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Beauty in simplicity

An effective approach to
insurance philosophies

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Synopsis and learning outcomes

An insurance philosophy doesn't need to be complex, in fact the simpler the better. In this session we step through the considerations for a simple but effective insurance philosophy any adviser can implement, in as few as two-pages.

This pragmatic approach allows us to meet client expectations, regulatory and ethical standards, and streamline risk advice delivery to drive better outcomes.

Learning outcomes:

1. Identify the elements of an insurance philosophy and how they must be considered
2. Understand how to build an insurance philosophy in simple and effective ways to advise clients
3. Implement approach to enhance the insurance advice process, uplift advice transparency, and facilitate client outcomes.

Agenda

- 01 The value of a philosophy
- 02 What does it include?
- 03 Implementation and positioning
- 04 Strategic risk advice
- 05 Example philosophy
- 06 Use in practice
- 07 Adviser and client outcomes



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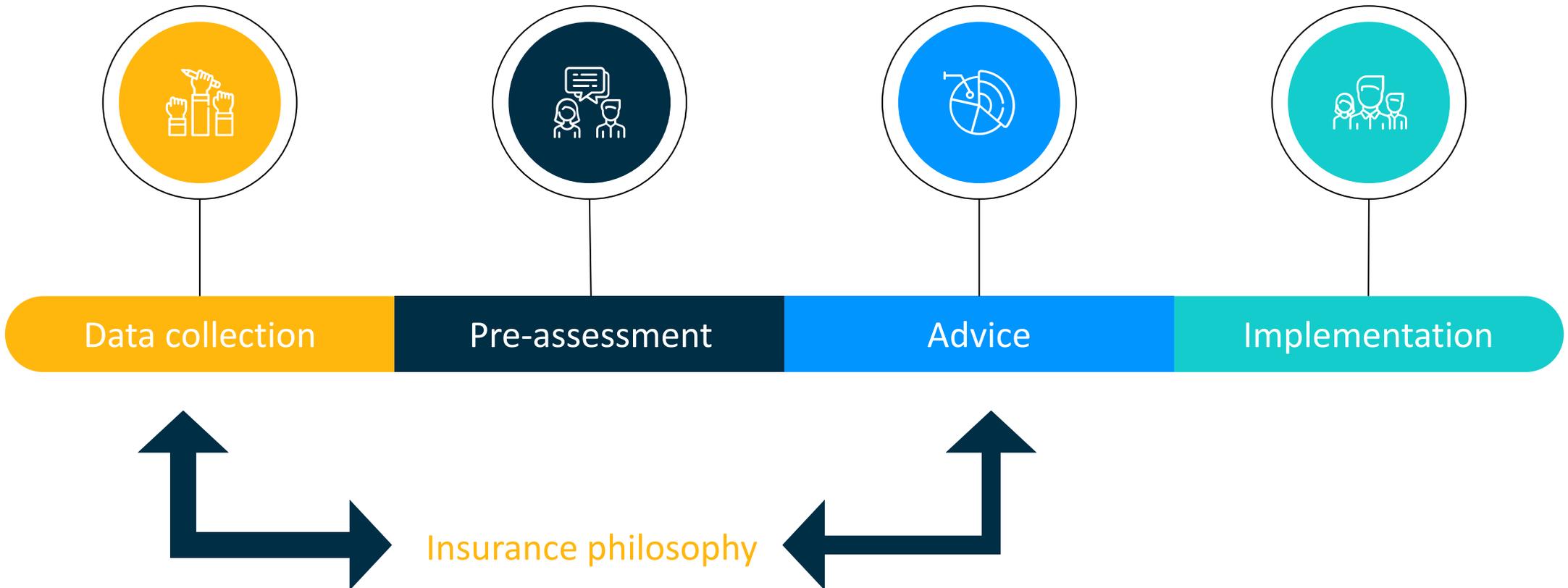
01

The value of a philosophy

The value of an insurance philosophy



Fitting the insurance advice process



Compliance requirements



s961B

Demonstrates best interest by showing clearly how client circumstances turn to outcomes from an objective philosophy

Clearly shows the client any gaps in information and the impact on the end advice.



How does an underlying philosophy help us meet legal standards?



s961G

Demonstrates appropriateness of recommendations through context and personalisation

Demonstrates lack of conflict in advice through non-product lead, transparent recommendations



s961H



s961J

Professional & ethical standards

Standard 9

A philosophy ensures transparency in product recommendations achieving good faith and clarity.

Standard 8

A philosophy ensures sound record-keeping of the justification for the advice.

Standard 6

A philosophy demonstrates trade-offs including impact on other financial objectives.



Standard 2

A standard philosophy ensures consistency and that advice is in the best interest of each client.

Standard 3

A philosophy objectively shows how sums insured were arrived at.

Standard 5

A philosophy shows how sums insured were personalised and demonstrates client understanding of appropriateness.



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Philosophy components

What makes up an insurance philosophy?





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Positioning philosophy

How to position a philosophy



Product/solution agnostic

Not aligned to a specific insurer or product (or product solutions as the only solution)



Not a template

Not a sum insured or structure that is identical for every single client



A central starting point

Provides a starting point for all clients to understand and 'why'



An objective starting point

Provides a sound, objective, data backed position for clients to have advice personalised from



A transparent process

Is clear to see how a client moves through the process



Simple to explain

Gives clarity to how you explain your value proposition to clients, referral partners etc.



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Strategic risk advice

What does it do?

Evolves

Adjusts over time as life changes to align with new risk comfort and financial goals.

Educates

Teaches clients about points of vulnerability, financial consequences and trade-offs.

Risk comfort

An informed decision on risk mitigation to achieve comfort and peace of mind.



