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Cost and efficiency of delivering life insurance advice

Prepared by Plan For Life for MLC Life Insurance

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Plan for Life, Actuaries & Researchers
217 Blackburn Rd, Mt Waverley VIC 3149 Australia

T: +61 (0)3 9886 4400
E: support.australia@issmarketintelligence.com
W: www.pflresearch.com

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Foreword

By Sean McCormack, Chief of Group and Retail Partners, MLC Life Insurance

MLC Life Insurance believes in quality, lifelong financial advice and believes more Australians would benefit from receiving it.

We also believe that financial advisers are fundamental to the success of the Australian life insurance industry.

Unless educated about their mortality risk by a financial adviser, or defaulted into group insurance through superannuation, few Australians take out life insurance through their own volition.

Indeed, the evidence shows that more Australians would benefit from receiving high quality financial advice.[1]

At a time when Australians are taking on an increasing amount of debt, access to advice is critical for personal financial protection and the prosperity of the community.

But the sustainability of advice is being challenged. With upfront commissions being reduced as part of the Life Insurance Framework reforms, increased compliance and education requirements, and declining sales, many advisers are grappling with the profitability and sustainability of their businesses.

Combined, these headwinds are creating a ‘perfect’ storm for the adviser and licensee community.

In partnership with *Plan For Life, Actuaries and Researchers,* we commissioned research to better understand the true costs associated in providing life insurance advice. This included the cost for an adviser in servicing their existing clients as well as preparing and implementing advice for new clients. From the findings, we wanted to identify ways in which advisers can make efficiency gains in their business and outline opportunities for us as life insurers to help improve the process and overall sustainability of advice.

Using this whitepaper, advisers can now benchmark their businesses against peer businesses, while also exploring opportunities to reduce the cost of advice. For instance, we can now map the overall time it takes for an adviser to find new clients and then to prepare and implement life insurance advice. On average, a total of 10 hours is required to complete the end to end process for a simple case, and up to 15 hours for more complex cases.

What is clear from the research is that there is a need for more detailed knowledge of the true operating costs associated with providing advice, and how each facet of the advice process – such as marketing, administration, client servicing and compliance - can impact overall profitability. We hope that advisers can now use this information to review and analyse their own business’ costs and, potentially, make changes to their business model.

[1] Great Advice for More Australians White Paper - Association of Financial Advisers (AFA). According to the survey, nearly 80% of Australians who receive advice feel greater peace of mind as a result[1]. Further, 50% of people who have received advice believe they could survive financially for more than six months if they were unable to work, whereas only 26% of people who have not have the same level of confidence.

For life insurers, the message from the whitepaper is clear: We need to improve the implementation and ongoing management process of insurance and use better technology to deliver greater efficiency to advisers and their customers.

As a member of the Nippon Life Group of Companies, we’re making significant strides in this area already. We’re investing heavily in technology transformation, including digital and data, infrastructure, and support services to better serve advisers and their customers. Our new digital underwriting platform, for example, can now assess and admit a customer’s life insurance application in just seven days, down from 15. In the last 12 months, more than 7,200 policies have been accepted automatically without the need for any manual underwriting intervention. In 2020, we will also be deploying our new policy administration system, and interactive quote tool along with a new adviser and customer digital portal.

While this is only the beginning, we believe that delivering an efficient experience that is digitally enabled can reduce the cost of delivering advice and support advisers to ensure that their businesses can be sustainable in to the future.

In closing I would like to thank all the advisers who took part in this important research and recommend you read the whitepaper. I trust you find the insights useful.

Yours,

Sean McCormack

Executive summary

Introduction

Plan For Life, Actuaries and Researchers were appointed by MLC Life Insurance to undertake research to better understand the costs involved for financial advisers in providing life insurance advice. This research is set against the background of a fast-changing advice environment characterised by regulatory change, increased competition and declining numbers of specialist life insurance advisers.

The primary aim of the research was to capture life insurance advisers' views and experience of the time spent and the costs of servicing their existing client base *and* preparing and implementing advice for new clients and any other business development. Based on these findings, the research also sought to identify and recommend ways in which advisers can review and identify efficiencies in their own business and outline opportunities for insurers to assist advisers in maintaining sustainable life insurance advice businesses.

The research took the form of an online survey completed by a wide range of 161 financial advisers, followed by face-to-face interviews with 19 advisers. This report presents the findings of the online survey, face-to face interviews and where appropriate refers to additional industry research conducted by Plan for Life and other reputable industry sources. At times, estimates and best-fit data have been used where captured data is incomplete. The report clearly states when this statistical technique has been used.

Summary findings of the research:

Finding new clients together with preparing and implementing advice takes an adviser, on average, a total of 10 hours

The range is from four to over 15 hours to complete this process. Complex situations result in an increase in hours and overall time spent in completion. A focus on shortening the underlying processes could reduce the hours taken and provide additional time for generating new client opportunities.

Relying on commission alone is unlikely to cover the cost of advice

As the complexity of a client's insurance needs increases there is an increase in the cost of providing advice due to the amount of time and extent of the adviser's experience required along with the nature of the policies normally required. The summary table below illustrates that for a simple policy (e.g. term life premium at $1,500 per annum) upfront commission is less than the associated costs to deliver the advice, and as policy complexity increases (as illustrated by the increasing premium example) commission alone is inadequate to cover these costs.

	Simple policy				Complex policy
	$	$	$	$	$
Annual premium	1,500	2,500	3,500	4,500	5,500
60% Upfront commission	900	1,500	2,100	2,700	3,300
Cost	1,000	2,000	3,000	4,000	5,000
Commission less cost	-$100	-$500	-$900	-$1,300	-$1,700

To return to profitability, advisers dealing with clients with complex needs would have to either reduce their expenses by as much as 20-25%, or alternatively charge a full fee or have a combination of fees plus commissions.

Advisers need to better understand their cost base

What is clear from advisers' responses to questions relating to costs for preparing and implementing advice, servicing clients and providing claims support, is that generally speaking, many advisers do not have a detailed knowledge of their actual operating costs. Understanding how much it costs to operate each facet of the advice process is a crucial step towards managing these costs more effectively, helps inform the appropriate setting of fee structures and which in turn helps ensure a more sustainable business model for the future.

Insurers have a role to play in improving the efficiency of adviser businesses

Life insurers have a role to play in improving the efficiency with which advisers on-board and service clients. Advisers provided a number of responses as to how this might be achieved, namely:

- Simplify and speed up the policy application process by reducing the length and questions within the personal statement and improving the quote process.
- Simplify and speed up the underwriting process and provide advisers with clearer guidelines.
- Reduce the length of time taken in processing claims.
- Improve communication with advisers especially as to what the client has received from the insurer.

42% of participating advisers have made no change to their business models in response to the changing advice environment

This suggests the advisers may not know what aspects of the model to change. This is concerning given 67% of advisers reported a reduction in profit since the start of LIF.

When asked how they might change their business models should commissions be reduced to zero in the future, advisers provided a wide variety of responses including:

- Changing their advice model towards one of providing wealth advice with little or no insurance advice offered.
- Streamlining back office administration practices.
- Buying other businesses to improve scale.

Less than half of advisers surveyed say they feel prepared for further commission reductions

With upfront commissions set to reduce to 60% in the next phase of LIF, advisers were asked about their preparedness for the impact on their businesses - 48% stated that they felt ready and 33% said they did not.

These varied responses indicate that a large percentage of advisers have not commenced analysis on how exactly they should re-set their businesses. Many others are in a quandary as to whether they should introduce fees, cut out the 'mum and dad' market or expand into mortgage broking.

Only 7% of adviser responses indicated they are charging clients for claims support despite the time and costs involved

The survey revealed a considerable amount of adviser and support staff time is required for claims support but with extremely limited cost recovery. While supporting client claims can be regarded as an occasional rather than a continual activity, based on the data obtained, when claims do occur they can be extremely time-consuming. Ongoing renewal commission does not cover the time and cost involved in supporting clients at the claims stage.

Data from the research indicates an average time duration spent per claim of seven hours. At an average of $400 per hour, this equates to an estimated cost to the adviser per claim of around $2,800.

The way forward …a review and comparison opportunity for advisers

With these key findings in mind, the remainder of this report is structured to present the data, methodology and findings within the framework of the two key adviser processes, namely:

- Finding new clients, preparing and implementing advice.
- Providing support to existing clients.

Presenting the findings within this familiar framework provides advisers with an opportunity to better understand the industry averages and use this information to start to review and analyse their own businesses' costs against the average times and cost benchmarks uncovered by the survey.

In addition, a review of the types of modified business models already in operation may provide thought leadership and ideas as to which changes advisers should consider adopting for their own businesses.

1. Introduction

Plan For Life, Actuaries and Researchers were appointed by MLC Life Insurance to undertake research to better understand the costs involved for financial advisers in providing life insurance advice. This is set against the background of a fast-changing advice environment characterised by declining sales, regulatory change, increased competition and declining numbers of specialist life insurance advisers.

Research aims

The aims of the research were to:

- Reveal the cost of writing life insurance for financial advisers and their practices.
- Outline the opportunities for efficiencies in the life insurance advice process by advisers and the role that life insurers can play in assisting them.
- Investigate what percentage of time is spent on the compliance function for giving advice and how this has increased or decreased with new legislation.
- Investigate if the cost of advice is pushing specialist life insurance advisers to provide wider financial advice to ensure their business models are sustainable.
- Identify and recommend ways in which advisers can review their own businesses and identify the costs and efficiencies in preparing and implementing advice, servicing and claims processes.
- Identify and recommend, where applicable, ways in which forms of support can be provided by the life insurer to assist advisers in the transformation of their practices in meeting the effects of the Life Insurance Framework (LIF) reforms and related, ongoing changes to commissions.

Methodology

The research took the form of an online survey completed by a wide range of 161 financial advisers, followed by 45-minute, face-to-face interviews with 19 advisers. The interviews were used to confirm responses from the online survey as well as to obtain more detail on specific client-related issues raised by advisers.

The resulting data was reviewed in conjunction with other available reports and material relevant to the Australian life insurance Industry. This enabled aspects of the collected data to be compared against and corroborated by other external information. Details of the data and its analysis, together with conclusions and recommendations are set out in this whitepaper.

