Planners may retain existing commissions

ANDREW WHITE
ANDREW MAIN
LIFE INSURANCE

Financial planning groups will retain wholesale commissions on life insurance for an extended period under grandfathering arrangements proposed as part of reforms to conflicted remuneration.

An industry proposal endorsed by the federal government would ban new “volume rebates” paid by insurers to financial planning groups from July 1 next year, but allow existing arrangements to continue until policy holders changed their insurer or their financial adviser.

The changes are part of a package of reforms designed to overcome rampant churning and reduce commissions that cost policy holders and insurers hundreds of millions of dollars a year.

The government-endorsed proposals will cap commissions at 60 per cent of the first year’s premium from 2018 onwards and trailing commissions paid to financial advisers at 20 per cent for every year the policy is in force.

It aims to reduce commissions that were up to 120 per cent of the first year’s premium, but fall short of the 30 per cent maximum and the $1200 cap proposed by actuary and former Australian Prudential Regulation Authority board member John Trowbridge in a report in March.

“It is a step in the right direction, but it still allows conflicted remuneration,” said Erin Turner, campaigns manager at consumer advocate Choice.

Commission-based sales of financial products except for life insurance were banned under the Future of Financial Advice reforms introduced by the previous Labor government.

Under the proposal, insurers would also have to offer a fee-for-service model, instead of commissions, to sell life insurance.

Assistant Treasurer Josh Frydenberg has endorsed the proposal, which would also claw back commission from advisers who switched clients from one policy to another in order to claim the larger upfront commissions.

He said they were intended to produce significant benefits for consumers through improved quality of advice as a result of a better alignment of interests, more product choice and enhanced competition.

“The proposals have the potential to be the most significant reforms to the retail life insurance sector since the Wallis Inquiry recommendations were implemented in 2001,” Mr Frydenberg said.

Last night Mr Trowbridge said he was pleased to see “the essence” of his recommendations adopted in the three-year transition program. The review in 2018 would allow any residual remuneration conflicts to be reassessed and further reforms undertaken.

Mr Trowbridge’s recommendations followed an Australian Securities and Investments Commission review last year that found almost 40 per cent of advice on life insurance policies was inappropriate for the client.

ASIC said it would consider the reform package in light of the findings from its report, and was committed to working with government, industry participants and other stakeholders to help lift standards and ensure better outcomes for consumers.

But the peak body for the $400 billion industry superannuation fund sector said that while the proposal tackles some of the worst aspects of the industry remuneration model, it did not go far enough in taking commissions out of superannuation.

Industry Super Australia policy director Matt Linden said there was still an incentive for financial planners to recommend individuals switch out of group cover provided by industry and retail super funds where no commission is paid, into individual cover, paid out of superannuation funds, for which financial advisers can still receive commission.

“It provides an incentive to overinsure or to seek out the most costly insurance because the higher the premium, the higher the commission,” Mr Linden said.

Brad Fox, chief executive of the Association of Financial Advisers, which has had most to lose from the changes, made it clear his organisation is a reluctant supporter of them.

“It is unfortunate that much of this debate has been about adviser remuneration when the real issue and the thing that needed to be addressed was always the quality of advice and compliance,” he said.

Mark Rantall, chief executive of the Financial Planning Association, called the proposals “a sensible landing spot for the retail life insurance industry”.

Don’t blame the planners: Metlife

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biggest life player in the country, behind the big four banks and AMP, which employ or are aligned with about 80 per cent of financial planners.

Ms Stewart said Metlife had also been researching new offerings designed to improve the appeal of products to consumers.

At the same time insurers have to find ways to address rising claims costs in the industry, particularly from the growth of claims for stress and depression. Such claims are highest in high-stress industries such as financial services, but have also developed in people with long-term injuries who then become worried about whether they will be able to return to work.

Ms Stewart says the company is testing programs to help get workers suffering such conditions back to work with rehabilitation programs and group retreats with counsellors that encourage and prepare policyholders to return to the workforce.

Claims for stress and depression, which have surged with greater awareness of the conditions and the availability of life cover through superannuation, account for 15 per cent of claims against MetLife, but 30 per cent of payouts.

