Future of Advice

6 August 2020

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1. Executive Summary

1.1 Our brief

This report has been commissioned by the Financial Services Council (FSC) and aims to help its project to shift the national dialogue for Financial Advice by articulating the need, clarifying the model, and securing the value of Financial Advice for Australians.

This report analyses the current landscape for Financial Advice within Australia. Using this information, it presents a series of recommendations which aim to address the issues facing individuals seeking advice and the practitioners who are expected to satisfy this need.

We note that commentary on the educational requirements to which financial advisors are subject falls outside the scope of this report.

Following this summary, our report is structured in four sections as follows:

- The *Need for Advice*, in which we consider the:
  - needs of Australians when it comes to taking advice in different areas
  - the size of the market needing advice
  - the delivery and pricing of the service.
- The *Value of Advice* separated into:
  - quantifiable (tangible) benefits
  - intangible benefits such as peace of mind
  - the economic value to the community of the service.
- The current regime and the need for change. We highlight weaknesses in both the cost and the delivery of advice to consumers.
- A *proposed model* which seeks*:*
  - simplification
  - affordability
  - accessibility
  - consistency
  - quality of advice*.*

1.2 The need for advice

The need for Financial Advice has been well documented. In the current volatile economic conditions, it is even more important that consumers receive sound guidance about their finances.

Most Australians are unable to manage their finances without support due to the complexity of markets, products, legislation, and taxation. Few people have the financial literacy to navigate through this alone.

The advice is required for a wide range of topics, from budgeting and cash flow management, to investing, saving for retirement, and protecting assets and human capital through life insurance. An individual's circumstances change through life cycles and they need advice periodically to take into account these changes. We consider the types of distribution channels and the price that people will pay for advice.

1.3 The value of advice

We list some of the public research which calculates the value of advice by showing outcomes before and after receiving the service.

We have provided various cameos to show the impact of a range of actions made after receiving advice. However, in some scenarios, once fees are considered, much of the value is dissipated (see Section 3.1.5 - Implications), indicating that the cost of delivering simple advice is too high.

We show that people who receive advice are generally happier, with an improved peace of mind.

On a macro level, we set out that advice leads to higher wealth which in turn leads to lower dependency on government benefits such as the Age Pension.

1.4 The current regime and need for change

The current regime was developed when conflicted remuneration was the norm, and many products provided poor value. The focus is still on selecting the right product, even though many products, such as MySuper, carry relatively low risks for consumers.

The delivery of advice is not structured around the risks borne by consumers, so simple advice has the same complex and lengthy processes as high-risk advice. This drives up the cost to consumers to unsupportable levels. If advice is delivered in a cost-effective manner, this will improve trust in the sector.

There are many people, including disadvantaged groups, who currently do not obtain Financial Advice because they cannot afford it. Any process that will lower the cost of advice will benefit these people.

The government has attempted to improve standards by raising the education of financial advisers. However, the current approach has led to a reduction in the number of financial advisers both through large numbers leaving the industry and fewer new advisers joining. This leads to lower levels of advice being delivered to the community – and at a cost which is too high for most consumers.

1.5 Recommendations

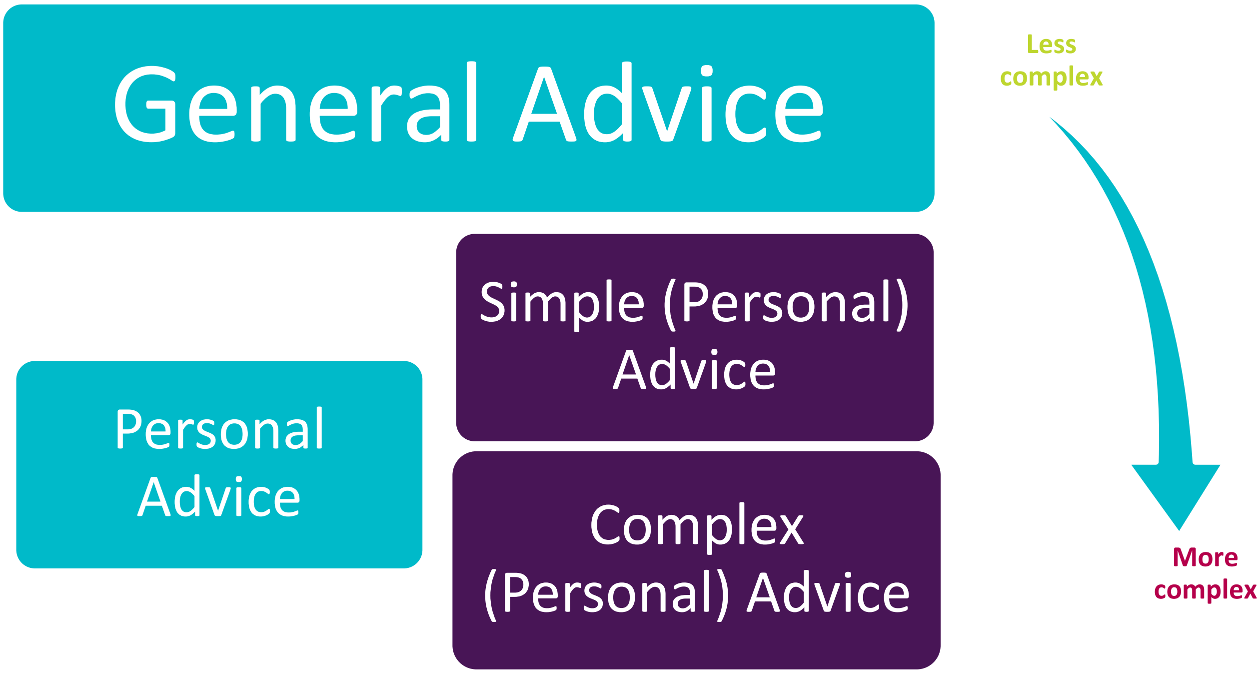
1.5.1 New definitions of financial advice

We recommend the following new legal definitions:

- **General Information:** which will incorporate the existing definitions of Education, Information and General Advice.
- **Personal Advice:** to be simplified (for delivery purposes) by separating it into *Simple* and *Complex* based on the extent of risk for the consumer:
    - **Simple Personal Advice** – This is advice that deals with well understood financial needs and Financial Products. Specifically, those that are nominated under Design and Distribution Obligations (DDO) as being for average family consumers.
    - **Complex Personal Advice** – This is advice that is not *Simple Advice* but should also specifically include products and strategic topics that are known to be complex and/or risky.

Figure 1 provides a visual representation of how this structure might manifest.

Figure 1. New definitions of financial advice



It is important that advice is capable of being allocated to these categories objectively as opposed to the current system which can be vague and subjective. While the FSC will need to work with industry and the Australian Securities and Investments Commission (ASIC) to fine tune this, we have provided a guide in Appendix A (Matrix of sample mappings). This lists the proposed treatment of the common types of financial advice.

