CALI Council of Australian Life Insurers

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8 October 2026

Mr Andre Moore
Assistant Secretary
Advice, Investments and Redress Branch
Financial System Division
Langton Crescent
PARKES ACT 2600

By e-mail: CSLR@treasury.gov.au

Dear Mr Moore

Compensation Scheme of Last Resort (CSLR) 2026-27 Special Levy – CALI response to consultation questions

CALI is pleased to respond to the Treasury Consultation in relation to the CSLR 2026-27 Special Levy.

We acknowledge the extensive consultation undertaken by Treasury and the Government on this complex policy matter. The process has involved a broad range of stakeholders, and we appreciate the resulting position reflects the comprehensive process undertaken.

The concerns raised here have been addressed broadly in our previous submissions, although we have included additional observations regarding transparency. CALI nevertheless supports the rationale for the CSLR as an industry-funded scheme of last resort that provides compensation for unpaid AFCA determinations and, in doing so, supports confidence in Australia's financial dispute resolution framework.

There are four consultation questions in relation to the 2026-27 Special Levy. Our responses to each of the questions are set out in the attachment below.

Recommendations

- CALI considers that routine use of special levies as a funding mechanism for the CSLR should be avoided. However, CALI supports the rules-based 'waterfall' framework as a mechanism for responding to significant customer losses from personal advice misconduct.
- ASIC, AFCA and CSLR operating costs should continue to be reviewed, with opportunities to reduce costs and improve the efficiency of the scheme identified and implemented.
- To improve transparency, Treasury should publish examples of how aggregate special levies would be allocated across each sub-sector and how the resulting levy would be apportioned among entities within each sub-sector.
- CALI welcomes the reduction in the cap for the personal advice sub-sector. However, the viability and ongoing sustainability of the advice sub-sector should be closely monitored, particularly given the potential for CSLR costs to affect the affordability and availability of financial advice.

Please contact Li Chang (Associate Director, Policy) at li.chang@cali.org.au if you require further information about any matters raised in this submission.

This submission is made on a non-confidential basis.

Yours sincerely



Luke Hyde
General Manager, Policy
Council of Australian Life Insurers

About the Council of Australian Life Insurers (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

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Compensation Scheme of Last Resort (CSLR) 2026-27 Special Levy – CALI response to consultation questions

Recommendations

1. CALI considers that routine use of special levies as a funding mechanism for the CSLR should be avoided. However, CALI supports the rules-based 'waterfall' framework as a mechanism for responding to significant customer losses.
2. ASIC, AFCA and CSLR operating costs should continue to be reviewed, with opportunities to reduce costs and improve the efficiency of the scheme identified and implemented.
3. To improve transparency, Treasury should publish examples of how aggregate special levies would be allocated across each sub-sector and how the resulting levy would be apportioned among entities within each sub-sector.
4. CALI welcomes the reduction is the cap for the personal advice sub-sector. However, the viability and ongoing sustainability of the advice sub-sector should be closely monitored, particularly given the potential for CSLR costs to affect the affordability and availability of financial advice.

Detailed response

1. Do you agree with the approach to identifying connection as outlined above? If not what other factors should be considered?

CALI considers that routine use of special levies as a funding mechanism for the CSLR should be avoided. However, CALI supports the rules-based 'waterfall' framework as a mechanism for responding to significant customer losses.

CALI remains concerned about the routine use of special levies as a funding mechanism for the CSLR. Special levies are inherently unpredictable, undermine industry confidence and effectively introduce a de-facto tax on business that have little or no connection to the underlying misconduct.

The special levy provisions were intended to operate as an exceptional measure rather than a recurring source of revenue. However, levy shortfalls have continued to arise and increase, from $47.3M in 2025-26[1], to the revised $170.3M in 2026-27, the latter of which only includes the first tranche of the costs associated with Shield and First Guardian. CALI is concerned that the increasing reliance on special levies risks departing from their original intent as an exceptional funding mechanism.

CALI welcomes the proposed rules-based 'waterfall' framework to respond to customer losses where costs exceed the annual sub-sector levy. We support the practical application of the waterfall framework to include the definition of "connection" and the approach to mapping connections between the misconduct and other financial sectors.

We supported 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. At the same time, the framework should not be regarded as a substitute for addressing the underlying drivers of CSLR costs or as establishing special levies as a routine source of CSLR funding.

CALI considers that the application of the waterfall should sit alongside continued efforts to prevent misconduct, maximise recoveries from parties responsible for losses and reduce the costs of administering the scheme.