Background: Life insurance - an industry in upheaval

A recent study *Trends and factors affecting life insurance sales* by Plan For Life, focusing on life insurance sales in Australia from 2008 to 2017, showed that the life insurance advice industry has been under increasing stress, especially since 2012. Standout features of this are:

Declining sales – particularly to those aged under 35

Advised sales, excluding policy increases, fell from $1.05 billion in 2012 to $0.85 billion in 2017. A notable aspect of the 2017 sales is that only 11% were to persons under the age of 35, with 89% being made to persons above this age.

Declining numbers of specialist life insurance advisers

The same Plan for Life study examined the numbers of life insurance advisers in five large, specialist licensees; in 2013 there were 4,269 advisers and by the end of 2017 this had fallen to 3,458 advisers.

Regulatory change

The Trowbridge Report presented in March 2015, laid down proposed changes to commissions in the life insurance advice industry.

The Australian Government largely adopted the report's proposals in 2017 under the Life Insurance Framework (LIF) commencing 1 January 2018. As a result, a maximum of 70% up front commission (for each policy sold) applied from 1 January 2019. This will reduce further to 60% on 1 January 2020. A maximum renewal commission of 20% also applies and there are commission clawbacks of 100% on lapses in the first policy year and 60% in the second.

High-level breakdown of adviser business activity

An adviser's business revolves around marketing, administration, client service and meeting compliance.

The research examined the efficiency with which work is performed in each of these activities to provide an indication of how advisers utilise their time across a business week. The results are shown in Table 1 below.

Table 1: Business activity per week

Type of activity	Average % of time per week	Estimated hours per week (based on typical workday)
Marketing	6%	2.5
Administration	31%	12
Client Service	34%	13
Compliance	29%	11
Total	**100%**	**38.5**

Administration and client service represent the backbone of an adviser's business, so one would expect these to have substantial time components. Marketing activity is low while compliance activity is very high (although meeting compliance requirements forms a large part of preparing and implementing advice for a new client).

To understand what occurs within each of these activities, a more granular view is needed.

A framework for understanding business activity

There are two major processes used by life insurance advisers in operating their businesses. These processes and their component activities provide a framework on which to structure the research findings and provide a logical basis for providing time and cost benchmarks around specific adviser activities. The two processes are:

Chart 1.Finding new clients and preparing and implementing advice

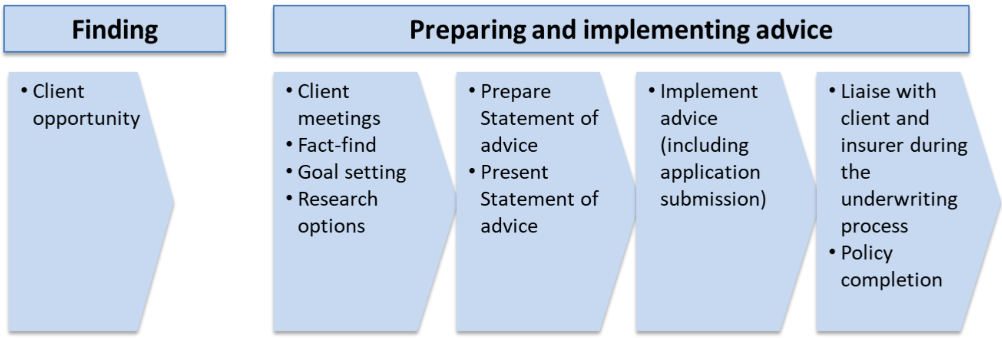
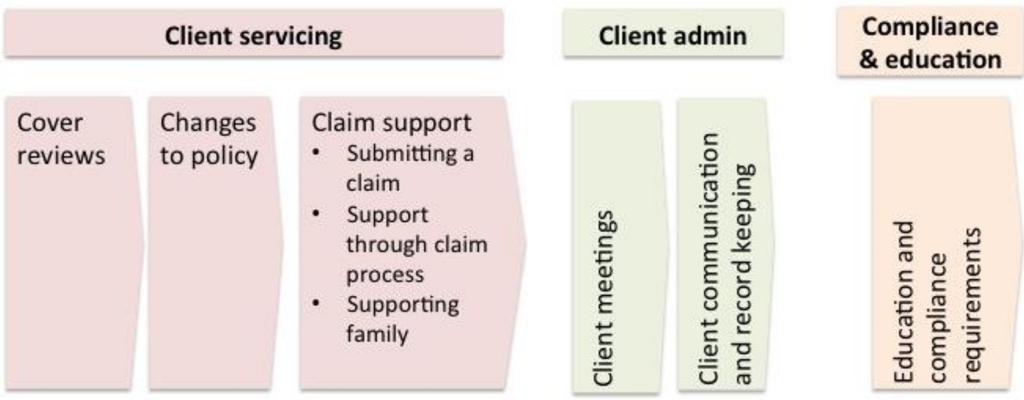


Chart 2. Providing support to existing clients

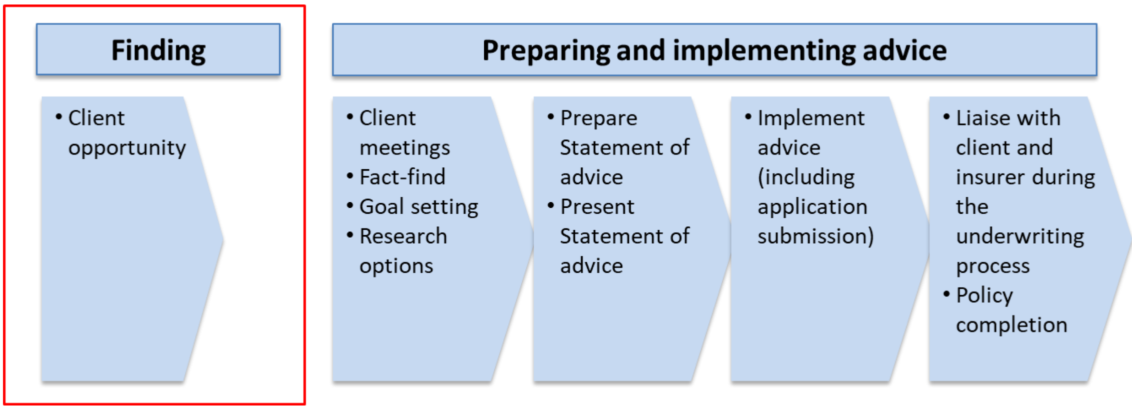


2. Activities in finding new clients and preparing and implementing advice process

New clients provide the means to grow the business and replace any lost clients. The process of finding new clients can be separated into:

(a) Lead generation to set up a meeting with a prospective life insurance client.
(b) Following steps for preparing and implementing advice that are similar in principle to the six financial planning steps set out in 'Mapping fintech to the financial planning process', issued by the Financial Planning Association (FPA, 2017) namely:
   i) Initial meeting with the client to determine the scope of the potential engagement.
   ii) Assessment of needs.
   iii) Research of insurance options and provision of these to the client.
   iv) Preparation and presentation of the statement of advice (SoA) to the client.
   v) Completion of the policy application and personal statement, together with submission of the application to the insurer.
   vi) Continual liaison by the adviser between the client and insurer while underwriting proceeds, up to granting of cover and issue of the policy.

Finding clients



Typically adviser marketing involves:

- Generic marketing:
  - Use of a website and search engine optimisation.
  - Social media.
  - Online advertising to achieve exposure and increase awareness.
- Marketing to existing clients:
  - Keeping clients informed on the need to update cover and be aware of legislative changes which might affect their policies.
  - Seeking referrals.

Assuming generating new client opportunities accounts for roughly half of the total time spent on marketing (2.5 hours per week from Table 1) that gives us an approximate figure of 75 minutes spent on new client opportunities a week. The actual time spent on each opportunity will vary according to the adviser's ability and availability of resources, but a reasonable assumption might be somewhere between 20 to 40 minutes per opportunity.

Using referrals or word of mouth is a long-standing method utilised by advisers. In the research, advisers were asked to indicate the percentage (within bands) of new clients that came from referral or word of mouth through existing contacts, to provide an indication of marketing effectiveness.

Table 2: Obtaining new clients by referral

% range of new clients obtained by referral		**% of advisers**
0%-24%	*Quartile 4*	26%
25%-49%	*Quartile 3*	13%
50%-74%	*Quartile 2*	17%
75%-100%	*Quartile 1*	44%
Overall weighted average 56%		**100%**

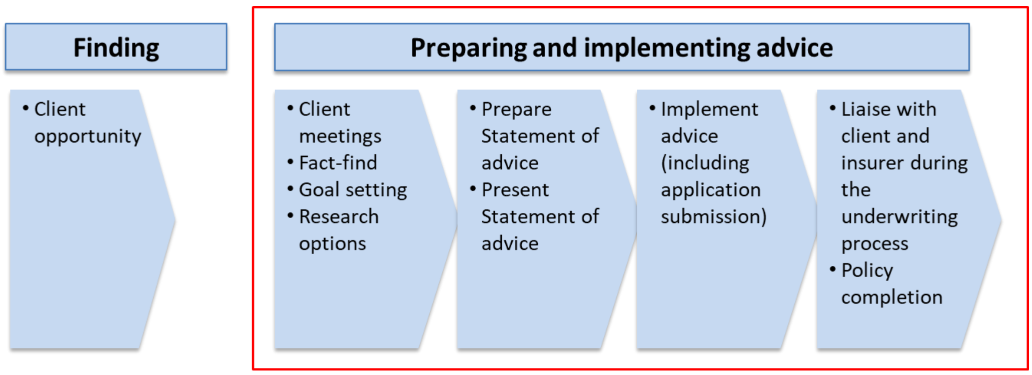
The results shown in Table 2 are fairly clear-cut.

The two top quartiles of advisers (61%) obtained roughly 80% (a weighted average of the top two quartiles) of their clients by this method. The remaining 39% of advisers, although not using it as much, still acquired 20% (a weighted average of the bottom two quartiles) of their clients this way.

The overall average of 56% of clients being obtained by referral or word of mouth demonstrates the extent to which referrals form a fundamental part of advisers' marketing. This extensive use of referral suggests that it is seen as an efficient way to keep the business viable.

Given this marketing effectiveness, it has an inversely low share (6%) of weekly time, compared to the 94% spent on the other activities (see Table 1). If time savings can be made in any of the other areas shown in Table 1, an increase of only two and a half hours would double marketing time and double the lead-generating component, thereby creating the opportunity for increased sales.

