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Advice and Investment Branch Retirement
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Review of the quality of financial advice: Draft terms of reference

Industry Super Australia (ISA) is a research and advocacy body for Industry SuperFunds. ISA manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of nearly five million industry super members.

While the draft terms of reference are wide and flexible, ISA is concerned that the focus appears to be on reducing the costs of advice through streamlining regulation without regard to the impact that may have on the quality of advice and critical consumer protections.

ISA recommends that the review expressly consider the following.

1. **Effectiveness of recent reforms and impact of any changes on consumer protection:** The terms of reference should consider the effectiveness of reforms to enhance the quality of financial advice, including the Future of Financial Advice (FOFA) reforms and the impact of any changes to those reforms on consumer protection.
2. **Access to quality affordable advice for super fund members:** The terms of reference should consider the needs of super fund members and how they can best access the advice or guidance they need to achieve good retirement outcomes.
3. **Education standards for financial advisers:** The terms of reference should include a review of the education standards for financial advisers and proposals to amend those standards should be delayed until the review of the quality of financial advice is complete.

Recent reforms and the impact of any changes on consumer protection

The FOFA reforms were aimed at improving the quality of financial advice and in doing so protecting consumers from the harm associated with poor quality and conflicted advice. The reforms to professional standards of financial advisers built on the FOFA reforms by lifting the training, education and ethical standards of advisers. Other recent measures that aim to improve the quality of advice and protect consumers (among other things) include the design and distribution obligations and the breach reporting reforms.

The draft terms of reference are focussed on reducing the regulatory burden and associated cost of giving advice without reference to the critical issues that prompted those reforms and the poor conduct identified by the Royal Commission into Misconduct in the Banking,

Superannuation and Financial Services Industry. In doing so there is no proposed examination of how effective these reforms have been in terms of enhancing the quality of financial advice and consumer protections. This appears to be inconsistent with the Government's response to recommendation 2.3 of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in which it said:

The Government agrees to a review in three years' time on the effectiveness of measures to improve the quality of advice. The Government has introduced reforms to enhance the quality of financial advice, in particular, the reforms to increase the educational, training and ethical standards of financial advisers. It also has legislation before the Parliament to ensure that financial products are appropriately targeted and to give ASIC the power to intervene before a consumer suffers harm. It is appropriate to undertake a review of these reforms, and earlier reforms such as the Future of Financial Advice, to ensure that they are working effectively and improving the quality of advice.¹

In our view, the review should examine the effectiveness of recent reforms to improve the quality of advice and seek submissions to enable the Government to measure the impact of any proposed reforms on consumer protections. It is insufficient to only consider the impact of any changes against the cost and regulatory burden of providing advice.

Recommendation: The terms of reference should expressly consider the effectiveness of recent reforms, including the FOFA reforms, in enhancing the quality of advice and the impact of any changes to those reforms on consumer protections.

Access to quality affordable advice for super fund members

ISA considers it important for the review to consider access to quality affordable advice from the perspective of super fund members. Super is the biggest asset most people own after their home and it is unrealistic to expect every super fund member to pay for personal advice to achieve good retirement outcomes.

In a compulsory superannuation system with poor financial literacy, most members should be able to rely on default settings or guidance from their funds that protect their interests without recourse to personal advice. The Retirement Income Review arrived at a similar conclusion stating, 'Carefully designed defaults, guidance from superannuation funds, as well as accessible and affordable advice at retirement, would help people get better outcomes in retirement'.²

Funds are well placed to provide guidance and advice to members at retirement because of the long-term relationship and trust members build with their superannuation fund. As noted by the Retirement Income Review, given retirement income is the core purpose of superannuation, funds ultimately have a responsibility to provide this guidance to members.

In ISA's view, the review should consider ways to improve access to quality advice, including looking beyond the personal advice model, with specific reference to the regulatory barriers and benefits associated with funds providing limited and targeted guidance to members at scale.

¹ Government response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, p 13

² Retirement Income Review Final Report, July 2020, p 58

Recommendation: The terms of reference should specifically consider the needs of super fund members, and how they can best access the advice or guidance they need to achieve good retirement outcomes.

Education standards for financial advisers

The Government is currently consulting on proposals to lower the education requirements for financial advisers.³ As noted above, the current education requirements formed part of a package of reforms aimed at improving the quality of financial advice.

It is unclear how the government can undertake a review of the quality of financial advice while at the same time lowering standards that go directly to the quality of that advice - which have yet to be fully implemented.

It would be preferable for any changes to the professional standards for financial advisers to be delayed pending the outcome of the review of the quality of advice so that they can be informed by the findings of the review.

Recommendation: The terms of reference should include an examination of the education standards for financial advisers and proposals to amend those standards should be delayed until the review of the quality of financial advice is complete.

If you have any questions, please feel free to contact me at ella.cebon@industrysuper.com.



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³ Education standards for financial advisers, Policy Paper, December 2021