



# COST AND EFFICIENCY OF DELIVERING LIFE INSURANCE ADVICE

*Executive summary*



# FOREWORD

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<sup>1</sup>.

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 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.

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 an 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 and trust you find the insights useful.

Yours,



**Sean McCormack**

Chief of Group and Retail Partners, MLC Life Insurance

<sup>1</sup> 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. 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.

# 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 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 distributed to 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 has 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 around this average 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 leads and clients.

*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	-\$1300	-\$1,700

To return back 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 actual 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 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.



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

**10 HOURS**

# EXECUTIVE SUMMARY (CONTINUED)

## Life 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.

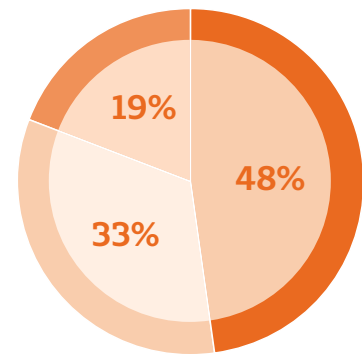


Improve communication with advisers especially as to what the client has received from the insurer.

## Less than half the advisers surveyed feel they are adequately prepared for further commission reductions

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

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.



● Ready ● Not ready ● Unsure

**42%**

## 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.

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

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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 \$400 per hour, this equates to an estimated cost to the adviser per claim 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.

LIFE INSURANCE



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