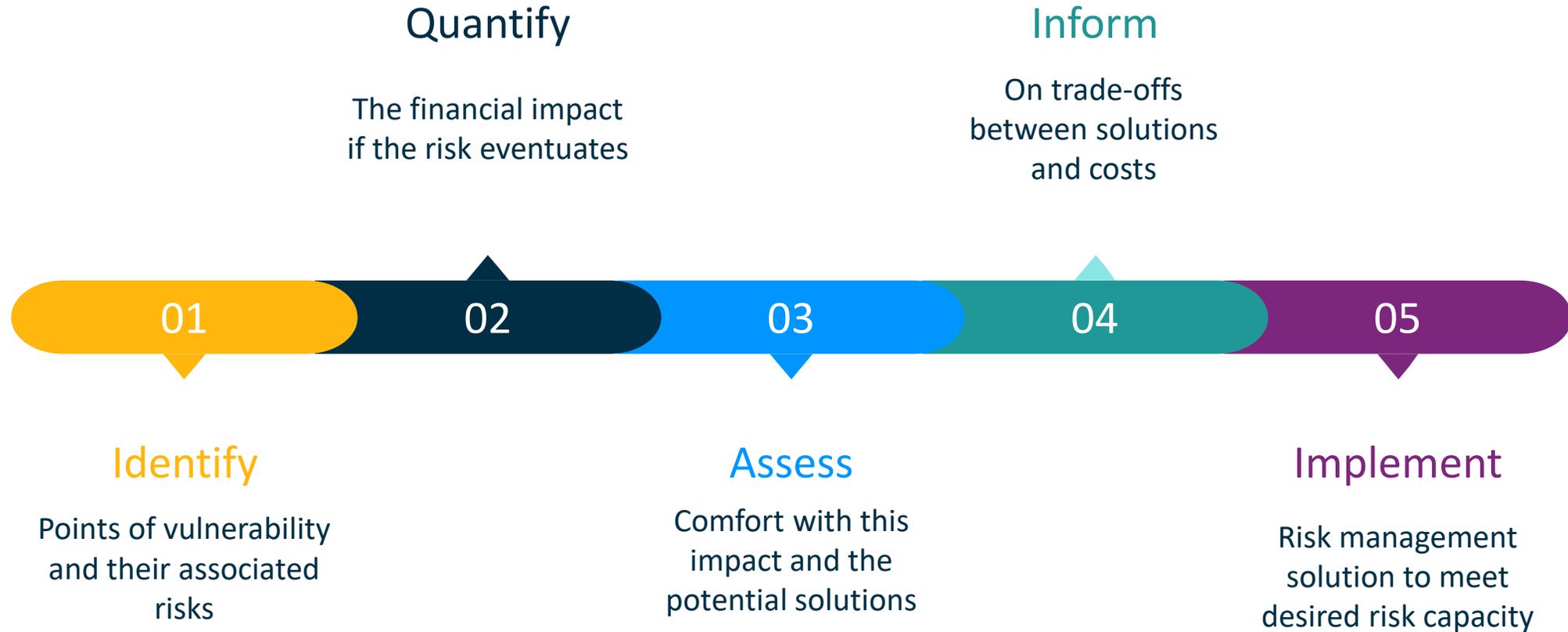
Personalised

Provides an outcome both of amount, mix, self-insurance, product elements & underwriting terms that are unique to the individual.

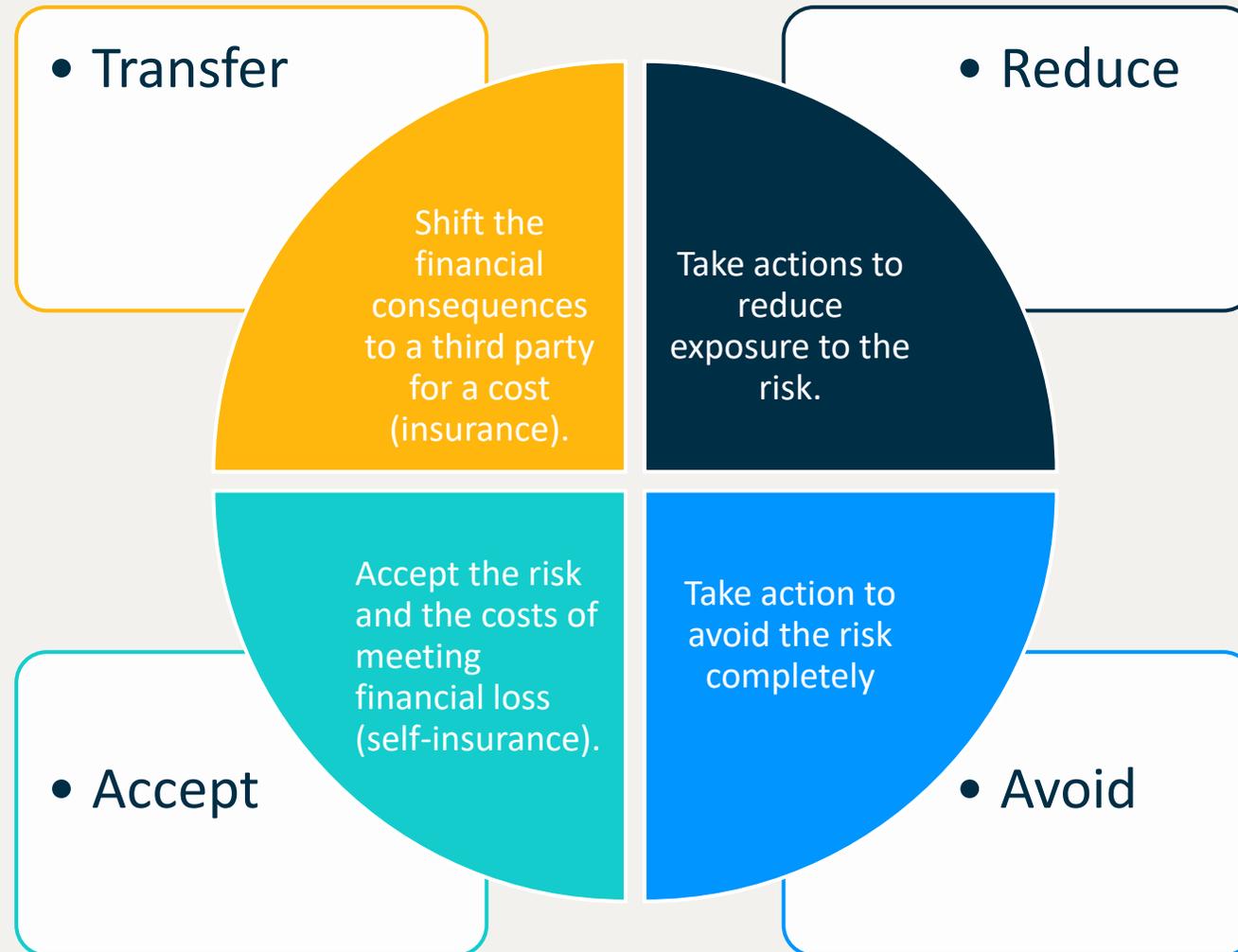
Enhances and protects goals

Protects against risks associated with financial goals without detracting from them (minimum effective dose).

