

22 May 2026

Ms Ly Reeve
A/g Assistant Secretary
Cross-sector Regulation, Redress and Resilience Branch
Financial System Division
Langton Crescent
PARKES ACT 2600

By email: CSLR@treasury.gov.au

Dear Ms Ly

Compensation Scheme of Last Resort – CALI response to reform options to support ongoing sustainability

CALI is pleased to make this submission to Treasury's consultation, "*Compensation Scheme of Last Resort (CSLR): reform options to support ongoing sustainability*". We refer to, and reiterate, our positions on this matter as set out in our prior submission dated 29 August 2025¹. As a member of the Finance Industry Council of Australia (FICA), CALI supports and endorses FICA's positions in relation to CSLR sustainability.

CALI's members remain committed to ensuring that customers with eligible unpaid Australian Financial Complaints Authority (AFCA) determinations receive compensation, however, the current design of the CSLR has proven unsustainable. The consultation has already confirmed the cost overruns of the CSLR have continued into 2025-26. We note the estimated scheme costs and funding shortfall, and the significant overrun in projected costs for 2026-27, which excludes potential liabilities from the Shield and First Guardian collapses.

Against this backdrop, CALI reiterates its opposition to 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 <https://consult.treasury.gov.au/c2025-673169/consultation/view/26>

Fairer treatment of financial advisers

We are pleased that many of the options proposed are consistent with the principles set out in our previous submission. CALI continues to advocate for fairer treatment of financial advisers, particularly risk advisers.

We welcome the 'Waterfall' framework that seeks to spread the CSLR levy across the financial services sector broadly. The proposed levies of up to a maximum of \$40 million on the advice sub-sector will, however, significantly impact the already severely constrained accessibility and affordability of financial advice, and place further and significant pressures on the sub-sector.

The number of financial advisers has significantly declined over the last five in years, and this is especially true for the 185 risk advisers who do not present a risk to Australians' savings.

At the heart of the matter is that the CSLR should not require \$40 million of contributions from just 15,000 individual advisers. It is unfair and saddles advisers with an unpredictable de facto business tax.

Most critically, we welcome the Government's focus on a broader suite of measures to improve customer protection and reduce the call on the CSLR. Access to quality, well regulated financial advice is central to that. We continue to advocate for urgent consultation, and full implementation, of the second tranche of the Government's Delivering Better Financial Outcomes (**DBFO**) reforms which would significantly limit customer harm by supporting the affordability and accessibility of high quality financial advice guidance and support for customers.

Our detailed response is attached below. Please do not hesitate to contact Luke Hyde (General Manager, Policy) at luke.hyde@cali.org.au if you have any questions.

This submission is made on a non-confidential basis.

Yours sincerely



Christine Cupitt
Chief Executive Officer
Council of Australian Life Insurers

About CALI

CALI is the leading voice of life insurance in Australia. We support Australians to make informed choices about their future and help them live in a healthy, confident and secure way over their lifetime.

Our members' products and services give people peace of mind when making important decisions and provide a financial safety net during life's biggest challenges.

We advocate for national policy settings that expand Australians' access to the life insurance protection that suits them when they need it most.

CALI represents all life insurers and reinsurers in Australia. The Australian life insurance industry is today a \$26.4 billion industry, employing thousands of Australians and paying billions of dollars of benefits each year.

For more information, visit www.cali.org.au

Detailed submission: Options Paper – Compensation Scheme of Last Resort: Reform options to support ongoing sustainability

Recommendations

1. CALI opposes the routine use of special levies as a funding mechanism and we continue to urge the Government to make a financial contribution to return the scheme to a sustainable state as quickly as possible.
2. We support expanding subrogation:
 - to the full AFCA determination amount; and
 - to enable operator the recover from a broader set of sources such as professional indemnity insurers, and entities that are not bodies corporate such as individuals and partners.
3. Eligible compensation should be limited to actual losses, and hypothetical capital gains ought to be excluded from being compensable under the CSLR. Access to the CSLR should meet a different threshold to compensation orders made by AFCA.
4. The “Waterfall” framework could be adjusted for the following:
 - Sub-sectors with sustainability challenges such as life insurance advisers could benefit from relief from the special levies.
 - We caution a one size fits all approach to special levies and urge greater transparency prior to finalising a special levy following each significant loss event.
5. CALI recommends a review of all fees payable by the CSLR. The review could consider a fee cap and efficiency measures by relevant stakeholders, with the objective of prioritising CSLR funds for victims.

Response to the proposals

CALI is pleased the options paper has taken on board a number of our key recommendations from our previous submission. We make the following observations and recommendations in regards to a number of the proposals.

Recommendation one

CALI opposes the routine use of special levies as a funding mechanism and we continue to urge the Government to make a financial contribution to return the scheme to a sustainable state as quickly as possible.

Routine use of special levies is inherently unpredictable, undermines industry confidence and effectively introduces a de-facto tax on business. They are also at odds with the recommendations of the Ramsay Report ²in relation to XX. We welcome the Government's ongoing work to support broad cross-sector reforms to give consumers greater protection and trust in the superannuation and financial services sectors³.

Proposal 2: CALI supports expanding CSLR subrogation rights

We support proposal 2 for expanding the CSLR subrogation rights. CALI has highlighted the need to enhance the CSLR Operator's subrogation rights in our submission of 29 August 2025⁴. Subrogation rights allow the CSLR Operator to actively pursue these rights and obligations to ensure timely and effective recoveries from those directly responsible for consumer losses, thereby reducing the scheme's reliance on industry funding. The options paper highlights that the UK has successfully incorporated both options under its FS Compensation Scheme with some success.

