Australian Securities & Investments Commission

Attachment to Information Sheet 267

Example Statement of Advice (SOA): Limited advice

Issued: December 2021 Updated: November 2024

The Australian Securities and Investments Commission (ASIC) has prepared an example Statement of Advice (SOA) to help financial advisers provide personal advice to retail clients when the client only requires advice on certain aspects of their financial situation.

We have annotated this example SOA to help advisers understand the relevant requirements under the *Corporations Act 2001* (Corporations Act), the *Corporations Regulations 2001* (Corporations Regulations) and the *Financial Planners and Advisers Code of Ethics 2019* (Code of Ethics) (including Standard 6).

Note: Standard 6 of the Code of Ethics provides: 'You must take into account the broad effects arising from the client acting on your advice and actively consider the client's broader, long-term interests and likely circumstances.'

For information about our guidance on preparing an SOA for limited advice, see Information Sheet 267 *Tips for giving limited advice* (INFO 267).

How to read the example SOA

The example SOA is just an example and confined to the particular facts in the scenario. Australian financial services (AFS) licensees and their authorised representatives should consider their clients' relevant circumstances when preparing and tailoring their SOA appropriately for clients, as well as any other legal obligations.

The following terms are used in this example SOA:

notional s912G	Section 912G (as inserted by *ASIC Corporations (Record-Keeping Requirements for Australian Financial Services Licensees when Giving Personal Advice) Instrument 2024/508*)
reg 7.6.01C (for example)	A regulation of the Corporations Regulations (in this example numbered 7.6.01C)
RG 175	Regulatory Guide 175 *AFS licensing: Financial product advisers—Conduct and disclosure*
RG 182	Regulatory Guide 182 *Dollar disclosure*
RG 244	Regulatory Guide 244 *Giving information, general advice and scaled advice*
s944A (for example)	A section of the Corporations Act (in this example numbered 944A)
Standard 6 (for example)	A standard of the Code of Ethics (in this example numbered 6)

Example scenario

Background

The client, John Patel, has sought advice from Susan Deng, an authorised representative of ABC Advice Pty Ltd (licence number 987654). Susan Deng is the 'providing entity'.

Note: A 'providing entity' is an AFS licensee, or an authorised representative of an AFS licensee, that provides personal advice to a retail client: see s944A of the Corporations Act.

John's father recently passed away, having suffered a stroke 8 months earlier. This motivated John to sort out his own personal insurance. Following a recommendation from a friend, John approached Susan for advice.

Current situation

A fact find was completed, with the following key information highlighted.

John is 38 years old and married to Jane. They have an eight-year-old daughter. John is a Business Development Manager for Pete's Plumbing Supplies and earns $94,000 per year plus 10% superannuation.

John has an annual surplus cash flow of $9,000. He directs this to reducing his mortgage. However, he is comfortable using some of this cash flow to pay for insurance premiums. He has managed to accumulate $22,000 in the mortgage offset account over the last 3 years.

John has $87,000 in superannuation. He also holds insurance within his superannuation fund of:

- $180,000 of life cover
- $55,000 of total and permanent disability (TPD) cover, and
- $3,000 per month of income protection (IP) cover. This policy has a 60-day waiting period and a 2-year benefit period.

The annual premium for these policies is $550. This insurance is owned by and paid from John's superannuation fund. The insurer is SuperABC Insurance.

First appointment

At their first meeting, Susan discussed personal insurance policies generally with John. She asked him if his wife, Jane, was concerned about her insurance needs and financial situation. John explained that Jane has been considering her insurance and would like to get this sorted out. But they had discussed this between themselves and agreed that, at this stage, it was more important for John to get his insurance sorted, as he is currently the main income earner in the family.

Susan explained the risks of Jane not considering her insurance now. John understood this but still wanted to proceed with obtaining advice only for himself. Susan continued to ask questions about Jane's financial situation so that she could adequately assess John's insurance needs.

Superannuation

Susan also asked John about his superannuation account, noting that it is relevant to his insurance. Susan offered to review the appropriateness of John's superannuation fund and investment options. However, John did not want advice about his superannuation. He said he might get her advice on that another time.

