



Safe as Houses: Building an Ethical Risk Advice Framework



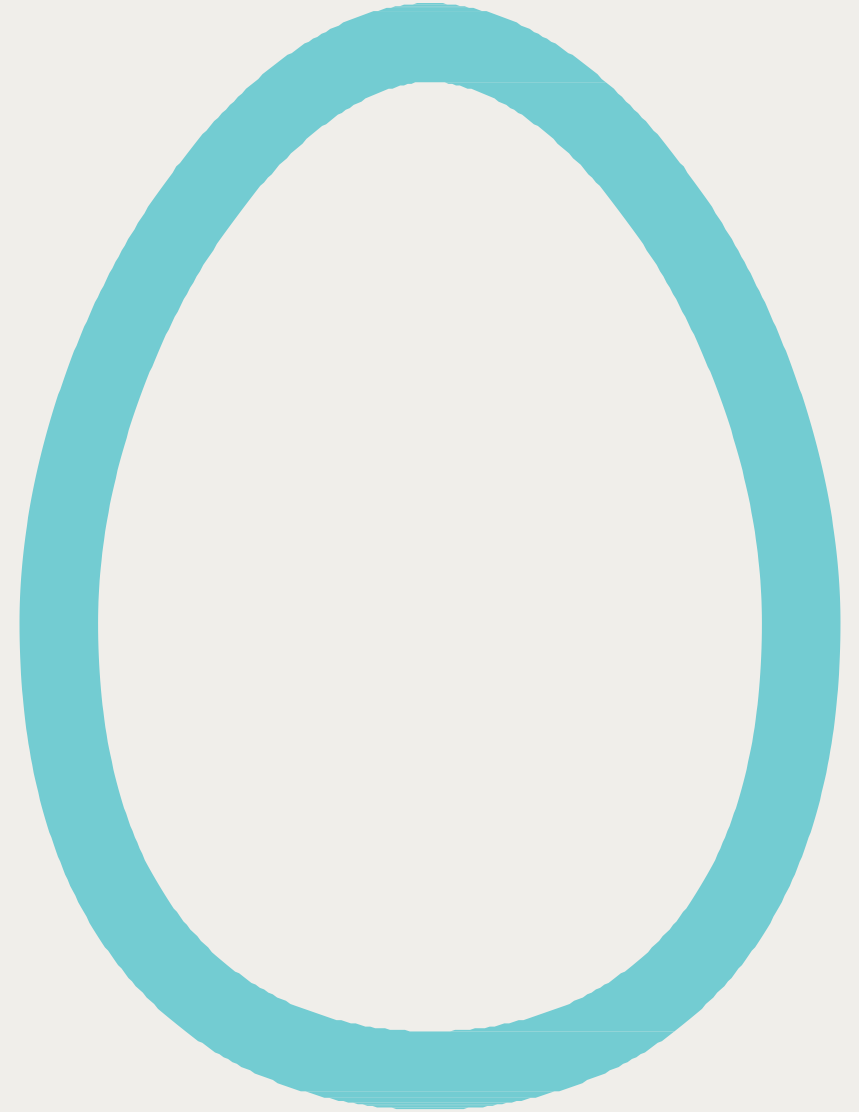
LIFE INSURANCE

Safe as Houses

Synopsis

The code of **ethics** provides a set of **principles** to govern financial advice, but how do we efficiently incorporate these principals in our **advice process**?

In this session we look at the key **ethical standards** impacting **risk advice**, and simple steps to build into a process to avoid ethical dilemmas through looking at example client scenarios and the real-life **risk advice** process.



Agenda

1

Principals of the Code

2

Ethical Risk Management

3

Standard 3: Conflicts

4

Standard 5: Appropriateness

5

Standard 6: Long term circumstances

6

Standard 7: Remuneration

7

Standard 9: Product Recommendations

8

Example Scenario & Putting it into Practice

1

Principals of the Code

The Code of Ethics

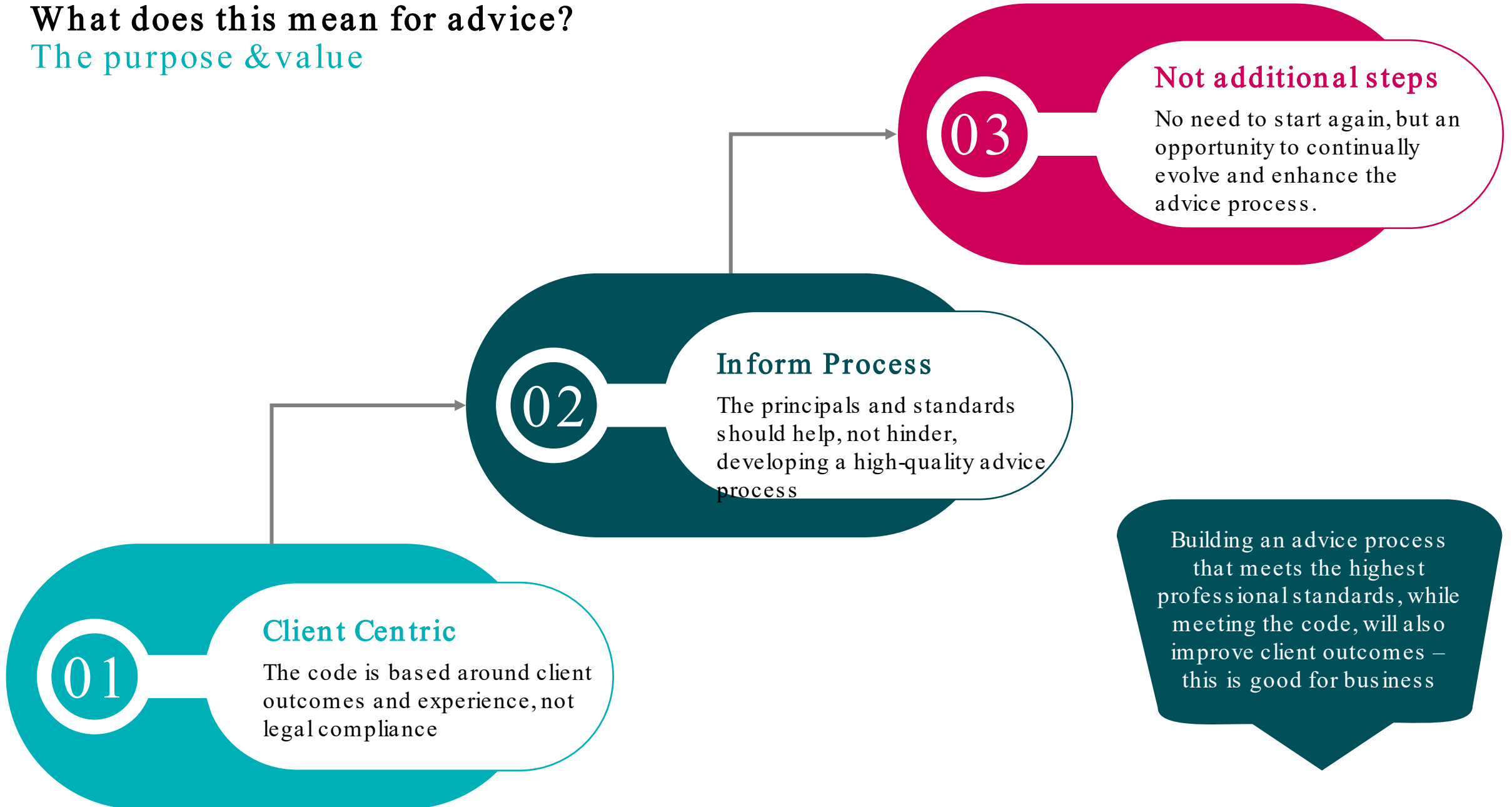
Principal Based Regulation



The code of ethics differs from legislation as a principal-based piece of regulation designed to provide guidance on professional conduct above and beyond the minimum legal requirements of advice delivery.