Preparing and implementing advice for new clients



To determine the efficiency of the processes from initial client contact to cover implementation and then on to underwriting completion and policy issue, data was obtained on the time taken for the four key activities, which are:

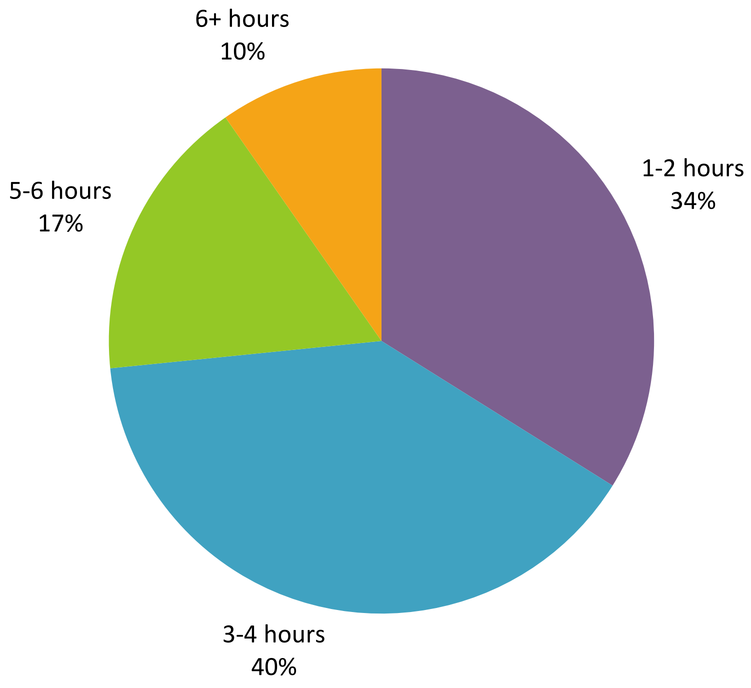
1. Initial client meetings including fact-finding, goal setting and researching options.
2. Preparation and presentation of the Statement of Advice (SoA).

3. Implementation of life insurance advice including application submission.
4. Completion of underwriting (by the life company) through to insurance acceptance and policy issue.

Initial meetings including fact-finding, goal-setting, researching options and presentation take four hours on average

The research tells us this is a lengthy exercise, taking on average four hours. In 34% of cases it is being completed in less than two hours and 27% of advisers are taking over five hours to complete this phase. Longer timeframes being taken by some advisers may be partly due to manual processes, but there may also be a requirement by the adviser's licensee to perform and investigate multiple quote options.

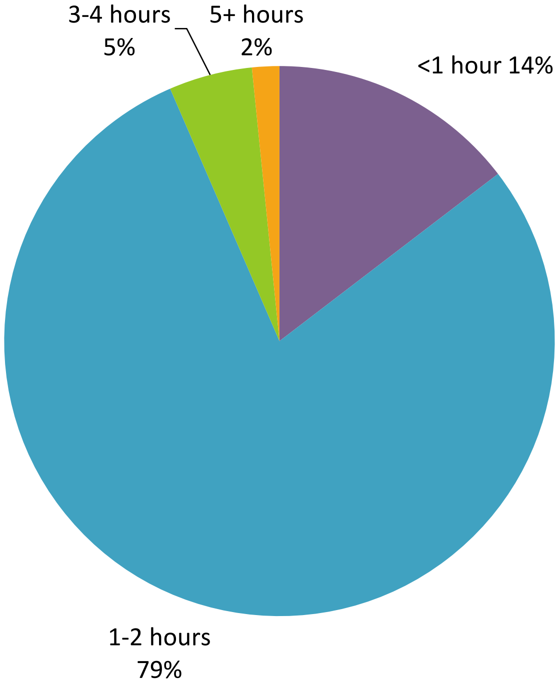
Chart 3. Initial meetings including fact-finding and research: number of hours spent by percentage of advisers



Preparation and presentation of the Statement of Advice takes on average one and a half hours to complete

98% of advisers accomplish the Statement of Advice process within four hours and 93% within two hours. The overall average time to complete is one and a half hours.

Chart 4.Preparation and presentation of the Statement of Advice: number of hours spent by percentage of advisers



88% of advisers require 2-3 client meetings to complete the Statement of Advice

In addition to looking at the time spent on the Statement of Advice, adding in the number of meetings required to complete this activity (on average two meetings), indicates an opportunity to improve efficiency (see Table 3) on behalf of some advisers.

In addition, written feedback from advisers on Statement of Advice preparation was that overall compliance requirements are too complex and need to be simplified. Referring back to Table 1"Business activity per week", the 29% of weekly time spent on compliance also aligns with this feedback.

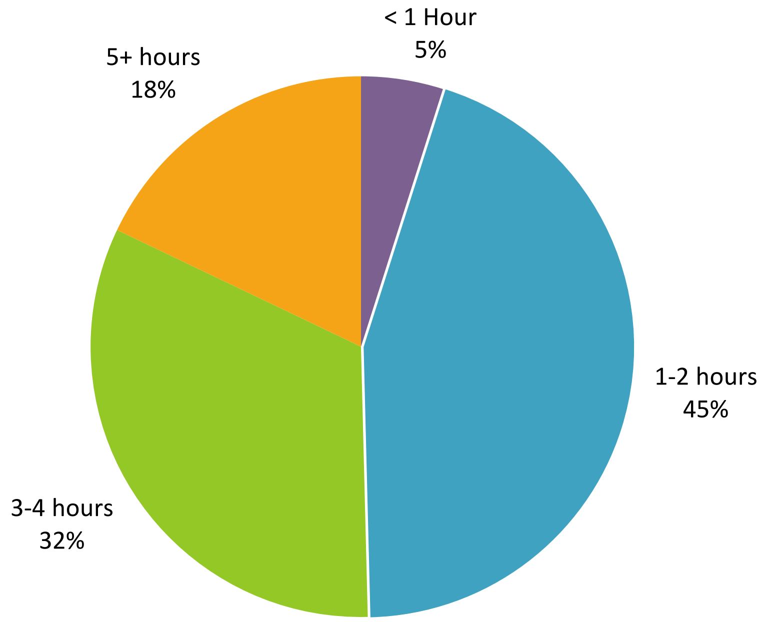
Table 3: Number of client meetings to prepare and present the SoA to the client

Time spent: no. of meetings	1 meeting	2-3 meetings	4-5 meetings	6+ meetings	3 highest groupings	Average 2 meetings
% of advisers	6%	88%	5%	1%	99%	100%

Acceptance of advice, completion and submission of the policy application

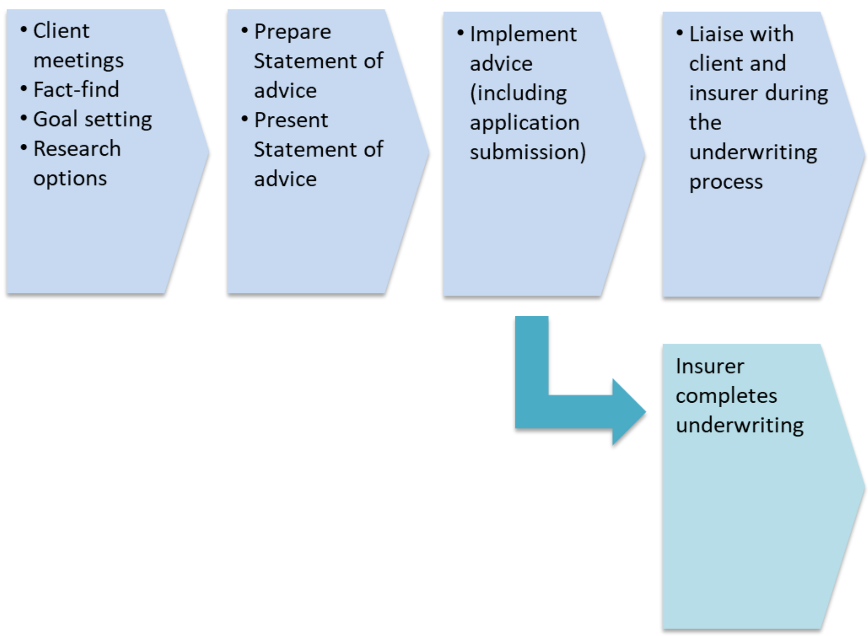
The third phase, implementing advice (acceptance of advice, completion and submission of the policy application) takes on average two and a half hours to complete with 77% taking between one and four hours.

Chart 5.Implementation of life insurance advice, including submission of the policy application: number of hours spent by percentage of advisers



Up to this point in the process, the adviser is fully in control of all activity. Once the activity moves past submission of the application, control transfers to the life insurer.

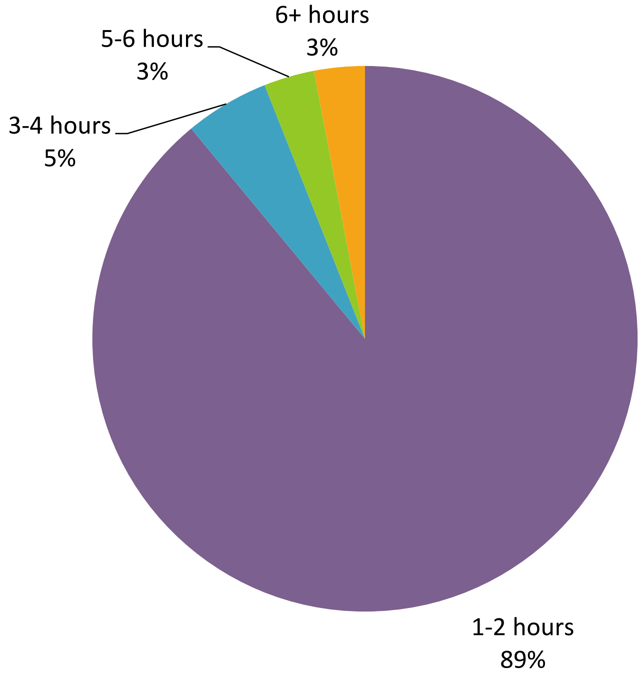
Chart 6: Control transfers to the insurer once the application is submitted



Client liaison continues while the insurer completes underwriting taking on average a further one and half hours

Chart 7 below shows the estimated number of hours spent by the adviser acting as an intermediary between client and insurer while underwriting is performed. This figure was derived by applying a best-fit method to the underlying processes, which together make up the total number of hours of the whole completion process. This averages one and a half hours and is largely concentrated between one to two hours.

Chart 7. Underwriting and processing through to policy completion and issue: number of hours spent by percentage of advisers



The insurer's role in completing underwriting and issuing the policy

Life industry data from a recent Plan for Life Study, *Processing durations in life insurance underwriting*, shown in Table 4, demonstrates that underwriting completions can have an extremely lengthy tail.