Susan explained that, because John has insurance within his superannuation, she would have to consider his superannuation arrangements to some extent to act in his best interests. John understood this and agreed that the advice should include his existing superannuation, but only for the purpose of considering the insurance within it.

Beneficiary nomination and estate planning

While discussing insurance policies, Susan raised the issue of beneficiary nominations and estate planning. John noted that he and Jane do not have wills or enduring powers of attorney. Susan offered to refer John to a lawyer for advice about their estate planning arrangements. John said that he would want Jane to receive his insurance death benefit if he passed away.

Occupation and health

Susan asked John about his occupation. John said that his job mainly involves office work and that he rarely visits other worksites or businesses. Susan explained that when considering amounts of IP cover, insurers need to consider the income at risk. They discussed John's income and Susan noted that his income had been very consistent over the previous few years. Despite John being a Business Development Manager, his income is salary based and not dependent on sales outcomes.

They also discussed John's health. John said that his health is good but that, because John's father had died from a stroke, his GP had recently sent him for some blood tests and had checked his blood pressure and test results to assess whether his cardiovascular risk levels were normal.

During the discussion with Susan, John mentioned that he had hurt his knee at the gym a while ago, but that it was fine now. He had also had a skin cancer removed a few years ago.

Susan explained that these incidents could have an impact on any new insurance he was to take out. For example, they could result in exclusions or loadings, which he may not have on his existing insurance within his superannuation.

Duty to take reasonable care not to make a misrepresentation

Susan discussed the process of applying for insurance and explained that John would need to answer questions and maybe provide supporting documents to the recommended insurer (e.g. income and medical records). Susan explained that this process is called 'underwriting'.

Susan explained that when applying for or making changes to insurance, John has an important duty to take reasonable care not to make a misrepresentation to the insurer before entering into the contract. Making a misrepresentation could have serious impacts on John's insurance. For example, the insurance cover could be avoided (i.e. treated as if it had never existed) or its terms could be changed. This could also result in a claim being declined, or a benefit payment being reduced.

Susan explained the importance of John providing detailed answers and invited John to contact her with any questions.

Types of premium

Susan explained to John the different types of insurance premium. Specifically, with 'stepped premiums', the premium you pay to maintain your cover increases each year with your age. 'Level premiums', by contrast, are based on your age when you implement the policy. While the premium will not increase based on your age, it can increase with the CPI or in other circumstances as determined by the insurer.

Susan also explained that, although a stepped premium is more affordable in the short term, a level premium is projected to be more cost effective when the policy is held over a longer term. John and Susan discussed his situation and the fact that it can take 10 or more years before a level premium becomes more cost effective.

John was not certain he wanted to take a long-term approach to paying a level premium as it may not be cost effective if his circumstances were to change and he changed the policy. Susan would consider this when making her recommendations.

Types and levels of cover

Susan then went through a process of discussing types and levels of cover with John. John explained that if he were to pass away, he would want to ensure that Jane was left debt free. They have a mortgage of $540,000 and a car loan of $12,000. He would also want to cover their daughter's private schooling, which is $8,000 per year, and leave Jane with $1,000 per week until their daughter turns 18 years old. He thinks that $10,000 would be enough for his funeral.

John understood that if he were permanently disabled, his IP insurance would pay a regular, ongoing amount so he would not need to leave a lump sum for Jane's income. However, he would still want extra funds for his daughter's schooling. John would not want to access his superannuation if he were permanently disabled, so this was not to be used to offset the amount of insurance needed. Additionally, in these circumstances, he would likely need additional funds to cover medical bills, so $50,000 was considered reasonable for this purpose.

Susan explained trauma insurance to John, including that if he were diagnosed with an illness having a significant impact on his life, such as cancer or a stroke, it would pay a lump sum. Trauma insurance pays a set amount that can be used for things such as medical costs, repaying debt, adjustments to housing and lifestyle changes. The payment would be received on diagnosis even if John were not permanently disabled or unable to work.