But MetLife research says the motivations for taking out life insurance and allied products like total and permanent disability cover or income protection policies has changed. Previously it was about having cover to ensure their debts would be paid off if they had just bought a house or a new family looked after if they died early.

A lot of policies now are sold because of job insecurity that has continued on since the global financial crisis, or people’s fears that they might contract a long term disease such as cancer.

Churn rates soared from 10 per cent to as high as 18 per cent but Ms Stewart says financial advisers are responsible for only a third of that.

Banks tell IMF: there’s a price to pay for extra capital

MICHAEL BENNET
BANKING

Banks have rejected the International Monetary Fund’s claim that there would be little macroeconomic cost in forcing lenders to deleverage, saying the pain would inevitably be passed on to shareholders and customers.

Concluding a visit to Australia, the IMF this week said regulators should prioritise the implementation of the Murray financial system inquiry’s divisive recommendations and “substantially” increase bank capital levels.

The global institution also backed the inquiry’s findings that the banks were not among the best capitalised globally, saying “while international comparisons are fraught with difficulty, Australian banks do not appear to have particularly high capital ratios and the global trend is upwards”.

It said the Australian Prudential Regulation Authority’s recent stress tests indicated that in a “severe adverse scenario, bank capital would have to be substantially higher to ensure a fully functioning system”.

“Putting a floor of 25-30 per cent on mortgage risk weights would help, but capital ratios would need to rise further,” the IMF said.

“Given major banks’ high profitability, such ratios can be achieved at little, if any, macroeconomic cost, especially if done gradually, and will make the financial system, the budget, and the economy stronger.”

Steven Munchenberg, chief of the Australian Bankers’ Association, rejected the notion, saying if there was no cost, “there would be no reason why banks wouldn’t very happily have massive levels of capital”. But he agreed giving banks time to increase capital levels in small increments would minimise the cost.

“To say there’s no cost to the economy, we would reject that. It’s more a matter of how do you manage to minimise those costs,” he said.

“Capital has an impact on your returns, so that means you either pass that on as lower returns to your investors … or you pass on the costs by having higher relative prices for your lending activity.

“If you’re having to charge higher interest rates for lending to cover costs of carrying higher capital, then that’s going to have an impact on the economy.

“A lot of shareholders are retail mums and dads or superannuation funds where you, me and everyone else has got their money tied up. If they’re earning lower returns, that’s going to have an economic impact because it means lower income.”

By January, the big four banks must have common equity tier one capital ratios of at least 8 per cent. While all meet the requirement, the Murray financial system inquiry and Basel IV rules will force the banks to further increase capital levels.

After finding the banks were not in the “top quartile” globally, where CET1 ratios were up to 2.2 percentage points higher, the Murray inquiry said all banks should be “unquestionably strong”. It also recommended the big banks be subject to sharply higher “risk weights” on mortgages of 25-30 per cent.

Mark Degotardi, chief of credit union lobby group the Customer Owned Banking Association, said the IMF was “another authoritative voice” backing the inquiry’s blueprint for a “more competitive and more resilient market”.

Charities win at stockbrokers’ big night

JAMES DUNN
STOCKBROKING

BRITTA CAMPION

Steve Harker, right, and Ian Chambers, centre, with Danny Dreyfus, president of the Stockbrokers Association

The 23rd Stockbroker of the Year Awards, held at the Sofitel Sydney last night, followed the familiar format: competitive tension for the awards, social relaxation for the industry’s night of nights, catch-ups and networking — and serious fundraising.

Over more than two decades, the annual awards night has raised more than $7.5 million for a changing line-up of charities, with the one constant being the St Vincent de Paul’s Matthew Talbot Hostel in Sydney, which provides accommodation and specialised support to people who are homeless or at risk of homelessness.

The awards have become the hostel’s single largest donor, having now raised more than $2.5m for it.

The prize for best research of the year went to Morgan Stanley. In assessing this award category, the judges studied 38 companies that were among the best and worst share price performers or had unexpected announcements — for example, a profit warning or a takeover — and looked at what equity analysts were recommending at that time.