1.5.2 Best Interest Duty

We recommend that the duty, and the obligations placed on an adviser to show they have met the duty, need to be adapted to suit the category of advice being provided under 1.5.1. We expect that this will lead to a simplification of the duties. In delivering:

- Simple Personal Advice, it should be sufficient to review the case without needing a comprehensive analysis of the consumer's needs.
- Complex Personal Advice, the Best Interest Duty should be reviewed as the existing process is complex and time-consuming.

1.5.3 Encouragement to take financial advice

We recommend that Australians be able to deduct the cost of Financial Advice for tax purposes, up to (say) $500 a year for single people and $1,000 a year for couples.

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2. The Need for Financial Advice

2.1 Difficulties for consumers and advisers

Managing one's financial position is a challenging task. Consumers have a need to avoid poor decisions. At its core, Financial Advice is needed to help people maximise their income, to make the most of that income, and to avoid financial difficulties. People need advice because of a lack of knowledge, confidence or experience, or a combination of these and receive significant psychological benefits from being and feeling more in control.

Their task is made harder by a confusing financial environment with its backdrop of taxation, mandatory superannuation, social security benefits (including the means-tested Age Pension), and other government programs as well as a bewildering array of products whose individual value can be difficult to determine even for specialists.

Research shows that those who obtain advice accumulate 3.9 times more assets after 15 years than those who make their own decisions (including doing nothing)[1]. This is partly due to a lack of financial literacy, despite many programs to improve this in the community. Furthermore, the complexity of the system makes it difficult for consumers. The financial planning industry should, therefore, be thriving.

There is also a need for the system to be set up to minimise the delivery of poor or conflicted advice. In a world where grandfathered remuneration has ended, solutions still need to be designed appropriately, and be cost-effective for consumers, providing a strong impetus for individuals to seek assistance.

For practitioners, the current operating environment provides several impediments. The intersection of technological change, requirements on adviser education, training, and ethical standards along with fallout from *The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (the Royal Commission) and other reviews have created a plethora of operating hurdles which impede the delivery of quality information to Australians.

2.2 Intangible benefit

Financial Advice can maximise the upside, and limit and minimise the downside, of financial decisions. However, simply focusing on a potential monetary value-add ignores other aspects such as the comfort of being secure.

We also need to consider the behavioural aspects of consumer decision making in respect of advice. Their perceived need for advice is what drives the market. Consumers need to have a recognition of the need for advice, a willingness to engage with advisers and a willingness to pay. Their willingness to engage will depend on their perception of the potential for favourable outcomes, but it will also depend on their perception of risk – and the cost.

The need for advice is quantifiable and systemic, but also personal and context sensitive.

[1] The Gamma Factor and the Value of Financial Advice.

2.3 Where advice is needed

2.3.1 Cash flow

Cash flow is at the heart of all financial plans. It provides for daily living. It provides for the little extras. It provides the wherewithal to build for the future. Managing cash flow and budgeting are the key to financial planning. They are the yoke that links all elements of a financial plan together. However, only 22% of Australians want Financial Advice on this topic[2].

Whilst the most common process of cash flow management, budgeting, is generally quite simple and not regarded as Financial Product Advice, the process can become complex. Assets and income must be managed to ensure that commitments can be met when they fall due.

2.3.2 Building and using assets

This is the key purpose of financial planning beyond ensuring a viable and comfortable daily life. We all know that we will not be able to work forever, so making sure that there are investments to work for us when we cannot, is critical to our planning. We want to provide for our dependents.

The most common purposes for which advice is needed are:

- Retirement funding – Building a sufficient asset base to provide a comfortable lifestyle in retirement. This frequently extends beyond superannuation to include property and other assets.
- Retirement income management – For those in retirement, ensuring that assets produce sufficient income to meet living costs and aspirations and ensuring that income generated is maintained throughout life, no matter how long that is.
- Estate planning – Ensuring that assets are disposed of efficiently on death.

In addition to providing advice on the accumulation and use of assets there will also be a need to properly structure those assets and to change that structure as circumstances change.

2.3.3 Debt

Debt is the enabler for many if not most financial plans. It allows asset purchases to be made ahead of cash flow receipts and it smooths cash flows and provides a stop gap if something goes wrong. Debts create a demand for cash flow that must be managed and can trap people who use it to live beyond their means. For example, research has shown that consumers are nearly 50% more likely to consider seeking help for managing debt than for general money management[3].

2.3.4 Risk control

Risk control (typically, but not only, in the form of insurance) ensures that financial plans are not derailed by adverse events:

- Assets must be managed to ensure that their value is available when it is needed to meet the cash flow needs of a financial plan.

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[2] ASIC report 627 – *Financial advice: What consumers really think*.

[3] Citizens Advice – The preventative advice gap: how money advice can help people avoid financial Difficulties.

- There must be insurance to:
  - Protect assets that could be at risk due to sudden change in circumstance.
  - Replace the cash flow that could be lost due to death or disability.
  - Remove the need for cash flow in these circumstances by paying off debt.
  - Provide the capital value to replace what would have been accumulated from income.
- Insurance also plays a role in ensuring that retirement incomes can be maintained even throughout a long life by sharing risks between those who die younger and those who live longer.

2.4 Drivers of the need for advice

The specific advice needs of individual consumers depend on several factors:

- age
- socio-economic status
- gender
- geographic location
- engagement.