This study shows that 50% of cases were processed within one week of receiving the application, by the end of two weeks this has increased to 70%. However, beyond this point it takes another two weeks to reach 80% and to reach 100% can stretch out to eight weeks and beyond.

This extended 'tail' consists of more complex policies that require more underwriting, resulting in more time being spent by the adviser in assisting the client through the process. Therefore inefficiencies in the insurer's processing can materially impact on the client, despite the adviser's best efforts to get the policy issued. It is during this time that experienced advisers exert their influence and know-how to improve the interface between client and insurer to get the policy issued.

Table 4: Plan For Life Study (2017): Pooled results from underwritten cases by Australian life insurers

Business days taken to underwrite	Percentage of cases processed	Cumulative percentage of cases processed
1	12	12
2-7	38	50
8-14	20	70
15-28	10	80
>28	20	100

Overall time taken for the end-to-end preparation and implementation of advice process

Inevitably the total time taken to complete the end-to-end process (from first client contact through to policy completion) is considerably longer that the simple cumulative total of hours spent by the adviser on their client during this time.

Table 5 indicates that 84% of advisers experienced elapsed time duration of four to eight weeks and over, demonstrating how lengthy and drawn-out the total end-to-end process can be.

Table 6 on the other hand, shows the time spent by advisers on their client during the end-to-end process. 45% of advisers spent 6 hours on average on the client throughout the end-to-end process. Table 7 shows the average time taken by advisers on just the underwriting component while ‘the ball is in the insurers’ court’. (Please note these statistics were derived using a ‘best fit’ model. Please see Appendix 2 for methodology)

Table 5.Total elapsed time (weeks) to complete the end-to-end process (from initial client contact to policy completion)

Total elapsed time	<4 weeks	4-6 weeks	7-8 weeks	8+ weeks	3 Highest times (4-8+)
% of advisers	16%	26%	29%	29%	84%

Table 6. Adviser time (hours) spent on their client to complete the end-to-end process (from initial client contact to policy completion)

Average time spent on client	4 hours	6 hours	8 hours	10+ hours
% of advisers	9%	45%	18%	28%

Table 7. Adviser time (hours) spent on their client to complete the underwriting and processing component through to policy completion

Average time spent on client	1-2 hours	3-4 hours	5-6 hours	6+ hours
% of advisers	89%	5%	3%	3%

A closer look at cost

The average hours used by advisers in taking a client through to policy completion were presented in Table 6. The next step is to relate these hours to the costs that advisers incur in the whole process and determine an average cost for the end-to-end process. Table 8 below summarises the cost of policy completion as indicated by advisers within ranges.

Table 8. Cost of policy completion

Cost range	<$2,000	$2,000-$2,999	$3,000-$3,999	$4,000-$4,999	>$5,000
% of advisers indicating that range	10%	36%	31%	14%	9%

The cost ranges most frequently indicated by advisers were the $2,000 to $2,999 band and the $3,000 to $3,999 band. Together they account for 67% of advisers. In other words, 67% of advisers indicated a cost range of $2,000 to nearly $4,000.

Averaging all of the cost ranges using the lower part of each range ($1,000 for the first one) produces an overall figure of $2,920. Similarly if midpoints of ranges are used, an average of $3,310 arises.

Results are consistent with other research sources

These averages are consistent with other similar research sources. For example, the Trowbridge Report (2015), determined a wide overall range of $1,500 to $3,500. The FPA (2017) reported costs lying between $3,715 and $6,063 for the completion of holistic financial planning for a client, based on an average time usage of 26 hours. While costs of completing holistic financial planning are different to costs for completing a life insurance only recommendation, it does help establish an upper 'ball-park' range for comparison purposes.

Costs per hour analysis

The broad cost ranges shown in Table 8 are a good start to understanding adviser costs, but there are good grounds for going a step further and relating the cost figures to the complexity of the particular cases involved.

At the lower end of the cost scale, policies that have minimal underwriting requirements (arising from healthy clients, younger ages, simple term life) require less time input by the adviser in managing the client through the process steps. For more mature clients, as well as cases that involve more complicated types of cover, (trauma, lump sum disability and income protection) greater input from the adviser is needed throughout the process.

Table 9. Estimates of average costs per hour

Average cost (From Table 8)	$1000	$2000	$3000	$4000	$5000
% of advisers indicating above average cost	10%	36%	31%	14%	9%
Total hours spent on client (From Table 5)	4	6	8	10	12
Indicative average cost per hour	**$250**	**$330**	**$375**	**$400**	**$417**

Table 9 shows the set of average costs per hour, shown at each cost point, range from $250 through to $417 per hour. The explanation for the range lies in the type of advice and support needed. At the lower end of the scale the adviser is probably able to delegate some of the work to an assistant or paraplanner (at a lower cost), while at the higher end, increasing amounts of the adviser's more expensive time is required in analysing client needs, obtaining quotations, meetings and liaison between client and life insurer.

The overall average cost per hour arising from these figures is $350 per hour.

Annual premium also impacts costs

In addition to the relationship between cost, time and the degree of complexity, there is also an additional factor to be considered: annual premium.

The Plan for Life ongoing insurance sales study (2013-2019) shows that term life, trauma and income protection policies have markedly different average annual premium sizes (see Table 10). The average premiums differ due to the types of risk covered.

Table 10.Average annual premium sizes by product type (2017-2019)

Product Type	Term Life	Trauma	Income Protection
Annual premium	$800	$2000	$2600

Trauma and income protection policies are more complex to underwrite and they require longer time frames to complete. Complexity also increases within the three products as client ages rise and as more underwriting requirements arise. Complexity rises further when a client applies for a combination of the three risk types.

In each of these examples the annual premium increases as complexity increases, which in turn requires more time to be spent and hence higher costs.

Commission versus costs

Table 11 shows the amount of commission an adviser earns under LIF and that relying on this alone may fall short of meeting costs.

The five annual premiums represent the range from a straightforward policy (term life at $1,500) through to policies with increasingly higher complexity until $5,500 is reached (combination of term, trauma and income protection). In each case the total cost (from Table 8) has been entered and compared to upfront commission.

Table 11.Commission versus cost for varying premium levels

	Simple policy				Complex policy
	$	$	$	$	$
Annual premium	1,500	2,500	3,500	4,500	5,500
60% Upfront commission	900	1,500	2,100	2,700	3,300
Cost	1,000	2,000	3,000	4,000	5,000
Commission less cost	-$100	-$500	-$900	-$1,300	-$1,700

As the bottom line indicates, in the case of each of the annual premiums, relying on commission alone, incurs a loss.

To return to profitability, the advisers dealing with clients with complex needs either need to cut costs by as much as 20-25%, or alternatively charge a full fee or have a combination of fees plus commissions. While this simple model is hypothetical, in the face-to-face interviews an adviser stated that taking on new clients was not profitable since it was taking 14 hours to write the business at an estimated cost of $5,000, and then only receiving $3,000 in fees or commission.

Benchmarks for activities in the 'Finding new clients and preparing and implementing advice' process

Table 12. Benchmarks and assessment of scope for process efficiency improvement in the 'finding new clients and preparing and implementing advice' process

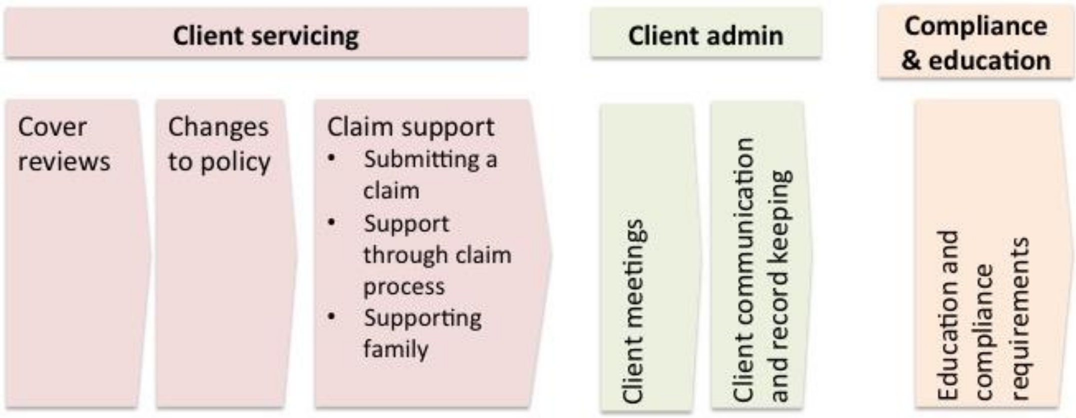
Process	**Benchmark**		**Assessment of current efficiency and scope for improvement**
	Average adviser time taken (hours)	**Range from lowest to highest**	
• Finding new clients	0.5	0.35 to 0.65 hours estimate	*Low efficiency* - Restrained by other activities especially compliance. *Opportunity* – only a small increase in time spent will double the effort.
• Client meetings • Fact-finding • Goal setting • Research options	4	1-5+ hours	*Low to moderate efficiency* - this activity is taking up considerable time. *Opportunity* – There is scope for the use of software and technology such as Salesforce, Midwinter, Xplan and Adviser Logic to improve efficiency.
• Preparing Statement of Advice • Present Statement of Advice	1.5	1-5+ hours	*Moderate efficiency.* *Opportunity* – There is scope for outsourcing and automating this step (paraplanners can be costly)
• Implementing advice (up to application submission)	2.5	1-5+ hours	*High efficiency.*
• Liaise with client and insurer during the underwriting process	1.5	1-5+ hours	*Variable efficiency* - Processing straightforward applications with only one type of cover is likely to be quite efficient. Processing more complex cases with higher premiums and additional inputs needing more underwriting is much less efficient. In these circumstances the adviser is dependent on the life company's processes that can be slow.
• End-to-end process up to and including policy completion	10*	4-15+ hours	Whilst the end-to-end process is efficient for less complex cases, it can be very lengthy in more complex situations. Focus on shortening the sub-processes could reduce total hours or alternatively free up time to do more marketing.

- ** Please note this arithmetic total of the component activities does not match exactly the time estimated by advisers for the overall length of the end-to-end process. A best-fit estimate has been used. Calculation methodology is shown in Appendix 2.*
- *In this table the term 'efficiency' relates to the use and length of time spent by an adviser in completing different business processes. 'Low efficiency' occurs when time spent on a key activity (such as 'new client opportunities') is*

impinged by other activities to the adviser's detriment. 'High efficiency' occurs when little more could be done to complete the process in less time.