Risk management framework

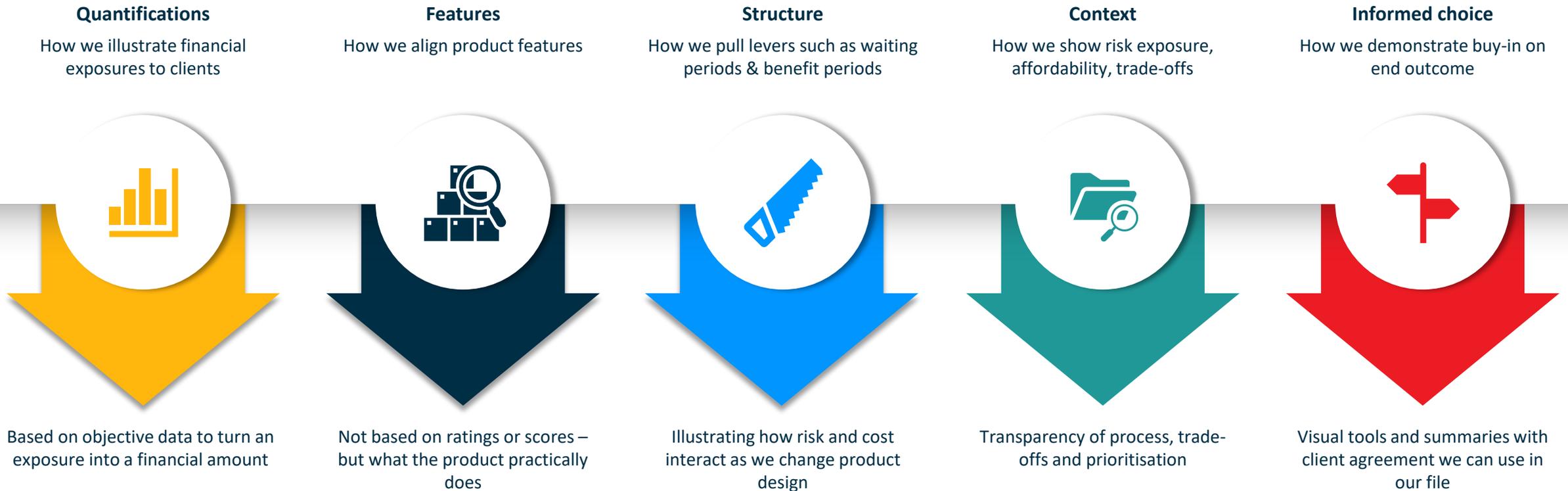


Risk management strategies



Considerations

What should our philosophy consider when contributing value to strategic risk advice?





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Example philosophy

Lump sum

Element	Life	TPD	Trauma	Example Approach	Example Rationale
Debt	Full principal place of residence + any investment debt required as per client's objectives – note up to 50% Investment debt cover possible		12 months debt repayment	Investments may have realisable value and are also usually limited by underwriting coverage.	Client debt/mortgage statement • Underwriting guide (Investments)
Income Requirements	30% of income to age 65, where relevant, to top up 70% income protection		3 months' salary	To compliment approach to income protection replacement, benefit periods and waiting periods to be considered.	• ABS (Living Expenses) • ABS (Cost Indexes) • Money smart • AFSA • Australian Government
Medical Expenses	N/A	\$100k	\$100k	Best estimate of average medical costs for most common conditions.	• Cost of Care v1/v2 • Dept Health & Aged Care • Cancer Council • AIHW
Child Education	Fee replacement for existing education plan	Fee replacement for existing education plan	N/A	Best estimate based on location, duration (primary/secondary/tertiary) and current plan.	• NATSEM • Futurity (Calculator) • AIFS
Estate Costs	\$30k for simple or \$50k for complex	N/A	N/A	Need to cover costs of estate and be flexible to client need.	• Smart Asset • Atwood Marshall Lawyers • Estate Exec
Disability Costs & Modifications	N/A	\$200k	N/A	Best estimate of average cost of a disability for most common requirements.	• NDIS • ABS • Health & Economics Review

Example product features

- Own occupation TPD
- Partial benefits for trauma
- Included buybacks & accidental injury
- Simple health rewards with no ongoing requirements
- 24-month terminal illness definition
- Included child cover + family benefits



Income protection

Element	Example Approach	Example Rationale
Replacement ratio	70% (plus booster where applicable) for entirety of benefit	Meeting lifestyle expenses requires maximum income replacement throughout the benefit period.
Benefit period	5 Years complemented with TPD Own Occupation	Default position managing cost with alignment between product solutions, where data from major insurers (TAL, AIA, MLC Life Insurance) indicates ~90% of claims last for less than 2 years.
Waiting Period	Sick leave + realisable buffer fund of savings	Fit the existing buffers that exist and can fund lifestyle for this period. Prioritise shortest possible due to data indicating (above) majority of claims are short term in nature.
Superannuation	Cover on top of core benefit for duration of benefit	Meet long-term retirement planning objectives regardless of health.

Example product features

- 5 Year own occupation benefit
- Booster for single income households
- Accident option for blue collar employees
- Ability to work during the waiting period
- No replacement ratio step-down on long term claim
- Future insurability to increase sum insured
- Superlink (Or SIS contingent) IP super products