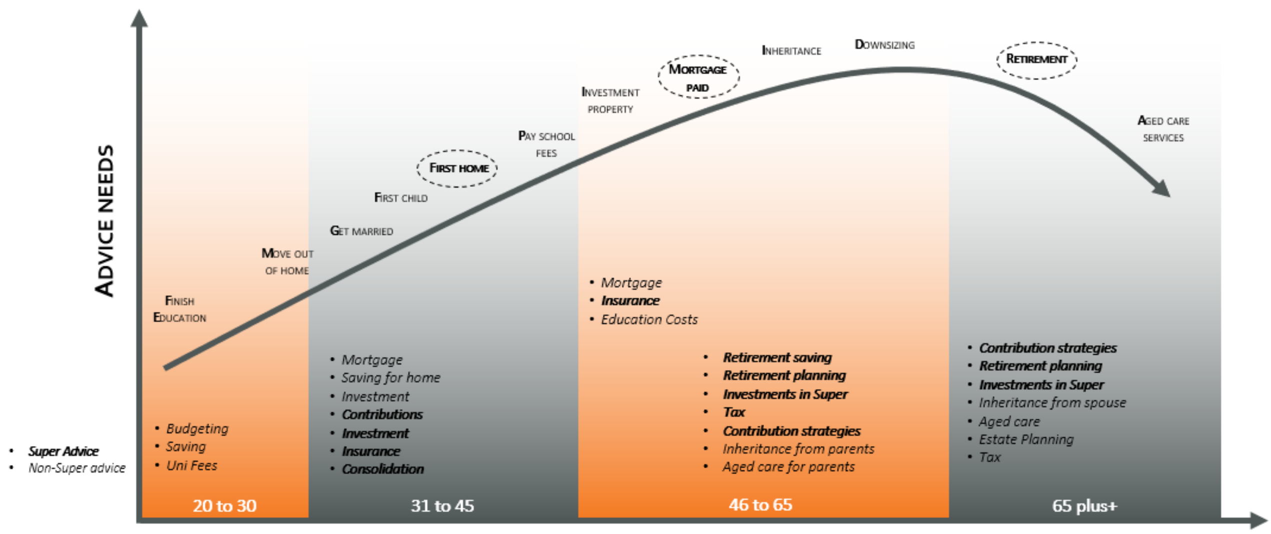
2.4.1 Age

The accumulation of assets is strongly correlated with age because the process takes time. Younger consumers generally need advice on budgeting and cash flow to ensure maintenance of their living standards and to provide the wherewithal to build a future asset pool.

As they get older, they will increasingly require assistance with their assets and debt and protection for their growing families. Later still, they will need advice on how to use their assets in retirement.

Financial Advice is driven by life stage. This is demonstrated in Graph 1.

Graph 1. Advice needs by age



2.4.2 Gender

While in broad terms, men and women require the same types of advice, women can have some special needs because they disproportionally perform certain social roles. For example, childcare or care for the elderly. Due to these social roles, women may experience greater disruption to their income generating capacities which will in turn impact their needs for cash flow and the availability of assets later in life.

2.4.3 Socio-economic status

The types of advice needed, and the complexity, does depend on the level of wealth. Those with:

- Low incomes generally need advice on budgeting and consumer credit because they generally do not have sufficient resources to commit to long term debt or the accumulation of assets.
- Middle incomes will still have the need for budgeting and consumer credit, but also need assistance with asset building and long-term debt.
- Those on high incomes will have more complex needs and frequently require sophisticated advice on asset structuring.

2.4.4 Geographic location

The critical special need for regional and remote consumers is not so much the type of advice, but rather access to that advice.

2.4.5 Consumer engagement

A large portion of the community does not engage with financial matters. The barriers for consumers to getting Financial Advice include[4]:

- Viewing the cost as too high (35% of respondents).
- Issues of mindfulness or priority (33% of respondents) including having thought about seeking advice or having not gotten around to seeking advice where required.
- Viewing their financial situation as too limited for it to be worth getting Financial Advice (29% of respondents) or could not see the value in consulting a financial adviser (18% of respondents).
- Preference to manage their finances themselves (26% of respondents).
- Lack of trust of financial advisers (19% of respondents).

For many of these individuals, their financial needs are the same as for those who do engage. However, due to their lack of engagement, they are vulnerable to poor decision making. Education and awareness raising can lift the level of engagement, but the real need for this group is for solutions that do not require significant advice. They need products that provide strong defaults, supplemented by advice at different times in their lifecycle.

We note that technological tools such as robo-advice can guide consumers toward strong defaults, but they are underutilised. This is supported by research produced by ASIC which found that only 1% of surveyed participants had used robo-advice, despite 19% of participants being open to robo-advice once it was explained to them[5].

[4] ASIC report 627 – *Financial advice: What consumers really think*.
[5] ASIC report 627 – *Financial advice: What consumers really think*.

2.5 Size of market needing advice

In this section, we quantify the market size for advice according to the primary predictors of need, namely age and socio-economic status. For this work, we have used the results from Rice Warner's *Superannuation Projections* model which includes a demographic and wealth projection of the Australian population. We consider the population both at the most recent date for which data is available, 30 June 2019 and a projection to 30 June 2029.

2.5.1 Population

Table 1 and Table 2 show the estimated population for age bands and wealth quartiles. The wealth quartiles are based on the population as a whole and split by age in Table 1 and Table 2. The colour coding is to assist with visualisation of the differences between the distribution of people and assets in the next section. *White* denotes smaller and *Red* bigger. Wealth is assessed as a combination of Income and Assets by deeming an income from assets and adding this to earned income to create the rating factor which is then used to rank the population.

It shows that the Australian population is weighted toward those under the age of 65, with the lower wealth quartiles being biased toward younger individuals and the upper quartiles being biased toward older individuals. This is the result of younger individuals having typically lower salaries than older individuals, and these individuals having had less time to accumulate assets.

Table 1. Target population 2019 (000's)

Population ('000)	Under 25	25-35	35-45	45-55	55-65	65-75	Over 75
Lowest 25%	1,387	905	571	548	578	662	576
Middle 50%	1,325	1,859	1,715	1,620	1,464	1,218	991
Top 25%	552	1,054	1,101	1,047	895	402	178
Total	**3,264**	**3,817**	**3,386**	**3,215**	**2,937**	**2,282**	**1,744**
% of total	**15.8**	**18.5**	**16.4**	**15.6**	**14.2**	**11.1**	**8.5**

Table 2. Target population 2029 (000's)

Population ('000)	Under 25	25-35	35-45	45-55	55-65	65-75	Over 75
Lowest 25%	1,634	1,012	735	587	638	816	717
Middle 50%	1,449	2,037	2,108	1,747	1,554	1,353	1,426
Top 25%	640	1,185	1,351	1,138	958	591	409
Total	**3,724**	**4,234**	**4,194**	**3,472**	**3,150**	**2,759**	**2,552**
% of total	**15.5**	**17.6**	**17.4**	**14.4**	**13.1**	**11.5**	**10.6**

Much of the Australian population is below the age of 65, but the proportion above the age of 65 is expected to increase from 19.6% in 2019 to 22.1% in 2029. The numbers by age band provide an indicator of the aggregate demand for the various types of life-cycle based advice as shown in Graph 1.

2.5.2 Assets

Table 3 and Table 4 show the aggregate assets held by individuals by age band and wealth quartile as of 30 June 2019 and as projected as of 30 June 2029. It shows that 67.8% of assets are held by Australians aged between the ages of 45 and 75.

