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Life insurance commission reductions to benefit consumers

High upfront life insurance commissions will be reduced with the passage of the Corporations Amendment (Life Insurance Remuneration Arrangements) Bill 2016 in the House of Representatives, the Minister for Revenue and Financial Services, the Hon. Kelly O'Dwyer MP, said today.

“High upfront commissions have been identified as a significant cause of poor quality life insurance advice. The measures in the Bill will reduce these high upfront commissions and better align the interests of financial advisors and their clients,” Minister O'Dwyer said.

“ASIC’s 2014 review found that in 45 per cent of cases involving high upfront commissions, the advice provided failed to meet the legal standard. This is unacceptably high. Similar concerns were also expressed by the Murray Inquiry and the industry-initiated Trowbridge report.

“The changes will significantly reduce the incentive for advisors to churn clients between life insurance products where there is no consumer benefit.”

Under the framework contained within the Bill:

- the rate of upfront commissions paid to advisers will be phased down to a maximum of 60 per cent (around half their current level), with ongoing commissions capped at 20 per cent;
- a two year upfront commission ‘clawback’ period will be introduced, under which 100 per cent of the upfront commission will be clawed back in the first year and 60 per cent of the upfront commission will be clawed back in the second year, should a policy lapse; and
- level commissions (that is, commissions that are a consistent amount each year;) and fee-for-service remuneration remain and are uncapped.

The changes will commence on 1 January 2018 and will apply equally to all life insurance advisers. The changes also provide the flexibility to ensure the reforms capture all life insurance sales channels in the future, including those that may not be considered to provide financial advice.

The Government thanks the Association of Financial Advisers, the Financial Planning Association of Australia and the Financial Services Council for their agreement in developing this important package of reforms.



The Hon Kelly O'Dwyer
Minister for Revenue & Financial Services

19 July 2016 – 28 August 2018

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