3. Activities in providing support to existing clients

There are three principle activity areas covered under this process; client servicing, client administration and education / compliance. In this section we will look at each of the process components in more detail.



Client Service

Client service activity was measured in the research by considering three key elements:

- Cover reviews.
- Changes to policies.
- Claim support.

Time spent on client servicing

For 54% of advisers, total client servicing takes between six and 13.5 hours per week, while for 46%, 17 hours are required. On average this equates to 13 hours per week per adviser. Above average time usage is most likely due to higher numbers of existing clients. Although, depending on the client mix and its complexity, there may also be advisers who have to regularly spend above-average amounts of time per client.

A large part of client servicing time can be attributed to insurance cover reviews. This can often result in an update to an existing policy, or the issue of an additional policy. The research also found that an adviser has an average of 155 clients, although there is a wide range extending from less than 50 to over 200.

Table 13.Number of hours per week used for providing client service

Hours per week	6 hours	10.5 hours	13.5 hours	17 hours
% of advisers	16%	24%	14%	46%

More granular data was also captured on the amount of time spent on reviewing a client's insurance coverage and making changes to a client's policy.

Time spent on client reviews

Table 14.Time spent on reviews: number of hours spent by percentage of advisers

Average no. of hours	1-2	3-4	5-6	7-8	24+
% of advisers	47%	35%	11%	3%	4%

The average time per client review works out at three and a half hours with a clear concentration of 47% of advisers in the one to two hour range and 35% within three to four hours.

To interpret this data it's important to bear in mind that there are two types of review: a short review and a long review.

- *Short review* - where analysis of the client's cover does not result in changes to the policy, or the client prefers to defer making changes. These outcomes point to short reviews largely taking up one to two hours and in some cases three to four hours.
- *Longer review* – where analysis goes on to a change in the client's cover can be expected to take more time, say at least four hours and beyond.

To determine the percentage of reviews that go on to a policy change, however, requires investigation beyond the scope of this research.

Estimated cost of reviews

The cost of reviews was not directly covered in the research, but it can be estimated.

Short reviews (one and half hours), where client contact is limited to a phone call, collection of updated client data and an analysis of cover needs. Where the adviser utilises an assistant or paraplanner for most of the work, short reviews might have similar costs per hour as the lowest range of preparing and implementing costs referred to earlier in Table 9, that is around $250 to $300 per hour.

Long reviews are more likely to involve larger amounts of the adviser's own time, especially where the review leads on to changed premiums and cover. In these cases, the estimated average cost per hour would be around $350 per hour.

The number of reviews an adviser processes over a year can be gauged from a further data set, which revealed that 69% of advisers review policies annually, 26% twice-yearly and 36% when the client requests a review. While there is some overlap between the 69% and 36% groups of advisers, it appears likely from these figures that virtually every client is reviewed or contacted at some time during the year.

The face-to-face interviews with advisers revealed the view that there was a need for ongoing and regular client reviews due to changes to employment, salary and personal requirements. This is backed up by the survey which show that 83% of advisers receive calls or emails from their clients expressing affordability concerns, while 91% of advisers receive queries as to increases in premiums (which may be due to age and CPI increases each year).

Time spent on changes to a client's policy

Table 15.Time spent on changes: number of hours spent by percentage of advisers

No. of hours	1-2	3-4	5-6	7+
% of advisers	35%	39%	13%	13%

On average, three and a half hours are spent by an adviser on a change to a policy. Most advisers (74%) spend between one and four hours per change.

Cost of making changes to a policy

Table 16. Cost of making changes to a policy

$ amount	$250-499	$500-999	$1,000-1,999	$2,000-2,999	$3,000-3,999	$4,000+
% of advisers	11%	28%	41%	11%	6%	3%

The data in Table 16 presents a widely varying picture of the cost that advisers' estimate they incur.

At the upper end of the scale are those who experience much higher costs, similar to the cost of preparing and implementing advice for a client, suggesting that the changes are in fact add-on or replacement policies. The central cost range of $1,000 to $1,999 corresponds to the largest group of advisers (41%) and has an average cost of $1,500. Applying the average time spent of three and a half hours per client (from Table 15) to this total cost, produces an average cost of around $425 per hour. This is slightly above the highest level of the range of client acquisition cost per hour (refer Table 9).

Minor alterations such as the client's address and bank details require only a small amount of time, but more substantial alterations, especially where reviews lead to substantial premium and cover increases, bear similarities to the activities undertaken in preparing and implementing advice for clients (refer to Section 2, Finding new clients and preparing and implementing advice). Therefore this alteration process can be expected to have similar potential points of inefficiency to that of preparing and implementing advice for new clients.

Renewal commission and cost

The key question arising from review and change costs is the extent to which these are covered by renewal commission.

Assuming a 20% renewal commission rate (the LIF standard), it would require an annual premium of $2,125 to earn $425, which only covers at most one hour of a client review or change time. Grandfathered commissions from pre-2018 policies are much lower than 20% and lie mainly in a range of 5% to 10%, so would fall short in covering a short review, let alone a full review that then goes on to policy alteration.

The research tells us that 14% of advisers charge a fee for review consultation. It seems likely they receive a renewal commission as well. In their case, it would seem that the combination of fee and renewal commission goes some way to cover cost. The majority of advisers who just rely solely on renewal commission most likely do not cover cost.

More precise analysis of operating costs would be of considerable assistance to many advisers, as they would then be able to know the amount of additional fees to charge.

Administration

Client meetings

Client meetings are an area of the business that can be conducted efficiently.

- 88% of advisers use face-to-face meetings at their offices.
- 80% travel to the client.
- 50% use tele-conferences.
- 23% use Skype, Zoom or Go-To meeting.

Many advisers use several of these methods. As a general comment, from purely a time and cost saving perspective, minimising external travel and maximising teleconferencing and other virtual meetings will improve efficiency.

Client communication and record-keeping

Client communication

The research revealed that 94% of advisers used email and 85% used the telephone. Postal communication was used by 38% and 6% used videos. Personal responses by advisers included SMS and texting. Determining the approach which clients feel is the most convenient, could lead to more rapid and effective ways to communicate.

Record keeping

Most advisers (82%) use a pre-printed checklist and fact find while 78% indicated that they used financial planning software such as Xplan. Other databases used include in-house software (22%) and purchased software such as Salesforce (21%). Apart from these, personal responses by advisers included Word and Excel modelling, Xeppo and File notes. Some of these approaches, especially the use of hard copy, Word and Excel, are very inefficient and prone to error. The net result in these cases is one in which the adviser wastes time and resources and may have to repeat meetings and some administration processes.

Research results show limited use of in-house and external software such as Salesforce indicating a reluctance to use a tailored database in which all client's records and transactions are stored in one place. This would not only vastly improve administration efficiency but more easily satisfy compliance and potential audit requirements.

The significance of inefficient recordkeeping is the amount of non-chargeable time it consumes. Referring back to Table1, client administration accounts for 31% of weekly time, second only to client service. This figure probably contains some aspects of preparing and implementing advice for clients, service and claims, since the percentages are just advisers' best estimates. However, even if the true figure for administration was nearer to 20%, that still represents a very large non-chargeable use of time and resources. Reducing administrative time would enable the adviser to spend more time on the fee-generating processes of the business.

Education

Completing education is an area that cuts across compliance and administration. The research indicates it can be both expensive and time-consuming. A substantial 64% of advisers expected to continue on to complete further education, including FASEA exams, so this is an important factor for a large number of advisers and their practices.

26% of advisers expected that completion of education would cost less than $5,000. However, an equally large group priced this as between $5,000 and $9,999, while the rest felt it cost over $10,000 and in 16% of cases, over $20,000.

The impact of these costs varied, some believing that it would have little impact on the business and others, a massive impact. There is already a substantial level of education amongst the advisers, with 65% advising of an Advanced Diploma or Bachelor Degree. Younger advisers were found to be more qualified than those at older ages.

Experience in the life insurance advice industry tended to be quite high from respondents:

- 27% of advisers have over 30 years.
- 28% have 20-29 years.
- 35% have 10-19 years.
- 10% have less than 10 years.
- 70% of participants had worked as a financial adviser for at least ten years.

There was considerable feedback in written form and during the face-to-face interviews. Advisers are concerned about a number of aspects of education requirements summarised as:

- frustration that despite existing education qualifications and many years of experience, they were still required to undertake extra education.
- Compulsory requirements for subjects for which they had no need.
- There should be separate study streams for particular subjects.
- Timelines for subject exams were seen as tight and inflexible
- Education requirements were viewed as a major drain on resources e.g. 12 advisers in a business and only two didn't require further education.

On the positive side several advisers believed that the outcome of education requirements would be better for the business and the industry, and that education standards were necessary (despite frustrations), especially for new entrants.

Claims

The survey revealed several notable facts about claims, underscoring the considerable amount of adviser and support staff time required, and with significant cost incurred.

51% of advisers advised that they had received notification of a claim at some time. The survey tells us the average client portfolio has 155 clients. Depending on the client mix, two to four claims a year could be typical so supporting client claims can be regarded as an occasional rather than a continual activity. However, based on the research they can be extremely time-consuming.

Type of claims

The types of claim indicated were:

- 93% Income protection
- 81% Critical illness or trauma
- 66% Death, (50% where death was due to terminal illness).
- 62% Total and permanent disability (TPD).

The majority of advisers in the survey had experienced at least one income protection claim and critical illness claim, and possibly also a TPD and a death claim.

Activities for supporting claims

The time spent on claims comprises three types:

1. Time spent to support a client submit a claim - average five and a half hours.
2. Time spent supporting a client as this process proceeded - average seven and a half hours.
3. Time spent supporting family members and beneficiaries at claim time (including death claims) - average four and a half hours.

Despite these time commitments, only 7% of the advisers said they charged an additional fee for claims support, while 93% said that they didn't. Potential reasons for not charging could include:

- The adviser may feel it is not appropriate to raise the issue of a fee with a spouse or beneficiaries with death claims. Claims, especially death claims, evoke strong emotional responses, not only by the family members but also by advisers.
- A feeling that professionally, it's not appropriate to charge a fee, since the adviser has earned sufficient commission and service fees to meet expenses.
- The adviser is following a fairly well-established principle which applied when upfront commission was much greater and covered costs adequately, but now hasn't considered charging a fee and may not know how to go about it.
- Advisers may believe that renewal commission is sufficient to cover these costs, along with other service-related costs
- Only one or two claims have occurred a year, so it isn't worth structuring a fee.