Susan discussed the average costs associated with different medical treatments and noted that it would be valuable for John to consider this type of insurance. She said she would cover this in her recommendations.

To help with Susan's investigation, she briefly discussed types of features offered by insurance providers. John said he preferred to have his insurance with one provider, as it had been a difficult process settling the estate of his father who'd had insurance and investments with many providers.

Susan also discussed the definitions of TPD. She explained the difference between the definitions 'any occupation' and 'own occupation'. John said he would like a policy with a definition that is suitable for his personal circumstances.

Waiting and benefit periods

Susan explained to John that IP insurance has different options available for waiting periods and benefit periods.

The 'waiting period' refers to:

- the time you must wait before you can make a claim, and
- the time after you make a claim and before the payments start.

For example, a 30-day waiting period requires you to wait 30 days before you can make a claim and, if you recover in that time, you will not be eligible to make a claim. After the claim is made and accepted, insurers will typically make the first payment one month later.

This means that with a 30-day waiting period, it can take 60 days before a benefit payment is received.

Insurers offer waiting periods of between 14 days and 2 years. Generally, the shorter the waiting period, the more expensive the policy.

While John has extra funds in his mortgage offset account, he has accrued only a limited amount of sick leave and annual leave (2 weeks of each). He is not sure whether his family will always have surplus funds in the offset account, as they could be used in the future for a holiday or another purpose. Taking into account his accrued leave and savings, John does not think he would be able to continue without an income for more than 60 days.

The 'benefit period' is how long the monthly payments will last if an insured person remains unable to work due to illness or injury. Most policies offer periods of 2 or 5 years, or up to age 65. Generally, the longer the benefit period, the more expensive the policy.

John feels that he would prefer a benefit period that is as long as possible because he is the main income earner, intends to work until age 65, and prefers the security of a longer period.

Tax implications of insurance

Susan explained to John that his life, TPD and IP insurance can be held either in his name or through a superannuation account, but that trauma insurance can only be held in his name. In the event of a life or TPD insurance claim, there are tax implications depending on how the insurance is held. Susan discussed this with John because, although his preference is to have his insurance with one provider, it is important that John understands his options.

Susan explained that when a life or TPD insurance benefit payment is made from a superannuation account, tax may need to be paid. If the life insurance amount is paid to a tax dependant, the amount will be tax free. As Jane is John's spouse, she would be considered a tax dependant.

Working out the tax payable on a TPD benefit payment is not a simple calculation. Susan explained that it would involve factors such as John's:

- eligible service period
- period to retirement, and
- superannuation taxable and tax-free components.

The tax payable could be up to 22% of John's taxable component. The potential tax payable on a TPD payout is a consideration if Susan recommends John holds his TPD insurance within a superannuation account.

If John's life, TPD and IP insurance were held through his superannuation account, he could make contributions to cover the premium cost. The contributions could be treated as a concessional contribution, resulting in a tax deduction.

Susan explained that life and TPD insurance would not be tax deductible if they were held in John's name and John paid the premiums from his personal bank account. The advantage of owning the life and TPD insurance this way is that, if a claim is made, the benefit payment would be paid tax free.

Susan explained that the IP insurance premiums paid by John would be tax deductible. However, if John made a claim on the IP insurance, the income payments received would be taxable.

Susan discussed the option of owning some insurance through superannuation, such as life and TPD, and some insurance outside superannuation, such as trauma and IP. This would allow John to access the tax advantages available.

John understands there may be a slight disadvantage in owning all the policies personally, but he repeated that simplicity and ease of management are important to him. This is a primary goal for John that he prioritises over tax advantages, unless they are significant.

Following these discussions, John understood the options available to him. Although there was a lot to consider, he appreciated the complexity involved with insurance decisions. He was seeking simplicity following his experience settling his father's estate and, in the unexpected event of an insurance claim, he did not want to think about taxation implications. He prefers to own insurance outside the superannuation environment if possible and if he can afford the premiums.

Record keeping

Susan recorded her discussions with John and kept those recordings on John's client file as a digital file note. Susan's records confirmed John's understanding of their discussions.