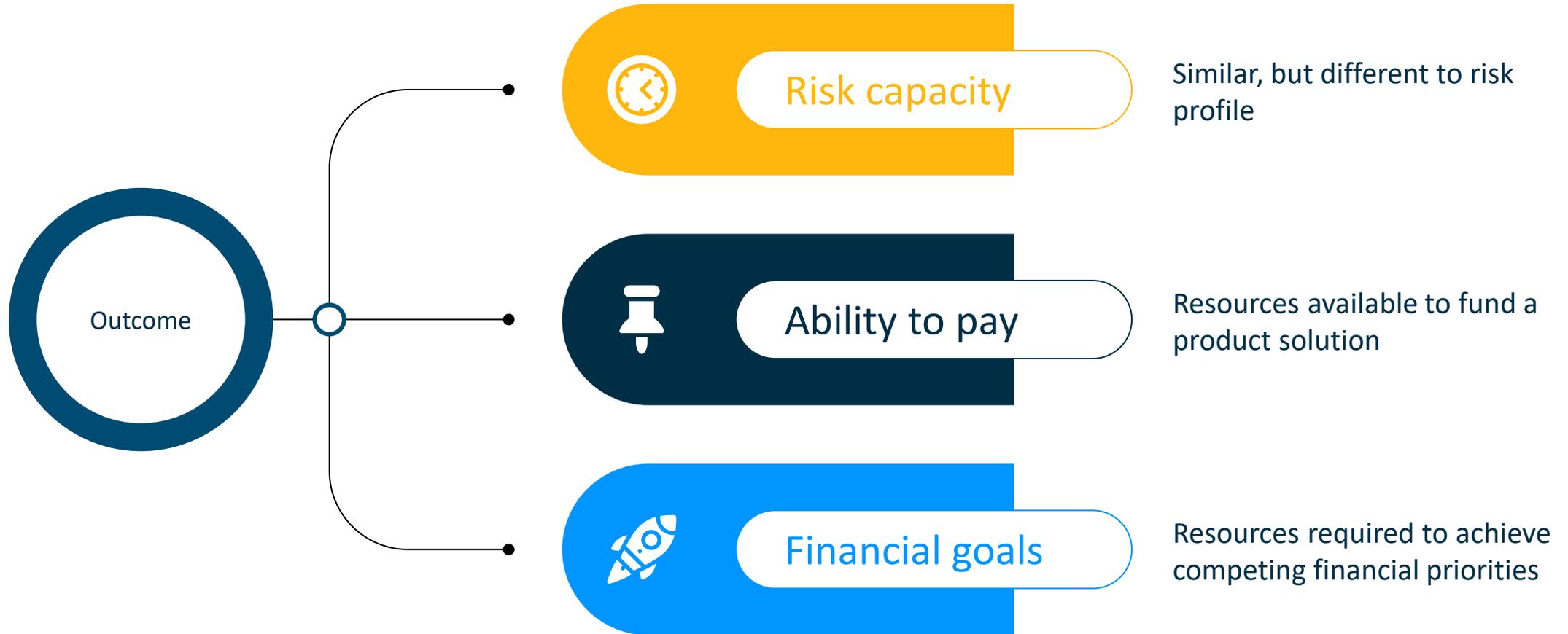


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Putting into practice

Overlaying factors



Client risk capacity

Uncertainty

What level of uncertainty is the individual able to find peace with?

Comfort

How comfortable is the individual with those alternatives, or additional exposures?



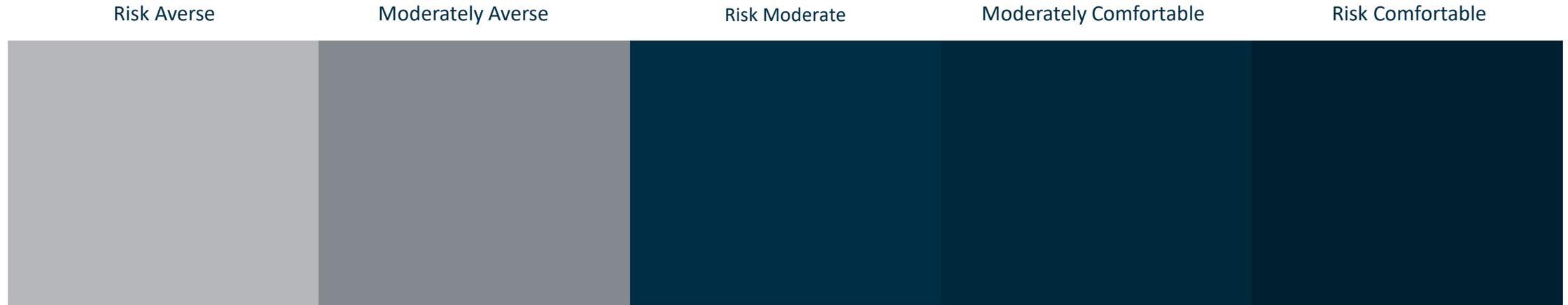
Buffers

What buffers exist that can absorb the impact of personal financial risks?

Alternatives

What self-insurance strategies exist that could be used to fund the impact of personal financial risks?

Diagnosing risk capacity



■ Very Low

■ Low

■ Moderate

■ High

■ Very High

Risk Capacity



Values and needs a greater amount of risk mitigation solutions (insurance)



Values and needs a lower amount of risk mitigation solutions (insurance)

A philosophy is made up of great questions

“

Do you hold any other insurance products? How many?

“

Do you have comprehensive or basic Private Health Insurance?

“

Do you have agreed or market value motor insurance? Which extras do you have?

“

How frequently do you find yourself concerned about money (1 rarely, to 5 often)?

“

Are you uncomfortable (1 not at all, 5 highly uncomfortable) with taking on more debt/your current debt levels?

“

If you needed to access funds how comfortable (1 very comfortable, 5 very uncomfortable) would you be using your existing assets & savings?

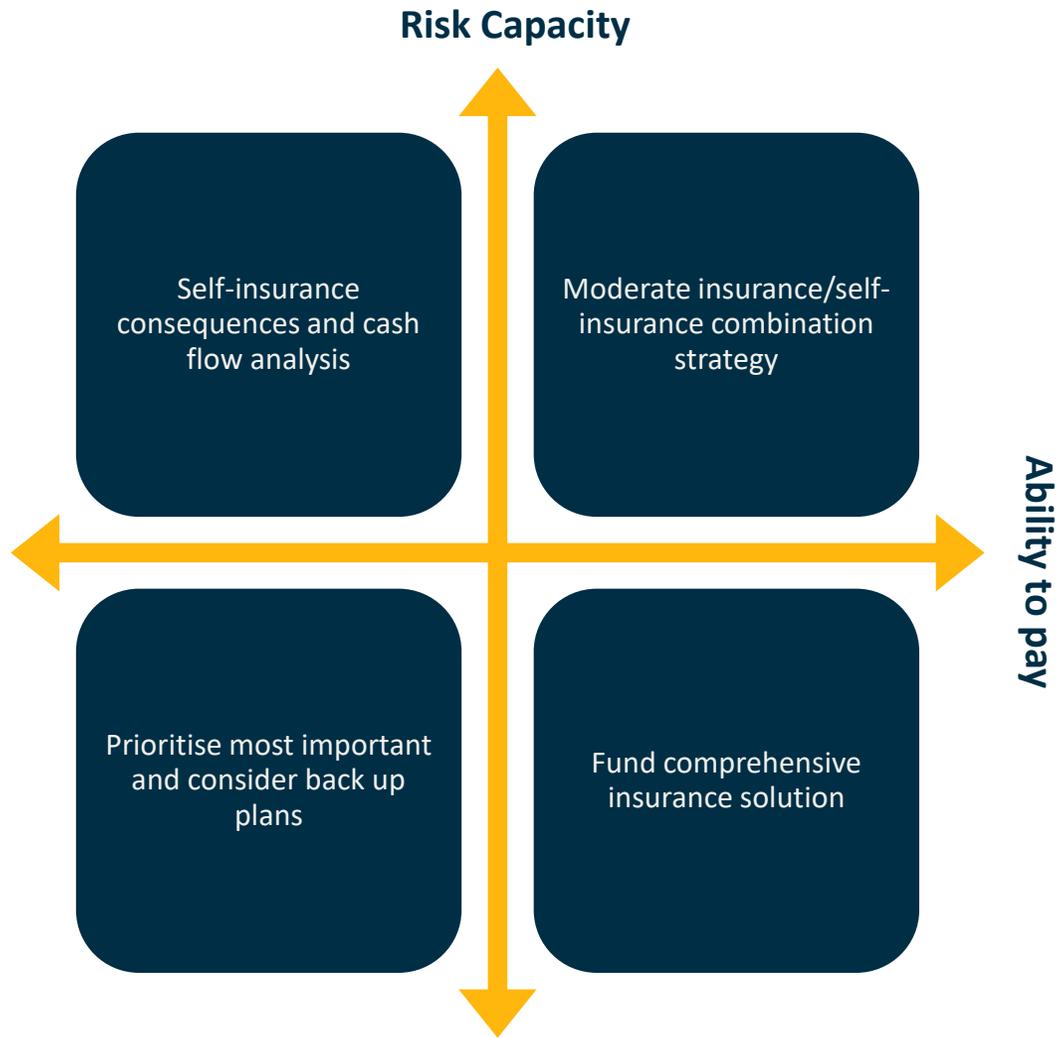
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From 1 (higher) – 5 (lower) how do you normally select your insurance excess?

