Council of Australian Life Insurers

Director, Programs and Redress Unit
Financial Systems Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: CSLR@treasury.gov.au

29 August 2025

Compensation Scheme of Last Resort – exceeding the sub-sector levy cap consultation

Dear Director

The Council of Australian Life Insurers (**CALI**) is the leading voice in life insurance in Australia. Our mission is to ensure Australians view life insurance and the industry as accessible, understandable and trusted. We do this by supporting our members to deliver the protection and certainty families need on their best and worst days. CALI advocates for national policy settings that expand Australians' access to the life insurance protection that suits them when they need it most.

CALI is pleased to make this submission to Treasury's consultation, '*Compensation Scheme of Last Resort* (**CSLR**): *exceeding sub-sector levy caps*'.[1] As a member of the Finance Industry Council of Australia (**FICA**), CALI notes and supports FICA's joint industry submission to this consultation (**FICA Submission**).

CALI's members remain committed to ensuring that consumers with eligible unpaid Australian Financial Complaints Authority (**AFCA**) determinations receive compensation, however, the current design of the CSLR has proven unsustainable. The CSLR Operator has already confirmed that claims costs are expected to routinely exceed the $20 million financial advice sub-sector cap for the foreseeable future, meaning the scheme as it is currently designed will likely rely on repeated special levies to compensate consumers.[2]

CALI opposes the routine use of special levies as a funding mechanism. They are inherently unpredictable, undermine industry confidence and effectively introduce a de-facto tax on business. This approach is also inconsistent with the intention of the special levy provisions, which were designed to be an exceptional measure, not a recurring source of revenue.

[1] Consultation paper – Compensation Scheme of Last Resort: exceeding sub-sector levy caps (**CP**)
[2] David Berry, Conexus Summit: Professional Planner 2025 Advice Policy Summit (11 February 2025).

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Consistent with the FICA Submission, CALI makes the following submissions:

1. The Government should ensure that the CSLR will be reformed to make it sustainable and that there will be no further ad hoc levies on industry; and
2. The Government makes a financial contribution to the sustainability of the scheme.

Impact on financial advice sustainability must be considered

CALI notes the foundational principle of the CSLR is for claims on the scheme to be funded from the sub-sector that causes the claim to arise. While this is sensible, we also note this principle has led to the advice sector bearing a heavy burden for the conduct of a small minority. If this continues, CALI and our members are concerned that it will have a deleterious impact on the sustainability of financial advice.

CALI and our members recognise the important role financial advice plays in supporting Australians to access tailored financial solutions that meet their current and future financial needs. Unfortunately, the collapse in financial adviser numbers in the last decade is impacting on access to advice, most obviously in the field of risk advice. Data shows access to financial advisers actively providing advice on risk products such as life insurance, total and permanent disability, trauma cover is extremely limited.

Australians want advice but can't access it. In the past 12 months, one in three (35%) working Australians considered or sought financial advice about life insurance, but fewer than one in ten (8%) received it[3]. There are only 15,000 advisers nationwide, fewer than 600 specialise in risk products, and just 185 advisers are dedicated risk writers.[4]

In addition, with large numbers of Australians approaching retirement, demand for advice on retirement products such as annuities and other forms of longevity product will be certainly increase beyond current capacity.

Accordingly, CALI urges the Government to consider the financial sustainability and viability of financial advice when determining its approach to the special levy. In particular we note that continuing to place the CSLR levy burden so heavily on the advice sector will, over time, contribute to its decline and ultimately cease to repeatable, which is an important factor in the Minister's decision (CP, paragraph 26).

Basis of special levy application

In the case the Minister chooses to apply a special levy to non-advice sub-sectors, we submit in the first instance this should be restricted to those sub-sectors already included in the scheme.

[3] CALI Life insurance sentiment tracker aggregate report 2024-25
[4] 7th Annual Australian Financial Advice Landscape Report – 2025 (Adviser Ratings)

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In the event the Minister opts to broaden to sub-sectors not ordinarily captured by the scheme but who are AFCA subscribers, CALI recommends several principles as the basis on which the Minister may make a determination for special levies:

- the imposition of the special levy should balance the foundational principle that the CSLR should be funded from the sub-sector that causes the claim, without placing the burden so heavily on a single sector that it ceases to be repeatable; and
- To the extent that the levy applies to life insurers, the basis on which the levy is applied ought to be on a stable metric and not based on total income.

Regarding the appropriate metric, the pre-CSLR levy (in 2022) was based on **total income** of a select group of financial institutions, including insurers (which are not sub-sectors under the CSLR).

CALI submits that total income is not an appropriate metric to determine CSLR levies for life insurers.

Commercial strategies and risk management approaches (including reinsurance strategies and arrangements and actuarial liabilities) can vary widely amongst life insurers and can significantly alter a group's total income for tax purposes. To that extent, total income is an unreliable metric as a proxy for size or profitability.

Considerations for the CSLR Post Implementation Review

CALI is concerned at the size of the overrun, particularly so soon in the life of the CSLR. The CSLR was intended to recompense claimants who had experienced capital losses on their wealth due to misconduct and could not recoup those losses as the financial firm was no longer solvent or able to pay.

To ensure the CSLR is placed on a sustainable footing, CALI submits that hypothetical capital gains ought to be excluded from being compensable under the CSLR, making the scheme genuinely last resort.

CALI also notes and supports the balance of FICA's CSLR sustainability recommendations including:

- significantly reducing the administrative costs of ASIC, AFCA and the CSLR Operator that are transferred to industry through the CSLR;
- introducing and ongoing monitoring of capital and professional indemnity insurance obligations on financial advice businesses;
- reducing the maximum compensation cap from the current level of $150,000 and refining the eligibility criteria, to ensure the scheme is targeted to the needs of lower income consumers who disproportionately experience hardship as a result of losses; and
- enhancing and enforcing ASIC and the CSLR Operator's subrogation rights and obligations to actively pursue these rights to ensure timely and effective pursuit of

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recoveries from those directly responsible for consumer losses, thereby reducing the scheme's reliance on industry funding.

We would welcome discussion on the matters raised in this submission. Should you have any queries, please contact Luke Hyde (General Manager, Policy) at luke.hyde@cali.org.au

Kind regards

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