Table 3. Total assets held 2019 ($B)

Wealth quartile	Under 25	25-35	35-45	45-55	55-65	65-75	Over 75	Total	% of total
Lowest 25%	26.2	29.4	26.1	26.6	49.9	144.3	182.3	**484.7**	**8.7**
Middle 50%	44.1	142.1	233.8	324.1	499.6	554.9	326.3	**2124.8**	**38.0**
Top 25%	41.3	172.4	359.8	587.9	915.0	684.5	218.5	**2979.4**	**53.3**
Total	**111.6**	**343.8**	**619.7**	**938.6**	**1,464.5**	**1,383.6**	**727.0**	**5,588.8**	**100.0**
% of total	**2.0**	**6.2**	**11.1**	**16.8**	**26.2**	**24.8**	**13.0**	**100.0**	

Table 4. Total assets held 2029 ($B)

Wealth quartile	Under 25	25-35	35-45	45-55	55-65	65-75	Over 75	Total	% of total
Lowest 25%	2.4	46.4	49.0	76.6	128.8	157.0	205.7	**665.9**	**7.2**
Middle 50%	16.5	176.1	374.3	505.4	718.6	846.2	594.6	**3231.6**	**34.8**
Top 25%	21.1	279.6	711.0	991.1	1344.6	1283.5	769.7	**5400.5**	**58.0**
Total	**40.0**	**502.1**	**1,134.2**	**1,573.1**	**2,192.0**	**2,286.6**	**1,570.0**	**9,298.0**	**100.0**
% of total	**0.4**	**5.4**	**12.2**	**16.9**	**23.6**	**24.6**	**16.9**	**100.0**	

There is a distinct skew in asset holdings to the wealthier and older members of society and this skewness increases with time. In 2019, 37.8% of assets are held by those over the age of 65, whereas by 2029, 41.5% of assets will be held by this group.

2.6 Delivery of advice

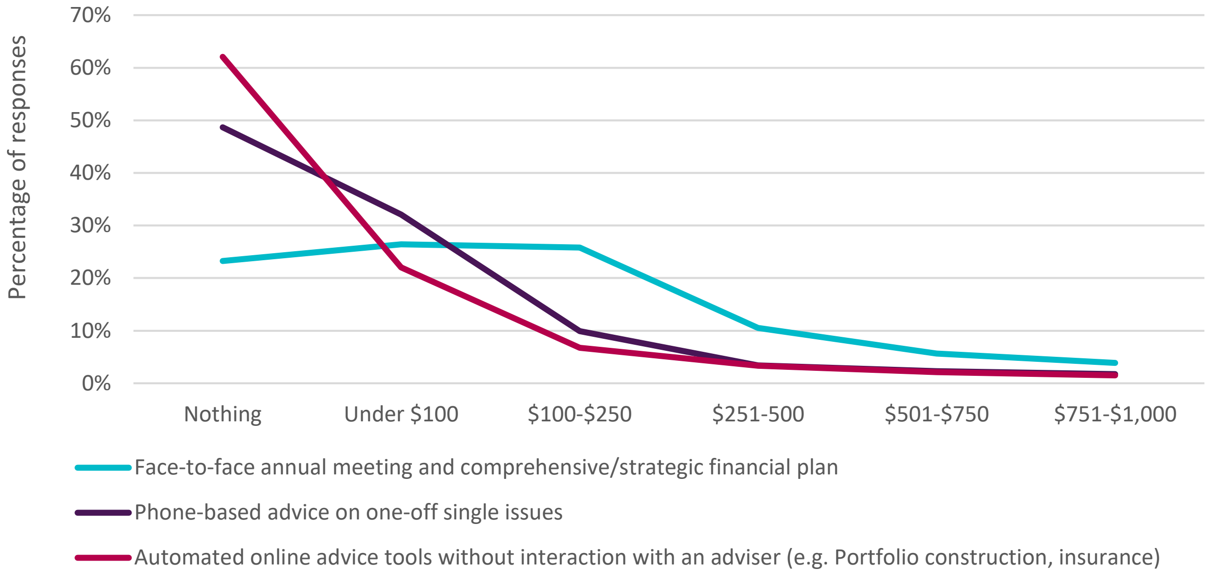
Juxtaposed against this need for advice, we have considered the willingness of individuals to pay to address this need and the methods of delivery that individuals are willing to use to address this need.

2.6.1 Pricing

Graph 2 shows the fee levels that consumers are willing to pay based on consumer testing research conducted by Rice Warner in 2018. The chart shows the percentage of consumers willing to pay fees at each price point for different types of advice. It shows that:

- Most consumers do not want to pay more than $500 for comprehensive, face to face advice.
- For automated online and phone-based advice, nearly 50% do not want to pay any fee at all, and many consumers will elect not to take advice from superannuation funds if a fee is charged.
- Over 60% are unwilling to pay anything and only a very small percentage are willing to pay more than $250.

Graph 2. Willingness to pay fees for advice

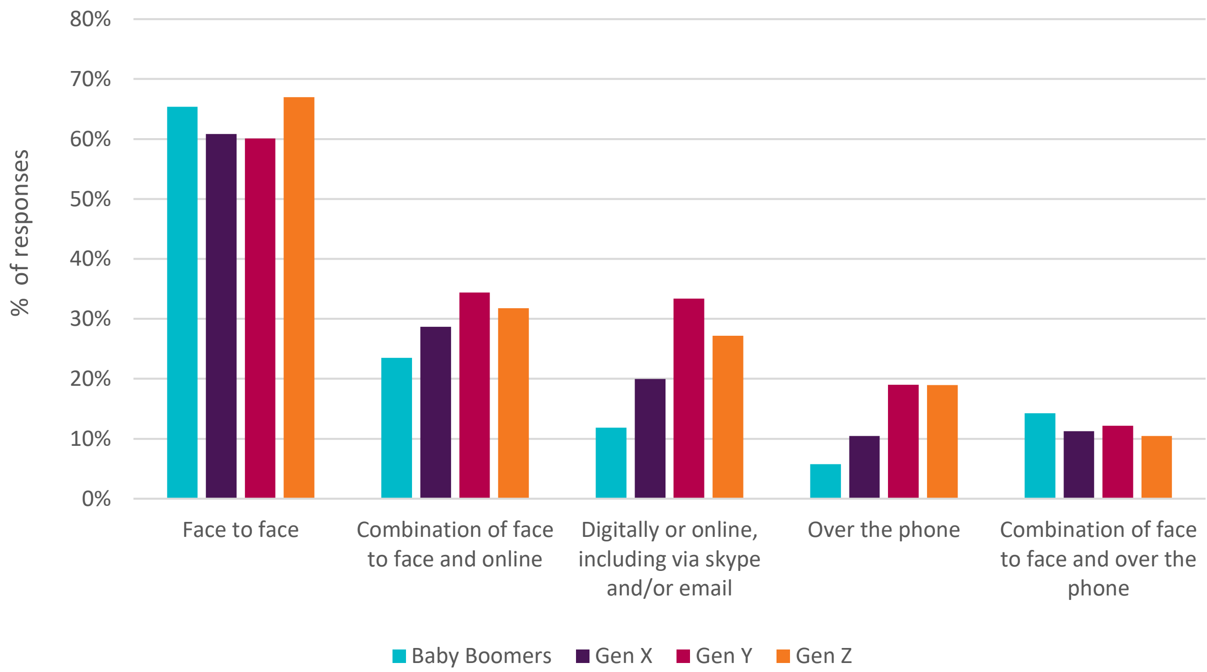


2.6.2 Use of advice channels

There is growing concern regarding the viability of face to face advice given cost constraints, but consumer attitudes show that all forms of advice will be needed. Graph 3 shows the preferences for the various delivery channels for advice. It shows that:

- Face to face advice is the preferred method of advice delivery across all generations.
- Younger generations (Generation Y and Z) are more comfortable with digital or phone-based advice than older generations (Generation X and the Baby Boomers).

