

26 September 2022

Quality of Advice Review Secretariat
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: advicereview@treasury.gov.au

Dear Secretariat

SUBMISSION TO THE QUALITY OF ADVICE REVIEW

Colonial First State (CFS) appreciates the opportunity to provide a submission to the Quality of Advice Review.

We also welcome the consultative approach that the review has taken and congratulate the Government on its recognition that reform is needed if financial advice is to be available to the millions of Australians that would benefit from receiving it.

About Colonial First State

Established in 1988, Colonial First State provides investment, superannuation and retirement products to individuals and companies. CFS is also one of the largest account-based pension providers in Australia, and has more than A\$145 billion in funds under management on behalf of around 1 million Australians.

Key observations

Over the last decade, we have seen a significant reduction in the number of registered financial advisers and a fall in the overall number of Australians who are able to access financial advice.

Further, for a number of reasons, it appears that the amount of new advisers joining the industry is insufficient to replace those advisers who are leaving. Research examining this issue suggests that the ratio of advisers leaving the industry versus those replacing them could be as high as around six-to-one.

Should this continue, the already significant challenges associated with accessing affordable financial advice are likely to be exacerbated.

These trends are disproportionately impacting on, and reducing access for, those with lower account balances and/or those who are seeking relatively simple and often single-topic financial advice. This often includes those with lower incomes and women who are less likely to have the financial means to afford financial advice under the current regulatory regime.

As the review recognises, this trend is now unarguable.

Over the last five years alone, the number of advised customer balances that are less than \$150,000 has more than halved, from around 40 per cent in 2019 to less than 20 per cent today. At the same time, the number of advised customer balances over \$500,000 has more than tripled.

Fees associated with a statement of advice have increased by around 40 per cent to over \$3,500 for the typical client over the same period.

The scale of this challenge means it will not be solved by fine-tuning the existing regime. Without meaningful reform, increasingly only wealthy Australians will be able to access personal advice.

We believe the proposals put forward in the review are a step in the right direction and deserve careful consideration. We are also not aware of any alternative proposals that have been put forward which strike a better balance between quality and affordability.

This review provides a timely opportunity to rebalance the regulatory regime such that all Australians have the opportunity to access financial advice to improve their financial wellbeing.

Our observations on financial advice

CFS support the findings of the review that the regulatory framework has created significant barriers to financial advisers providing clients with affordable financial advice.

Our experience working with advisers, including throughout the legislative reforms that have been made over time, has found that they have faced sustained increases in cost and complexity, as well as financial, legal and other risks associated with the provision of financial advice.

We note that government has acknowledged the pressures that these reforms have created for financial advisers and we also welcome recent measures such as the education pathway which recognises the value of experienced advisers to the community and consultation on how education standards for new entrants could be improved. Given ongoing adviser attrition, we encourage government to provide certainty in these areas as soon as possible.

We have also seen a reduction in the number of customers who receive financial advice. Typically these advice arrangements cease due to the increased cost. Necessarily, as the cost of providing advice and the risk associated with doing so has increased, advisers have increasingly focussed on clients with higher balances.

The current legislative framework has also contributed the provision of financial advice that is no longer fit-for-purpose for scaling to different customer needs. For example, the breadth of information requirements and scope of research associated with developing and providing a Statement of Advice can sometimes provide clients more than what they need or want for less complex matters.

The format is also inflexible and is rarely able to be adapted to the way in which people consume most other types of advice or financial information today. There are numerous examples of other personal information provided to households that lacks both the documentary requirements and associated costs of a statement of advice.

Short-form, interim approaches such as the use of the Record of Advice have not been widely utilised as they were limited to narrow use cases and took a layered and prescriptive approach to determining whether they could be used. Whilst well intentioned the practical effect did little to address the costs and risks of providing financial advice. We have seen few examples of improved access to financial advice as a result of it.

In our view we consider that the legislative parameters associated with the preparation and provision of financial advice, has significantly impacted innovation in this area. This affects the level of investment that has been made into improving advice delivery and the way people perceive and value financial advice today.

We also note quantitative research conducted by KPMG for the Financial Services Council, found the average cost of providing comprehensive financial planning advice is now \$5335 per client, vastly exceeding the average cost charged to consumers of \$3660.

At these costs, it means that financial advice is out of reach for most Australians under the current framework. Consumer analysis that we have reviewed indicates that the price that consumers are willing to pay is substantially lower than the production cost.

Need for good financial advice

CFS has a significant interest in improving access to financial advice. We have a large customer base with diverse investment and retirement goals, who we believe would benefit from the provision of good advice. We also see the benefits of good advice across a number of dimensions – be it tailoring insurance within superannuation or customers making better long term decisions during market volatility.

The reasons and type of financial advice people want can vary more widely than might be realised.

Based on our own experience, we have found that the level and type of advice sought by customers does not always strictly align with the way in which personal – and often comprehensive – advice is typically provided today.

In some cases, advice is sought on a budgeting or cash-flow basis, at other times it relates to life events or changes in personal circumstances – for better or worse. At other times the advice sought can be quite specific and transactional, such as nominating a beneficiary correctly or seeking further information regarding a different investment option/product as compared with their current product.

The complexity of our retirement incomes system means most Australians will need assistance to get the most out of their retirement, yet based on the volume of member inquiries we receive, it is clear that there is a gap between the level of interest in receiving some level of personal financial advice and the level of advice that is currently being provided.

This suggests that there is not only a need to address the regulatory settings that have resulted in the prevailing advice model, but to also consider the changes that would support a wider variety of advice being provided in different ways.

As in other areas, consumer preferences are evolving such that there is an increasing need for financial advice to be delivered in different ways. Some customers may prefer a level of simple digital advice which allows them to interact with the advice to see the impact of making different decisions, whilst others have a preference for receiving advice that has been prepared by an experienced adviser who can assist them with their understanding and implementation of the advice.

Comments on the proposals

We welcome the review acknowledging the value of good financial advice.

We believe that a legislated requirement for relevant providers to provide good advice is a welcome simplification that would support more advice without diminishing the outcomes consumers should expect from any advice they receive.

The current input-based approach has become an unduly compliance-driven exercise, the results of which are now clear from a cost perspective. It is therefore very difficult to see how a meaningful reduction to the current cost of advice can be achieved without a genuine examination of the legal duties and requirements that are currently in place.

We also support the retention of a robust consumer protection framework so that clients can have confidence in the financial advice that they receive. Maintaining a fiduciary duty towards clients should continue to apply. The existing misconduct and misleading and deceptive conduct requirements should also continue.

Earlier reforms that abolished conflicted remuneration outside insurance have delivered a long-term structural shift that has benefited consumers.

We also support an annual consent approach where advice is provided on an ongoing basis and believe the changes to fee consent requirements put forward in the paper will reduce regulatory burden and risk without diminishing consumer protection.

Importantly, under the proposals as we understand them, customers will still continue to determine the arrangements they enter into with financial advisers and any fees payable.

We encourage the Review to assess how the proposals reflect a technology-neutral approach that allows customer information to be used and advice provided in a way that is natural and proportional for a customer's needs from the relevant provider.

Scope of our submission

Our submission does not comment on matters that the review is continuing to assess.

CFS supports a return to a growing and vibrant financial advice sector.

We have been proud to work with financial advisers since 1988 and together to have played our part in supporting Australians in achieving their retirement objectives.