Next steps

Susan concluded the meeting and explained to John what the next steps were for her advice. Susan explained that she would send John an SOA with her recommendations and other documents.

At their next meeting, John could ask questions about Susan's advice and decide whether to proceed with the advice. They would also discuss John's superannuation needs.

Susan explained that if John did implement the insurance recommendations, it would be important to review his insurance needs periodically. Susan advised John to contact her if his situation changed so the policies could be reviewed and adjusted if required. Susan let John know that she would call him annually to check whether his circumstances had changed in a way that may impact the insurance recommendations.

Susan also reminded John that Jane may wish to consider her insurance needs when they next spoke.

TIP: Authorised representative and AFS licensee details can be displayed in different ways.

AFS licensees and authorised representatives must keep records of the personal advice given to clients: notional s912G. See RG 175.130–RG 175.135, RG 175.333–RG 175.338 and Standard 8.

Statement of Advice

Client name: John Patel

Date of advice: 22 October 2021

Prepared by: Susan Deng, number 123456, an authorised representative of ABC Advice Pty Ltd

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The SOA must include your name and contact details: s947B(2)(c), s947C(2)(c). When the SOA is given by an authorised representative, the SOA must contain details of the authorising licensee and the AFS licence number, and state that the providing entity is the authorised representative of that licensee: s947C(2)(d), s912F, reg 7.6.01C(1)(e).

TIP: When using templates and preparing SOAs, you should ensure that the template is tailored to your client and does not contain generic or irrelevant information.

About this document

This Statement of Advice (SOA) sets out my advice to you after our discussions, on 11 October 2021, about your financial circumstances.

This advice is current for 30 days from the above 'date of advice', after which time it will expire. You should, therefore, not rely on this advice after 30 days without contacting me to discuss any changes to your circumstances.

The SOA must be clear, concise and effective: s947B(6), s947C(6), and RG 175.125–RG 175.129.

Your reasons for seeking advice

On 11 October 2021, we discussed your personal insurance needs. Your father's recent passing has motivated you to consider your family's financial security if you were to pass away or become ill or injured and unable to work, either temporarily or permanently. You would like to look at insurance cover for these events.

TIP: The SOA should set out in language that is easy to understand the reasoning that led to the advice: see RG 175.105(c). Your records on the client's file should capture the client's own words and reasons for seeking advice.

TIP: Keep adequate records on the client's file of your conversations with the client: see RG 175.333–RG 175.338.

Scope of my advice

We agreed that my advice would cover:

- recommendations for your personal insurance needs, including the type of insurance, the policies and the insurance amount, and consideration of whether you can afford the premium
- your existing insurance within your superannuation fund
- nominating beneficiaries on your life insurance policy
- taxation of your income protection (IP) policy.

TIP: Keep adequate records on the client's file of your consideration of the scope of the advice. Your records should demonstrate how you determined the scope of the advice with the client and why the scope is suitable for the client.

What my advice does not cover

My advice is limited to the above, and does not cover:

- insurance advice for your wife, Jane
- suitability of your existing superannuation arrangements.

Insurance advice for Jane

During our meeting we discussed the importance of reviewing Jane's insurance needs and arrangements. However, you and Jane had discussed this and agreed that you would obtain advice first, as you are the main income earner in the family.

We discussed the risk that if something happened to Jane and she was not appropriately insured, this would impact you financially.

Suitability of your existing superannuation arrangements

During our meeting we discussed the importance of ensuring that your superannuation is invested the right way and that your fund is competitive in terms of fees. This can help you save more money for retirement. However, currently you have prioritised sorting your insurance arrangements as this is your primary goal.

We will discuss your superannuation needs at our next meeting, on 1 November 2021.

> **TIP:** Advisers should clearly explain what advice is and is not being provided and the implications and risks of omitting these topics from the advice.
> The SOA should note that this was explained to the client, who is then able to make an informed decision about whether to proceed: See RG 244 at RG 244.85–RG 244.91 and Standard 4.

