# Advised Life Insurance

## Commission vs. No Commission + Direct and Group Alternatives

17 November 2020

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

# Life insurance is the pool of many, supporting the unlucky, for the benefit of the community and the economy.

The same principle applies to life insurance advice commissions, where the pool of commissions enables advisers to cost effectively help the many, put in place the right cover, review their cover and claim on their cover.

Commissions remove cost and complexity, maximise affordability and accessibility, de-risk the life insurance process and transactions for consumers and keep the system sustainable.

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

# Advised Life Insurance Commission vs. No Commission

| THE VALUE OF LIFE INSURANCE ADVICE | ADVISED LIFE INSURANCE USING COMMISSION/BROKERAGE | ADVISED LIFE INSURANCE USING FEE FOR SERVICE |
|---|---|---|
| **GETTING COVERED**<br><br>Advisers provide advice and help put in place the right cover, for the right price and take care of all of the paperwork with the insurers, to make a very complex and confronting process as easy as possible for consumers to protect their incomes, families and businesses. | Commission/brokerage removes the cost and complexity barriers for consumers, plus the consumer receives policies that are generally better priced, provide more benefits, are easier to claim on and are fit for purpose, compared with outcomes if they tried to do it themselves. Even if applications for insurance are declined by insurers and the consumer cannot get cover, there is no charge for the advice provided and the work completed. | Using Fee For Service, advisers will need to charge the average person $3,000-$5,000 for the review, advice and implementation of their personal, family and/or business protection needs. We will still need to charge this, even if the insurer declines their application for insurance cover. If there are complex financial, health, occupation, business, legal, family or any other needs, this cost can be much higher. |
| **REVIEWING & RENEWING**<br><br>Every year when policies renew, advisers offer a review of the market to make sure consumers are still getting value for money, and also help review and make adjustments to policies to keep up with life's changes. | Commission/brokerage covers the cost of any market reviews and policy adjustments, whilst encouraging the client to review the ongoing appropriateness of their cover and reconfirm the value and need for it, without the fear of incurring advice and service fees on top of stepped premium rate increases at each renewal, as the client gets older. | Using Fee For Service, advisers will need to charge consumers between $600-$1,500 each year to do these reviews and make any adjustments, plus consumers will also need to cover any increase in premiums from the insurer too (not uncommon in today's market for a stepped premium to increase 10-25% per year). |
| **MAKING CLAIMS**<br><br>When consumers need to claim, advisers are there to organise all of the forms, work with their doctors and manage their insurers, so they and their family can focus on recovering, without the stress of back and forth with insurers and lawyers. | Commission/brokerage covers the cost of managing claims and removes the need for consumers to pay large fees after being dealt the physical, mental and financial blows associated with losing the ability to work, or a loved one passing away. Ultimately, advisers are able to advocate for their clients and ensure integrity and trust is maintained at the most important time of a policy's lifecycle and at a time when their clients are most vulnerable, no matter the size or complexity of a claim. | Claims take between 10-40 hours on average, which means using Fee For Service, advisers will need to charge consumers between $3,000-$12,000 per claim, to assist them and their family - even if their claim is declined or reduced. Due to the nature of ongoing income protection claims, the costs of claims management can easily compound with each monthly claim submission. |

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

| THE VALUE OF LIFE INSURANCE ADVICE | ADVISED LIFE INSURANCE USING COMMISSION/BROKERAGE | ADVISED LIFE INSURANCE USING FEE FOR SERVICE |
|---|---|---|
| **ABOUT LIFE INSURANCE ADVISERS AND HOW WE ARE PAID**<br><br>We are life insurance specialists representing consumer needs and interests, not the big insurers. Our purpose is to remove barriers and make life as easy as possible when it comes to life, income protection and key person insurance. | Advisers are paid a commission/brokerage by the successful insurer after a client's policies are put in place, and each insurer pays the same amounts, so there is no financial incentive to recommend one insurer over another.<br><br>When providing advice and recommendations, we always act in consumer best interests and any commission/brokerage is fully disclosed in a comprehensive statement of advice, which we review together before any decisions are made.<br><br>Life insurance advisers are the intermediaries who play an essential role maintaining balance, trust, integrity and efficiency in a market, where individuals (little guys) rely on multi-billion dollar corporations (big guys). The lack of complaints* against advisers proves we are doing a great job performing our duties and making the system a better and fairer place for the end consumer. | Using Fee For Service, advisers will charge consumers directly for our advice and services.<br><br>The costs we've discussed are estimates only and can vary significantly depending on the nature of the advice consumers require, the level of cover they apply for, their health, their changing circumstances in the future, changes in the insurance market that are out of their control and the technicalities/difficulties of any claims they and their family need to make. |

* AFCA has recently revealed, that less than 2% of complaints received by them, relate to financial advisers/planners, and only 10% of the 2% of complaints make it to decision - so it's safe to assume that less than 0.2% of complaints relate to financial advisers/planners and the other 1.8% of complaints that didn't make it to decision were resolved amicably, fairly and respectfully. If we dig further into how few of the 0.2% of complaints relate to life insurance advice, we've got to seriously start questioning, why all the wasted time, money and bandwidth on over regulating and suffocating the Australian life insurance advice sector, which performs very well on a global stage.