Recommendation two

We support the adoption of both options to expand subrogation:

- i. to the full AFCA determination amount; and
- ii. to enable the operator to recover from a broader set of sources, eg. professional indemnity insurers and entities that are not bodies corporate such as individuals and partners.

² The Ramsey Report refers to the Supplementary Final Report, Review of the Financial System external dispute resolution and complaints framework, September 2017

³ The Hon Dr Daniel Mulino, Assistance Treasurer, Media Release, "Strengthening consumer protection in the superannuation system and ensuring sustainability of the CSLR", 8 April 2026

⁴ <https://consult.treasury.gov.au/c2025-673169/consultation/view/26>, p.3

Proposal 4: CALI supports revising the treatment of counterfactual loss for CSLR-eligible financial advice complaints

CALI strongly supports Proposal 4 to remove or minimise the counterfactual component of any CSLR compensation. This removes the uncertainty in relation to hypothetical gains and aligns more closely with the intent of the scheme being genuinely last resort and aligns with CALI's previous submission⁵.

Incorporating hypothetical gains may be appropriate for entities directly responsible for misconduct as per AFCA determinations (paragraph 30 of the options paper), but not so in circumstances where the last resort compensation scheme is funded by those with little involvement in the misconduct. We consider that the sustainability of the CSLR should be given priority for this reason, and therefore, that compensation should be limited to capital losses. This is consistent with the principle of the scheme being a mechanism of genuine last resort.

Recommendation three

Eligible compensation should be limited to actual losses, and hypothetical capital gains ought to be excluded from being compensable under the CSLR, making the scheme genuinely last resort.

Proposal 5: The "Waterfall" framework spreads the CSLR levy across the broader financial services sector

CALI welcomes a rules-based special levy 'waterfall' framework to respond to investment-related losses arising from personal financial advice misconduct where costs exceed the annual sub-sector levy. We support the framework because it provides the basis for spreading the CSLR levy across the broader financial sector rather than saddling advisers with an unfair, unpredictable de facto business tax.

We consider the Waterfall framework could be further adjusted to consider the sustainability of different sub-sectors.

For example, the financial advice sub-sector is in Tier 1 of the waterfall and will need to pay an annual levy and a special levy where the CSLR costs exceed the annual levies collected. However, the sub-sector has seen a steady decline in numbers over the years from a peak of approximately 28,000 to 15,475 in 2024⁶. Critically, the number for advisers that specialise in life insurance is only at 185⁷.

⁵ <https://consult.treasury.gov.au/c2025-673169/consultation/view/26>, p.3

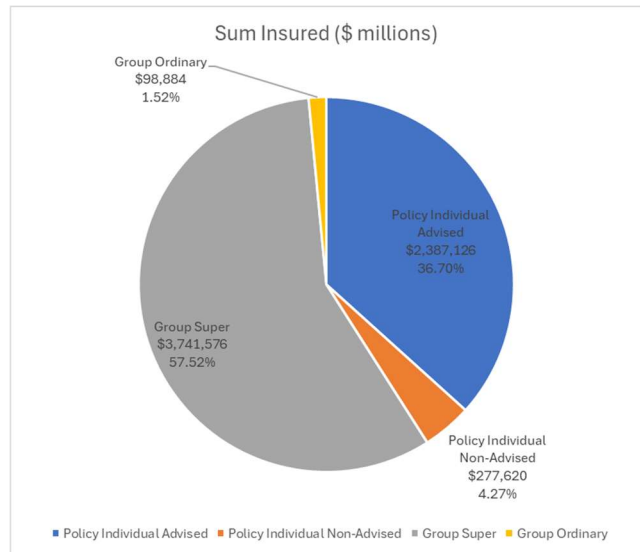
⁶ 67th Annual Australian Financial Advice Landscape Report – 2025, Adviser Ratings, Page 29.

⁷ 67th Annual Australian Financial Advice Landscape Report – 2025, Adviser Ratings, page 130

Advisers that recommend life cover is systemically significant as they have given advice that covers over 36% of sums insured according to APRA data⁸ (see chart), but the number of life insurance specialists is now critically low.

Moreover, life insurance advisers provide advice in relation to products that are APRA regulated with a strong capital framework. Life insurance advice does not involve the transfer of accumulated savings, assets or wealth and accordingly represents a negligible risk of incurring CSLR claims.

Finally, AFCA data confirms that advice on life insurance represents an incredibly low proportion of disputes. According to the AFCA Annual Review 2024-25, there were 100,745 complaints in that year. Of those, 1,074 complaints related to life insurance (excluding Aboriginal Community Benefit Fund). Only 6 complaints were connected to advice, which were 0.006% of complaints.



Recommendation four

The “Waterfall” framework could be adjusted for the following:

- Sub-sectors with sustainability challenges such as life insurance advisers could benefit from relief from the special levies.
- We caution a one size fits all approach to special levies and urge greater transparency prior to finalising a special levy following each significant loss event.

Reducing the administrative costs of ASIC, AFCA and the CSLR operator

Fees from AFCA, the CSLR Operator and ASIC represent 20% of the CSLR Levy for the FY2026 period. A strong focus on managing costs should be a key performance metric for the CSLR operator and AFCA as this would enhance the sustainability of the CSLR for the benefit of victims.

CSLR operations should give paramount priority to maximising returns to victims of misconduct through fiscal discipline and efficient operations.

⁸ Statistics Life insurance claims and disputes data, December 2025, APRA.

Recommendation five

CALI recommends a review of all fees payable by the CSLR. The review could consider a fee cap and efficiency measures by relevant stakeholders, with the objective to prioritise CSLR funds for victims.