Overview of my recommendations

- Apply for $985,561 of life insurance with XYZ Insurance.
- Apply for $680,274 of total and permanent disability (TPD) insurance with XYZ Insurance.
- Apply for $5,483 per month plus $783 in superannuation contributions of IP insurance with a 30-day waiting period and a benefit period to age 65 with XYZ Insurance.
- Apply for $150,000 trauma insurance with XYZ Insurance.
- All policies should be owned personally by John.
- Once the above policies are in force, cancel the existing life, TPD and IP policies within your superannuation fund.

Your current situation

- You are 38 years old, in good health, married to Jane (aged 35) and with a daughter (aged 8).
- You are a Business Development Manager for Pete's Plumbing Supplies and your annual salary is $94,000 plus 10% superannuation.
- Jane works part time and earns $20,000 per year.
- You have annual household expenses of $81,000, which includes your mortgage and car loan repayments, and an annual cash flow surplus of $9,000. This surplus is directed to your mortgage offset account.

> **TIP:** The SOA should set out a concise summary of the client's relevant circumstances: see RG 175.105(c)(iii).

Your current situation (cont.)

- Your car has a replacement value of $15,000 and a loan of $12,000.
- Your home is worth $1 million and has a mortgage of $540,000.
- You have a superannuation balance of $87,000 invested in the Balanced option.
- You have personal insurance within your superannuation fund of $180,000 of life cover, $55,000 of TPD cover, and $3,000 per month of IP cover. The annual premium is $550.

My advice and why it is appropriate for your circumstances

Life, TPD and trauma insurance

I recommend you apply for:

- $985,561 of life insurance with XYZ Insurance
- $680,274 of TPD insurance ('own occupation' definition) with XYZ Insurance, with a one-year life buyback option
- $150,000 of trauma insurance with XYZ Insurance, with a one-year life buyback and reinstatement option
- TPD and trauma to be linked to the life insurance, as this is more cost effective than buying standalone policies
  - The buyback options will allow you to increase the life insured amount by the TPD or trauma amount if a claim is paid on these policies.
  - The trauma reinstatement will allow you to repurchase your trauma policy within one year after claiming. There may be an exclusion for the event claimed on the reinstated policy.
  - The policies will be owned in your personal name and premiums will be paid from your surplus cash flow.
- stepped premiums.

The annual cost of these premiums is $1,300.

I recommend you nominate your wife, Jane, as the beneficiary of your life insurance policy.

After the recommended policies are in force, I recommend you cancel your existing life and TPD insurance with SuperABC Insurance.

The policies with XYZ Insurance are cheaper than increasing your existing policies through SuperABC Insurance. XYZ Insurance has no inferior features or benefits.

Additionally, having all the policies linked will make administration easier. The TPD 'own occupation' definition is one that pays if your disability leaves you unable to work again in your own occupation. As the TPD is held personally, it will be tax free in the event of a claim.

The SOA must include a statement setting out the advice and information about the basis on which the advice is provided: s947B(2)(a), (b) or s947C(2)(a), (b). See RG 175.104–RG 175.107.

You should include as much detail about a matter as a person would reasonably require to make a decision about whether to follow the advice: s947B(3), s947C(3).

IP insurance

I recommend you apply for:

- IP insurance of $5,483 per month plus $783 in superannuation contributions with XYZ Insurance (with the policy to be owned in your personal name and the premium to be paid from your surplus cash flow)
- stepped premiums
- a waiting period of 30 days, because you can use your sick leave and savings to cover expenses for this period
- a benefit period to age 65, as this will provide you with cover until your expected retirement.

The annual cost of these premiums is $1,600.

After the recommended policy is in force, I recommend you cancel the IP policy with SuperABC Insurance.

TIP: Keep adequate records on the client's file of your investigation into financial products: see RG 175.333.

The recommended IP policy with XYZ Insurance is cheaper than increasing the cover through SuperABC Insurance. This policy will also be held along with your life, TPD and trauma insurance, for ease of management.

If you are unable to work, the recommended IP insurance will cover you for 70% of your salary, and superannuation contributions equivalent to your employer's contributions, until age 65.

