

Background

I write this submission as a member of the AFA and a passionate advocate of the advice profession. For the past seven and a half years I have been the Managing Director of Elixir Consulting; a specialist firm that provides coaching and consulting services to advice practices and associated businesses in financial services. Prior to starting Elixir, I was an adviser (I am a qualified CFP), and worked in Funds Management and Licensees, so I have sat in all ‘camps’ of the profession.

I aim with this submission, to raise your awareness of the work required within an advice practice to deliver advice on risk. Between our team of coaches around Australia, we have an in-depth knowledge of the inner workings of advice businesses, and this is enhanced by regular research* that we conduct into the adviser pricing models used around the country, and our online pricing program, used by advisers to analyse the typical length of time to deliver services, and cost to do so.

(* Elixir Consulting Adviser Pricing Models Research Reports, Editions 1 (2009), 2 (2012) and the third edition soon to be released.)

Please note that I do not feel I have had sufficient time to adequately consider the initial suggestions in the Interim Report, so this submission is purely focused on raising awareness of the challenges when pricing risk advice. I would be happy to provide additional contributions if deemed appropriate.

My main motivation in any contribution is the need to increase the level and quality of insurance that consumers hold, so that they are adequately protected in the event of catastrophe. I’ve always been a strong believer in insurance advice and am reminded of its importance daily at the moment, as I am currently helping a good friend who has been diagnosed with Stage 4 Melanoma. She has young children the same age as two of mine (9 and 6), and she will be lucky to see next Christmas. Unfortunately, Anne (not her real name) never received advice, being a person who “was never good with money – never thought too much about all that stuff”, and so her family is now in a position where she is underinsured, and the small policies she does have are within her super funds, with varied and confusing rules about access and claims. I’m helping her as her friend to make a successful claim – I only wish as her friend I had asked her sooner if they had established their insurances correctly before they really needed them. Rose is a perfect example of the general public – she wasn’t motivated to consider her options properly – despite the fact that she has worked as a palliative care nurse so knows first hand, how fragile life is.

It is my goal that more people will seek, and be able to obtain, quality advice about their insurances, and get cover in place that will be there for them if they need to use it. AND that their claims experience is as straight-forward as possible, because they have a professional adviser in their corner, deciphering the hoops they need to leap through. These hoops are a necessity, to prevent fraudulent claims, but nonetheless, they are very difficult to deal with, at what is already an emotionally difficult time.

Whilst the rise of direct insurers will hopefully raise people's awareness of the need for insurance, I see them also damaging the general perception of insurance, as more and more people find they are not in fact covered adequately. I have attached an article I wrote not long ago that discusses the benefits of obtaining insurance cover through a trusted adviser.

I believe it is important that clients obtain quality advice with regard to their personal insurance, as I have heard countless stories of clients who were not adequately covered, or thought they were and then couldn't claim when they needed to.

One such example is available in a discussion on LinkedIn: https://www.linkedin.com/groups/Who-are-you-going-contact-3819797.S.5963479645482401792?view=&gid=3819797&type=member&item=5963479645482401792#commentID_null



Peter

Peter Reid

Peter Reid - Expert Witness, Life Insurance

Thanks for this Ben.

Sadly just dealt with a case where the insured bought a policy over the phone (TV adv) and the questions were so broad. He died a few months later in a car accident and then they did the underwriting and found an unrelated non-disclosure and denied the claim, as they said they would not have issued the policy. Even went to FOS but the insurer won. Which is quite rare.

Leaves a sour taste in my mouth when they say on TV "so simple you wont even need to see a doctor, just a few simple questions"!

So warn people to obtain a proper adviser arranged policy. With good advice and most likely less expensive too.

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The Cost of delivering advice

There is a lot of difficulty in adequately pricing advice on insurance, as there is rarely a ‘common’ scenario. There is, however, a typical process that many advisers will follow, to implement advice for a client. I have made an attempt to summarize in the table below, the typical steps required to provide insurance advice for a client. This considers only the situations where insurance advice is provided as standalone advice, and not included as part of an overall financial plan. Please note that there are many variations on this process, depending on the advice business and the client type, but this provides a typical example (assuming a business that uses a paraplanner, whether in-house or external to the business; and an admin support staff member). I have noted the ‘average’ time for each staff member to conduct their part of the process:

Process Stage	Adviser	Paraplanner	Admin support staff
Initial enquiry discussion and prep for first meeting	15 mins		10 mins
Conduct first meeting, understand the client, complete file notes	2 hours		
Input client data to CRM software/set up client file/followup client for statements etc			1 hour
Research clients’ current holdings, and consider appropriate recommendations	1 hour		1 hour (send authorities & conduct research)
Obtain multiple quotes for suggested recommendations	30 – 45 minutes		
Document recommendations in SOA	30 minutes (instruct then review)	2 – 4 hours	



Present recommendations to clients, educate them on the variables chosen, complete file notes	2 hours		
(Possibly) run new quotes on revised terms as requested by client	15 minutes		
Complete application forms with clients	1 hour		
Arrange for, and follow-up underwriting requirements until complete	45 minutes		3 hours
Total Time (average)	8 hours	3 hours	5 hours

Using an average charge-out rate[#] of \$299 for advisers, \$171 for paraplanners and \$105 for support staff, this means to put insurance cover in place for a client, the business will likely need to recover at least \$3,430. This does not account for significant challenges with underwriting and needing to discuss revised terms, loadings, exclusions etc.

(Note, among the possible variations to this suggested process is where some advisers will use the tele-underwriting services of the insurer; thereby removing approximately \$315 worth of cost to the business, based on the above example)

([#]Source for chargeout rates: Adviser Pricing Models Research Report Third Edition)

There are a whole host of challenges when it comes to pricing insurance advice, and I have included in this submission, a chapter of my book, Pricing Advice, where I reveal these challenges and provide suggested solutions, for advisers wishing to shift to a fee-based model. The two largest challenges for commission-based advisers to face are:

- How to account for the number of clients they provide advice to, where the insurance doesn't complete, whether by choice of the insurer or client, and
- How to manage claims for clients.

Ongoing commissions are typically considered to remunerate the adviser for two things:



1. to review the client regularly to ensure their cover stays appropriate for their changing needs, and
2. to assist a client if they need to make a claim. It is at this time that the client is most in need of support to lodge and pursue a claim with the insurer, and arguably the moment that the adviser demonstrates their true value. Unfortunately, assisting a client with a claim is a time consuming process, and most advisers do not charge a fee for this service – rather they consider it as being an obligation, for the ongoing commission they receive from all of their clients, that is costed on an averaged basis. (ie whilst the ongoing commission for that client may not cover much of the time spent assisting with their claim, they may only ever receive a claim from a small percentage of their client base.)

Fee-based insurance advice

Whilst I hesitate to suggest a model that solves all of the existing challenges, there is overwhelming evidence that the current model is indeed flawed.

Whilst I have witnessed, and indeed assisted advisers to replace commissions with fees, this model works well for clients who see the value in insurance, and in seeking expert guidance from an adviser (and to some degree, have adequate resources to pay a fee).

Where clients are apathetic, or simply not motivated to get their affairs in order, I fear that the prospect of paying a fee to review their needs, regardless of whether they successfully get insurance placed, may be a deterrent to engage. My mind turns to my friend Rose, and I suspect that had she been introduced to an adviser, she would not have placed sufficient importance on getting her insurances in order, to agree to a fee to obtain their advice. She would more likely have dismissed it to the 'too hard basket' and remained in the same position she is now.

The most common scenario we see today from progressive advisers, is that they charge a nominal fee to take on the client (\$750 - \$1,000), take the hybrid or level commission option, and offset other advice fees against this commission. It is rare, however, to see an adviser cap the insurance commission they earn from a client, usually as their larger cases are considered to be offsetting the clients who take up a lot of time, and don't get insurance in place.



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The businesses we have seen that have completely removed commissions (and write policies on a nil-commission basis for reduced premiums) typically provide insurance as part of a comprehensive financial plan, so their ongoing reviews of insurances are conducted in the context of reviewing the clients' overall affairs.

There is no doubt that the current status-quo is unsustainable. I hope that with this additional information on the cost of delivering insurance advice and the challenges in pricing insurance advice will help with your difficult task.

Sue Viskovic

31st January 2015

Appended: Value of Insurance Advice Article

Separate Attachment: Pricing Advice excerpt: Pricing Insurance Advice chapter.

SYDNEY | MELBOURNE | BRISBANE | PERTH

PO BOX 382, NORTH BEACH, WA 6920 | 117C FLORA TERRACE, NORTH BEACH, WA 6020

PHONE: 1300 683 680 FAX: 1300 562 889 WEB: WWW.ELIXIRCONSULTING.COM.AU

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INSURANCE

THE VALUE OF INSURANCE ADVICE

The rise of direct insurance providers presents planners with an opportunity to articulate and demonstrate their value offering to underinsured clients, writes **Sue Viskovic** CFP®.

