business may be more apt.

- There was no mention in the FSC's paper that replacement business should only be considered when the *same* adviser changed policies for the *same* existing client.

- 'Trigger' events like marriage, birth of a child, a new job or extra debt could be introduced to prove a client's eligibility for replacement business, and thus needed to be considered.

- A compulsory and consistent hybrid remuneration structure across all life companies should be introduced.

- In the proposed 2-year clawback period, it was questioned how this period was derived. Advisers requested any existing research which supported this time period as a measure to reduce replacement business.

-ENDS-

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