

6 March 2026

Senator Deborah O'Neill  
Chair  
Parliamentary Joint Standing Committee on Corporations and Financial Services

Email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

Dear Senator O'Neill,

### **Consultation – Inquiry on Small Business Insurance**

The Financial Advice Association of Australia<sup>1</sup> (FAAA) welcomes the opportunity to provide input into the Parliamentary Joint Standing Committee on Corporations and Financial Services inquiry into small business insurance.

Whilst some of our members provide advice on life insurance products, few will provide advice on general insurance products. We are responding to this inquiry predominantly through the lens of our members being small business consumers of general insurance products.

The financial advice profession is predominantly small businesses that are located in cities, suburbs and towns across Australia, and will therefore be subject to specific insurance market factors impacting the location that they belong to. This means that a number of financial advice businesses will be subject to greater property risks as a result of exposure to bushfires, flooding or cyclones. Financial advisers will most likely live in the same area that their office exists, and therefore their homes and their offices are likely to be impacted by these same extreme weather events. Increased exposure to extreme weather events will impact the availability and cost of property insurance cover and business interruption insurance. It is not likely to impact professional indemnity or cyber insurance premiums in the same way.

Something that is somewhat unique to financial advisers is that they all need to be authorised by an Australian Financial Services Licensee (AFSL). A number of financial advice practices can be licensed by the one AFSL, and typically they will operate as small businesses under that licensee, which is a separate legal entity. In a number of cases, the financial advice practice may be self-licensed. It is mandatory for all AFSLs to hold professional indemnity insurance (PII), and in the vast majority of cases, it will be the advisers who ultimately pay for the cost of this PII. The most significant driver of PII premiums is client complaints about the quality of financial advice that they have received. The cost of this PII will depend upon the business model that the AFSL operates and their previous experience with client complaints. PII is a very material cost for financial advice businesses, however the cost can vary significantly based upon a range of market factors. Supply of

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<sup>1</sup> The Financial Advice Association of Australia (FAAA) is the largest association representing the financial advice profession in Australia, with over 10,000 members. It was formed in 2023 following the merger of the two leading financial planning/advice bodies in Australia – the Financial Planning Association (FPA) and the Association of Financial Advisers (AFA). With this merger, a united professional association that advocates for the interests of financial advisers and their clients across the country was created.

insurance cover is very important and this product has a level of reliance on Lloyd's syndicates. This market can be cyclical as insurers seek to exit in tough times and return in better times. One key issue in this market is the emerging expectation that an adviser leaving a licensee will need to pay for run-off cover for a period of time after their departure. We are not certain about the need for this cover and are concerned that where licensees are charging for this cover it may not actually be being purchased. The FAAA has recently done a submission to Treasury on [enhancing the effectiveness of professional indemnity insurance](#). The focus of this consultation was with respect to how PII can reduce the impact of client claims on the Compensation Scheme of Last Resort.

Financial advice practices are typically small offices that contain workstations for financial advisers and their staff to operate from, along with meeting rooms for them to meet with clients. In the majority of cases, for businesses outside areas impacted by extreme weather events, access to property insurance, which often includes public liability, is not difficult nor overly expensive.

Cyber insurance is a relatively new area of insurance that has rapidly become increasingly important. Cyber insurance is typically mandated by the licensee. Financial advisers operate businesses that hold a significant amount of sensitive client data and process transactions on behalf of clients where there is a meaningful risk of cyber crime. There is a limited number of providers of this cover and claims experience is relatively limited. It is expected that this type of insurance will grow in importance over coming years.

### **Accessing insurance through a broker**

Most financial advisers will access their insurance through a general insurance broker. This is particularly important in the case of PII where there are mandated levels of cover and policy terms. Access to the advice of a broker is also important when dealing with PII claims. In our view, access to brokers is not a current issue and geography is not a major factor with access, since insurance can be arranged remotely.

### **FAAA submission to Treasury consultation on the effectiveness of professional indemnity insurance**

As noted above, the FAAA recently did a submission in response to the Treasury consultation on enhancing the effectiveness of PII. This review has been undertaken in the context of a substantial blow-out in the cost of the Compensation Scheme of Last Resort (CSLR) and consideration of changes to the PII product to make the CSLR more sustainable. In our view, PII is the most critical form of insurance for financial advice practices, and it is also where the majority of issues are. We believe that our key recommendations with respect to that Treasury consultation are relevant to this Inquiry and we have therefore repeated them below.

### ***PII has to work across the financial services value chain.***

- MISs need to play a much greater role in ensuring that clients can be compensated when they are the subject of misconduct and experience loss as a result of product failure.
- The AFCA rule (C1.5) that excludes complaints about the management of a scheme or fund as a whole needs to be removed, to better empower clients to make complaints and benefit from PII covered held by MISs and super funds.