What does this mean for advice?

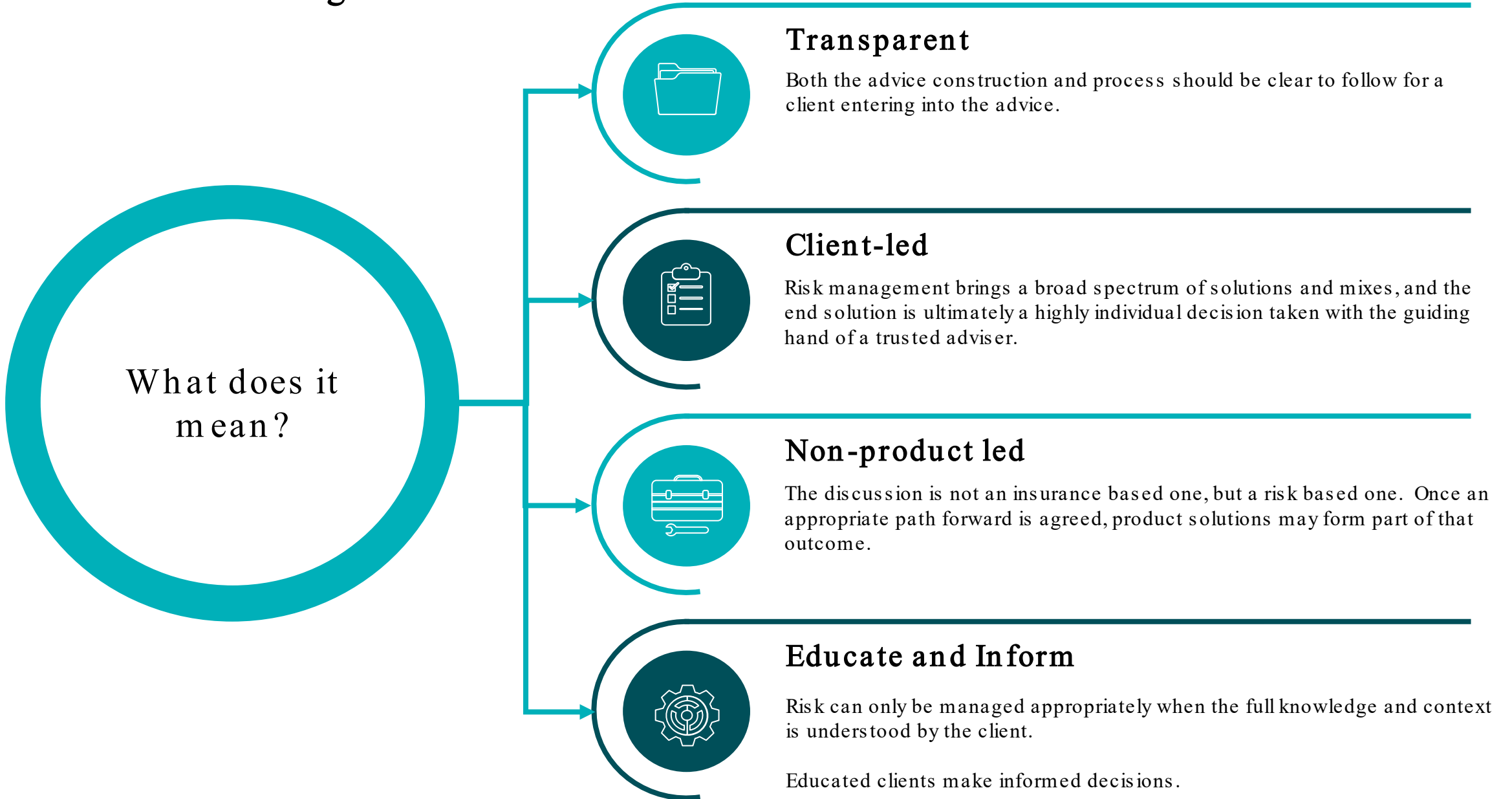
The purpose & value



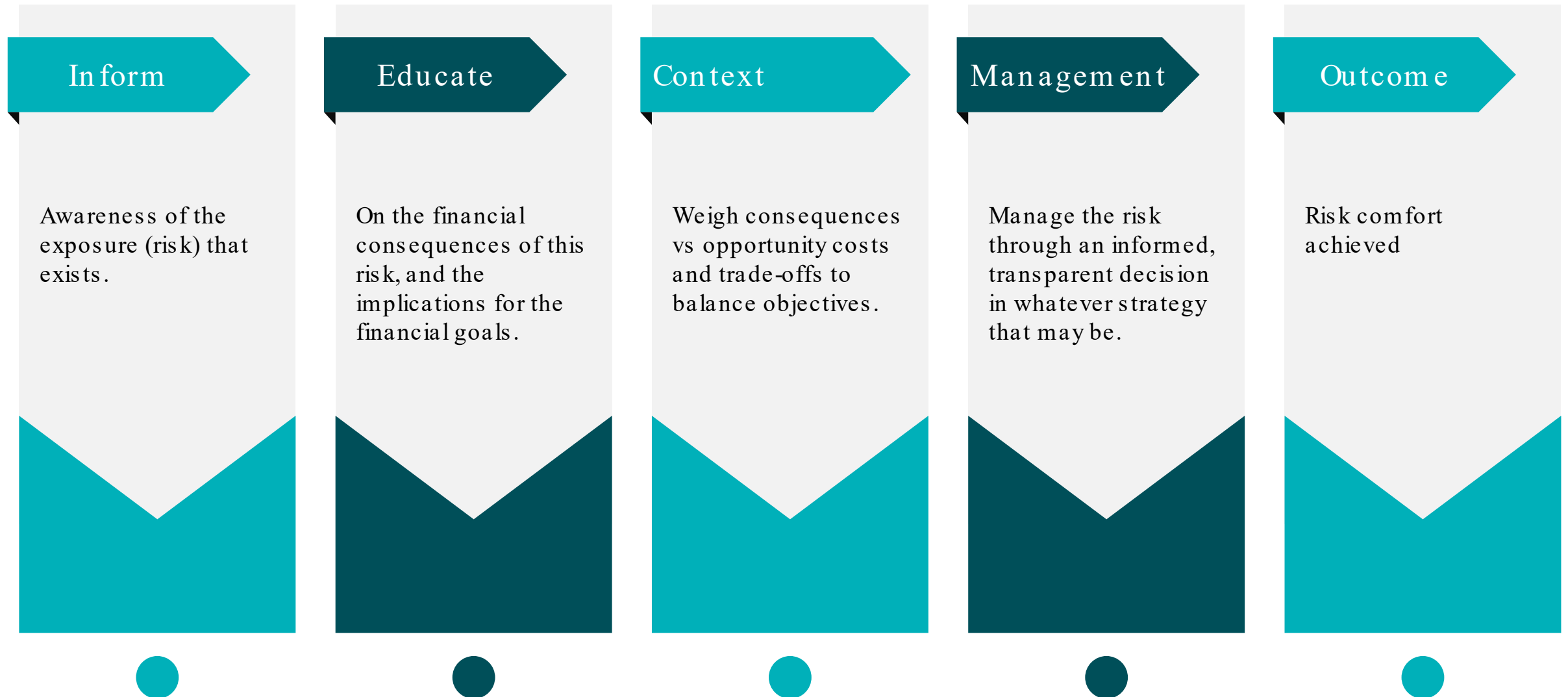
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Ethical Risk Management

Ethical Risk Management



What do we want to achieve in our risk advice process?



3

Standard 3: Conflicts

Standard 3: Conflicts



Sums Insured

How do we calculate recommendations?

How do we navigate conflicts in client relationships?



Client Relationships

Referrals



How do we receive referrals or benefits in relation to our advice?