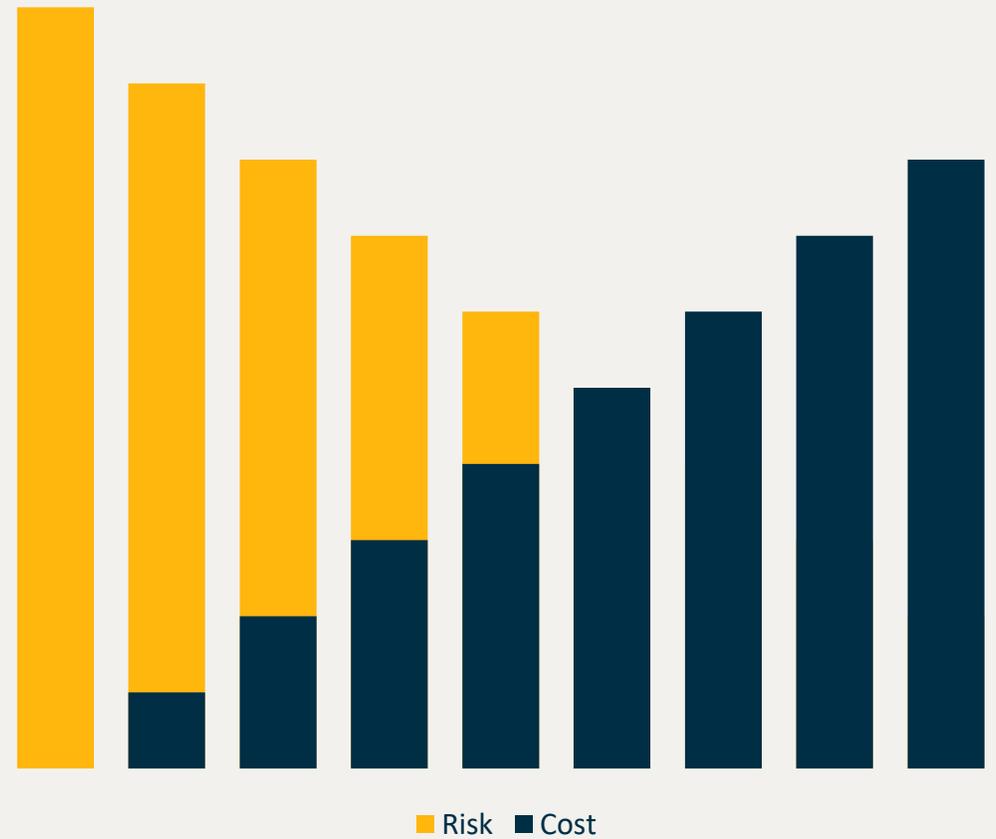
“

Rate how long you would be comfortable living off savings (1 being a year, to 5 less than 30 days)

Ability to pay



The risk/cost relationship



Example: Cash flow analysis vs insurance

Income	\$10k/month
Mortgage	\$5k
Living Expenses	\$3k
Savings	\$500
Investments	\$1k
Surplus	\$500

What strategy fits the client cash flow and priorities?

Option 1: \$700/month

Comprehensive risk transfer sums insured with premier and plus contracts (with options)
Little risk retention



Option 2: \$500/month

Some trade-offs in sum insured and product selection
Modest risk retention.



Option 3: \$250/month

More trade-offs in sum insured and product selection along with design such as waiting period and benefit period
Higher risk retention

