

The True Cost of Advice: Why Your Financial Adviser Isn't Getting Rich

While we all know they are there, the mandatory costs financial advisers face annually, including licensee services, PI insurance, and regulatory levies totalling between \$36,896-\$83,877 per adviser per year. We explore whether separating government charges from advice fees could improve transparency and understanding of the true cost of advice while discussing industry challenges in making advice more affordable for Australians.

When consumers balk at financial advice fees, they often don't see the substantial underlying costs that practices must cover to operate legally and safely in Australia. While it won't surprise anyone in the profession (least of all those running licensees), digging into the numbers reveals the extensive licensing and regulatory costs that contribute to advice prices, providing insight into why making advice affordable remains challenging.

Breaking Down the Core Costs

Each year, on 1 July, advice practices start with a number of fixed costs to provide services to their clients. These include rent, utilities, staff costs, marketing, technology, etc. To a large extent, these costs can vary depending on how a financial adviser operates their practice. For example, the location of the practice can have a significant cost impact (city versus regional, office versus remote), as can how the business is staffed (insourcing, outsourcing or having remote staff).

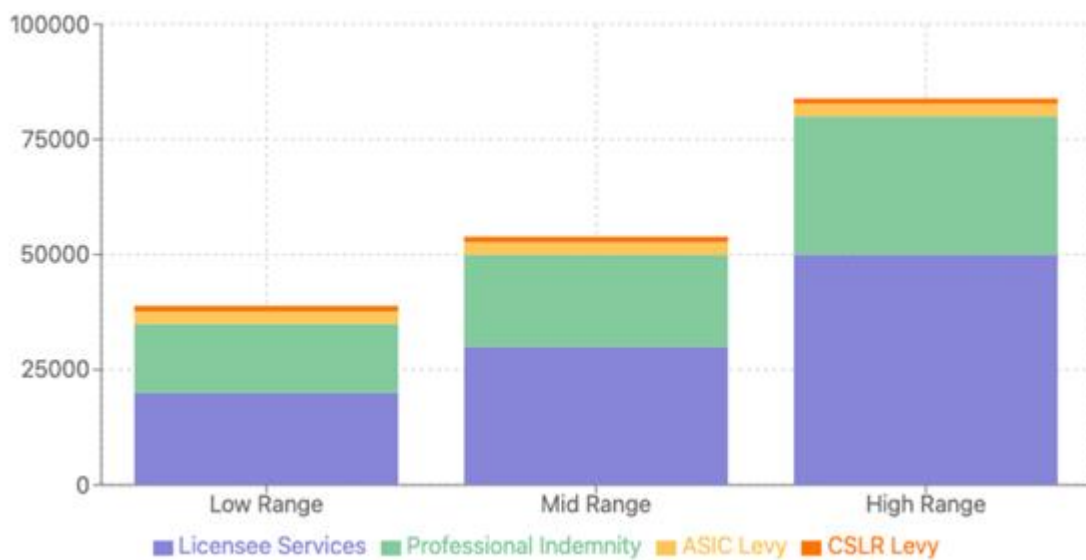
However, in the financial advice profession, four costs are mandatory, and irrespective of how you otherwise manage costs, they become the cornerstone of the minimum cost to practice each year. These costs, often the subject of much time, discussion, and ink, are a large part of the true drivers of advice fees. Given consumers' general understanding of why advice costs so much, it's crucial to consider the impact these costs have on the affordability of financial advice.

At the heart of these expenses are four key components:

1. **Licensee Services:** Of the four costs, licensee services represent the most significant cost component for financial advice practices. Whether you run your own license or are authorised by a licensee, licensees have specific obligations across four laws and eight regulators they must ensure financial advisers comply with. To achieve this, they will offer various services, including compliance support, professional development, technology platforms, and research services. Licensing costs range from \$20,000 to \$50,000 per adviser annually, and the variation in cost often reflects the comprehensiveness of the support provided.

2. **Professional Indemnity Insurance:** The second-largest expense for most practices is ensuring they meet their compensation obligation. While there are other options, practices almost universally use PI to meet this obligation. The amount practices pay per adviser for PI ranges from \$500 to \$75,000 annually, with an average of \$8,321 when bundled into licensee costs and \$8,075 when self-obtained. This mandatory insurance protects both advisers and clients, with premiums varying based on service offerings and claims history.
3. **ASIC Industry Funding Levy:** The government moved several years ago to a cost recovery model for operating regulators, including ASIC. For licensees providing personal advice to retail clients on relevant financial products, ASIC charges a minimum levy of \$1,500 plus \$2,691 per adviser & \$900 for Life Insurance.
4. **Compensation Scheme of Last Resort (CSLR):** With the introduction of the CSLR, a new addition to the cost structure of practices from 2024/5 is the CSLR levy. While the first CSLR levy has added another \$1,186 per adviser this year, it's worth noting that just the Dixon CSLR claims will add in total around \$8,750 over the next 2 or 3 years per adviser, significantly increasing the long-term cost of providing financial advice.