Insurance features and benefits

TIP: Information that the law does not require to be included in an SOA should be excluded if its inclusion would result in the SOA not being clear, concise and effective. Such extraneous information should be kept as a record on the client's file to support your advice process.

A key consideration, due to your experience settling your father's estate, is to hold all your insurance through one provider.

By owning the policies outside superannuation, you or your beneficiaries will not be liable for tax if a life or TPD benefit is paid.

Level premiums versus stepped premiums

TIP: Your client file should clearly record the client discussions on level and stepped premiums. Your records should reflect why you have selected one premium type over the other, with reasons related to the client's objectives.

TIP: When conducting a reasonable investigation, you should consider and investigate any existing product, and any other products, that may be suitable for the client: see Standard 5.

Based on your personal circumstances, I recommend stepped premiums for the following reasons.

We discussed the fact that although a stepped premium is more affordable in the short term, a level premium is projected to be more cost effective when a policy is held over a longer term.

However, after my analysis, the level premiums for the recommended policies will only become more cost effective than the stepped premium alternative after 16 years.

TIP: Investigations are scalable – that is, the extent of your inquiries will depend on whether your advice is simple or involves complex financial products or strategies: see RG 175.247–RG 175.255.

TIP: When giving switching advice, you need to consider and investigate the client's existing products to see if they might meet the client's relevant circumstances, as well as any new financial products: see RG 175.257.

A stepped premium will therefore cost you less than a level premium if you decide to reconsider your insurance or switch to an alternative provider within the next 16 years.

A reasonable investigation conducted under s961B(2)(e) does not require an investigation into every product available: s961D. See RG 175.242.

XYZ Insurance

I have compared the premiums for the recommended levels of cover charged by your current insurer (SuperABC Insurance), my recommended insurer (XYZ Insurance) and other insurers.

The premiums for the recommended insurance are cost effective and competitive compared with insurance policies with similar features and benefits.

Table 1 summarises the products I recommend for you.

TIP: You should include a concise statement of reasons why you consider the advice is appropriate, including in light of alternative options considered and the advantages and disadvantages if the client follows the advice: see RG 175.105(c)(v).

Table 1: Summary of recommended products

Cover	Life, TPD and trauma	IP
Insurer	XYZ Insurance	XYZ Insurance
Amount of cover	$985,561 life $680,274 TPD $150,000 trauma	$5,483 per month $783 in superannuation contributions
Key features	Stepped premiums 'Own occupation' one-year life buyback Trauma reinstatement	Stepped premiums 30-day waiting period Benefit period to age 65 Indemnity value
First year premium	$1,300	$1,600

Taxation

Based on current rules, the premiums you will pay on the recommended IP insurance are tax deductible.

In the event of a claim, the IP benefit paid will be taxable.

You will receive information from XYZ Insurance annually about your premiums. You should keep this information for your tax records.

Because the IP premiums are tax deductible, they are more affordable for you.

Estate planning

Based on our discussions, I recommend that you nominate your wife, Jane, as the beneficiary on the recommended life policy. You want to know that if you pass away, the benefits will be paid directly to Jane.

We also spoke about the importance of estate planning and you agreed that it is an aspect you need to get advice on.

I have given you a referral to a lawyer who can give you advice about your estate planning arrangements.

TIP: You should include a concise summary of the costs and benefits (i.e. advantages) of making the product switch. This information can be summarised in different ways provided it is clear, concise and effective: s947B(6), s947C(6). See RG 175.105(b), RG 175.125–RG 175.129.

Consequences of replacing your insurance

Table 2 compares the costs of your existing insurance with SuperABC Insurance with the costs of the recommended insurance with XYZ Insurance.

The SOA must include information about the consequences of the product replacement, including the cost, potential benefits (i.e. advantages) and any other significant consequences: s947D(2). See RG 175.100, RG 175.256–RG 175.260, RG 175.291–RG 175.295.