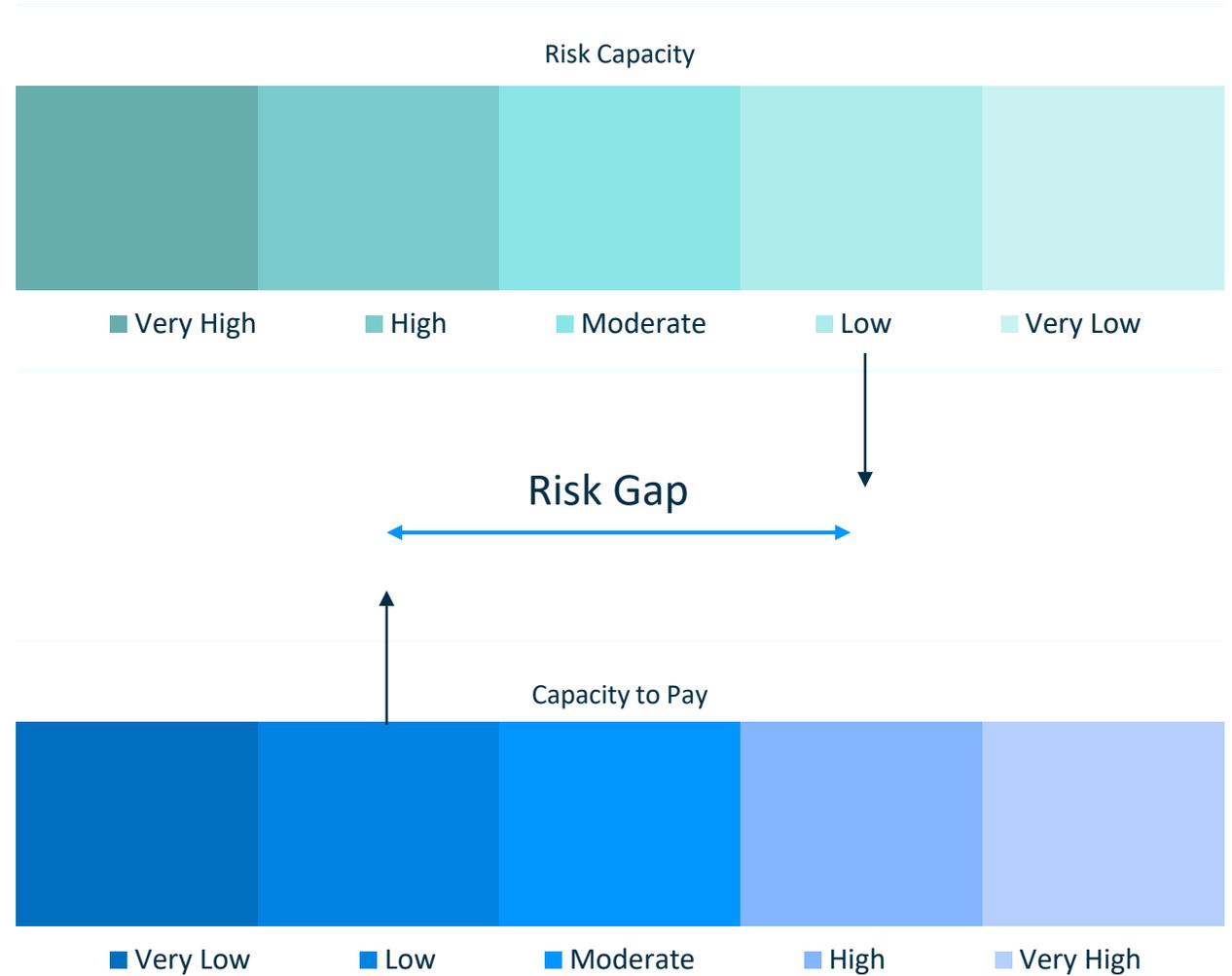


Risk Capacity and Ability to Pay

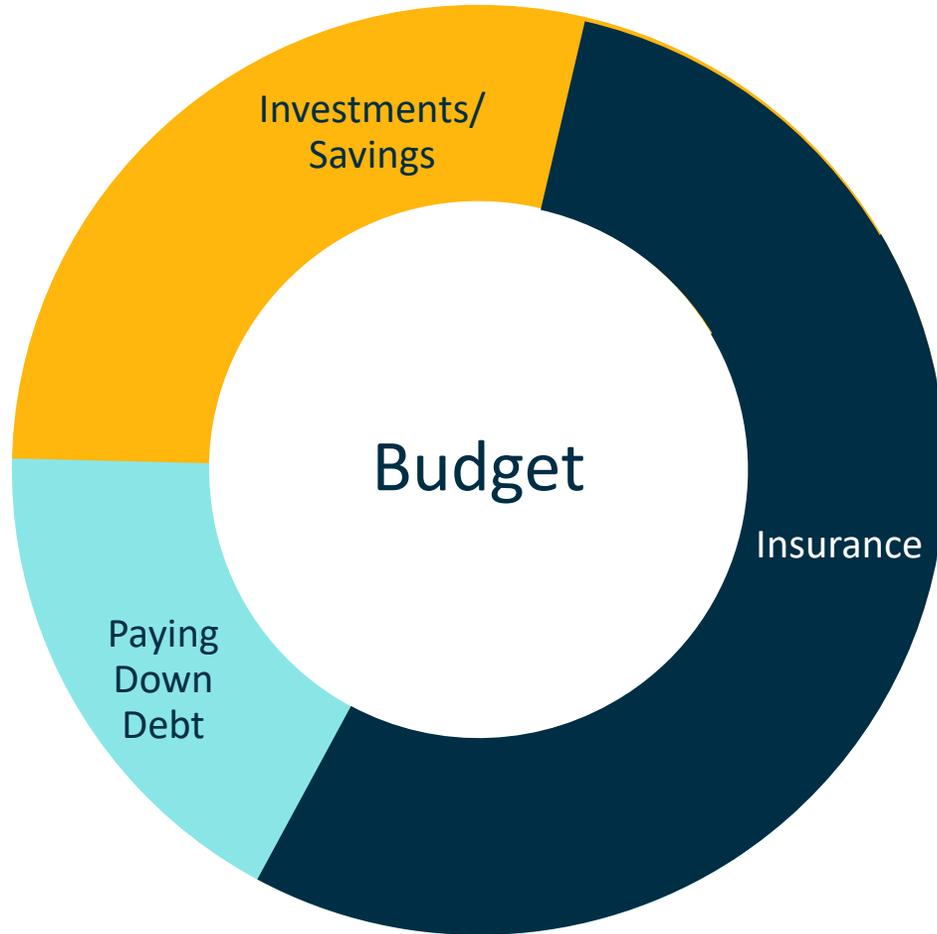
If the ability to pay does not match the capacity to take risk the client must decide to adjust

By increasing ability to pay (prioritising over other objectives to fund protection objective)

Or accepting a higher degree of risk exposure (self insurance) – this is the 'Risk Gap'



Holistic financial goals



Trade-offs & Opportunity Cost

Trade-offs decisions on cost of insurance have consequences in both directions.

The trade-off of purchasing less insurance is retaining more risk exposure – it does not disappear

The trade-off of purchasing more insurance is the opportunity cost that comes with those surplus funds

Objective	Annual Surplus Premium	Opportunity Cost (10 years)
Paying Down Mortgage	\$1,000	\$24,000~
Superannuation Contributions	\$2,000	\$29,000~
Child's Education Funds	\$1,500	\$18,000~

In risk advice, context is critical

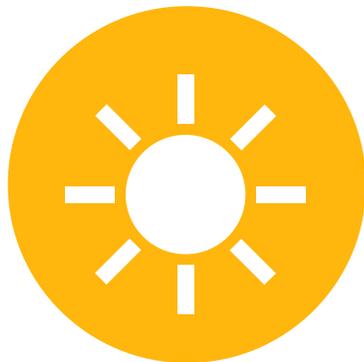
Philosophy: personalisation in action

Client Objective	Total Risk	Risk Insured	Risk Self-Insured	Self-Insurance Strategy
Protect Home (Debt)	\$700k	\$700k	\$0	N/A
Fund disability costs	\$200k	\$100k	\$100k	Basic only, spouse return to work to partially fund
Fund medical expenses	\$50k	\$50k	\$0	N/A
Fund children education	\$200k	\$0k	\$200k	Plan adjustment (public)
Fund short-term income	\$7k/month	Beyond 30 days	First 30 days	Sick leave, cash savings
Fund long-term income	\$7k/month	Up to 5 years	Beyond 5 years	TPD, lifestyle adjustment, asset sale.
Superannuation contributions	\$1k/month	\$0	\$1k	Catch up contributions post return to work



Informed

Decisions on risk management



Transparent

On what risk exposures remain



Personalised

To the priorities of the individual



Repeatable

For each client, based on the same starting point



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In Practice

Our Philosophy

Life		TPD		Trauma		Income Protection		Child Cover	
PPR & Consumer Debt	100%	PPR & Consumer Debt	100%	Medical Expenses	\$50,000	Replacement Ratio	70%	Medical Costs	\$50,000
Investment Debt	50%	Investment Debt	50%	Income (months)	3	Superannuation Gaurantee	Yes	Parent Income (months)	6
Future Income	30%	Disability Costs	\$200,000	Spouse Income (months)	3	Benefit Period	5 Years		
Estate Costs	Tiered Below	Future Income	30%	Savings & Retirement (months)	3	Waiting Period	30 Days		
<i>Simple</i>	\$10,000	Children Education	Yearly Below	Consumer Debt	100%				
<i>Moderate</i>	\$20,000	<i>Public</i>	\$5,000						
<i>Complex</i>	\$50,000	<i>Private</i>	\$15,000						
Children Education	Yearly Below	<i>Catholic</i>	\$10,000						
<i>Public</i>	\$5,000								
<i>Private</i>	\$15,000								
<i>Catholic</i>	\$10,000								
PPR & Consumer Debt	100%								

What is our Insurance Philosophy?