Although there was no shortage of research recommendations that were subsequently — even immediately — contradicted by contrary announcements from the companies, sending the share price in the opposite direction, the judging panel found that Morgan Stanley’s consistency helped it stand out from its peers, marginally ahead of Macquarie Securities.

The coveted Stock-picker of the Year showed the extent to which disruption has roiled through the financial services industry. Winner Geoff Saffer is technically not a stockbroker, although he used to work as a broking analyst. These days, Saffer is the head of research at the subscriber service Australian Stock Report, an independent market research and information provider, offering general advice only. But Australian Stock Report does make buy, sell and hold calls, and Saffer’s track record topped all comers, with 64 per cent of his recommendations going in the right direction, just ahead of Morgans’ Andrew Eddy, on 62 per cent, and Saffer’s colleague Chris Conway, on 61 per cent.

The Private Client Adviser of the Year award went to Morgan Stanley Wealth Management’s Peter Smith.

The panel stressed that this award was assessed on a broader criteria than just the brokerage written — the panel looked for a more complete contribution over the adviser’s career, including ethics, compliance and mentoring younger advisers.

For the second year, Corporate Deal of the Year went to Fosters Stockbroking, which acted as lead broker and underwriter for the October 2014 listing of Silicon Valley online recruiter I-Page Limited. After raising $8.5m from investors, I-Page closed its maiden session up 70 per cent and has since extended that gain to 685 per cent.

Deal of the Year was Australia’s biggest-ever block trade, the $4.62bn sale by US oil giant Chevron of its half-stake in fuels marketer and refiner Caltex Australia, in March. Goldman Sachs was sole lead manager, book runner and underwriter for the trade, the largest block trade globally underwritten by a sole book-runner since December 2010.

It was underwritten at $34.20, a 9.7 per cent discount to the previous close of $37.88, and demand from domestic and international investors saw the final price end up at $35, a 7.6 per cent discount. The investment bank backed itself to take the entire block of 135 million shares on its balance sheet, confident it could find cornerstone investors to take the stock — which it did in less than a day.

Not surprisingly, Goldman Sachs also took out Dealing Desk of the Year, its fifth title in this category in the past six years.

The inductees to the Stockbrokers Hall of Fame were Morgan Stanley pair Steve Harker and Ian Chambers.

Harker and Chambers were described as having strong characters, high ethical standards, integrity and industry-wide reputations as being “tough but fair.”

MARGIN CALL P35

Man behind Wickham Securities collapse bailed on 34 charges

ANTHONY KLAN
LITIGATION

The Brisbane financial planner behind the $27 million collapse of Wickham Securities was granted bail by Brisbane Magistrates Court yesterday having been charged with 33 counts of dishonestly causing detriment.

Following action by the Australian Securities & Investments Commission, Bradley Thomas Sherwin, 60, of Everton Hills, faces the 33 charges over losses of nearly $10m between May 2009 and December 2012. He also was charged with one count of dishonestly breaching his duties as a director of Wickham Securities. He was not required to enter a plea and will reappear on July 23.

Mr Sherwin had given financial advice to clients of his company Sherwin Financial Planners to, in many cases, invest in Wickham Securities, which he also controlled. Wickham Securities, a high-risk investment fund that spruiked returns as high as 20 per cent or more, collapsed in December 2012 owing $27m to about 300 investors.

Alongside Sherwin Financial Services and Wickham Securities Mr Sherwin operated a string of companies, including an accountancy firm and a self-managed superannuation advisory group. “Sherwin Financial Planners was placed into administration in January 2013 and liquidation in February 2013, along with other companies of which Mr Sherwin was a director, including Reacroft Pty Ltd, Astor Funds Pty Ltd and Blue Diamond Investments Pty Ltd,” ASIC said in a statement.

In May last year ASIC said it had taken action against Gold Coast-based financial planning firm LCL Capital for failing to properly monitor and supervise its string of “authorised representative” financial planners. It had been alerted to problems at LCL while investigating advice provided by one of its representatives, Timothy Bryce. Mr Bryce had previously worked for Sherwin Financial Planners. ASIC found a number of LCL representatives were not competent enough to provide financial services.

