

CORPORATE SUPER ASSOCIATION

SUBMISSION TO

**PARLIAMENTARY JOINT COMMITTEE
ON CORPORATIONS AND
FINANCIAL SERVICES**

ON

**INQUIRY INTO THE DISCLOSURE OF
COMMISSIONS ON RISK PRODUCTS**

JANUARY 2003

**Elizabeth Goddard,
Head of Research**

**CORPORATE SUPERANNUATION ASSOCIATION Inc. ABN 467 615 800 25
Level 10, 101 Collins Street, Melbourne, Victoria 3000, Australia
GPO Box 1999S Melbourne, Victoria 3001, Australia
Telephone: 03 9270 8134 Fax: 03 9250 3833 Email: corsuper@netspace.net.au**

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Background

The Corporate Super Association is Australia's dedicated representative body for major Not For Profit corporate superannuation funds and their corporate sponsors.

The assets of Association members amount to approximately \$60 billion, representing about 80% of total corporate superannuation sector assets in Australia and some 750,000 individual employee fund members. The dominant position of the Association in the corporate Not For Profit superannuation sector is indicated by the fact that Association member funds total only 2% by number of the total number of funds in the sector, but hold 80% of the assets.

General comments on disclosure of commission

As a general principle we support the disclosure of information on commissions paid to intermediaries in relation to any financial product. We believe that consumers should be aware of the components of the price they are paying and should be aware of the interest that an intermediary or adviser has in promoting a particular product.

Comments on disclosure of commission on risk products

We note that the provisions of the Financial Services Reform Act were drafted so as not to require the disclosure of commission in a PDS in relation to insurance policies which are risk products. Disclosure of such commission is required in a FSG or SOA. Commission disclosure is required in a PDS only where the commission may or will impact on the amount of return generated by the financial product. Hence, where a premium is paid to insure against a future risk, the amount receivable if the contingency occurs is not affected by commission paid.

We are concerned however, that whilst commission paid does not affect the amount payable when a claim is made, it will affect premium levels either immediately or as a result of cost absorption by the insurer. Therefore we believe that the commission disclosure in relation to risk products should be the same as that relating to investment products, as it still affects the cost to the consumer of potential benefits received.

In the above context, we do not fully understand the argument put forward by the Association of Financial Advisers, referred to on page 45 in Chapter 6 of the Joint Parliamentary Committee's Report on Regulations and ASIC policy statements made under the Financial Services Reform Act 2001, that commissions on risk products affect neither the premium nor the end benefit. We are concerned that commissions form part of the cost structure for an insurance product and that even if not recovered directly at the time of the sale of the policy, such costs ultimately affect premium levels. We believe that consumers should be made aware of this aspect of any product they are evaluating.

We note also a specific concern raised by the FPA, referred to on the same page of the Joint Parliamentary Committee's Report referred to above. The concern was that commissions on risk products sold in conjunction with investment products could be boosted in order to enhance the apparent return on the investment product. We understand that this concern could be alleviated by requiring disclosure of commission on risk products on the same basis as for investment products.