Our philosophy on insurance is based on real world client experience coupled with research from respected data sources to develop a starting point for the key objectives our clients need to protect to strive towards their financial goals. By considering practical data and overlaying a personalised approach we are able take our research and reach a tailored outcome that suits our clients individual preferences and goals. Our philosophy is a starting point from which we work with you to first overlay your individual details on the next page, and then work through an appropriate solution to meet your financial goals in your risk mitigation plan.

Your Details

Age	40				
Annual Income	\$100,000				
Does your employer contribute superannuation?	Yes				
Spouse Age	38				
Spouse Income	\$100,000				
Home Mortgage	\$700,000				
Investment Debt	\$500,000				
Other Debt (Credit Cards, Car Loans, etc.)	\$20,000				
Level of Estate & Final Expenses Complexity	Moderate				
Children	1	2	3	4	5
Age	2	5	N/A	N/A	N/A
Education Intention	Private	Private			

Risk Mitigation Plan

Lump Sum						Income Protection (Monthly)				
Life Cover	Exposure	Risk Insured	Amount	Risk Retained	Retention Strategy	Element	Exposure	Risk Insured	Risk Retained	Retention Strategy
Debt	\$1,220,000	50%	\$610,000	\$610,000		Income Level	\$8,333	\$8,333	\$0	
Future Income	\$960,909	50%	\$480,454	\$480,454		Superannuation Guarantee	\$1,000	\$1,000	\$0	
Estate Costs	\$20,000	100%	\$20,000	\$0		Benefit Period	25	5 Years	Beyond 5 Years	
Children Education	\$435,000	50%	\$217,500	\$217,500		Waiting Period	\$8,333	30 Days	First 30 Days	
Total	\$2,635,909	Insured:	\$1,327,954	\$1,307,954						
TPD Cover	Exposure	Risk Insured	Amount	Risk Retained	Retention Strategy					
Debt	\$1,220,000	100%	\$1,220,000	\$0		End Outcome				
Disability Costs	\$200,000	80%	\$160,000	\$40,000						
Future Income	\$960,909	50%	\$480,454	\$480,454			Product	Sum Insured	Risk Retention Level	
Children Education	\$435,000	50%	\$217,500	\$217,500			Life	\$1,327,954	50%	
Total	\$2,815,909	Insured:	\$2,077,954	\$737,954			TPD	\$2,077,954	26%	
Trauma Cover	Exposure	Risk Insured	Amount	Risk Retained	Retention Strategy		Trauma	\$98,000	20%	
Medical Expenses	\$50,000	100%	\$50,000	\$0			Child Trauma (Total)	\$300,000	0%	
Income	\$25,000	50%	\$12,500	\$12,500			Income Protection	\$8,333	0%	
Spouse Income	\$25,000	50%	\$12,500	\$12,500			Benefit Period	5 Years	Moderate	
Consumer Debt	\$20,000	100%	\$20,000	\$0			Waiting Period	30 Days	Very Low	
Savings & Retirement	\$3,000	100%	\$3,000	\$0			Superannuation	\$1,000	0%	
Total	\$123,000	Insured:	\$98,000	\$25,000						
Child Cover	Exposure	Risk Insured	Amount	Risk Retained	Retention Strategy					
1	\$150,000	100%	\$150,000	\$0						
2	\$150,000	100%	\$150,000	\$0						
3	\$0		\$0	\$0						
4	\$0		\$0	\$0						
5	\$0		\$0	\$0						

Supporting Information to drive Philosophy Outcome

Claim time strategies should also be overlayed at advice point – for each element of the quantification



Philosophy Research

- Quantifications
- Data
- Rationale



Client analysis

- Behaviorial Analysis
- Cash Flow Analysis
- Financial Priorities & Trade-Offs



Preferred Partners

- Who do we work with and why?
- Remove your value from being tied to price
- Claims, capital adequacy, service, technology, stability, history, support & relationships are all gradable and relevant



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Adviser and client outcomes

Insurance philosophy outcome: client

Plan

For both insured and non-insured risk, giving financial clarity and peace of mind.



Comfortable

With the level of risk transferred and the risk management decisions.



Goals

Are both protected and facilitated through the right mix.