Table 2: Comparison of existing and recommended insurance cover

Details	Existing cover	Existing cover increased	Recommended cover
Insurer	SuperABC Insurance	SuperABC Insurance	XYZ Insurance
Life insurance	$180,000	$985,561	$985,561
TPD insurance	$55,000	$680,274	$680,274
IP insurance	$3,000 per month	$5,483 + $783 in superannuation per month	$5,483 + $783 in superannuation per month
Annual premium	$550	$2,700	$2,550

Your existing SuperABC insurance allows you to increase your IP policy to 75% of your current salary, which is a monthly benefit of $5,875. The annual premium would be $2,100.

My recommended IP policy has a benefit of 70% of your salary, which is a monthly benefit of $5,483. The annual premium would be $1,600.

By implementing the recommended IP policy, which provides a benefit of 70% of your income, you will pay $500 a year less for your IP premium. However, in the event of a claim, you will receive $4,704 less a year (before tax) or $3,065 less a year (after tax) than a policy covering 75% of your income.

TIP: If you are recommending specific policy features, you should keep clear records on the client's file about why the features are suitable and relevant to the client: see RG 175.165(e).

Consequences of replacing your insurance (continued)

I recommend you implement the IP policy with XYZ Insurance. It is appropriate for your personal circumstances because:

- One of your key goals is simplicity and ease of management, which is achieved by holding all your insurances with XYZ Insurance.
- It is cheaper than increasing your existing insurance.
- By owning the policy outside of superannuation, you can claim a tax deduction on the premiums.
- The XYZ insurance offers the same, or better, features and benefits than your existing insurance.
- In the event of a long-term IP claim, regardless of whether the IP policy insures 70% or 75% of your salary, you may need to reduce your current spending or use the funds accumulated in your mortgage offset account. As such, the more cost-effective premium is appropriate.

Important note

When you apply for personal insurance, you will need to answer some questions so the insurer can decide whether it can cover you and, if it can, on what terms and at what cost. You will be asked about your health and medical history, occupation, income, lifestyle, pastimes, and existing and past insurance. You may also need to give supporting information (e.g. income and medical records). This process is called 'underwriting'. It may result in terms being applied to your insurance cover or your application being declined.

When completing your application, you have an important duty to take reasonable care not to make a misrepresentation to the insurer before the insurance contract is entered into. If you make a misrepresentation, it can have serious impacts on your insurance cover. For example, the cover could be avoided (i.e. treated as if it never existed), or its terms may be changed. This may also result in a claim being declined, or a benefit being reduced.

TIP: You should make adequate inquiries about the client's relevant circumstances relating to the insurance advice and discuss the importance of disclosure with the client. It's important to keep adequate records of these inquiries and discussions.

TIP: The basis of your advice should include the significant risks that the client will bear in relation to acquiring any recommended financial product or class of products: see RG 175.107.

Things you need to know

- It is important that you do not cancel your existing insurance until your new insurance is in place.
- As part of the application process, you may be required to provide supporting documents to XYZ Insurance (e.g. income and medical records).
- The recommended IP policy is an indemnity value policy. This means you will need to show proof of your income at the time you make a claim. If your income has reduced at the time you make a claim, you will only be paid 70% of the reduced amount as a monthly amount.
- Purchasing the recommended insurance will increase the amount of annual premiums you pay by $2,350.
- This increase will be paid by you from your cash flow rather than from your superannuation fund. I have considered your cash flow and the affordability of the premiums and confirmed that you can afford the premiums.
- You will also receive a tax deduction for the premiums you pay on your IP policy.
- The effect on your financial situation will be:
  - Your annual cash flow surplus will decrease from $9,000 to $6,100.

    Note: You could use your annual cash flow to reduce your mortgage and maintain your existing insurance coverage. I estimate (based on modelling) that in 10 years' time you will have reduced your mortgage by an extra:

    - $103,174 if you redirect $9,000 of your cash flow surplus to your mortgage, or
    - $69,929 if you redirect $6,100 of your cash flow surplus to your mortgage.

  I have considered these two options. However, for your personal circumstances in the event of short-term or long-term illness, I recommend you implement my insurance recommendations.

By no longer paying your existing insurance premiums using your superannuation, I estimate (based on modelling) that in 10 years' time your superannuation balance will increase by an additional $7,249.

