

Review of the quality of financial advice Draft terms of reference

Submission

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About The Conexus Institute

The Conexus Institute is an independent, not-for-profit research institution focused on improving retirement outcomes for Australian consumers. Philanthropically funded, The Institute is supported by the insights of a high-quality advisory board, whereby each member's involvement is on a pro-bono basis. The Institute adopts a research-for-impact model and frequently collaborates with researchers from academia, associations, and industry. Research is generally made open source to create transparency and accountability. The Conexus Institute exists with no commercial relationships. Further information [here](#).

About David Bell

Dr David Bell is Executive Director of The Conexus Institute. Bell's career has been dedicated to the investment and retirement sector. He has worked with both commercial and profit-for-member firms, and ran his own consulting firm. Bell worked with APRA in the development of the APRA Heatmap. Academically, Bell taught for 12 years at Macquarie University and in 2020 completed his PhD at UNSW which focused on retirement investment problems. Full bio [here](#).

***** The author is willing and able to participate in further consultation. *****

1. Summary and recommendations

The premise for the Quality of Advice (QoA) Review is to assess advice quality in the aftermath of recommendations in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hayne Royal Commission). However, despite many positive anecdotes it remains unclear whether all sectors of financial advice have reached an appropriate level of quality. While advice affordability and access are undoubtedly important issues, we believe the appropriate time to investigate them is once the foundation of quality advice is assured. The recent example of Dixon Advisory is a stark reminder that there still exists outstanding issues which may continue to adversely impact advice quality. This recommendation may frustrate the financial services industry, but it ensures the foundations for the future are strong.

We raise two specific issues. One is vertical integration and the other retirement income policy. We call for the review to explicitly explore vertical integration and conflicted remuneration. This is important for consumers, the advice industry, and is a conditional input into the consideration of retirement guidance solutions. Retirement income policy will be ineffective without a scalable solution to retirement guidance and some of the candidate solutions involve vertical integration.

However, individually these are significant issues (quality of advice, access and affordability, and retirement guidance). Setting the terms of reference too broad risks the QoA Review becoming overstretched. The Review should consider whether a consideration of other issues beyond advice quality can be achieved within the timeframe, along with the appropriate ordering of work.

2. Issues

2.1. Vertical integration

Since the completion of the Hayne Royal Commission we have witnessed further significant consumer losses linked to vertically integrated models. The most recent example was Dixon Advisory.

We advocate that vertical integration be investigated in this QoA Review for the following reasons:

1. Vertical integration has, unfortunately, continued to provide case studies of substantial consumer losses. While conflicted remuneration is disclosed, is this sufficient for consumers to understand the potential risks they are exposed to? After all, vertical integration can take many forms, each carrying different degrees of risk for consumers. We are concerned that consumers may not understand the different vertical integration models and associated risks.
2. Many financial services businesses are vertically integrated and, as detailed above, vertical integration can take many forms. Vertical integration may provide benefits for consumers such as access and efficiency. However, each instance of losses associated with vertical integration reignites the calls for significant changes to policy and regulatory settings. This is not a stable foundation on which to design and operate a financial services business. Review and formalisation of policy on vertical integration would provide industry with a solid foundation on which to operate.

3. Any review of the quality of financial advice will not achieve full credibility unless it explicitly considers vertical integration. Rather than position behind the fact that the Hayne Royal Commission didn't recommend the banning of vertical integration, the review needs to conduct more than a binary debate on the merits of vertical integration, and consider whether the appropriate policy, regulatory and disclosure settings are in place to protect consumers. If it is not addressed effectively in the QoA Review, the issue will remain 'unfinished business'.
4. Retirement income policy will not work without solving the challenge of providing scalable solutions for providing retirement guidance. This is especially the case as policy directs superannuation funds to make available a broader range of retirement products, which may be complex to understand. Some of the candidate solutions to the retirement guidance challenge (such as expanded intra-fund advice) involve, to varying degrees, vertical integration. Formally reviewing vertical integration will establish the boundaries for the subsequent consideration of solutions to the challenge of scalable provision of retirement guidance.

2.2. Retirement income policy

Our working position on retirement income policy (where much of The Conexus Institute's research is directed), is that it will not work in current form. The key issue is the absence of a matching mechanism for super funds to be able to match their members to appropriate retirement solutions (which may consist of multiple products and a drawdown plan). It is likely that consumers will struggle to account for the varying features of different retirement products.

Without resolution this policy gap will almost certainly slow development of retirement income products by superannuation funds.

The Terms of Reference acknowledge a linkage with the Retirement Income Covenant. But this may not ensure sufficient focus on a critical and complex issue. There is also a policy ordering issue: as discussed in (2.1) some of the candidate solutions (e.g. expanded intra-fund advice) require quality issues (e.g. vertical integration) to be resolved.

2.3. Breadth of scope of the QoA Review: ordering of work is critical

The terms of reference of the QoA Review have extended beyond issues of advice quality, to consider additional areas such as advice affordability and access. Reference is also made to the Retirement Income Covenant.

We are concerned that the scope may become too broad. This could result in the QoA Review failing to achieve depth, especially in the exploration of advice quality and issues such as vertical integration.

We advocate that careful consideration is directed at the ordering of issues. Here we advocate for a deep assessment of advice quality first (including vertical integration), then affordability / access issues and retirement guidance, which could potentially be explored as two parallel streams.

A solution to the retirement guidance challenge may sit outside the traditional framework of personal financial advice (for example, one possible solution, a government sponsored retirement guidance service, co-written with Pamela Hanrahan, is [here](#)). This points to the complexity of this challenge. It may well be that a separate review of retirement guidance may be appropriate.