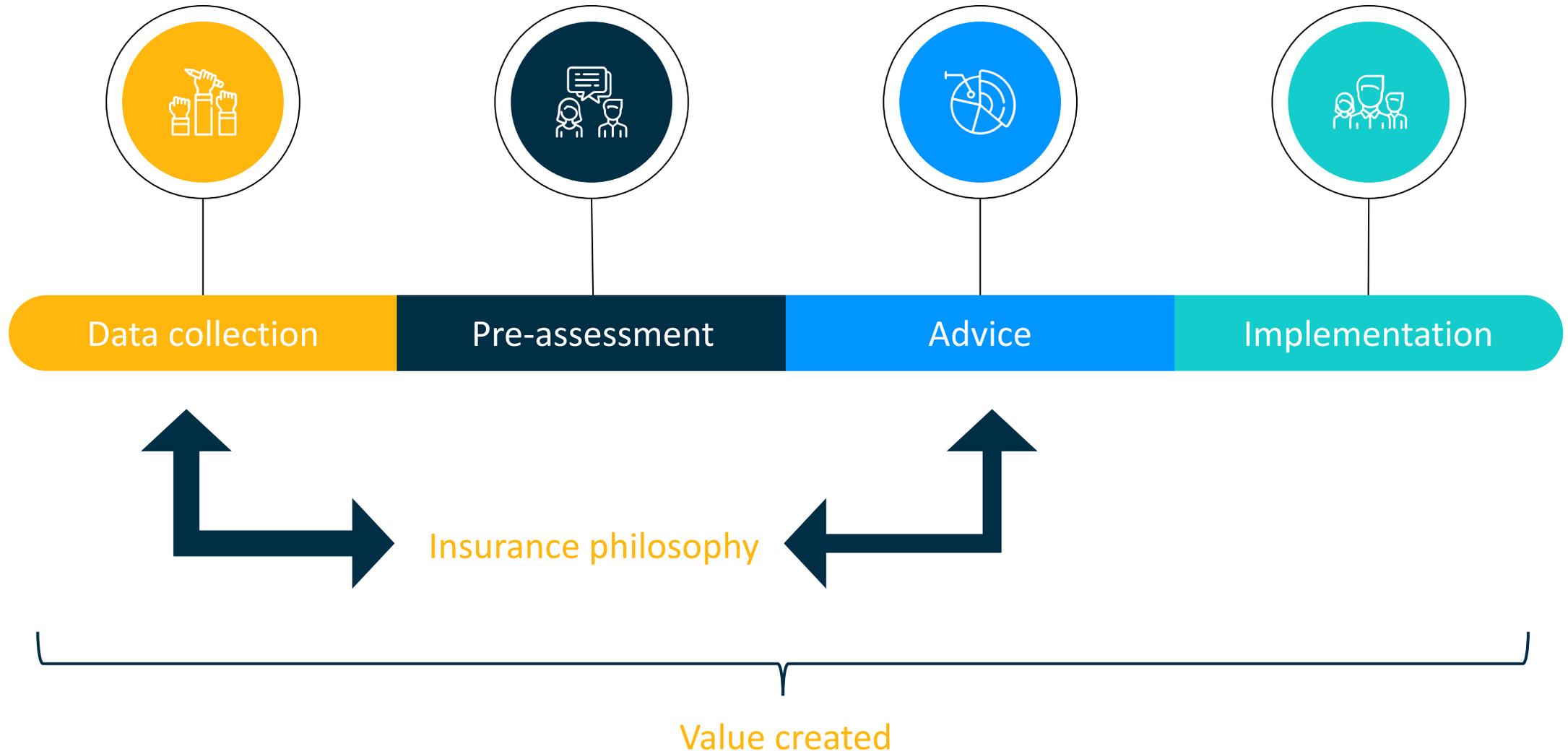
Simple

Not overawed by product decisions and what to insure, clear understanding achieved.

Confident

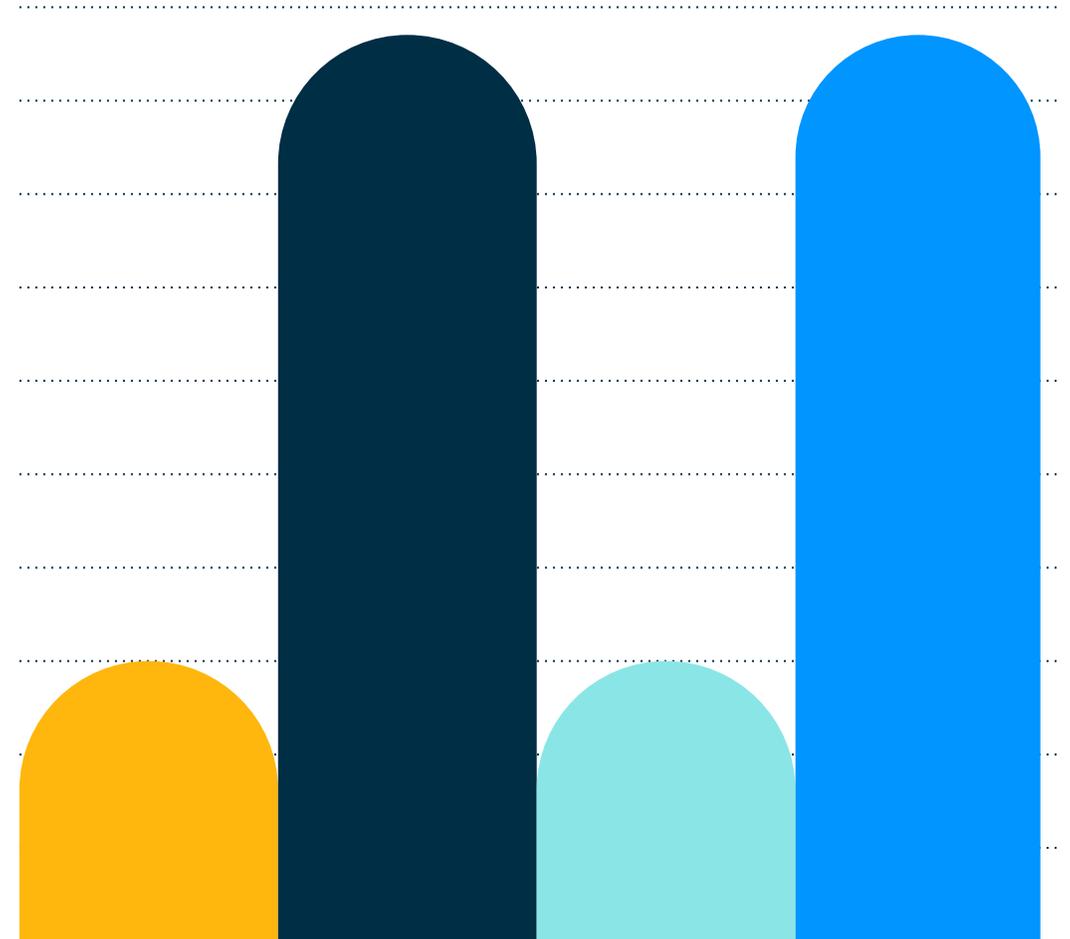
On affordability and long-term sustainability of plan.

Fitting the insurance advice process



Insurance philosophy outcome: adviser

- Time** Less time to take captured client data and turn it into a client proposal
- Consistency** Advice that is consistent in approach from client to client and staff member to staff member
- Regulatory** Simplified compliance and reduced regulatory costs/remediation
- Clients** Happy clients, education of referral partners = more conversion and more referrals





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Summary

Summary: Beauty in Simplicity

Simple

Not war and peace, but basic and concise as a building block for advice.

Effective

Justifies our starting point, and path to end point, in a repeatable way.

Efficient

Reduces time and eliminates potential derailing of the advice construction process.

Enhances

Our ability to give more risk advice, to more clients.

Satisfied

Clients, advisers, and referral partners leading to more business opportunities.

Resources and next steps

Head to our ethics
hub at
www.acenda.com.au/ethics-cpd

Further information

Reach out to your BDM for a copy of materials. CPD will be available via your licensee or in our Zoom education hub.

Partner education sessions

Catch up on past webinars or register for future PD sessions.



Upcoming session

Playing in Different Pools: Advising Across Individual and Group Insurance

Technical support

Connect on LinkedIn for live technical Q&A or reach out via BDM for case-by-case support.

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