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[Growing advice risk gap for middle-class Australians](#)

December 8, 2021



The growing gap between consumers' protection needs and the risk advice industry's capacity to meet them is the widest for advisers who service middle-class Australians.

Hurdle after hurdle

The Australian risk market has seen more than its fair share of hurdles in the last few years:

- A highly competitive market resulting in unprofitable products to maintain market share, regulators stepping in to influence product design
- A capped remuneration structure (& more) makes it hard to write profitable risk advice
- A long cycle of tightening advice and licensee regulations increases the cost of providing advice
- And more recently, the increased professional standards resulting in many risk advisers leaving the market

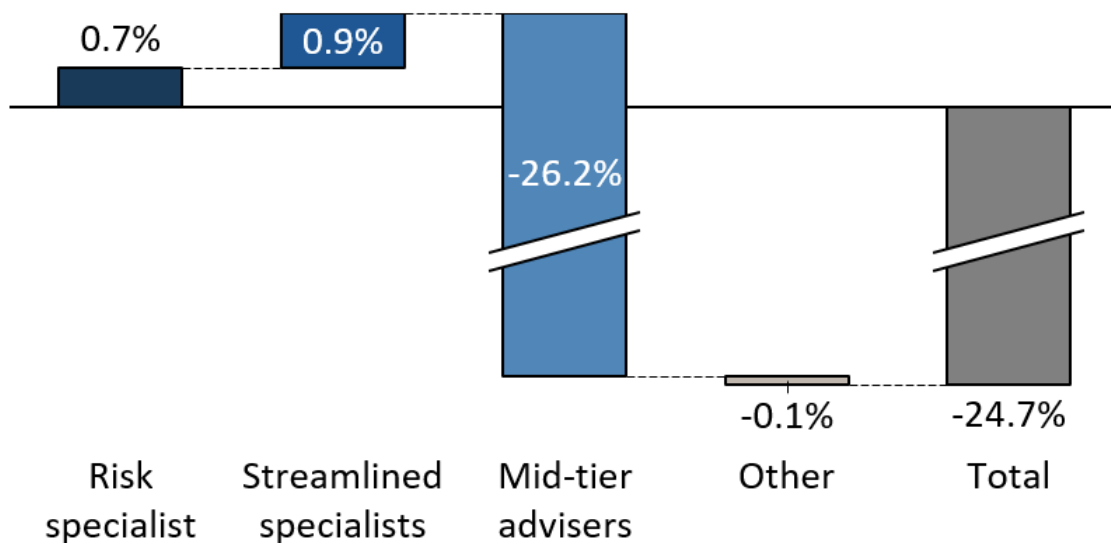
This has naturally created a significant gap between the risk advice that was previously being provided/demanded by consumers and the capacity of the advice industry to meet this demand.

By December 2020, more than 30% of the 13,000 advisers that advised on risk just 2 years prior had ceased providing insurance advice. In this same time span, the total new risk business written by advisers in the last 12 months has dropped from \$438m to \$345m. However, like other components of Australia's advice gap, the advised risk gap is growing quite differently for some adviser segments than others.

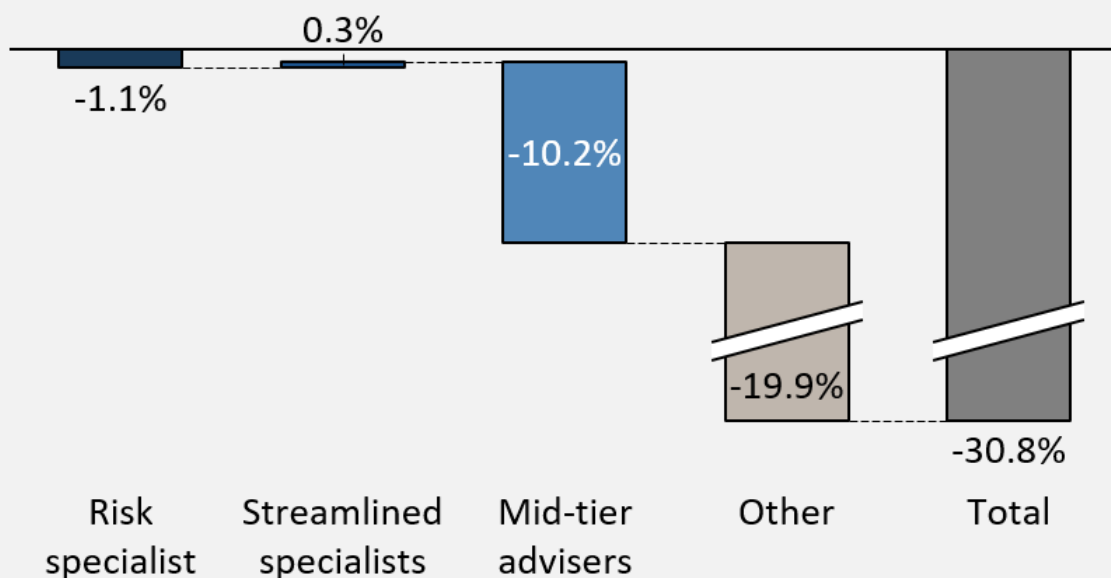
Exhibit 1: Mid-tier advisers account for the majority drop in numbers and new business

Percentage shift in annual new business and number of risk advisers by segment, Dec 2018 to Dec 2020

% shift in annual new business by adviser segment, Dec-18 – Dec-20



% shift in number of risk-writing advisers, Dec-18 – Dec-20



Risk specialists hold strong

Despite dwindling in supply, risk specialists (advisers with more than 80% of revenue from risk advice) have written more business as a group – their share of annual new risk business has risen from 15% in 2018 to 20% in 2020.