How do we manage claims conflicts?

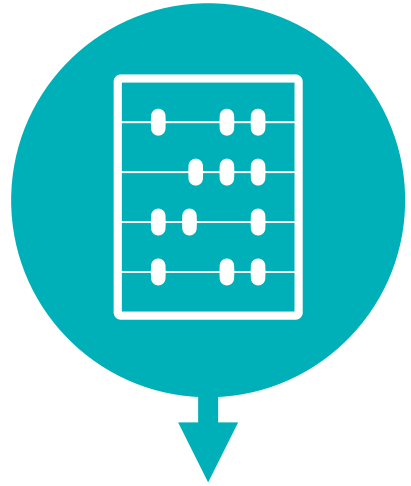
Claims



3

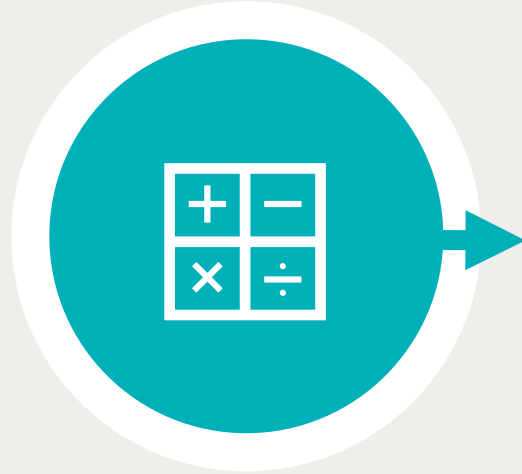
You must not advise, refer or act in any other manner where you have a conflict of interest or duty.

Sums Insured



How do we calculate recommendations?

Transparency & objectivity in sums insured



Quantification

A clear objective piece of data linking the quantification to the exposure it is covering



Construction

An itemized approach to sum insured construction based on exposures (i.e. debt, dependents, lifestyle)



Philosophy

A documented and regularly reviewed Insurance Philosophy



Priorities

Client led approach to constructing the elements to build a suitable sum insured to manage risk

Client Relationships



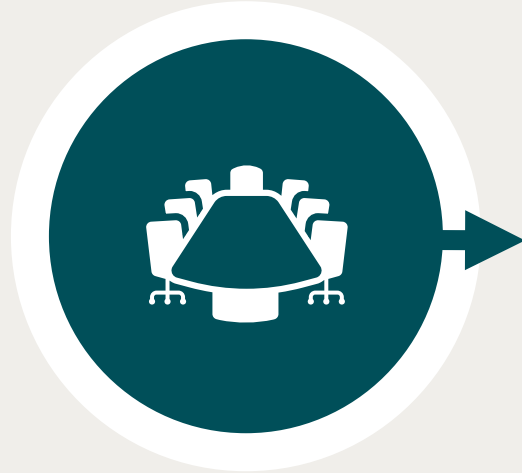
How do we navigate conflicts in client relationships?

Clarity and discipline in serving the client at hand



The client

Clearly identify the client(s) – this may be more challenging in areas such as business or SMSF insurance advice.



Interests

If multiple clients in a group, consider their individuals interests and assess any overlap or conflict. This can change over time: i.e. relationship breakdown



Communication

Clear communication in a method that represents the interests of the client and gives both fair opportunity for discussion and fair access to time.

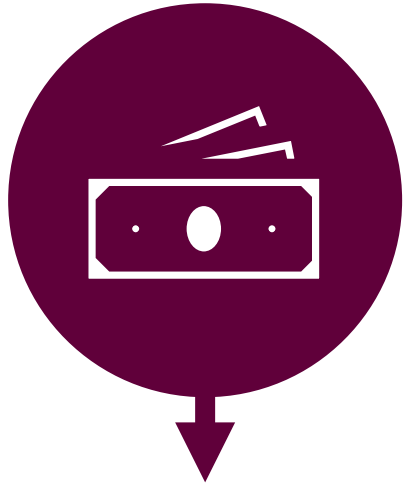


Responsibility

To look out for clients in a group who may be influenced by:

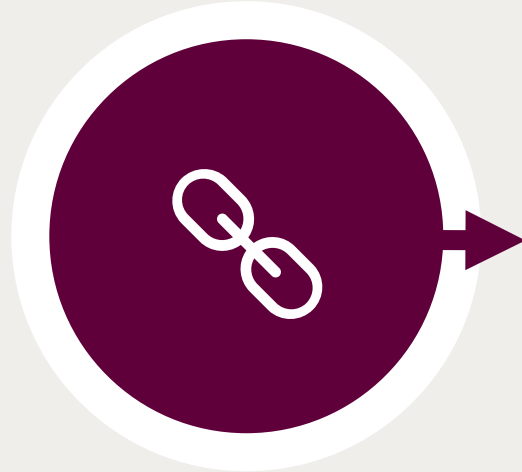
- Controlling behavior
- Manipulation
- Outcomes they aren't comfortable with to suit another
- Outcomes that may advantage one party over another

Referrals



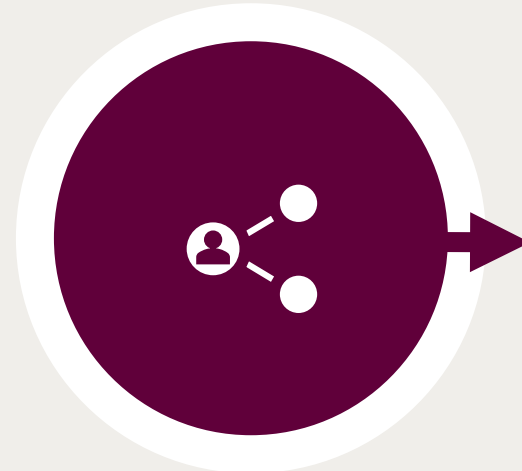
How do we receive referrals or benefits in relation to our advice?

Transparency & objectivity in recommendations & referrals



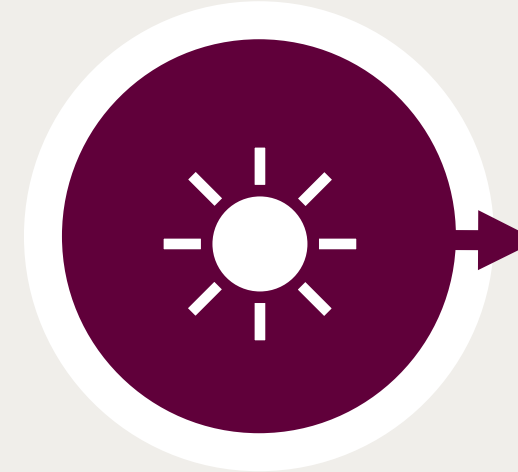
Advice Link

Considering if the recommendation has any link to the referral source (i.e. mortgage broker/property, accountant/SMSF establishment)



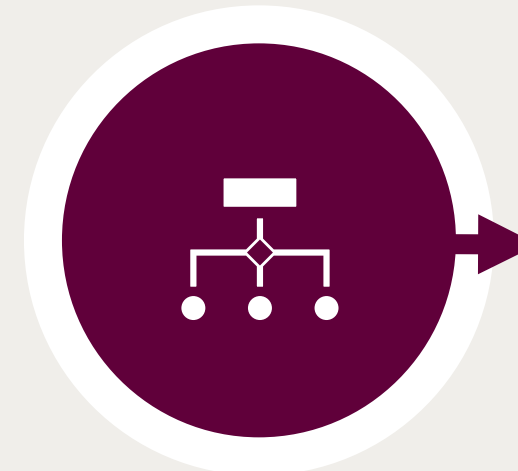
Referring Out

Identifying the problem to be solved, and why the external source is recommended – providing multiple options may be preferred.



Transparency

Being open around referral agreements that may exist – clients are pragmatic and understand if the value is explained.