Annual Cost Per Adviser (AUD)



While licensees have other costs (AFCA, for example, costs \$395 per year - irrespective of the number of advisers), these four costs, as highlighted, are, in effect, the ticket to practice, which practices must cover each year.

Impact on Practice Viability

These costs create a substantial overhead [that practices must factor into their fee structures](#). At the lower end, practices face annual costs of around \$38,877 per adviser, while those paying higher licensee fees and insurance premiums may incur up to \$83,877 per adviser annually.

When exploring these costs on a per-client basis, they average an annual cost of \$449 per client. As highlighted earlier, this is without the CLSR levy being included in these costs, which could add 10% annually to this figure.

Adviser costs by client

	Licensee Services x Adv	PI cost x Adv	Total Cost x Adv	Avg Clients	Cost x Client
Licensee - Include PI	37,617	8,321	37,617	83.2	452
Licensee - Not include PI	27,980	8,075	36,055	81.7	441
Total	28,711	8,184	36,896	82.1	449

As an aside, there has been much debate about what level of advice cost for the "New Class of Adviser" should be or could be if used by advice practices. These figures suggest that a \$500 figure would only cover regulatory costs.

Making Advice Affordable

The challenge for practices lies in balancing these fixed costs with the desire to make advice accessible. The Landscape Report shows that while 68% of Australians see value in financial advice, only 6% are willing to pay more than \$2,500 annually.

To address this disconnect, practices are exploring various strategies:

- Embracing technology to improve efficiency and reduce other operational costs
- Developing scaled advice models to serve different client segments
- Leveraging group buying power through licensee arrangements to reduce per-adviser costs

- Exploring self-licensing options where economically viable

Should Government Charges Be Separated from Advice Fees?

An emerging discussion in the profession centres on whether regulatory costs should be itemised separately from advice fees, similar to how GST is treated.

The Case For Separation

Separating these charges could provide several benefits:

1. **Fee Transparency:** Breaking out government charges would help clients better understand the components of their advice costs. Just as consumers understand GST as a government tax rather than a business charge, they could see how regulatory levies impact their advice fees.
2. **Industry Advocacy:** Making these costs visible could drive more informed discussion about the impact of regulatory charges on advice affordability. Currently, these costs are hidden within overall advice fees, potentially masking their impact on accessibility.
3. **Market Understanding:** Clients who see a \$4,000-\$5,000 advice fee often assume that's all profit for the adviser. Breaking out government charges would help demonstrate the actual cost structure of providing advice.

The Case Against Separation

However, there are also arguments against this approach:

1. **Administrative Complexity:** Separating these charges could add another layer of complexity to fee documentation, potentially conflicting with efforts to streamline advice documentation.
2. **Client Confusion:** Adding more line items to fee structures could confuse clients rather than enhance transparency. The current "all-inclusive" fee approach may be more straightforward for clients to understand.
3. **Cost Recovery Reality:** Since practices need to recover these costs regardless of how they're presented, it could be questioned whether separating them would meaningfully impact client understanding or acceptance of overall fees.

A Potential Middle Ground

A balanced approach might be to include these charges as an explanatory note in fee documentation without necessarily separating them in the actual fee structure. This could provide transparency about

what is driving advice costs, particularly how regulatory costs impact the overall cost while maintaining simplicity in fee arrangements.

Industry Impact

If widely adopted, separating government charges could reshape how the profession discusses advice affordability. The 2024 Australian Financial Advice Landscape Report shows that regulatory costs comprise approximately 5-10% of total advice costs for most practices. Making this explicit could support industry advocacy for more cost-effective regulatory frameworks while helping clients better understand fee structures.

This approach aligns with broader trends across the profession towards greater transparency. It could complement upcoming Quality of Advice Review reforms, particularly as practices reimagine their fee structures and advice documentation processes.

The path forward may depend on how the profession collectively decides to present these costs and whether regulators provide guidance on fee presentation in their upcoming reforms. What's clear is that improving transparency around advice costs remains crucial for building trust and understanding with clients.

Looking Ahead

With regulatory costs unlikely to decrease significantly in the near term, the focus turns to finding efficiencies in other areas. The upcoming Quality of Advice Review reforms may provide some relief through streamlined compliance requirements. Still, practices must continue innovating to make their services more accessible while maintaining profitability.

The data suggests that the path to more affordable advice lies in a combination of regulatory reform, technological innovation, and the evolution of business models. Until then, practices must carefully balance their cost structures against their target market's ability and willingness to pay for advice.

Article by:

Adviser Ratings