Practice Management

Regular contributor Sue Viskovic recently released a revised edition of her book, 'Pricing Advice, Creating the right fee model for your financial advice business', incorporating market changes such as the advent of FoFA and changing client attitudes and expectations. Sue has also completely rewritten the chapter on how to price insurance advice. An extract from this chapter is provided here…

Pricing Insurance Advice Post FoFA

While insurance is traditionally a very difficult area to price, more and more firms are starting to implement a fee-based offer. There has been much debate around the appropriateness of advisers being paid commissions for implementing insurance advice, and while the legislative reforms have largely allowed them to remain, they have banned commission on certain types of personal insurance, such as group policies inside super, and individual policies within default funds (at the time of going to press).

There are some camps who feel the writing is on the wall, and that all insurance commissions will disappear over the coming years, and yet others believe this carve-out to be confirmation of the viability of insurance commissions. Regardless of what your crystal ball is telling you, the current situation creates complexity for firms who intend to continue to receive commissions, to the point that even specialist firms who advise purely on risk insurance will need to determine a pricing model so they can be paid when it is in the clients' best interests to hold their policies in a commission-free structure. The commission you receive for any top-up cover you implement will unlikely be sufficient to pay for all of the work required to advise and implement their insurance portfolio. Those who write risk as part of a comprehensive financial plan will also need to ensure that they receive sufficient income to cover the additional work and complexity that insurance advice adds to their process.

Whilst they remain a legitimate source of income, many advisers do not believe commissions alone represent an adequate source of income for the often complex advice processes they complete for their clients. Opinions vary greatly on this topic. Some believe that clients who do not pay their adviser separately to their insurance premiums do not place enough value on their advice, and this reflects on their cooperation with the adviser to implement much-needed recommendations. Others seek a remuneration method that will pay them for their time to advise and assist clients who ultimately don't get cover enforced. Opponents of this thinking believe that the commissions earned from larger premiums subsidise the advice provided to the unfortunate few who don't get cover.

Before deciding how to be paid for your advice on insurance, it is helpful to examine precisely what an adviser does for a client when advising on their insurance. You:

- Help clients to confront and address the risks they face (i.e. 'selling the concept'—if not for your advice, they may have never covered their family)
- Determine the appropriate types and levels of cover and select the insurer for clients
- Assist clients through the application and underwriting processes
- Assist clients (or their families) if they need to make claims

You have a number of options to choose from when selecting how you will be remunerated:

- Taking only the insurance commission and not charging an additional fee (and then you need to consider if you'll take the upfront option, or the hybrid or level)
- Charging a fee in addition to receiving the insurance commission

- Determining a fee, taking the insurance commission, and rebating any of the commission that exceeds the pre-determined fee
- Charging a fee and writing the policy with the commission rebated, resulting in a lower premium for the client

Irrespective of what mechanism you choose to use to be paid for your insurance advice, the fact remains that it's important to get a handle on the minimum level of revenue you need to earn to advise and implement risk recommendations.

even specialist firms who advise purely on risk insurance will need to determine a pricing model

Make sure that you price and provide an ongoing service offering as well as your initial advice to implement the policies. Your ongoing services will likely include taking the client's administrative calls, chasing up outstanding premiums, and regularly reviewing their levels of cover and policy inclusions to ensure their insurances continue to meet their needs.

So what is the best solution to pricing risk advice? The answer is the same as that for pricing any other financial advice—there is no single solution that will suit every client and advice business in the country, but there is a process you can follow to determine the right model for you.

Yes, pricing insurance advice is challenging, but it certainly is possible. And for those doubting whether clients will pay separately for their insurance advice?

The answer from our pricing research is clear—yes they absolutely will, provided that the value of that advice is articulated and delivered well.

Pricing Advice, Revised Edition is available for purchase from www.elixirconsulting,com.au. It is available in paperback and digital versions, if you prefer to read on your Kindle or tablet.

There are added challenges to be aware of when pricing insurance advice, and six of them are addressed in Sue's book. Here is one:

Challenge 4

Insurers will claw back commission if a client cancels the policy within a set period. If you choose to receive commissions, or charge a fee and refund the commission to a client, you may find that you end up refunding all (or much) of the income you received for the work you completed.

Potential solutions

- Regardless of whether you opt for commissions or fees (with commissions refunded), it is wise to make it clear to your client that should they cancel their policy within the clawback period, you will invoice them for the amount of your fee that is clawed back by the insurer. Whilst it is arguable if you would ever recover this invoice, the clarity may at least make clients think twice before implementing and then cancelling a policy in a short space of time.
- By staying in touch with your clients you may find that you can counsel them with alternatives to cancelling their policies if times get tough, thus reducing the incidence of clawbacks. Clients usually cancel policies because of cashflow constraints, or they decide they no longer need the cover. If you are providing ongoing advice and support to them, you can assist them to make a considered decision, weigh up their alternatives and potentially keep their policies in force, while solving their budget issues in other ways.