Processes

Care when it comes to how client information is transferred, and that consent is appropriately gathered either way.

Is the source of a referral an ethical provider themselves?

Claims



How do we manage claims conflicts?

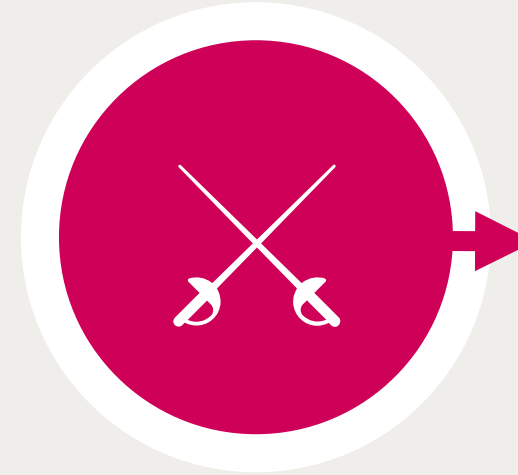
Managing claims outcomes with transparency



Fairness

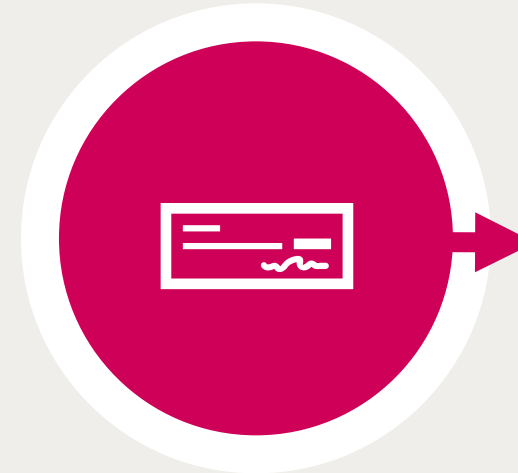
How do the interests of an individual client, and facilitating their claim, impact on the interests of the broader client base?

I.e. Impact on premiums, products, policies in the future.



Beneficiaries

Multiple claims on a policy/estate that may be clients – how do we carefully manage their interests?



Payment

The method of payment that may lead to payment of any fee may not be in the primary interests of the client (i.e. TPD tax uplifts, pensions vs lump sums, preservation of super monies)

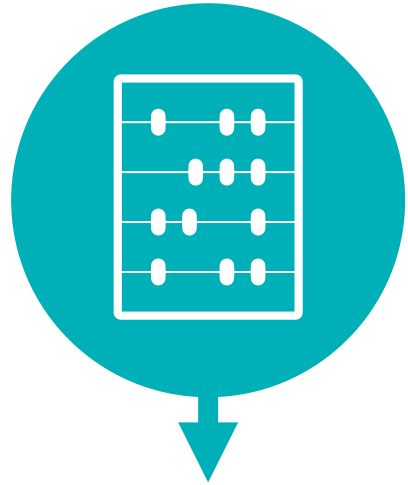
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Standard 5: Appropriateness

Standard 5: Best Interest & Appropriateness



Sums Insured



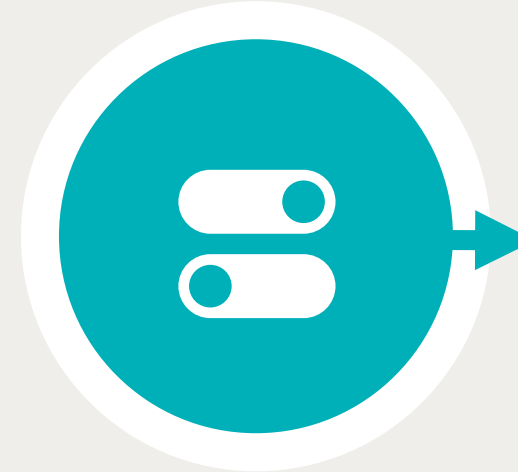
How do we align sums insured to an individual?

For sums insured to be appropriate, they must be tailored.



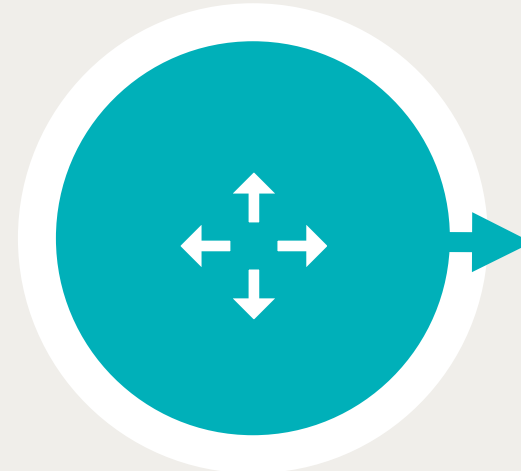
Needs Analysis

Is only a starting point, for education – not an end sum insured.



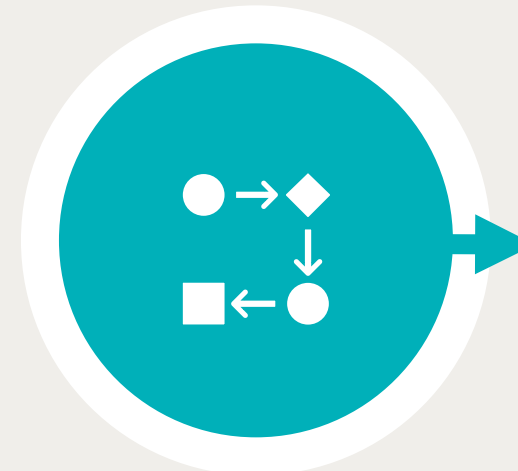
Alternatives

Show self-insurance elements that are specific to clients lifestyle for sums, and areas not insured (i.e. spouse returning to work)



Personalisation

Adjusting the individual exposures and quantifications based on individual tolerance to risk, alternatives and priorities



Process

A clear and transparent process to work from needs analysis to sum insured that highlights what is and isn't insured

Appropriateness



How do we show appropriateness?

Appropriate advice is aligned to the individual – it is subjective not objective



Individual

Showing appropriateness requires showing an understanding of the situation and a problem that will solve it – not the 'best' product.



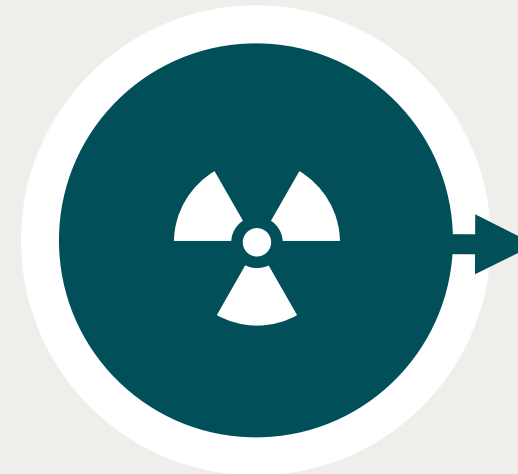
Research

Not the most comprehensive, highest rated, cheapest product – research is useful but should be specific and targeted (E.g. linked to client objectives)



The Right Mix

Not all risk is an insurable risk – the solution should show the mix between insurance and alternatives and how this interacts.



Risk Profiling

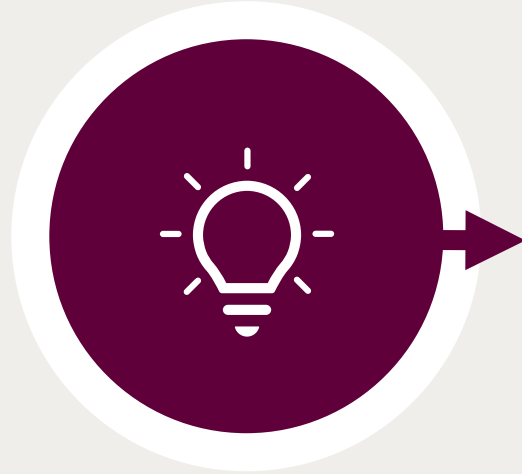
Behavioral Finance and Risk Profiling can give insight to appropriate decisions when it comes to insurance advice to meet clients individual values & beliefs.