Holding Redlich
is pleased to announce the following appointments:

Partners

Christine Jones
Government, Construction & Infrastructure, Sydney

Breellen Warry
Environment, Planning, Property & Projects, Sydney

Special Counsel

Sean Costello
Funds Management & Superannuation, Melbourne

Senior Associates

Emily Booth
Corporate & Commercial, Melbourne

Lauren Freeman
Personal Injury, Melbourne

Jarod Sacks
Construction & Infrastructure, Melbourne

Catherine Lah
Corporate & Commercial, Sydney

Ivan Orola
Property & Projects, Brisbane

Michael Stretton
Construction & Infrastructure, Brisbane

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OFFER OF COMPROMISE BETWEEN DISCOVERY COPPER BOTSWANA (PTY) LTD IN PROVISIONAL LIQUIDATION AND ITS CREDITORS

Notice is hereby given that on 23 June 2015 the High Court of Botswana issued the following Order:-

1. The Offer between 1st Respondent and its Creditors, as proposed by letter of Offer dated 22 April 2015, as amended on 11 June 2015, as approved by each class of creditors of 1st Respondent in terms of Section 234(1) of the Companies Act, be Sanctioned on the basis that the Sanction be effective on and as from 1 July 2015.
2. The Offer Compromise constituted by the Offer is binding on all creditors of 1st Respondent, who were such as at 9 March 2015.
3. The Rule Nisi granted by this Honourable Court on 9 March 2015 be set aside and 1st Respondent be discharged from provisional liquidation, effective the 1 July 2015.
4. The Applicant is granted leave to approach this Honourable Court as a matter of urgency, for directions including a postponement of the effective date of 1 July 2015 in the event that approval of the Minister of Minerals, Energy and Water Resources to the change of control in and transfer of shares from 1st Respondent to Khoemacau Copper Mining Botswana (Pty) Limited the Botswana incorporated subsidiary of the Applicant is not received by 30 June 2015 or in the event that a release of securities by the Secured Creditors and execution of the documents necessary to effect cancellation of the encumbrances over the assets of 1st Respondent is not executed by 30 June 2015.
5. Applicant and 1st Respondent shall cause publication of this Order of Sanction of the Offer and discharge of 1st Respondent from provisional liquidation, by advertisement in Australia in “the Australian”, in South Africa in “the Star” “Business Report” and in Botswana in “Mmegi” within 5 business days of this Order.
6. The Offer be amended to record that the amount of USD23.5 Million due to Secured Creditors be paid to Standard Chartered Bank as Facility Agent for the Secured Creditors, and BWP40,494,825.43 be paid to the Receiver to settle Preferential Creditors and USD6 Million be paid to the Receiver for Unsecured Creditors.
7. The Settlement Date, being the date upon when the amount of USD23.5 Million be paid by the Applicant to the Secured Creditors and BWP40,494,825.43 be paid to the Receiver to settle Preferential Creditors and USD6 Million be paid to the Receiver for Unsecured Creditors, be confirmed as 8 July 2015.
8. All actions of the Provisional Liquidator on behalf of 1st Respondent pursuant to clause 3.3 of the Order of this Honourable Court dated 9 March 2015, between such date and 1 July 2015 the effective date of discharge of the 1st Respondent from provisional liquidation, including without derogating from the generality of the aforegoing, the termination of contracts to which 1st Respondent was bound, as at 9 March 2019, at any time thereafter be ratified and declaring 1st Respondent bound thereby.
9. Directing that Messrs T. R. Snider, D.M. Bartlett, S. A. Rasmussen, L. A. Shonk and K. K. Molosiwa be appointed directors of the 1st Respondent as of 1 July 2015, to hold office subject to the provisions of the Companies Act [CAP 42:01] and the Constitution of 1st Respondent.
10. Directing that the Leases No TLB/B/10/2170 and No TLB 6/3/6-27/02 in respect of Tribal Area 40-0L and Mining Lease Area 41-0L be cancelled, with effect from 1 July 2015.

Provisional Liquidator
Massimo Marinelli
Deloitte & Touché
P.O. Box 778
Gaborone