The research indicates an average time taken per claim is seven hours producing an average cost per case of around $2,800 (assumes $400 p/h – the average fee for those that did charge for seven hours). Assuming that most advisers only experience one claim a year, the cost, while not insubstantial, is not overwhelming.

Some examples of where advisers have charged for claims support

The research provided a number of examples where advisers were structuring a fee for claims.

Example 1 - an adviser with a client who had three separate life insurance policy claims, the adviser didn't charge for the first two policies but charged for his time on the third policy. The duration of the claim was seven months and the additional fee charged was only $700. The adviser felt the value to the business was in the good will generated rather than the fee.

Example 2 – an adviser cited a situation where the business had 35 active claims and hadn't been charging for claims handling. But going forward would now be moving to a fee-based model charging $250 per hour.

Generally, when fees were being charged, three types of arrangement were put in place.

- A flat fee of either $5,000 or $10,000.
- An hourly fee ranging from $150 to $440.
- A fee of $250 plus some type of success fee.

Advisers provided some comments in the research showing the adviser's value in the process at claim time leading to client benefits. Examples include:

- Client didn't realise he was entitled to make a claim under his trauma policy (claim value $200,000)

- Client was not aware he could claim on his TPD policy after he had already applied under his Income Protection policy.
- Adviser converted a TPD claim to a terminal illness claim (saved client about $40,000 in tax).
- Insurance Cover successfully claimed on the client’s behalf (claim value $500,000).
- Positive outcome with two 'borderline' trauma claims approved.
- Positive outcome with waiting period waived by insurer.
- Positive outcome with a partial claim.

The responses in the online survey and interviews indicate that advisers see their role as one of holding the insurer accountable to the policy, smoothing the claim process by helping to submit required forms and dealing with claims consultants directly so as to reduce client stress. They also believe that they have the appropriate negotiation skills, as well as knowledge of the industry and the products.

The one significant point that does emerge from the responses to claims and the time commitment required, is that for most advisers, both the cost and its recovery are fairly grey areas.

Were advisers to invest some time into doing a cost analysis of both this particular service and all other services, comparing this information to available fees, some very useful parameters for operating their businesses would most likely emerge.

Benchmarks for activities in the 'Supporting existing clients' process

Table 17. Benchmarks and assessment of scope for process efficiency improvement in supporting existing clients

Process	Benchmark		Assessment of current efficiency and scope for improvement
	Average adviser time taken (hours)	Range from lowest to highest (hours)	
• Client servicing			
○ Cover reviews – Short	2.25	1-4	*Efficient* - 82% of advisers complete a short review efficiently, averaging 2.25 hours
○ Cover reviews – Long	8.5	5-15	*Potentially inefficient* - 18% of advisers take an average of 8.5 hours to complete a long review, indicating a drawn-out process, in need of efficiencies to reduce time and cost
○ Changes to policy	3.5	1-11	*Fairly efficient*- but there are likely to be occasions (such as when an additional policy is required) which are less efficient in a similar way to introducing a new policy
• Claim support			
○ Submitting a claim	5.5	1-13	*Efficient* - While 77% of advisers complete the process in under 6 hours, 23% take 13 hours on average (reflecting more complex claims)
○ Support through claim process	7.5	1-11	*Fairly efficient* - 46% of advisers complete this section in under 6 hours, 54% take 11 hours on average (reflecting more complex claims)
○ Supporting family	4.5	1-8	*Efficient* - 80% of advisers provide family support in under 6 hours, 20% take on average 8 hours (reflecting more complex claims)
• Client admin split between:	12 per week		*Fairly efficient* – However, as indicated earlier, if administration time can be cut down from 31% involvement per week, a substantial increase in extra time for lead generation would arise
○ Client meetings	6 per week		
○ Client communication and record keeping	6 per week		
• Compliance	7 per week	1-11	*Inefficient* (in that it can be a largely non-chargeable amount of time) - 54% of advisers spend under 6 hours per week, while 46% spend an average of 11 hours per week

- *In this table the term 'efficiency' relates to the use and length of time spent by an adviser in completing different business processes. 'Low efficiency' occurs when time spent on a key activity (such as 'New client opportunities') is impinged by other activities to the adviser's detriment. 'High' efficiency occurs when little more could be done to complete the process in less time.*

4. Remuneration structures, changes to adviser business models and profitability

Given the results of adviser commission versus cost analysis (see Table 11.), the issue of remuneration structures and the profitability of their businesses, is increasingly important.

In terms of remuneration structures the research ascertained that 'commission only' applies to 38% of advisers and 'commission plus fees' to 46%. Only 5% use 'fees only', while the remaining 9% use approaches that include any of the three methods depending on the client.

Of particular significance are the responses regarding the reduction of profit margins since the commencement of LIF. 67% of responses indicated a reduction in profit, 31% were neutral (no change) and 2% reported a positive change.

Advisers' changes to business models, aimed at covering the reduction in commission were varied, as the following table shows:

Table 18. Changes in business models

Response	**% of advisers**
No changes made	42%
Modified fees	34%
Dropped sales of life insurance, in most cases by refusing small clients	9%
Added extra services	7%
Used technology (e.g. Xplan) to automate processes or applied business efficiencies and reduced costs	3%
Modified commission – moved from up-front to hybrid model	2%
Expanded business so as to see more life insurance clients	2%
Total	**100%**

Those responses where no changes were made to the business make up the largest group, comprising 42% of all responses. This suggests a fairly high degree of inaction, especially given the 67% of advisers who reported a reduction in profit.

With a further decrease in upfront commissions set to commence in January 2020, advisers were asked on their preparedness for the financial impact of this latest change. Whilst 48% stated that they were ready, 33% said they were not.

Adviser practice size, profitability and sustainability

The face-to-face interviews provide an insight into advisers' perceptions and views of sustainability and the challenges ahead:

1. Business viability would be reduced if on-going commissions were significantly reduced or eliminated as they felt clients wouldn't see the benefits of fee-for-service.

2. The types of advice offered would change over the next five years - less risk advice offered and an increased cost of wealth advice.
3. Life insurance had become too complicated with many product options available. Simplified policies were needed.
4. Increased business costs would drive advisers out of the industry.

Separately, advisers were asked how they may change their business models should commissions be reduced to zero. Responses included:

1. Changing advice models towards providing wealth advice with little or no insurance advice offered.
2. Changing the client models, in preference of older, wealthier clients.
3. Charging the client for claims, based on type of claim or payout value and also focussing on claims administration.
4. Introducing increased use of technologies for greater efficiencies e.g. streamlined back office, automated Statement of Advice generation and meeting compliance requirements.
5. Including mortgage broking and wealth advice.
6. Buying other businesses to improve scale.
7. Exiting the industry.

While the online survey didn't provide sufficient data to undertake a detailed analysis of adviser practices by size/profitability, a number of the face-to-face interviews did provide some insight.

Practices with at least 150 clients appear best equipped to handle reduced profitability and move to sustainable operating models. An example would be a practice that participated in the face-to-face interviews which currently generates income of $11 million per annum. This practice has taken the approach of increasing their wealth business, integrating extra fees for the life insurance business into a combined package of wealth and insurance and is eliminating clients who refuse fees or whose needs fall below an economic level.

The middle range of practices, that is practices with client numbers lying between 50 and 150, fair less well. While in a small number of cases, adviser practices follow a model similar the larger practices, most fall into the category of barely sustainable. Many advisers in this group believe that clients will not accept fees in a range of $500 to $1,000.

The lowest range of practices represents a more extreme case of the middle range described above. These include practices where the adviser is over 55 years of age and considering retiring or where the business has been largely derived by selling low levels of insurance through an accounting firm. Introducing extra fees or substantially changing the business model is believed to be too difficult. This is potentially the market segment where most of the closures, mergers or business sales may be expected to occur.

5. Support from life insurers

The survey results point to a number of ways in which the various processes undertaken by insurers can be made more efficient. These cover:

- The application process and client's personal statement are seen as processes needing greater efficiency by 63% and 53% respectively of advisers. Criticism focuses on the length and number of questions in the personal statement.
- Policy administration (57% responded) is also highlighted for improvement citing long waiting times on the phone for queries especially when managing existing clients.
- The quote process (38% responded) needs to be faster, with more automation.
- Underwriting guidelines need clarification (37% responded) and the process needs to be quicker with more pro-active third-party medical reports.
- Claims timeframes (35%) need to be shortened and a single case manager appointed.
- Better software is needed for running reports.

Other ways in which life insurers could assist advisers in both simplifying and shortening the processes involved are:

- Implement or improve application capability to determine means of capturing data so that it only must be entered once.
- Review and analyse the insurer-driven processes in new business, underwriting, renewals, changes, alterations and updates and claims, viewed from an adviser and client centric point of view with the intention of, where appropriate, obtaining feedback from experienced advisers in this process, simplifying the requirements and shortening the time durations for completing the processes.

6. Recommendations

The survey results point to numerous ways in which advisers could be assisted to meet the challenges of the new world of reduced commission and greater compliance.

These include business processes that are within advisers' own control as well as those which fall within the life insurers' sphere.

Advisers

Given the changing scenario created by the LIF commission changes, there is a clear need for advisers to look not only at new models for generating income, but also, to understand exactly what each aspect of their key processes are costing and identify where efficiency can be improved.

We would strongly recommend performing such a cost and efficiency review even where a revised fee-generating approach has already been established. Identifying the existing operational cost base so as to pinpoint where weaknesses in business functions reside, is a vital precursor to fixing them.

Specific areas of inefficiency identified, that could be fairly quickly addressed by the adviser include:

- Substantially increase the amount of time spent on lead generation and obtaining new clients.
- Where possible, utilise communication technology such as Skype and Zoom to reduce the amount of time spent in travelling to external meetings.
- Introduce better ways of recording client information, for example replacing manual methodology with much more efficient planning and administration software.
- Delegate administrative work where possible, by virtual teams, virtual assistants.
- Create a standard data format by using Jotform or Typeform, which could be sent to clients at renewal time to collect current needs and requirements, thereby reducing subsequent time and meetings

Insurers

There are several ways in which life insurers can assist advisers' practices, which we would recommend as follows:

- Provide training in how to analyse business costs and efficiency, as well as ways to restructure fees within different business models.
- Provide training on how to save costs by automation and use of technology.
- Review the questions in the personal statement, determining ways in which these can be made shorter and easier to complete (while still being fit for purpose and managing risk).
- Review technology platforms and establish or improve Application Program Interface (API) Capability so that submitted data is entered into systems only once.
- Analyse the life insurer's processes, viewed from a client and adviser-centric point of view, with the aim of simplifying the requirements and shortening the durations.