TIP: Susan has explained to John the impact of using his cash flow to pay for his insurance premiums, and he has considered this and can afford the premiums: see Standard 6.
This is **one way** an advice provider can demonstrate their compliance with the best interests duty and related obligations.

Things you need to know (cont.)

- If you follow my advice to cancel your existing insurance policies within your superannuation fund, you need to know that:
  - an 'exclusion period' of 13 months applies from the date of commencement of your new life insurance policy if you die as the result of suicide, and
  - there may be qualifying periods for certain events within your insurance policies, which means you will not be able to claim within those periods.
- If you decide to replace any of the recommended insurance policies in the future, you may be subject to underwriting. If your health has changed, you may not be able to get insurance on the same terms as currently offered by SuperABC Insurance or XYZ insurance.
- It is important to review your insurance needs regularly. Please contact me whenever your situation changes so your cover can be reviewed and adjusted if required. Also, I will call you once a year to check that your circumstances have not changed in a way that may impact the recommended insurance.

You should include a concise summary of how you have acted in the client's best interests under s961B(1): see RG 175.105(c)(vi).

Your insurance needs

Based on my discussions with you, the basis for my recommended levels of cover is set out in Table 3:

TIP: The client file should record your discussions with the client about their insurance needs and how you arrived at the recommended levels of cover.

Table 3: Levels of cover

Expenses	Life	TPD	IP	Trauma
Debt repayment	$552,000	$552,000	–	–
Annual income replacement (incl. superannuation)	$508,787	–	$75,192	–
Education funding	$78,274	$78,274	–	–
Funeral and legal costs	$10,000	–	–	–
Medical and rehabilitation expenses	–	$50,000	–	$150,000
Less: Available assets	($163,500)	–	–	–
Totals	$985,561	$680,274	$75,192	$150,000

The SOA must disclose any remuneration, commissions, and other benefits: s947B(2)(d), s947C(2)(e). See RG 175.108–RG 175.124. Amounts must be in dollars: reg 7.7.11B, reg 7.7.13B. See RG 182.

Advice fees and conflicts of interest

The cost of my advice about your insurance is met by XYZ Insurance. XYZ Insurance pays commissions to ABC Advice Pty Ltd, who shares those commissions with me.

These commissions are set out in Table 4:

The SOA must disclose any actual or potential conflicts of interest that might influence you in giving the advice: s947B(2)(e), s947C(2)(f). See RG 175.123–RG 175.124.

Table 4: Commissions

XYZ Insurance	ABC Advice Pty Ltd	Susan Deng
Life, TPD and trauma policies: Annual premium $1,300	$78 (first year) $26 (following years)	$702 (first year) $234 (following years)
IP policy: Annual premium $1,600	$96 (first year) $32 (following years)	$864 (first year) $288 (following years)
Existing life, TPD, IP and trauma policies with SuperABC Insurance: Annual premium $550	$Nil	$Nil

Cooling-off period

If you apply for an insurance policy that I have recommended and then change your mind, you are entitled to cancel the policy within a 14-day cooling-off period.

Refer to the Product Disclosure Statement for XYZ Insurance for further information.

You must keep the SOA for 7 years after the advice is provided: notional s912G.

Next steps

Before deciding whether to follow this advice, please read this document and the following attachments:

- Product Disclosure Statement for XYZ Insurance
- XYZ Insurance application form ‘Apply for Insurance’.

At our next meeting on 1 November 2021, we can discuss any questions you may have, to ensure that you understand my advice.

If you choose to proceed with my advice, I can also help you with the XYZ Insurance application process.

Additionally, we will discuss your superannuation needs and whether Jane is ready to consider her insurance needs.

TIP: You should clearly communicate to your client which of their needs will be considered in future and by whom. For example, the advice topics addressed by you at a later date, or referred to another advice provider in the future. This can be included in the SOA or on your client file.

TIP: You should take steps to be satisfied that the client understands the advice. Advice providers must have reasonable grounds to be satisfied: see Standard 5. Good record keeping is one way to demonstrate how the advice provider has satisfied themselves that the client understands the advice.