Understanding



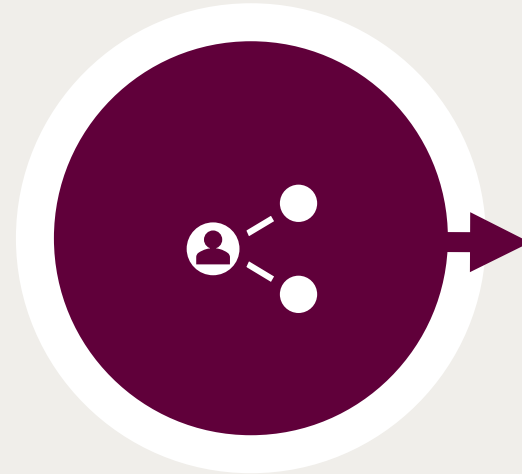
How can we show the client understands the advice?

Clients may not always volunteer a lack of understanding, we must uncover it



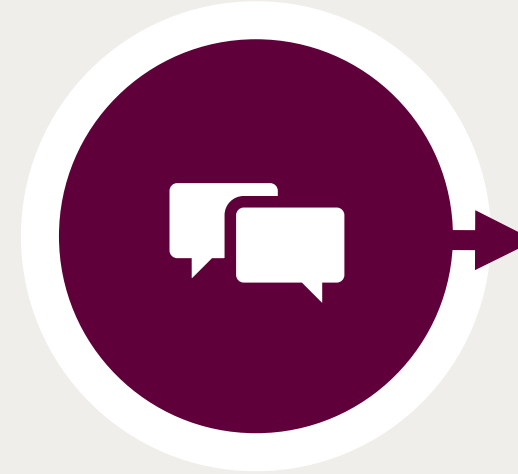
Concepts

Simplifying concepts into equivalents clients are used to (i.e. waiting period = excess)



Visuals

Use visual tools such as mapping, risk matrix's and outcome flow charts to illustrate advice in a simple manner



Lingo

Avoid acronyms, lingo, complex terminology even if a client appears to go along with their use.



File Notes

Consider how to validate understanding in the file – are two-way file notes an option? Position for value.

Trade-Offs



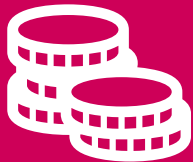
How do we adequately demonstrate trade-off consequences?

Planning is a zero sum game, trade-offs exist in 100% of advice scenarios – we must make clients aware



Self-Insurance

As insurance decreases, risk exposure increases. This relationship and self-insurance strategy must be understood.



Opportunity Cost

All decisions come with an opportunity cost – what is the minimum effective dose of insurance?



Budget

A basic cash flow analysis goes a long way to simply justifying the advice outcome.



Consequences

Regardless of the decisions of the safety net made, consequences will exist, and these must be quantified and agreed to.

5

Standard 6: Long term circumstances

Standard 6: Likely Long Term Circumstances

Iceberg Areas

Identifying the areas sitting out of view that will impact the client

6

You must take into account the broad effects arising from the client acting on your advice and actively consider the client's broader, long-term interests and likely circumstances.

Risk Management Approach



How to approach risk in the context of standard 6?

How to address the scope of the advice?

Scoping



Iceberg Areas



Identifying the areas sitting out of view that will impact the client

It's likely they are not even aware of many of these potential impacts - this is the value of advice.



Identify

What areas of the clients life may be impacted by the core advice? i.e. superannuation, tax, estate planning, financial objectives



Educate

Simply helping clients understand these impacts exist is a valuable part of the process, and where possible showing the impact on their financial plan.



Address

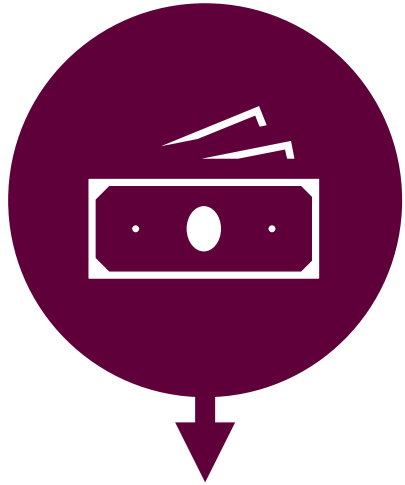
Is this something we are equipped to address, or do we need to refer out?



Document

The identification, education, and agreed path forward for consequences.

Risk Management Approach



How to approach risk in the context of standard 6?

Personal risk can be approached in the same method 99% of other planning areas.



Core Planning

Risk management is central to financial planning (market risk, inflation risk, sequencing risk, longevity risk) – personal risk is the exact same conversation



Identify Risk

Identify exposures that exist as part of the likely long term circumstances, and bring it to the clients attention.



Educate

On the consequences and possible solutions



Address

Either via personal risk advice, or an appropriate referral to a specialist as in any other identified area such as estate planning, SMSF, lending, etc.

Scoping



How to address the scope of the advice?

Ensuring alignment in what is and isn't included, and how scoped out areas should be managed



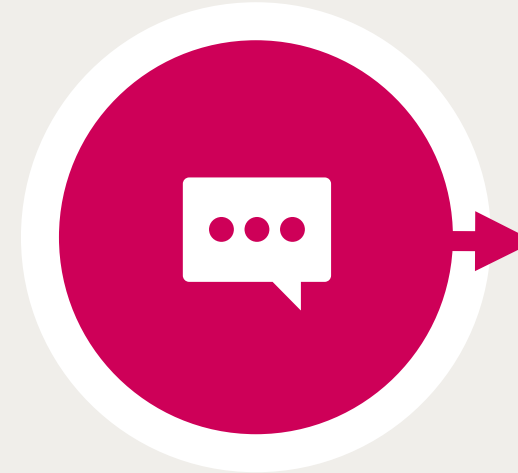
Subject Matter

Implicit and Explicit subject matter has been around before standard 6.



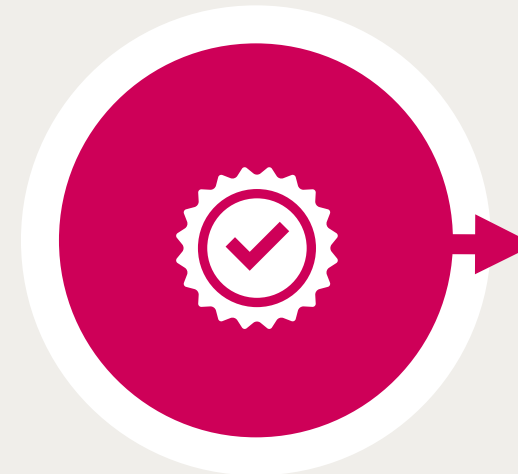
Needs

Our advice should address the needs identified in the subject matter



Refer/Guide

This may be entirely by the delivered advice, or by suggested referrals, but should be agreed with the client.



Confirm Advice

Linking of end recommendation to the relevant client circumstances of the subject matter – while considering those broader impacts.



Standard 7: Remuneration

Standard 7: Remuneration



New Business

Consent, Commissions & Fees

Claims management and fair remuneration



Claims

7

The client must give free, prior and informed consent to all benefits you receive in connection with acting for the client.