7. Conclusion

The primary objective set for this research conducted in August 2019 was to investigate the cost and efficiency of delivering life insurance advice. This whitepaper is the result.

The detailed information uncovered has made it possible to delve deeply into not only the costs and efficiencies of the process of delivering life insurance advice, but to also create some relevant benchmarks, informative insights and a number of important recommendations.

While the whitepaper is directed primarily towards advisers in the Australian life insurance advice market, life insurers are not forgotten. Life insurers play a crucial role in providing the products and systems that support advisers as they advise clients, bring their policies to completion and provide ongoing service and claims support. Consequently, the recommendations that focus on ways to improve efficiencies in preparing and implementing advice, servicing and claims support of clients are directed to both advisers and insurers.

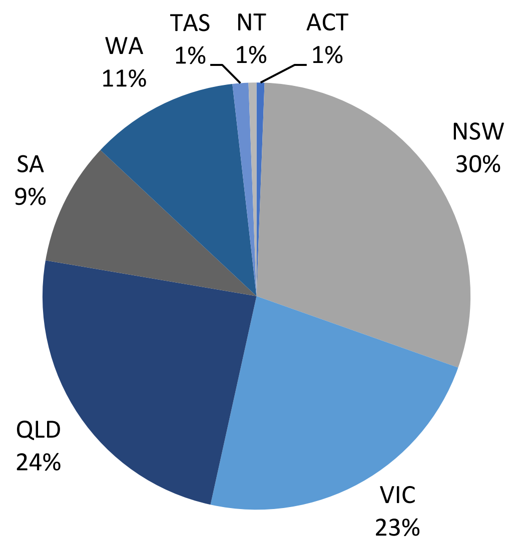
With changes in commission structures over the past two years, together with those still to come in 2020, the life insurance advice industry is at a watershed moment. Changes to existing systems and ways of doing business are inevitably unsettling, and yet at the same time, change often sweeps away inefficient methods and brings new opportunities. The opportunity that has now come into play relates to rebuilding advice models.

We believe committed action by advisers and insurers now, to follow up on the recommendations of this research, will ultimately result in stronger and more sustainable advisers' businesses and a healthier life insurance industry.

Appendix 1 - Overview of Adviser Demographics

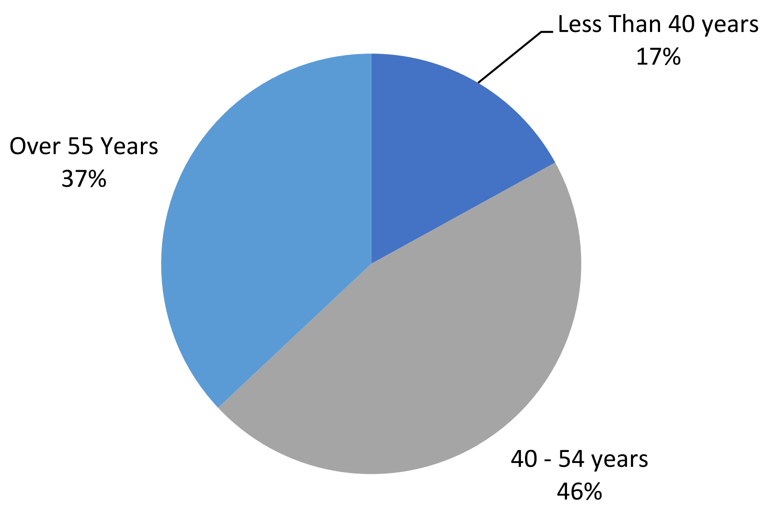
Location

The participants were widely spread geographically and included major capital cities as well as regional centres across Australia. Participants were primarily based in the eastern states, including New South Wales 30%, Queensland 24%, Victoria 23%. Western Australia 11% and South Australia 9%. A small number of respondents were from Tasmania 1%, Northern Territory 1% and ACT 1%.



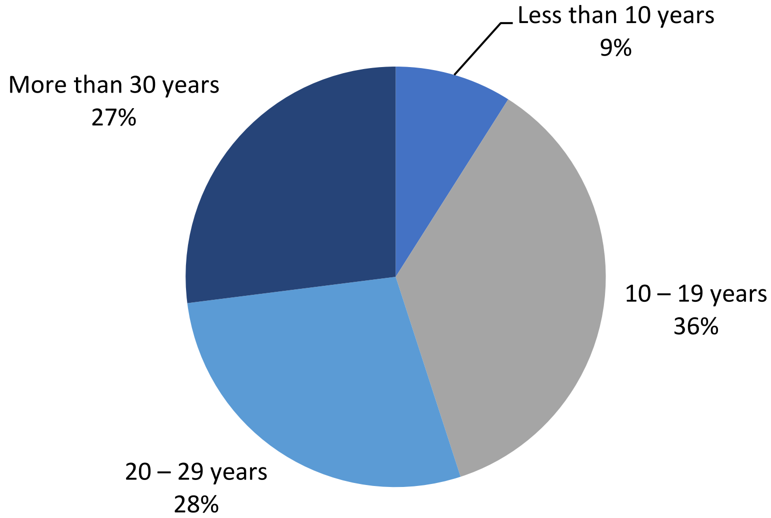
Age

Less than 40 years (17%), 40 – 54 years (46%) and 55+ years (37%)

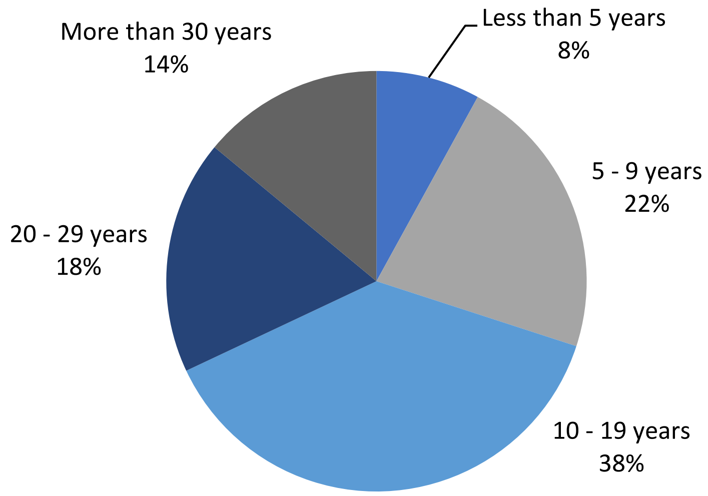


Experience

Working in the financial services industry: Less than 10 years (9%), 10 – 19 years (36%), 20 – 29 years (28%), and 30+ years (27%)

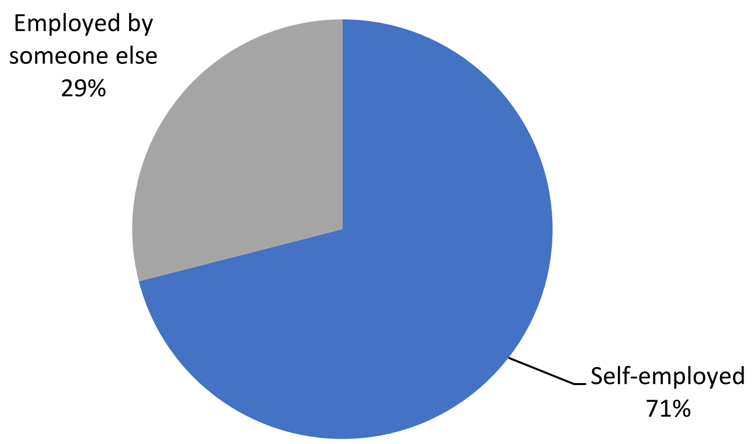


Working as a financial adviser: Less than 5 years (8%), 5 – 9 years (22%), 10 – 19 years (38%), 20 – 29 years (18%), and 30+ years (14%)



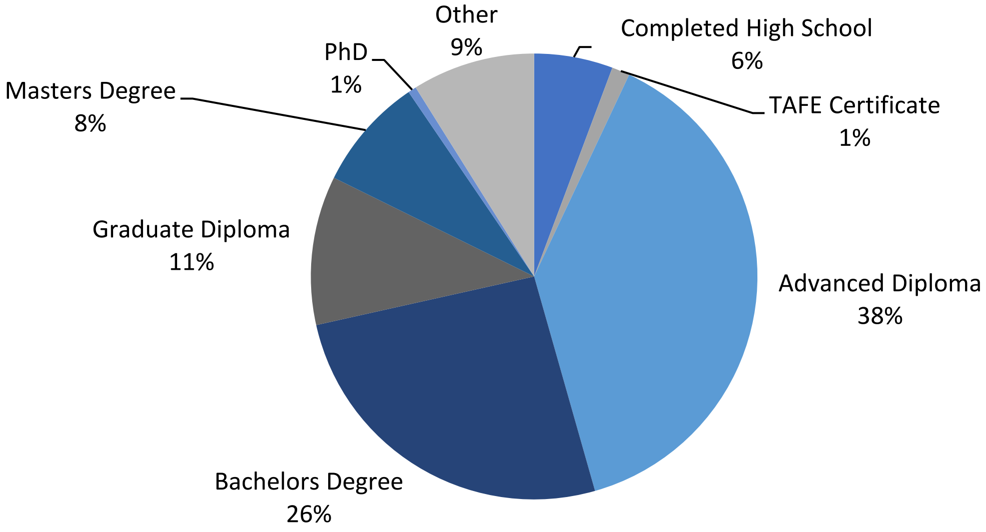
Employment Status

Self-employed (71%), Employed by someone else (29%)



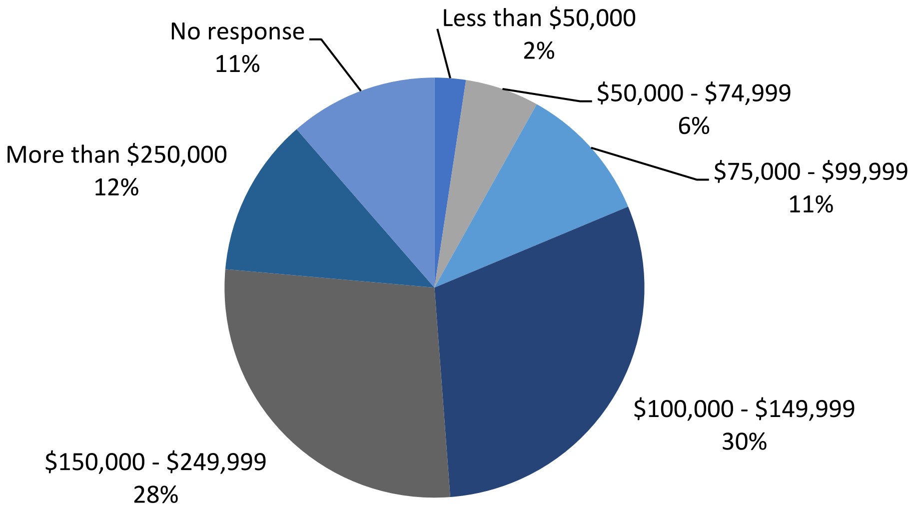
Level of Education

Advanced Diploma (39%), Bachelor's Degree (26%), Graduate Diploma (11%), Master's Degree (8%), Completed High School (6%), TAFE Certificate (1%), PhD (1%), Other (9%).