- There needs to be a better solution for other responsible parties to contribute to the compensation of clients, including research houses, auditors and others.

#### ***Improved PII data.***

- We call for the publication of data on the role that PII has played with respect to failed firms that have been the subject of CSLR payments. We believe that information on PII claims made, accepted and rejected, along with reasons, is vital to inform appropriate actions.
- We recommend that APRA collect and publish data on premiums paid, claims made (number and dollar amount), claims rejected, reasons for rejection and the profitability of the financial advice PII market.
- When undertaking reviews on the adequacy of PII cover (as we propose below), we recommend that ASIC collect and consider data on the licensees' approach to the allocation of premiums to authorised representatives and their policy with respect to run-off cover for advisers leaving the licensee. We recommend consideration of disclosure obligations for licensees and restrictions on the ability to charge for run-off cover.

#### ***Monitoring adequacy of PII.***

- We recommend that ASIC should use financial reporting information and the AFSL audit exercise to identify and investigate cases where the level of PII cover is significantly less than the requirements in ASIC Regulatory Guide 126.
- We recommend that ASIC provide guidance to AFSL auditors on the review of PII cover and that they undertake some level of random checking of the adequacy of AFSL audits.
- ASIC should undertake a risk-based investigation of the adequacy of PII cover for a sample of licensees that demonstrate warning signs, such as higher levels of client complaints.
- ASIC should actively review PII as part of advice AFSL surveillance exercises that they undertake for other reasons.

#### ***Better enabling PII to be effective for entities in liquidation.***

- We recommend that the Government fund the establishment of a "Friend of the CSLR" to take over from liquidators in the management and pursuit of PII claims and other recoveries for firms that are in liquidation. All of the rights of the liquidator should be assigned to them.
- We recommend reforms to ensure that PII cover cannot be cancelled by the insurer when a financial advice licensee is placed into liquidation.
- We recommend a means be found to force parent entities that place an advice subsidiary into liquidation to retain and pay for PII cover for the period whilst the licensee remains a member of AFCA.

### **FAAA Feedback on Terms of Reference**

#### ***1. Access to insurance coverage which meets contemporary business needs, including public liability, professional indemnity, cyber threats, and business interruption.***

In our view, there are no fundamental issues with the availability of insurance or the suitability of existing products in meeting the insurance needs of the financial advice profession with respect to

most product lines. We have a different view with respect to the PII product, which we have set out in detail above.

**2. *The affordability and availability of these insurance products across different regions and sectors, including regional and remote Australia and high-risk industries.***

PII presents a set of challenges, including elevated levels of cost and issues with availability during hard markets. Property lines present other challenges, particularly in parts of Australia that are subject to extreme weather events. This exposure to extreme weather events will impact a small percentage of our members, however it could have a material impact upon them when something major happens. Whilst client complaints are an important determinant of PII claims, and can be much higher at certain points in the economic cycle or be influenced by major financial product failures, we do not believe that financial advice is a high risk profession.

**3. *The adequacy of the current regulatory framework in addressing modern insurance challenges.***

With the exception of issues with respect to the PII product and the impact upon the CSLR, our members have not reported concerns about the adequacy of the current regulatory framework for other general insurance products. In the PII space, one of the key issues is the 'claims made' basis, meaning that cover may no longer be in place at the time of claim and the fact that insurance cover can be cancelled by the insurer when a firm goes into liquidation. This is likely to be the most important time when insurance is critical. Plus, we have highlighted issues with respect to the limited extent to which liquidators will utilise the PII cover to address claims from clients.

We appreciate that there are issues with respect to access to some forms of insurance for those based in northern Australia and those located in areas at higher risk of bushfires and flooding. Whilst this has not been a factor that our members are vocal about, we are certain that it will impact them as much as it does other small businesses located in these regions.

**4. *Any related matters.***

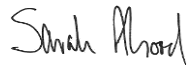
We would add that in the wake of natural disasters, commonly our members are involved in helping the local community, including support for community members with understanding and claiming the support payments that could be available, and helping them access financial and other information they may need to make an insurance claim. Having access to support and advice at this time is critically important and our members play an important role in this regard. Detailed and timely communications from relevant agencies and insurers to our profession during and after natural disasters would assist our members in this task.

**Conclusion**

The FAAA welcomes the opportunity to provide feedback on small business insurance. We welcome the inquiry's consideration of reforms that will make insurance more readily available and affordable for small businesses.

We would welcome the opportunity to discuss the feedback provided in our submission in more detail, including presenting at any upcoming hearings. If you have any questions, please contact me on (02) 9220 4500 or [sarah.abood@faaa.au](mailto:sarah.abood@faaa.au).

Kind regards



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