2. Does the proposed methodology for mapping connection appropriately identify subsectors connected to the underlying losses in FY2026–27?

ASIC, AFCA and CSLR operating costs should continue to be reviewed, with opportunities to reduce costs and improve the efficiency of the scheme identified and implemented.

CALI generally supports the proposed approach to mapping connection and considers that it provides a reasonable basis for identifying the sub-sectors connected to the underlying losses. However, the methodology for allocating the resulting special levy does not address our broader concern regarding the high cost of administering the scheme.

Efficiency of CSLR administration should be given priority to maximise returns to victims of misconduct through fiscal discipline and efficient operations.

In this context, we note the AFCA fees of $22.8M, the CSLR operating costs of $7M and the ASIC costs of $1.2M. CALI considers that these costs warrant

[1] https://www.asic.gov.au/about-asic/dealing-with-asic/compensation-scheme-of-last-resort/cslr-special-levy

ongoing scrutiny, with a focus on improving efficiency and identifying opportunities to reduce the overall cost of administering the scheme.

3. **Do stakeholders consider that the application of the prescribed entity metrics gives rise to material adverse outcomes within any sub-sector?**

> To improve transparency, Treasury should publish examples of how an aggregate special levies would be allocated across each sub-sector and how the resulting levy would be apportioned among entities within each sub-sector

The insurance product providers sub-sector sits within the Tier 3 retail-facing sub-sector and has been allocated an approximate special levy of $12.969 million. This is a significant amount, particularly given the life insurance industry is prudentially regulated and has limited exposure to the types of misconduct that have driven the current CSLR costs. The costs of the special levy will ultimately be borne by insurers and customers.

The Treasury paper does not provide a sufficiently transparent or replicable formula showing how the ASIC regulatory effort metric results in the Table 2 amount for each sub-sector. Greater transparency is needed to enable stakeholders to understand and assess the basis for the allocation of special levies across each sub-sector. Doing so will also provide confidence that the allocation of cost is proportionate, predictable and consistently applied across sub-sectors.

Given the substantial costs involved, and the fact that many entities operate across more than one sub-sector, it would also be useful for Treasury to provide greater clarity on how entities can calculate the amount that they will individually pay once the sub-sector allocations are announced.

4. **Is the viability or sustainability of any sub-sector(s) threatened by the proposed levy allocations in Table 2?**

> CALI welcomes the reduction in the cap for the personal advice sub-sector. However, the viability and ongoing sustainability of the advice sub-sector should be closely monitored, particularly given the potential for CSLR costs to affect the affordability and availability of financial advice.

CALI remains concerned about the sustained decline in the number of financial advisers. According to the Financial Advice Association of Australia (**FAAA**), the number of financial advisers has fallen from a peak of approximately 29,000 in

2018-19 to around 15,000 today[2]. While adviser numbers appear to have stabilised in recent years, there is yet to be a clear recovery in the size of the profession.

Advisers that recommend life cover are systemically significant as they provide advice that covers over 36% of sums insured according to APRA data[3], but the number of life insurance specialists remain critically low with less than 200 specialising in life insurance.

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.

The decline in the number of advisers highlights the importance of ensuring that regulatory and other costs, including CSLR costs, do not place further pressure on the viability of advice businesses or create additional barriers to consumers accessing affordable financial advice, including advice on life insurance and other risk protection products.

Summary and conclusion

CALI continues to be concerned about the routine use of special levies given it departs from the intent of CSLR that special levies are used only in exceptional circumstances. We support the "waterfall" framework as an important mechanism to spread the cost and not place a disproportionate burden on any one sector such as the advice sub-sector. There continues to be a need for a sustainable approach to funding the CSLR.

We propose improvements in the transparency of calculating sub-sector cost allocation and the allocation of levies to individual entities and have suggested worked examples to provide clarity. There is also an ongoing need to ensure greater scrutiny of the cost of CSLR administration to maximise the return for victims of misconduct.

CALI encourages Treasury to continue this work so that it is a genuine scheme of last resort without placing unnecessary pressure on the viability and accessibility of financial advice for risk products.

The sustainability of financial advice is systemically important to the life insurance industry. We welcome the reduction in the cap for the adviser sub-sector and remain concerned to ensure that the sustainability of the advice profession be closely monitored.

[2] FAAA Media. 17 March 2026. Adviser education reforms vital to help close advice gap.
[3] Statistics Life insurance claims and disputes data, December 2025, APRA.