Graph 3. Consumer attitudes to methods of advice delivery



3. Value of Advice

Research suggests that, through addressing their need for Financial Advice, consumers create value. We have considered this value in three categories, namely:

- *Tangible value* - the quantifiable financial benefit that an individual gains through advice.
- *Intangible value* - the non-quantifiable and non-financial benefits provided through advice relationships.
- *Economic value* - the benefits which flow to the broader economy, through greater use of advice.

3.1 Tangible value of advice

3.1.1 Literature review

In quantifying the value of advice, we note that there is a plethora of pre-existing research. This research typically demonstrates that there is a positive value of advice (for most) and that the value derived from advice is dependent on a wide range of demographic and socio-economic factors. For example:

- Russell Investments estimated in 2018 that a full suite of adviser services could be worth up to 3% per annum to an investor[6].
- The FSC estimated in 2011[7] that the provision of savings advice would lead to an individual being between $29,000 and $91,000 better off at the point of retirement. In this research individuals who received advice at a young age received greater value.
- Survey-based research conducted in 2014[8] demonstrated that investors who received advice over:
  - Four to six years accumulated 60% more assets than those individuals who had no advice.
  - Periods exceeding 15 years accumulated 290% more assets than other comparable households.

3.1.2 Methodology

Our analysis has considered a series of cameos[9], to quantify the increase in retirement benefits an individual might achieve by taking advice. In these cameos we have considered three levels of advice:

- *No advice* - in which the individual is assumed to invest and save in line with population averages.
- *Savings advice* - in which the member is assumed, through the advice they receive to:
  - Commence making additional contributions to superannuation (in line with industry averages for their age and wealth profile).
  - Save an additional 2.8% of their salary within their personal wealth (based on a 14%[10] increase to overall savings where 20% of this increase is assigned to personal investments).

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[6] Russell Investments – *Why do I need financial advice?*
[7] Bridges – Financial advice makes a difference.
[8] The Gamma Factor and the Value of Financial Advice.
[9] A cameo is a hypothetical example which is constructed to resemble a set group of individuals. It is used in modelling to demonstrate the likely experience of the group in the circumstances being modelled.
[10] Griffith University, *Financial Planning Research Journal*, Volume 5. Issue 1, 2019.

- *Asset allocation advice*, in which the member's:
  - Personal wealth is re-allocated in line with the traditional superannuation portfolio to provide a diversified mix of asset classes.
  - Superannuation wealth is unchanged, on the basis that re-allocation of superannuation investments is typically outside the scope of basic holistic advice.

In demonstrating the added value from these levels of advice, we have considered five member profiles to illustrate the impact of both age and wealth. We have considered:

- Three different ages, namely 25, 40 and 55, with the member's wealth and income profile modelled based on the median individual at these ages.
- Three different wealth bands of a member aged 40, modelled at the 10th percentile, median and 90th percentile for people of this age.

Table 5 outlines the starting position of each of these cameos.

Table 5. Cameo starting positions

Cameo	Age	Wealth percentile	Starting Super wealth	Starting Personal wealth	Starting salary
				($)	
Younger age	25	50	10,500	20,000	54,000
Low wealth	40	10	6,500	14,000	25,000
Middle aged/ moderate wealth	40	50	75,000	50,000	81,000
High wealth	40	90	205,000	125,000	186,000
Older age	55	50	120,000	85,000	60,000

3.1.3 Results - Age

Graph 4 and Table 6 show the estimated real-dollar and annualised percentage-point increase in wealth at the point of retirement realised through taking advice for a median individual aged 25, 40 and 55. They show that:

- For these average Australians, advice will likely add value to both an individual's superannuation and their personal wealth. For most, this value will be greatest in the personal wealth component of their wealth portfolio due to the strong existing default structures within superannuation, namely:
  - Mandatory savings through the superannuation guarantee.
  - Diversified default investment options with high allocations to growth assets.
- Asset allocation advice provides the greatest cumulative increase in funds at retirement when this advice is taken at younger ages. This is because younger individuals have a greater investment period over which to compound the benefits of higher rates of return.

Graph 4. **Total wealth at retirement, age based scenarios for various levels of advice**

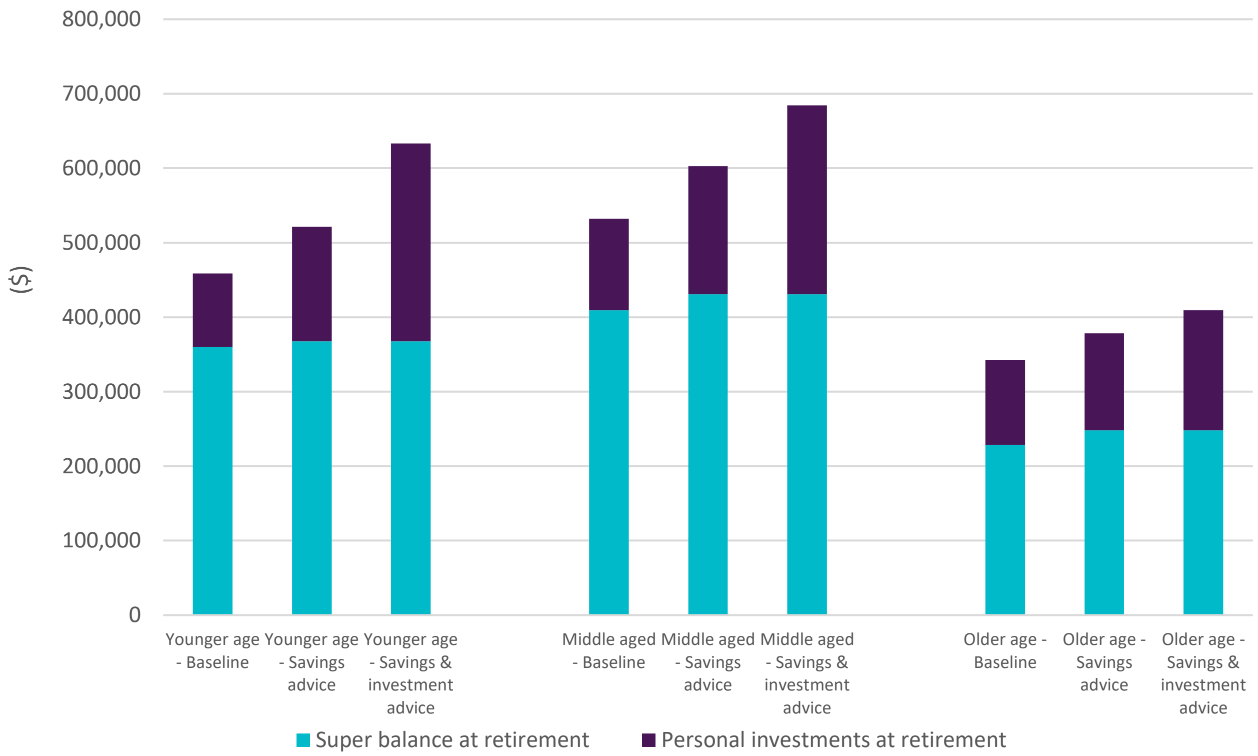


Table 6. **Annual per annum uplift in wealth at retirement at different ages for various levels of advice**