The mid-tier segment – holistic, general practitioner and investment-focused advisers who provide a mix of wealth and risk advice – has significantly shrunk in numbers and total new business.

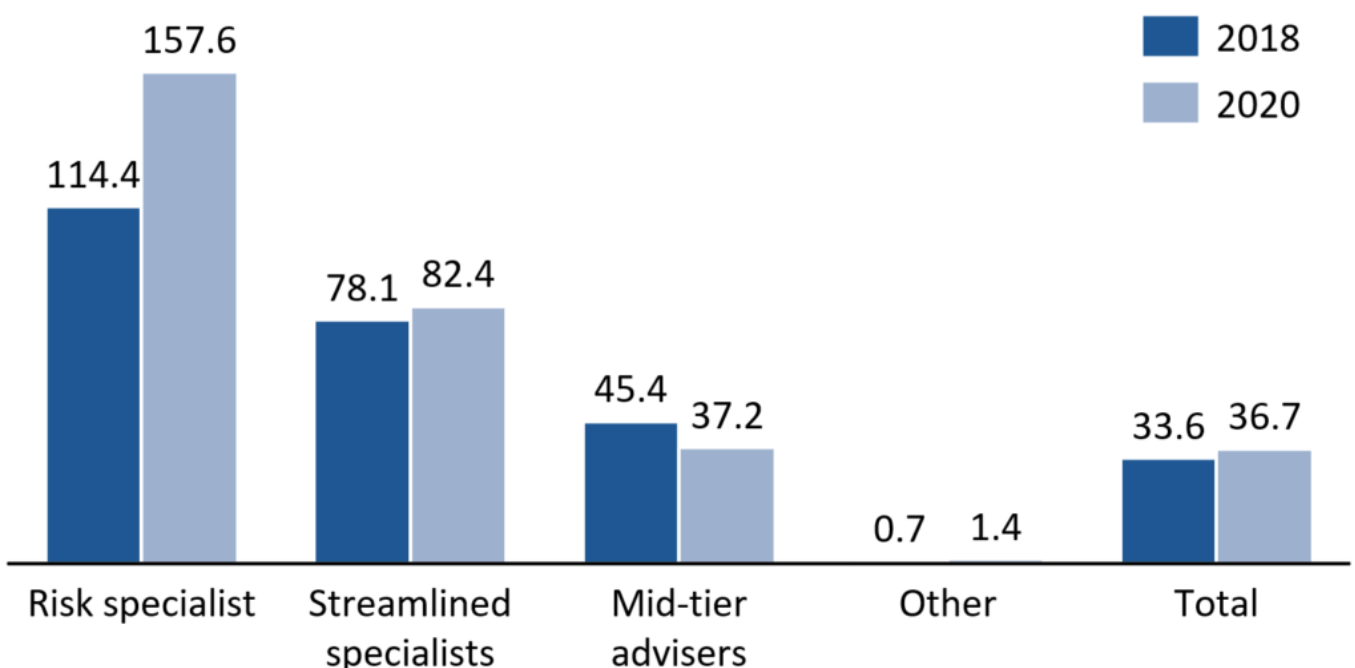
A large portion of “other” advisers (who generally write 1-2 policies a year) have ceased providing risk advice entirely, but with minimal impact on total sales.

While there has been an exodus of risk writers, risk specialists are somewhat offsetting...

As a result, while there has been an exodus of risk writers and a corresponding plunge in new business written, the most risk-focused advisers are making up the difference at the upper end of the market – risk specialist productivity (annual new business written per adviser) rose by \$43.2K from 2018 to 2020.

Exhibit 2: The gap is growing fastest at the mid-tier adviser segment

Annual new business per risk adviser ('productivity'), 2018 to 2020 (\$'000)



Instead, the advised risk gap is growing fastest at the mid-tier segment, where the shrinking pool of generalist advisers is unable to service their client base (who are primarily middle-class Australians – mass affluent with moderate-to-complex advice needs) at the level they once could. We estimate this gap to consist of ~140K policies that would have otherwise been written between 2018 and 2020, if mid-tier advisers' risk-writing capacity remained constant.

This presents two immediate opportunities: firstly, current risk specialists can grow via referrals from more wealth focused advisers; and secondly, there is room for a new model of insurance advisers to efficiently tackle this gap.

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