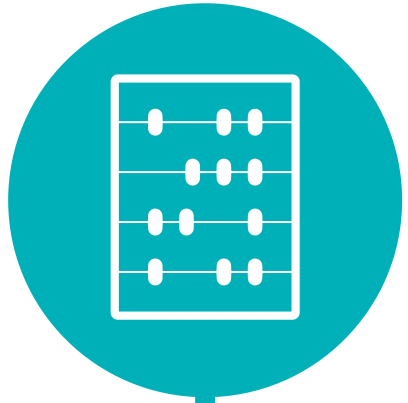
You must satisfy yourself that any fees and charges are fair and reasonable and represent value for money

Ongoing Business



Ongoing risk clients and engagement

New Business



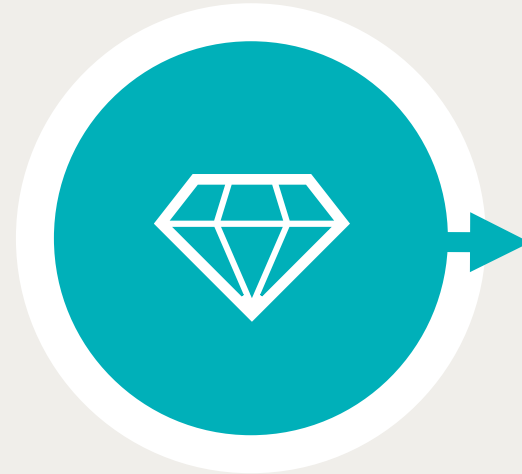
Consent,
Commissions &
Fees

Giving value and
being clear when it
comes to
remuneration



Consent

Clear consent to the remuneration should be provided on an informed basis.



Value

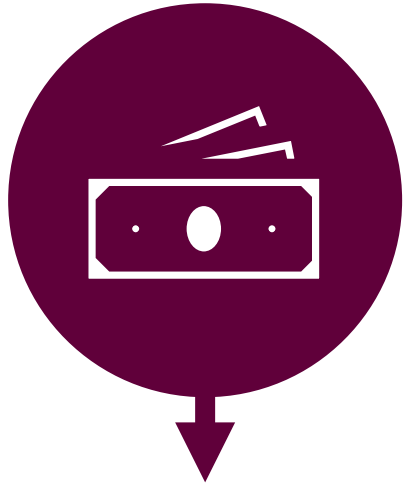
Consider a value proposition – what does your advice do?
Hint: It is not the cheapest premium



Fees

Supplementary or fee-for-service propositions are becoming more common – a clear rationale should exist that links to the value proposition.

Ongoing Business



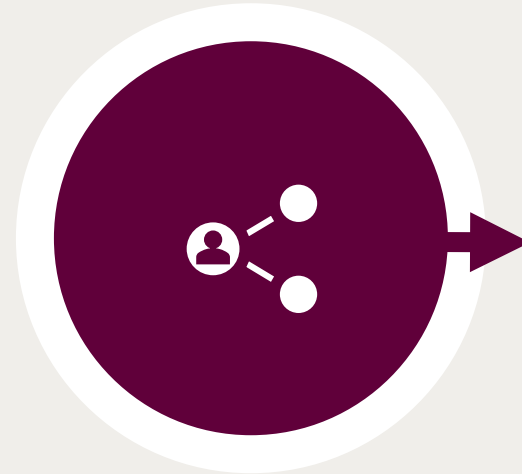
Ongoing risk clients
and engagement

It's essential to have
a value proposition
for existing clients



Proposition

No formal review requirements – but an ongoing service proposition of some sort should exist if commission is being received.



Process

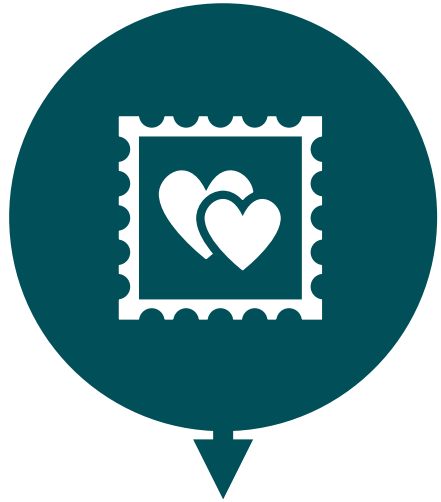
Technology can automate much of this in today's world – from getting the client info, to automated emails, templated videos, educational materials and virtual meeting booking tools.



Expectations

Setting the scene at new business on what to expect on an ongoing basis – and delivering it.

Claims



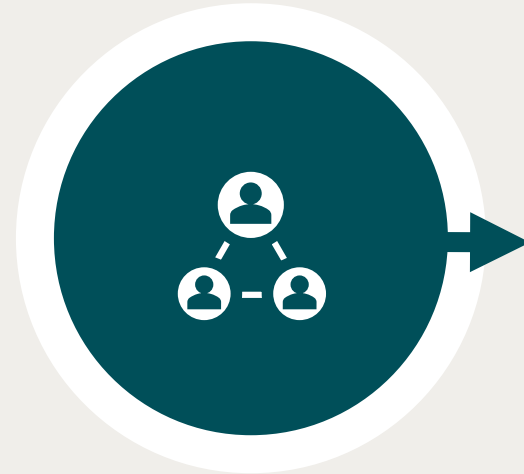
Claims management and fair remuneration

Claims support is incredibly valuable, how should we be remunerated?



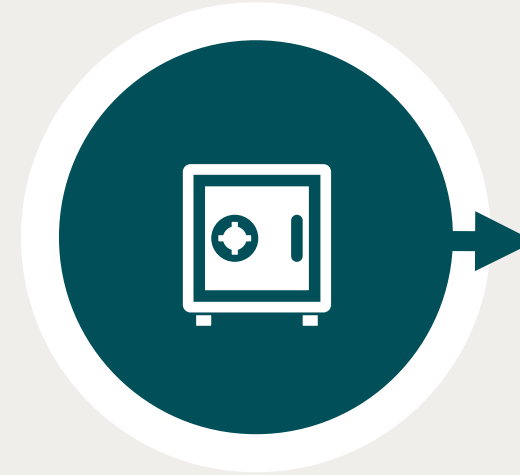
Expertise

Do we have the expertise to appropriately guide and support claimants?



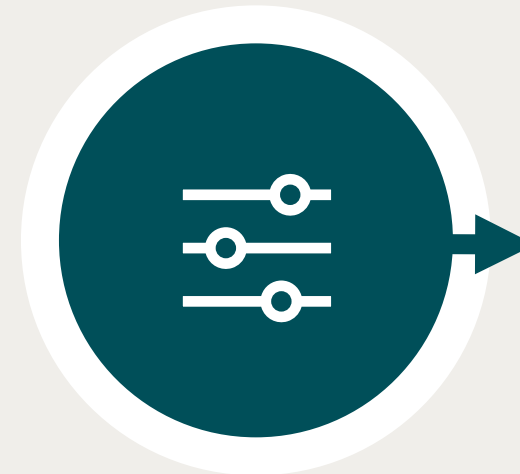
Resources

Is this via each individual team member, or a specific expert? Can we support the volume our practice may generate?



Value

What does the service proposition look like and how does it create value?



Model

Fee models, commission/fee hybrid, hourly rates, and more are valid options – but should be linked to the value proposition and transparent for clients.



Standard 9: Product Recommendations

Standard 9: Product Recommendations



Client expectations

Do client expectations align with product functionality?

9

All advice you give, and all products you recommend, to a client must be offered in good faith and with competence and be neither misleading nor deceptive.

Modelling & Projections



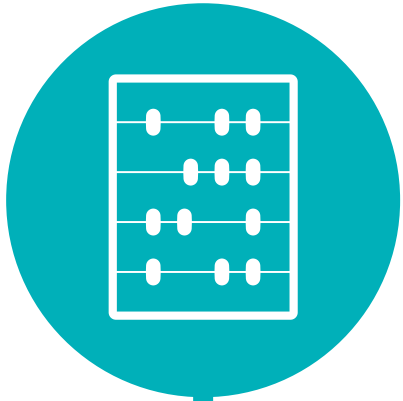
Are clients aware of the context of any supporting data provided?