Cameo	Savings advice			Savings plus asset allocation advice		
	Super balance at retirement	Personal investments at retirement	Total wealth	Super balance at retirement*	Personal investments at retirement	Total wealth
	(% p.a.)					
Younger age	0.05	1.05	0.31	0.05	2.37	0.77
Middle age	0.19	1.24	0.46	0.19	2.71	0.93
Older age	0.68	1.13	0.84	0.68	2.96	1.50

* There is no incremental increase for superannuation wealth in taking asset allocation advice as the member is assumed to remain in the MySuper portfolio provided by their fund.

3.1.4 Results - Wealth

Graph 5 and Table 7 show the estimated real-dollar and annualised percentage-point increases in wealth at the point of retirement realised through taking advice for a 40 year old individual at the 10th, 50th and 90th wealth percentiles. They show that:

- Irrespective of wealth, for an individual aged 40, approximately half the value of the *full* advice scenario is derived from simple advice in respect of savings.

- Individuals who occupy low socio-economic wealth bands are expected to gain more from advice than those who are wealthy. This reflects the tendency of these individuals to:
  - Save less of their disposable income (in proportional terms).
  - Allocate assets to safe but low-yielding asset classes (such as Cash and Term Deposits).

Graph 5. Value of advice – increase in total wealth due to savings advice

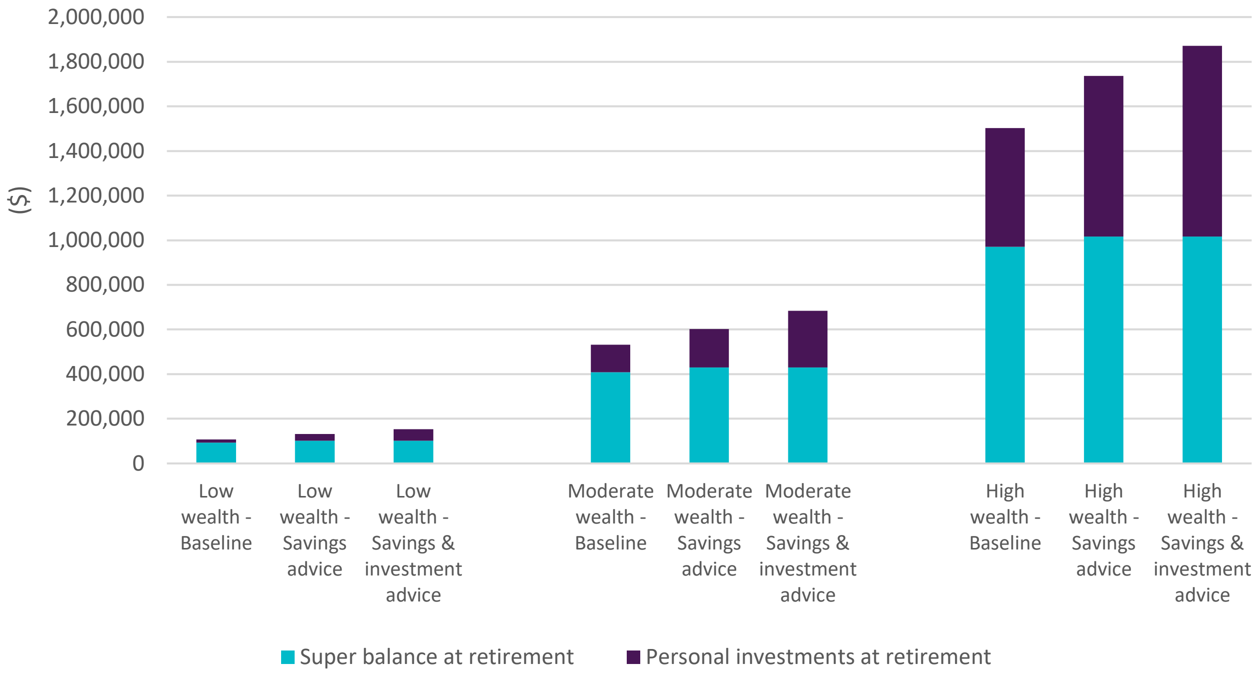


Table 7. Value of advice - annualised returns

Cameo	Savings advice			Asset allocation advice		
	Super balance at retirement	Personal investments at retirement	Total wealth	Super balance at retirement*	Personal investments at retirement	Total wealth
	(% p.a.)					
Low wealth	0.28	3.09	0.77	0.28	5.09	1.33
Moderate wealth	0.19	1.24	0.46	0.19	2.71	0.93
High wealth	0.17	0.67	0.37	0.17	1.31	0.65

* There is no incremental improvement for superannuation wealth in taking asset allocation advice as the member is assumed to remain in the MySuper portfolio provided by their fund.

3.1.5 Implications

These results indicate that seeking Financial Advice will add value (through higher wealth at the point of retirement) for most Australians on a before-fees basis Further, in cases where an individual does not wish to be advised on their total portfolio, our results suggest that taking limited advice on specific elements of one's financial situation can lead to material benefits. For example, taking advice on savings, or the construction of portfolios for an individual's private wealth.

We note that our analysis has been conducted on a before-fees basis. This has been done as the fees charged for advice vary widely based on investor wealth, portfolio complexity and adviser value-proposition. The specific impact of fees will therefore depend on individual cases, but our results indicate that ongoing advice fees of 1% of portfolio value per annum would lead to advice being a net-detractor for many Australians on a purely financial basis. Even a fee of 0.5% per annum, which is becoming more common, would be a significant detractor from the value of the advice provided.

3.2 Intangible value of advice

Beyond the quantifiable financial benefits of advice, research suggests that advice adds value through improvements to quality of life. This is supported by research produced in 2019 which identified that advised individuals perceived the emotional aspects of an advisory relationship to represent 45% of the total perceived value of advice[11]. Amongst the added benefits, studies have found that:

- People who are advised have greater levels of overall happiness.
- People who are advised have greater piece of mind.
- Taking advice can lead to improved relationships due to the alleviation of money-related issues.
- People who are advised may have better health.

