COMBINED PENSIONERS & SUPERANNUANTS ASSOCIATION

Submission to the federal Treasury

Quality of Advice Review

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

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CPSA receives funding support from the New South Wales and Australian Governments

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. CPSA receives funding support from the NSW Government Departments of Communities & Justice and Health and the Australian Government Department of Health.

CPSA appreciates the opportunity to participate in this consultation. Being a membership-based organisation, CPSA's main interest relates to how financial advice can benefit retirees with assets, mostly in the form of an owner-occupied home and financial assets. These retirees are usually, but not necessarily, part-rate Age Pensioners.

CPSA is unable to comment on many of the questions asked in the consultation paper due to lack of financial planning expertise and experience with the day-to-day business of providing financial advice. However, CPSA is able to provide a consumer perspective on the financial advice industry.

CPSA's submission is confined to two issues which in its view should be addressed by the financial advice industry: trust and affordability, in that order.

Trust

As identified in the final report of the Retirement Income Review, poor financial literacy causes many retirees (1) to be anxious about investing generally, believing it to be too risky; (2) to invest their money in cash products, mostly annual term deposits, viewing this as safe and as not an investment; and (3) to be anxious about using the principal of their investment to fund their retirement.

Before the Retirement Income Review had been announced, CPSA developed two publications, *Are you retired and addicted to term deposits?* And *Would you rather be financially secure now or when you're dead?*, which point retirees to financial advice. These publications continue to be popular, which indicates that retirees are not oblivious to their suboptimal investment situation. However, their distrust of financial advisers tends to be strong.

It is curious, but it seems that this distrust does not extend to superannuation funds per se, although coverage of investigation by the Financial Services Royal Commission has prompted a lot of retirees to switch from retail to industry funds, as reported by Rainmaker. Savings in superannuation in retirement appear not to be seen as an investment subject to the usual investment risk, but perhaps as somehow exempt from it. There also does not seem to be an awareness that a superannuation pension account is financial product and financial advice entwined.

A real-life example: CPSA was contacted by a retiree who had a significant superannuation account balance and also substantial sum 'outside of super'. The latter sum accumulated as a result of years of mandatory withdrawals at rates this 75-year-old retiree regarded as too high. This retiree's inquiry was about the continuation or otherwise of the halving of withdrawal rates. However, during the conversation the retiree lamented the fact that this $300,000 was simply 'sitting' in the bank producing no return, whereas if this sum could be put into his superannuation pension account it would produce a decent return.

CPSA fields inquiries like this regularly. A financially secure retiree: (1) limiting drawdown from investments (in and/or outside super) for fear of touching their capital; (2) regarding savings in their super as magically safe investments; (3) unaware that a managed fund does much the same thing as a superannuation fund; (4) exchanging investment risk for the certainty of a negative real rate of return on their savings outside of super.

It is obvious that a lack of financial literacy is at the bottom of all this, but the question is why these retirees have never and will not ever take financial advice.

The question is why the financial advice industry and its regulators do not mark distrust as the root cause of why financial advice is not accessed as widely as it arguably should be. Instead, both industry and regulators point to affordability as the main issue, but affordability is not necessarily the main issue for retirees.

While affordability is obviously an issue, certainly for the majority of retirees who have modest savings, trust is the foremost issue the industry and its regulators have to resolve.

To resolve the issue of trust, financial advice should be provided by a practitioner without direct or indirect links to any financial product providers.

Incidentally, the separation of advice and product should also be a requirement in relation to retail and industry superannuation funds, even though retirees tend to trust superannuation funds and their employees a lot more than financial advice firms and their employees. Funds currently employing financial advisers as part of their interface with members should cease to do so. It would, in the bargain, do away with the extraordinary stricture preventing fund-employed advisers to advise fund members on anything except their fund holdings, ignoring the interaction of superannuation with assets held outside of super and the Age Pension system.

Financial advice should be provided by a practitioner registered and accredited as a financial adviser with a professional body. This is how every type of professional, from accountants to lawyers and architects, operates.

Financial advice must answer the questions of the individual consumer in a form agreed upon between the financial adviser and the consumer. There is no need for the sad cut-and-paste exercise called Statement of Advice.

Remuneration of financial advice should also be agreed on between the financial adviser and the consumer and be in compliance with current laws banning kickbacks to the adviser from financial institutions and all the other types of fees that have assisted to bring the financial advice industry into such comprehensive disrepute and to cause such widespread distrust.

Past regulatory reforms of the financial advice industry have effectively ignored the issue of trust by ignoring the things that have caused consumers to lose trust.

The historical foundation of the financial advice industry in Australia is the selling of life insurance. Through many rounds of reform and inquiries (including a Royal Commission), the industry has managed to perpetuate the (life insurance) sales outlook that is best summarised by: moving product. That outlook is still there among many advisers, although many have left the industry prompted by the requirement for educational qualifications, which will help to professionalise the industry.

Inherent in the moving-product ethos is an acceptance of the conflict of interest that arises when an adviser tries to advise and sell at the same time. It’s why conflicted remuneration had survived more than two decades of reform when finally the Financial Services Royal Commission recommended it should cease. Even now, though, an adviser can advise clients to buy product marketed by their employer or a related party. The misapprehension under which regulators continue to labour is that this conflict of interest can be ‘managed’.

One of those management tools is the best-interests-duty. The best-interests-duty is an odd regulatory provision. It is explicit recognition of the existence of a conflict of interest. Absent conflict of interest in the financial adviser, it is in the best interest of the adviser to advise what is in the best interest of the client, and the best-interests provision would not be necessary.

The safe harbour test is a curious tick-the-box way of complying with the duty to act in the client’s best interests. It is noted that the safe harbour test is not mandatory. However, it appears that ASIC has made the safe harbour test quasi-mandatory.

The regulatory changes that will also have a positive effect on trust are those relating to academic qualifications. These changes have led to an exodus of inadequately qualified financial advisers from the industry. While it appears that remaining financial advisers are not available to people with lower wealth, it can be argued that things like compliance with the best-interests test and the requirement to provide advice in prescribed forms generate unnecessary costs, and that if the giving of advice were rigorously separated from selling financial product, advice would become cheaper and more accessible to people with lower wealth. Also, the combination of improved educational standards and the reduction in compliance red tape is likely to attract the right people to work in the industry.

In general, regulatory reforms aimed at the creation of a culture where professionals are paid for their time and expertise are to be preferred to reforms aimed at making a broken model work.

Affordability

This submission has already touched on the cost effects of the unnecessary red tape currently in place. However, increasing affordability should not just be about cutting red tape.

Financial advice apps, stand-alone or operated by an adviser, have potential as a means of providing low-cost advice to cover common scenarios.

There are obviously two concerns related to trust here. First, financial advice apps should not combine the provision of advice and the sale of a financial product. Second, they should not be owned and/or operated by a financial product provider.

Another observation is about the digital divide: current older age cohorts will not trust the lack of human involvement in apps, and many would not rely on a computer to tell them what to do with their life savings.

Financial advice seems very much suited to a business model along the lines used by tax accountancy firms like HR Block and ITP. There is a place for trained-up but not formally qualified people to work in financial advice, closely supervised by formally qualified financial advisers whose endorsement for each piece of advice would be required. In the same way that most people cannot afford and indeed don’t need a specialised tax accountant to prepare their straightforward tax returns, most people won’t need a fully qualified financial adviser to work out what they should do with their wealth.