Our team of coaches have run workshops with about 300 risk insurance advisers around Australia recently and we've discovered some very interesting things. These advisers are in the top echelon of insurance writers in the country, and many of them were keen to share ideas and explore new ways of generating business, including exploring new business models and value propositions.

One of the topics we discussed was the increasing prominence of direct insurance providers, who place insurance online and over the phone for the general public. The advisers we spoke to were very clear on the fact that while consumers with very limited needs and simple personal situations may be well-served by direct insurance, there is still undoubtedly a need for quality advice.

You can't turn on the TV nowadays without seeing an advertisement from a direct insurer. But this plethora of television advertising may actually help advisers – we keep hearing that 'insurance needs to be sold', and we know that our population is underinsured, so if their advertising dollars motivate people to think about the unthinkable and take action to protect their family, then that's fantastic.

As the advice community, it is then our responsibility to further educate people about the need to seek quality advice to ensure they are actually paying for the right insurance, and that it will be there for them if they need it.

We heard some very interesting stories that were shared about clients seeking insurance from direct providers. We heard a heart-breaking story of a mother of three young children who lost her husband to suicide, and couldn't understand why the insurer was making her jump through hoops to get the life insurance claim paid. There was a 13-month exclusion on suicide, but the policy had been in-force for over four years. The insurer was asking for five years of medical history, looking for evidence that her husband had been treated for depression in the year prior to taking out the cover. At the time of discussion, the claim was still pending, but it is very possible that the young widow will be denied on the basis of a pre-existing medical condition.

Sue Viskovic,
Elixir Consulting



insurance cover, the adviser would have taken them through the underwriting process at the outset. The adviser may have found an insurer who would have provided cover, and if not, at least the family would have known what they were covered for.

The benefits of underwriting at the time of application rather than the time of claim cannot be downplayed. Most advisers will facilitate this process when lodging applications, effectively obtaining discounts for good health. The great advisers will set their clients' expectations about what is likely to be an arduous process, and then they (or their staff) walk each client through that process of completing forms, booking medicals, chasing up medical reports, organising blood tests, liaising with underwriters and so forth.

In many cases, were it not for the adviser, the client would likely either not start the process, or give up part way through. It is well worth it in the end though...to obtain the reassurance that not only are they insured, but the money they are spending on premiums is money well spent; and if they ever need to make a claim, it would be unusual that they would be denied by the insurer.

The same cannot be said for those who answer a few questions and get their insurance cover from a direct provider. They will be shocked to learn that the underwriting process is done at the time of the claim, and the odds are much higher that they will have their claim knocked back – discovering too late, that all the money they have been paying on expensive insurance premiums for years has been a complete waste.

Of course, field underwriting is just one of the many valuable things that an adviser provides a client when they assist them with their insurance needs. Most clients also need help with:

- Knowing what types of cover are most important to them – life, TPD, trauma, income protection;
- Knowing what levels of cover to put in place;
- Knowing what they can reduce if their budget does not allow for the optimum levels of cover;
- Which insurers to select – not only choosing the cheapest options but also the right inclusions for their situation;
- How to structure the ownership of their policies so that they can minimise tax payable – both on the premiums they pay, and also on any payout that they may receive;
- Whether to select level or stepped premiums, agreed value or indemnity, Any or Own-occupation;
- Help them understand the pros and cons of holding insurance via superannuation, considering such things as the harsh conditions of release for TPD; and
- Perhaps one of the most valuable things about having an adviser is the ability to call on them when something goes wrong. The adviser will know if the client should make a claim, and will handle the paperwork and liaison with the insurer.

Some of these things can be researched and learned online if you had the time, but for many consumers, the risk of getting it wrong is far too great, and so their adviser's support is invaluable.

Most consumers don't know what they don't know about getting insurance cover, and that is our responsibility to educate them about. How can someone make an informed choice when they aren't aware of all their options? When the value of insurance advice is articulated well, either directly by advisers or by their clients and referral partners, people are hard-pressed to argue that they would not benefit from being under the care of a financial planner with insurance experience. ●

Sue Viskovic is the Managing Director of Elixir Consulting, an independent practice management and business coaching organisation that specialises in the financial advice profession.

Had this family sought advice when obtaining their

PO BOX 382, NORTH BEACH, WA 6920 | 117C FLORA TERRACE, NORTH BEACH, WA 6020

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