Table 8 outlines the research that supports these benefits, noting that this review did not seek to fully canvas the range of intangible benefits of advice.

[11] Vanguard – Assessing the value of advice.

Table 8. Summary of research into intangible benefits

Area	Paper	Finding
Greater levels of happiness	IOOF white paper	Individuals who are advised have 13% greater levels of overall personal happiness than non-advised individuals.
Greater levels of happiness	Advice and Limited Advice Report by Investment Trends	Across individuals who use a financial planner as their main source of advice: ▪ 87% said their adviser made a positive or significantly positive difference to their life. ▪ 89% said their most recent discussion with their financial planner was valuable or very valuable.
Improved peace of mind	IOOF white paper	Surveys of advised clients suggested that advice lead to: ▪ 21% more peace of mind with regards to their financial future. ▪ 20% increased feelings of security regarding their day to day finances.
Improved peace of mind	MLC Wealth Submission – RIR	Surveys of advised clients suggested that advice lead to: ▪ 79.4% of clients being instilled with improved peace of mind. ▪ 81.5% of clients feeling that Financial Advice has left them more confident about making decisions.
Improved relationships	IOOF white paper	Surveys of advised clients suggested that advice led to: ▪ 19% less likely to have arguments with loved ones about money. ▪ 21% less likely to have their personal relationships impacted due to concerns about money.
Improved health	IOOF white paper	Consumers who do not receive professional ongoing advice are 22 per cent more likely to have their sleep disrupted due to concerns about money than non-advised clients.

3.3 Benefits to the economy from increased advice

Beyond the direct impact on those individuals who receive advice, the increased provision of advice to Australians is likely to have ancillary benefits to the economy. These benefits include higher rates of economic growth and fiscal benefits (e.g. reduced reliance on the Age Pension and other welfare benefits).

In this section we consider the economic impacts which might result from a system in which there was greater prevalence of advice. We consider the impact on national savings and fiscal expenditure on the Age Pension as direct consequences of this scenario.

3.3.1 Methodology

In assessing the economic impact of the increased provision of advice, we have employed Rice Warner's comprehensive econometric model of the Australian financial market[12]. This model considers superannuation, non-superannuation investments and housing. The model shows aggregate fiscal outcomes including tax receipts and allowances, and the Age Pension.

[12] Developed in conjunction with Industry Super Australia (ISA).

Using this model, we have estimated the potential impact of increased provision of advice through a hypothetical scenario in which individuals earn an additional 1% per annum return their invested assets[13]. This scenario aims to capture the hypothetical benefits which might be realised through a greater proportion of the population taking advice.

In producing these results, we would highlight that these figures reflect a hypothetical scenario which is likely to overstate the economic gain observed in practice because these results assume, that:

- Across the Australian population, most individuals receive full financial advice.
- In cases where individuals receive advice, the additional uplift after fees is a uniform 1% pa.

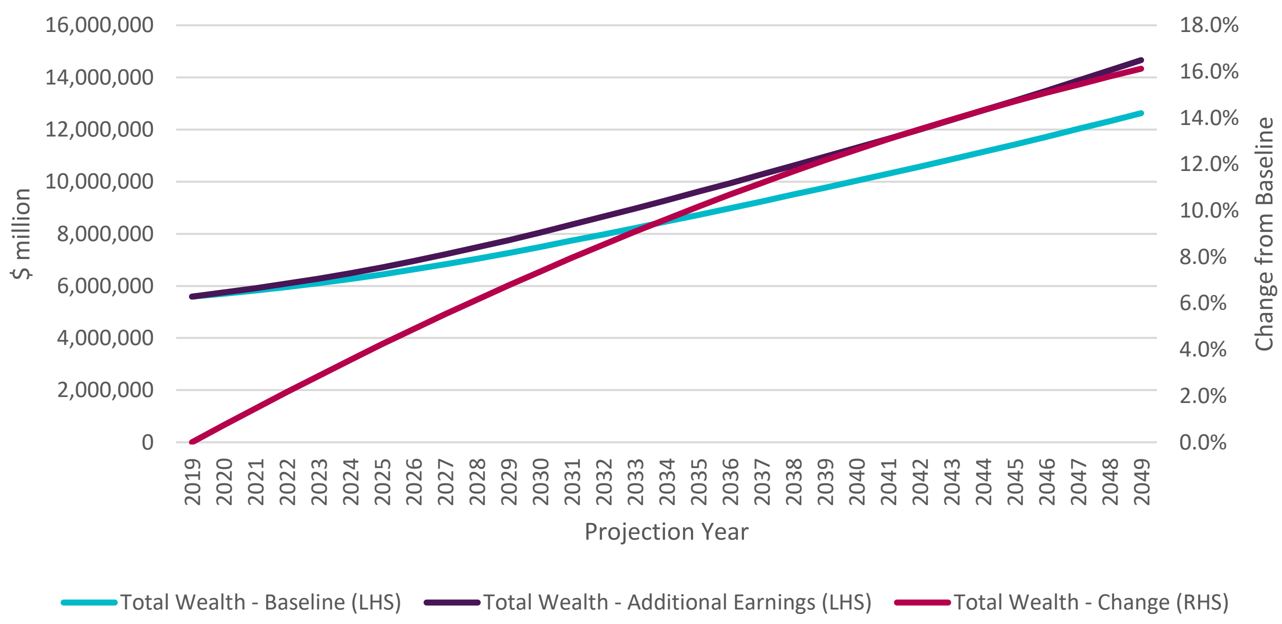
Nonetheless, we believe that this scenario provides a suitable indication of the quantum of results which could be achieved through improving the advice regime.

3.3.2 Impact on National Savings

Graph 6 shows our projected change in national savings (exclusive of debt) both now and in the next 30 years using Rice Warner's baseline assumptions and in the event of a 1% pa uplift in earnings. It shows that if greater provision of advice led to a 1% pa uplift in the investment earnings achieved by Australians then:

- National savings would increase by approximately $2.0 trillion in today's dollars over a 30-year period (corresponding to an uplift equal to approximately 49% of projected Gross Domestic Product at that point).
- Annual growth in national savings would increase from 2.8% per annum to 3.3% per annum.