How do we ensure good faith when the goal posts move?

Underwriting

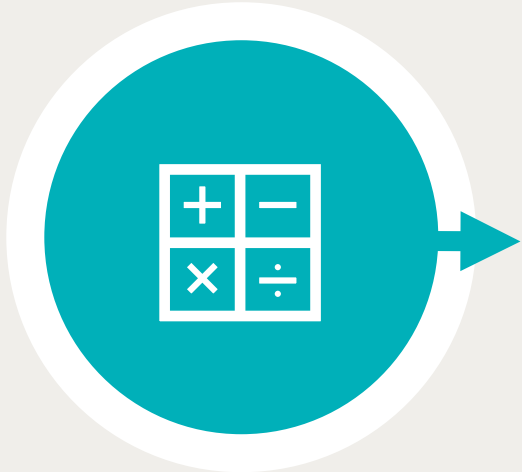


Client Expectations



Do client expectations align with product functionality?

When expectations and product function don't meet – we have complaints



Take Control

Clients have no idea about personal insurance and this presents both an opportunity and a threat



Alignment

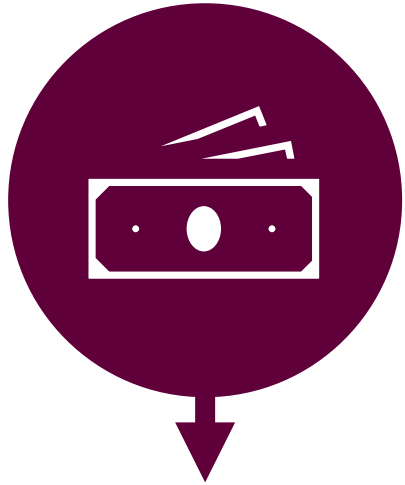
Confirm alignment between the problem being solved and the product solutions limits – no product is limitless!



In Practice

Use examples and simple language to show how products solve problems, and the limitations that exist.

Modelling & Projections



Are clients aware of the context of any supporting data provided?

Advice must assist them to appropriately interpret this supporting information



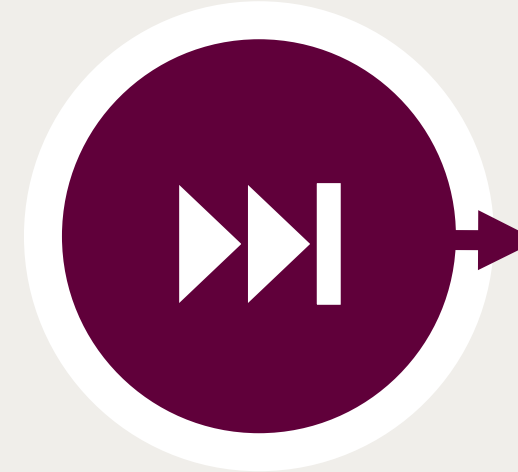
Accuracy

If providing data are we confident standing behind the source to the best of our knowledge?



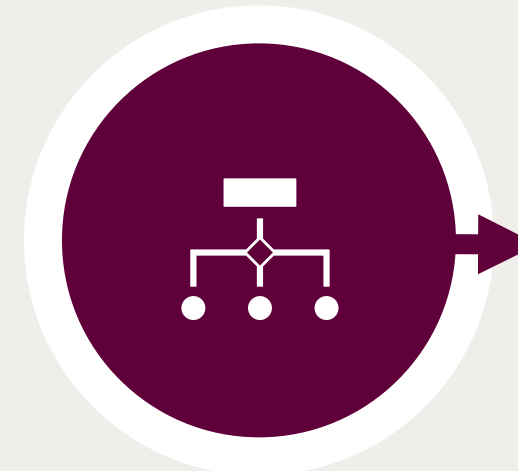
Assumptions

Any modelling includes assumptions, clients must understand the assumptions to make an informed choice.



Limitations

All data has limitations, these must be front of place for clients to understand.



Recommendation

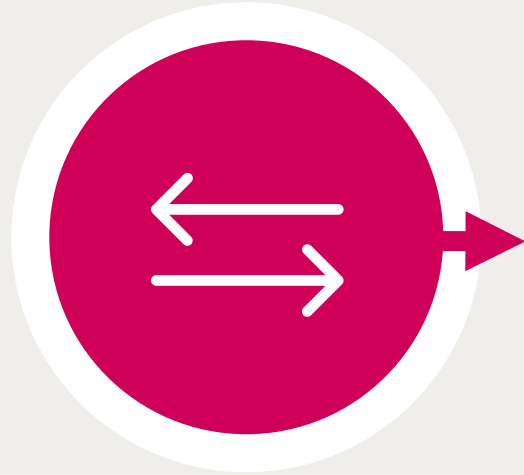
Consider if the assumptions and limitations may impact the end decision made by the client to proceed with a recommendation.

Underwriting



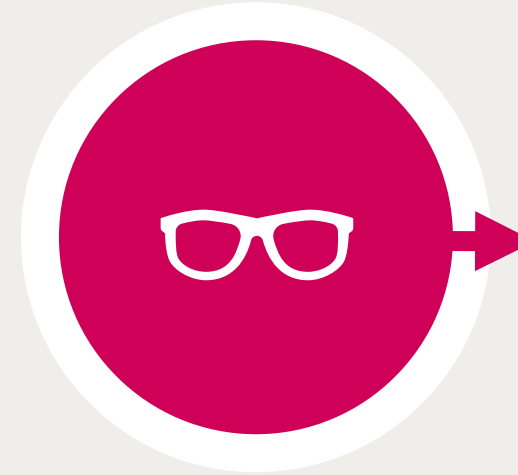
How do we ensure good faith when the goalposts move?

Navigating underwriting successfully helps client expectations stay aligned



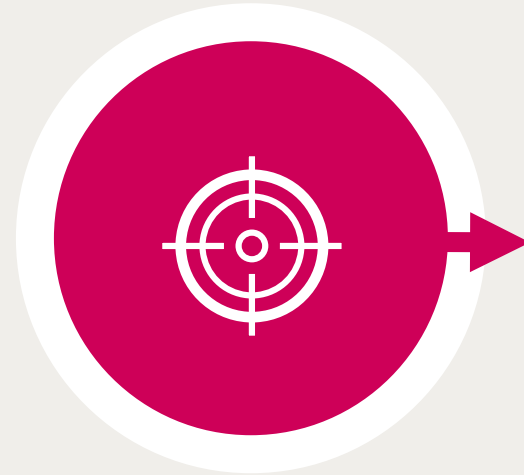
Avoidance

Avoid potential changes through early and effective pre-assessment before the advice process.



Pre-empt

Educate clients on the process, position for value, and show how you can help.



Impact

If underwriting changes the contract, be clear on the impact to the mitigation plan – the amended terms legal letter may not communicate this effectively.



Re-assess

If changes causes limitations to the risk management plan, return to earlier analysis, adjust, and confirm alignment with expectation.