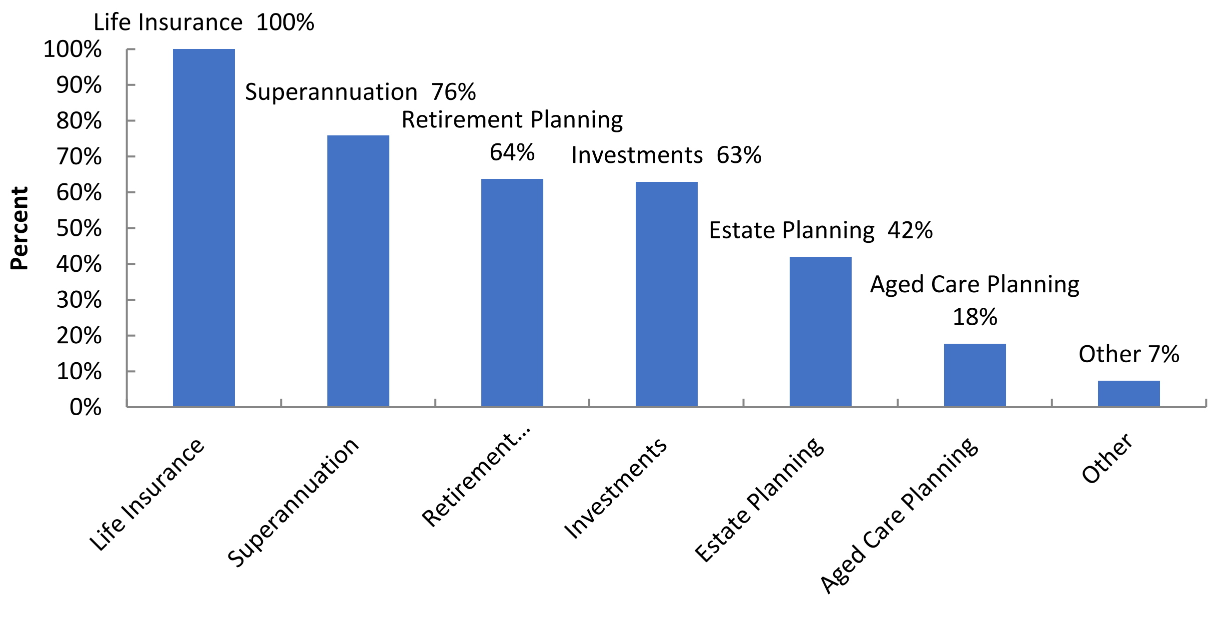
Annual Income

Less than $50,000 (2%), $50,000 - $74,999 (6%), $75,000 - $99,999 (11%), $100,000 - $149,999 (30%), $150,000 - $249,999 (28%), More than $250,000 (12%).



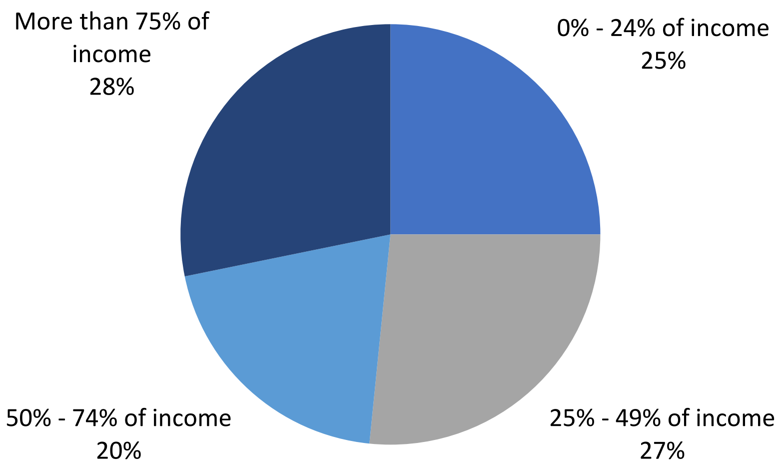
Advice Areas

Provision of advice covering: Life Insurance (100%), Superannuation (76%), Retirement Planning (64%), Investments (63%), Estate Planning (42%), Aged Care Planning (18%), Other (7%). Note: these percentages should be interpreted as not mutually exclusive; in other words, all advisers offer life insurance advice; 76% of these also offer superannuation advice, etc…



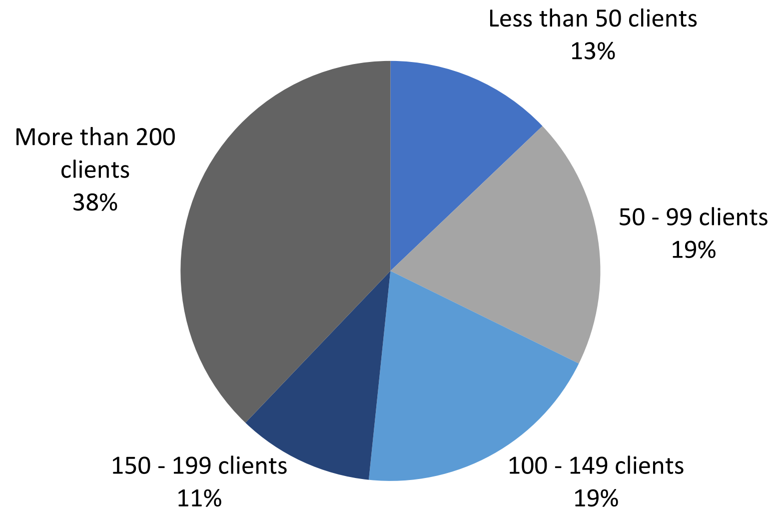
Income derived from life insurance advice

Proportion of income: 0% - 24% (25%), 25% - 49% (27%), 50% - 74% (20%), 75% + (28%)



Clients

Number of life insurance clients: Advisers with less than 50 clients (13%), 50 - 99 clients (19%), 100 - 149 clients (19%), 150 - 199 clients (11%), More than 200 clients (38%)



Appendix 2 – 'Best-fit' estimates explained

Best-fit method used to calculate overall time spent by advisers in preparing and implementing advice for clients through to policy completion

In addition to providing average times taken to accomplish three parts of the preparing and implementing advice process, advisers were also asked to provide an average overall time.

The three sub-processes add up to an average of 8 hours, excluding underwriting time, which has been estimated at 1.5 hours', therefore the overall time (before adding in generating lead time) is 9.5 hours. However, the survey data for the overall time produces a figure of only 7 hours, substantially short of the sum of the individual sub-processes.

The conclusion drawn, is that while advisers were fairly accurate in their estimation of the sub-processes, they underestimated that of the overall process. Consequently, the figures of 9.5 hours plus 0.5 hours for generating new client opportunities have been used.

It's still possible to use the percentages of advisers at each time duration (1-2, 3-4 hours etc.), but the average mid-points of the durations need to be increased in each case by 2.5 hours.

Best-fit method used to estimate 'time spent by adviser during underwriting process'

The survey didn't include a question on time spent by the adviser during the underwriting process– it assumed that since the three other sub-processes had time-based questions, as did the overall process, the underwriting figure could be obtained by simply deducting the three average times from the overall time.

However, this failed to produce a usable number as the figures for the three sub-processes add up to eight hours, while the overall process (from the data) is only seven hours (and this includes the underwriting time). To arrive at a best estimate for the underwriting time, a best-fit model was used derived from the existing data. The methodology and thought process is explained below.

The **true** overall average time (A)= 4+1.5+2.5+X, where X is the unknown underwriting time.

The **incorrect** overall average time (B) = 7.
Using a series of trials, we get:

1. Try X =1, so A=9 and we can calculate the four times within B by the ratio 7/9 i.e. 3.1, 1.2, 1.9 and 0.8; these add up to 7.
2. Then try X = 1.5, A=9.5 and B splits up into 2.9, 1.2, 1.8 and 1.1
3. Try X=2, A = 10 and B splits up into 2.8, 1.1, 1.8 and 1.3

Attempting any more estimates starts to interfere with the values of the first three sub-processes compared to the fourth (underwriting which starts to increase quite markedly from 0.8 to 1.3). The three values of the underwriting time (0.8, 1.1 and 1.3) average 1.07; this is not a lot different from the average of the second sub-process 1.17 (the Statement of Advice), so it looks like there is a similar distribution for each.

Three trials are enough to fit X itself, so averaging the three X values (1, 1.5 and 2), we get 1.5 hours.

This estimate makes good sense since most of the activity by the adviser during the underwriting stage can be expected to be of short duration. For example, if the application stalls in the early stages because the client hasn't provided enough information, the adviser follows this up. Similarly, should the insurer require further details from the client during underwriting, the adviser liaises with the client. In a small number of cases where the client and adviser are very concerned with the results of the underwriting, lengthier time usage can be expected.

Apart from the common average of 1.5 hours, the distribution of time spent during underwriting is likely to be not too dissimilar from the Statement of Advice, so that time value can be used with a small amount of modification to obtain a reasonable spread by % of advisers. The following spread of %, which focuses on the short term (1-2 hours) but still allows for lengthier periods (9 hours) is as follows:

1-2 hours - 89%
3-4 hours - 5%
5-6 hours - 3%
6+ hours - 3%

Using the low end of the first three intervals, and assuming an average of 9 hours for the high end, arrives at:
0.89*1 + 0.05*3 + 0.03*5 +0.03*9 = 1.46

Rounds to **1.5 hours**

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