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

# Advised Life Insurance Summary

## CONSUMERS LOVE THE COMMISSION/BROKERAGE LIFE INSURANCE MODEL

Life insurance is complex, confusing and people don't wake up in the morning thinking about why they need to buy it.

Life insurance advisers cut through consumer apathy and are able to do this by making the process seamless for the consumer, often collaborating with other professionals such as accountants, and willingly providing advice and services without consumers needing to worry about being charged thousands of dollars in upfront and ongoing fees on top of their insurance premiums.

Advised consumers receive better value for money, know exactly what they are (and are not) covered for, have superior fit for purpose cover that they can count on, and they also have the help, support and advocacy from their adviser, every step of the way. Once cover is in place through an adviser, the consumer is in complete control, the policies are automatically upgraded and cannot be cancelled or changed by the insurer to the detriment of the policy holder.

## CONSUMERS HATE THE FEE FOR SERVICE LIFE INSURANCE MODEL, BECAUSE FEE FOR SERVICE TRANSFERS ALL COST AND RISK ONTO CONSUMERS

Fee for service makes insurance advice unaffordable for 90-95%* of consumers and forces them to rely on inferior direct or group insurance products that generally cover less, cost more and deliver poorer claims outcomes; or even worse, consumers will not bother with insurance at all. If unsustainable reforms continue, the life insurance sector will collapse, costing the Government tens of billions of dollars in welfare, job losses and lost revenue, with these costs and losses compounding into hundreds of billions of dollars on Australia's economy over the coming years. This would be a disaster and a complete waste of tax payer time, money and bandwidth, and would ultimately leave the end consumer in a much worse position, as advisers, insurers and reinsurers leave the market.

It's a fact that 90-95%* of consumers are not willing to pay even a small fraction of what it costs an adviser to provide life insurance advice and services, which includes not just paying for an advisers time, but also needs to cover an advisers common business expenses such as staff wages, rents, rates, education programs, licensing fees, industry levies, association fees, professional indemnity insurance, compliance costs, software and technology, taxes etc.

If commissions/brokerage remains insufficient to run a profitable business, the advisers who maintain the balance, trust, integrity and efficiency in the system will disappear, and as mentioned above, the life risk pool will collapse and the sector will become completely unviable.

**When it comes to Life Insurance, Fee For Service does not equal value to the consumer and does not make the risk pool more sustainable.**

* A recent 2019 consumer study conducted by Rice Warner and Zurich, found only 8 percent of those surveyed indicated they were willing to pay more than $1,000 as an out of pocket fee for life insurance advice, none of the consumers surveyed said they were willing to pay $2,000 or more, almost 30 percent of consumers said they were not willing to pay a fee at all for life insurance advice and a staggering 55% of consumers said they were not willing to pay more than $250. Couple this research with income figures published by the Grattan Institute in April 2019, which show 80% of Australian's earn less than $80,000 per year and the typical worker earns just $57,918 per year, it is fair to say that 90-95% of consumers would not be able to afford and/or would not be willing to pay a fee for service on top of their life insurance premiums, that covers what it actually costs an adviser to provide life insurance advice and services. Remember, that since commissions have reduced under LIF reforms, premiums have been increasing, not decreasing - Fees for Service in insurance increase costs for everyone and wipe out affordable access to pooled risk and advice for those who need it most.

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

# What about Direct Life Insurance and Group Life Insurance in Super?

## DIRECT LIFE INSURANCE

There is always going to be a small percentage of the population that wants to DIY their life insurance cover directly with an insurer, but for the many reasons listed below, this model is not a sustainable or ethical primary method of life insurance distribution for insurers, and does not provide the best life insurance outcome for consumers:

- **High Acquisition Cost and Lower Retention:** People don't proactively seek out life insurance. It takes a lot of marketing spend and incentives to acquire a new life insurance customer through the direct channel, which makes it very expensive for insurers and also leads to very high lapse rates. Direct life insurance distribution is not a very sustainable way of doing business, which results in unsustainable and/or predatory practices from product providers trying to make the model work, which was highlighted in the royal commission.
- **Higher Premiums:** Due to the sheer cost of acquiring new policy holders and constant cancellations by existing policy holders, the insurers need to charge much higher premiums for direct cover. This is compounded by underwriting shortcuts that the insurers take to issue cover quickly, because the more people you let into the pool without proper underwriting, the higher your claims are going to be.
- **Fewer Benefits:** The benefits and features of direct products are cut back to make the products "simpler" and "easier" to understand for policy holders which, as a by-product, also makes the cover harder to claim on, due to fewer benefits and lower quality definitions of illnesses and injuries. There are also essential cover types that direct insurers simply do not offer, which is a huge disservice to the end consumer. When dealing direct, the policy holder doesn't have an adviser providing personal advice and doing the grunt work for them, so they don't know any better and are stuck with an inferior policy that is more often than not, pretty poor value for money. This is compounded by direct insurers using general advice, to generally help consumers pick a product that seems affordable, but for most, the product is not fit for purpose and more expensive than advised life insurance.
- **Harder Claims:** As mentioned above, direct to consumer policies generally don't cover as many claimable events as an advised policy, so the policy holder misses out. However, here's the kicker, the main issue lies with the underwriting shortcuts direct insurers take upfront, in exchange for a "quick" and "easy" application process. This practice sees some direct insurers inserting pre-existing condition and underwriting at claim time clauses into their policies, which means the policy is issued without properly assessing an applicant's health history, with a caveat that if a claim arises and it relates to a pre-existing condition, the claim will be denied. This is disastrous for someone who has been paying premiums, makes a claim and is then told after the fact that they are not covered because it is related to a pre-existing condition. What do they do then? Most give up and don't get paid, or they engage expensive lawyers, which either way is lose/lose for the end consumer.

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au

## GROUP LIFE INSURANCE IN SUPER

Most Australian's have some form of automatic life insurance in their super and it serves a purpose, by ensuring Australian's have access to a low cost, basic level of insurance. However, even though it is basic, it is also a complex "consumer beware" model of life insurance distribution, as follows:

- **Cancellable Cover:** Most consumers don't understand that they have very little control over the group insurance they have in super, because regulators can take away benefits, their super fund can take away benefits and insurers can change the terms and conditions of cover to put policy holders in a worse position and/or water down their benefits.
- **Unsustainable Premiums:** As mentioned, the premiums for the basic automatic cover that is issued in a super fund can be quite low and unprofitable for life insurers. However, if consumers request more appropriate levels of cover through their super fund, this can cost consumers substantially more (up to 400%* more) than what it would cost taking out better cover with the help of an adviser. The premiums can be much higher for a variety of factors, but the main factor is the sheer number of people who are given cover without underwriting, resulting in more people with health issues/pre-existing conditions being given cover, which drives claims rates up and therefore increases premiums for everyone in the group pool.
- **Basic Benefits:** The types of benefits and the quality of benefits are limited by the rules and regulations governing superannuation, which means consumers miss out on cover that they need and are often covered for fewer benefits than what they would otherwise be covered for, if they had advised life insurance.
- **Claims:** Due to the low levels of cover that are provided automatically in super, and Australia's general apathy and relaxed attitude towards life insurance (we're told only 16% of consumers responded to their super funds PYS/PMIF notices about cancelling their cover), more often than not, benefit payments are not fit for purpose when a claim is made, which leaves claimants and their families under-insured in most areas, un-insured in other areas and still in a vulnerable financial position at a very difficult time. If claims are outside the square, are a bit grey or get declined, consumers have no-one advocating for them and need to turn to expensive hourly rate lawyers, or no win/no fee lawyers who take a large % of the final claim payout, which is often up to 30%. It is very important to note, that there is an army of life insurance advisers doing copious amounts of pro bono work for people stuck in the automatic group super insurance claims system, fighting to get these peoples claims/benefits paid, even when the advisers themselves are fighting for survival in their own businesses.

* A client needed to increase their TPD insurance, their industry super fund wanted to charge them $430/mth, but the advised policy was only $136/mth for the same level of cover and was much better quality, therefore the industry super insurance cost over 300% more for a policy that was harder to claim on. If we cut the advised policy back to a similar like for like quality of the super fund, it reduced the advised premium to circa $106 per month, therefore the industry super insurance cost 400% more in this scenario. To summarise, if the client organised their insurance themselves, they would have been paying up to 400% more, with no advice, no reviews and no claims assistance. Through an adviser they are paying a quarter of the price and are getting all of the benefits of an advisers services included, without needing to pay Fees For Service, because the cost of the advisers services was covered by the commission.

**Authored by Brett Wright, Life Insurance Adviser and Technology Creator**
**Direct Contact Details:** (02) 8543 7099 | bwright@kprm.com.au