8

Example Scenario & Putting it into Practice

Example Scenario

Adviser Sarah has client John come in as a new client, who is 52, married and has 1 adult child. John has a history already with investing, and a reasonable tolerance for risk through his existing asset and cash superannuation and is focused on protecting his income and investments for retirement. John is referred to Sarah via an accountant she has a mutual agreement with (not paid)

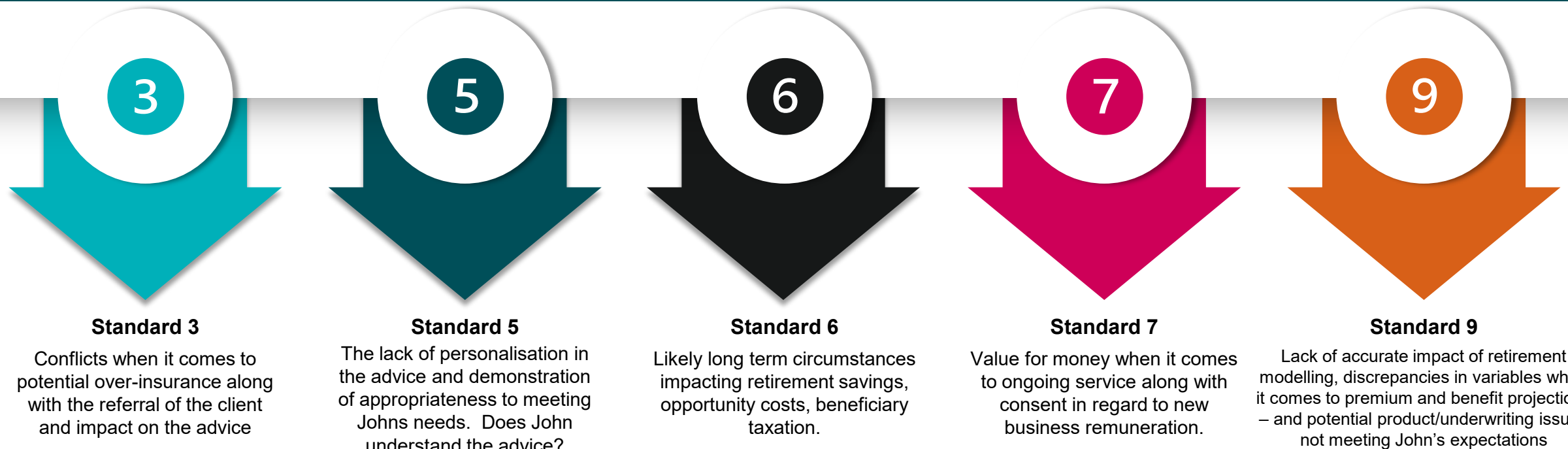
Sarah recommends John \$2m of Life and TPD Insurance owned by a new SMSF, along with a comprehensive age 65 income protection and Trauma extras at \$500k. These are based on some calculations of John's income and years to retirement and then put into quoting software to have the prices put to John of the equivalent products at 3 major insurers.

Sarah shows John the impact on his SMSF balance to retirement but does not include indexation or age increases, on her quote she includes benefit and premium projections with indexation, along with the commission projections that are not formally outlined in the authority to proceed.

She advises John to nominate his adult child as the beneficiary of his superannuation and advises that the policies will be reviewed regularly to ensure appropriate overtime – however there is no formal process set up to arrange this – John should just reach out to her each year. If he needs to claim on the policy, he should get in touch but there's no formal proposition on how she supports clients at claim time.

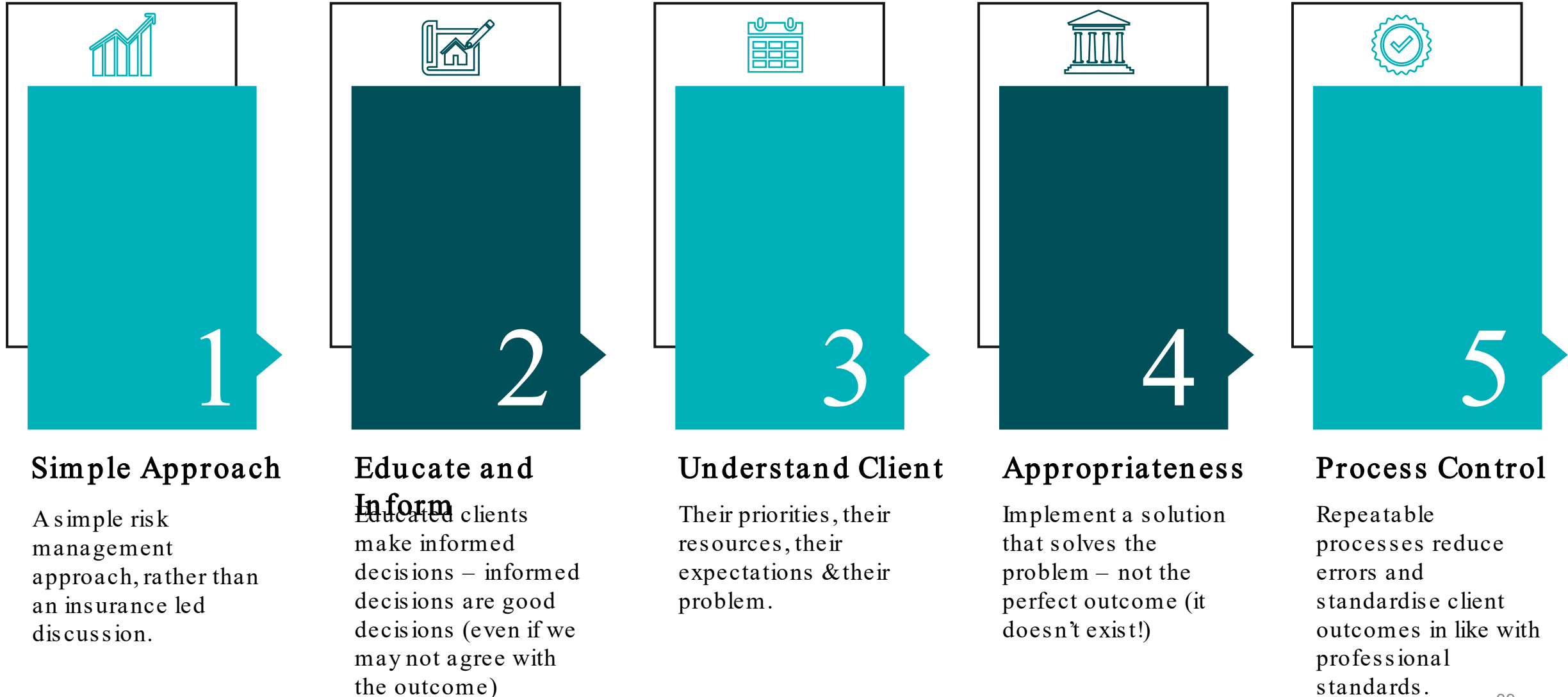
No pre-underwriting is done as Sarah uses tele-interview and doesn't want to know that information, John can always decline the amended terms if he isn't happy.

John hasn't got a long of history with personal insurance, but the quotes are from companies he has seen on TV before so assumes it must be OK and goes ahead with the application.



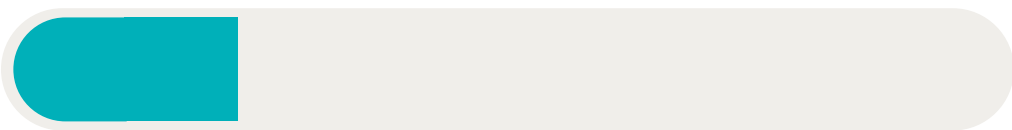
Putting it Into Practice

Practical Take-Aways



Ethical Risk Advice Process

Practice Benefits



15%



Average Industry Lapse Rate*
Vs >10% for top performing businesses



\$5k



Cost of additional auditing for 10 SoA's*
Reduced Legal & Compliance Costs



33%



Average Client Conversion in Financial Advice*
Vs 73% for top organic growth firms



300%



Firms with above average staff satisfaction*
3 times as profitable as businesses in lower-performing bands

1. NMG Market Insights 2024 2 SMSF Engine 2021 . 3. Herbers & Company Service Market Growth Study (Wealth Management) 4. Australian Federal Government 2011:

9

Next Steps

Resources & Next Steps

Further Information

Reach out to your BDM for a copy of materials, CPD will be available via your licensee or in the Zoom Event Hub.

Partner Education Sessions

Catch Up on past webinars, or register for future PD sessions here:

Upcoming Session

‘A Piece of String’ – Getting Trauma Needs Right

Technical Support

Connect on LinkedIn for Live Technical Q&A's or reach out via BDM for case by case support



Thankyou