Graph 6. Projected National Savings, 2019-2049, Baseline and with 1% p.a. increase in earnings rates

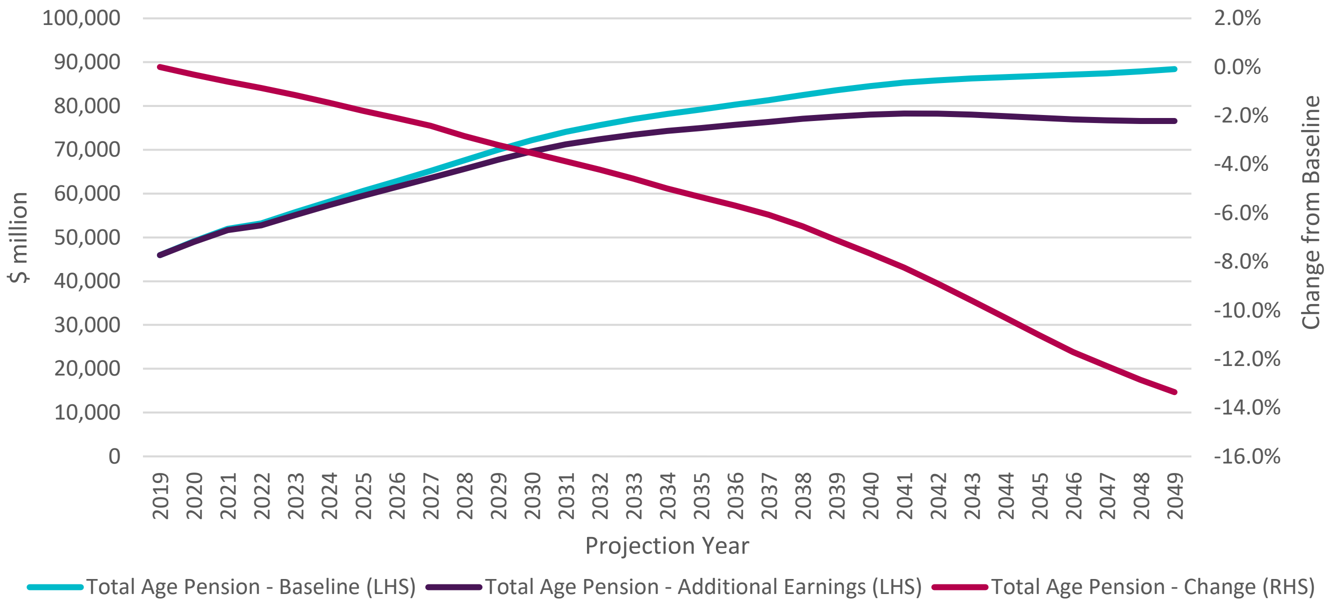


[13] We have used a margin of 1% pa based on the findings of Section 4.1 (Tangible Value of Advice) which estimated that the additional *annualised return* of savings and asset allocation advice ranged from 0.65% to 1.50% depending on the demographic profile of the individual.

3.3.3 Age Pension

Graph 7 shows a projection of Age Pension expenditure over the next 30 years comparing Rice Warner's baseline assumptions with the scenario in which earnings are 1% p.a. higher in all asset classes. It shows that under this scenario expenditure on the Age Pension would fall by approximately 13% by 2049, with this decrease accumulating at a largely constant rate over the projection period. This reflects the application of the Means Test to the increased national savings.

Graph 7. Projected Age Pension expenditure, 2019-2049, Baseline and with 1% p.a. increase in earnings rates



4. Current regime and need for change

4.1 Definitions

The current definitions of services supporting consumers are not always clear to them and are difficult to deliver by advisers.

The broad legal definitions used by ASIC are:

- **Education** – Helping consumers understand topics (e.g. what is an equity; what taxes apply to superannuation?).
- **Information**[14] – Providing facts about products or services (e.g. setting out the fees on a product). Any provision of information should not offer any recommendation or statement of opinion intended to influence the client.
- **Financial Product Advice** – This is what is regulated by legislation and regulation and is advice which evaluates, compares, or makes recommendations about one or more Financial Products.
- **Financial Products** – These are financial instruments or services defined as such in the legislation. Not all financial instruments are Financial Products – e.g. mortgages are not.
- **General Advice**[15] - This is advice provided without using personal information about the consumer (even if you know something about the consumer). Giving out a Product Disclosure Statements (PDS) without any commentary on a product's merits is Information but telling someone (say) that the investment is suitable for superannuation is General Advice.
- **Personal Advice** – This is advice provided in relation to specific issues after considering personal information about the consumer.
- **Scaled Advice** - Personal advice about one or more topics (but is not expected to be Comprehensive, only specific to a topic).
- **Intra-fund Advice** - Scaled advice about one or more topics which includes personal information about the consumer and their interest in a single superannuation fund in which they are already a member.
- **Comprehensive Advice** considers all the personal circumstances of a consumer.

In addition, there are areas where consumers receive important strategic advice which falls outside the legal definitions. An example is advice about budgeting and saving. This is an important aspect of any financial plan – if you cannot spend less than you earn, you simply cannot save. Yet advice on this matter is often delivered by Money Coaches or Charities without the need to comply with any formal licensing regime.

[14] RG 36 defines Factual Information.
[15] RG 244 – Giving information, general advice and scaled advice.

4.2 Documents

Consumers will not read long complex documents. For example, research has shown that 16% of surveyed respondents have not read any PDS documents relating to their financial products while a further 35% have only read some of the PDS. Only 13% of respondents had read each PDS in detail[16]. This implies that consumers rely on government regulations to protect them. Today, most of the material contained in a PDS and other documents is inserted to protect product issuers rather than to inform consumers. The complexity adds to the cost of delivering financial advice.

Similarly, the content of Statements of Advice (SoA) is focused on compliance rather than assisting consumers to understand their plan. The length and complexity of SoA's increases the likelihood of error and the majority, like house mortgage contracts and general insurance policies, go largely unread. This complexity has diluted the delivery of an SoA's core function, that is, to inform the client about the advice they are receiving.

This complexity based on compliance concerns will only be resolved through a comprehensive revision of the regulations related to the provision of Financial Advice. The recent relief provided by ASIC because of the Covid-19 pandemic to allow the simpler Records of Advice to be used in place of SoAs is a good illustration of the issue. Consultation with FSC members found that, although the measure was welcome, it was seldom used because of concerns that it conflicted with the Best Interests Duty. Compliance has overridden convenience even in very difficult circumstances.

4.2.1 Product Disclosure Statements (PDS)

While it is outside the Financial Advice regime (and the scope of this report), we consider it necessary to comment on PDS documents as they are an integral part of the documentation provided as part of an advice service. SoAs inform clients about the advice they are receiving. PDSs inform them about the product or products they are receiving.

In the first instance, they should be reduced in size. The Financial Advice industry cannot make the delivery of advice simple if these documents remain voluminous. As an example of simplification, some generic information could be held on ASIC's Money Smart site with a referral within each PDS. As an alternative and supplement to this, the FSC could co-ordinate the production of industry standard brochures containing the ASIC information, for distribution to consumers.

Documents have become more voluminous as the regulators have developed additional warnings or information. An example is this requirement from ASIC on fees for investments:

Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns. For example, total annual fees and costs of 2% of your account balance rather than 1% could reduce your final return by up to 20% over a 30-year period (for example, reduce it from $100,000 to $80,000).

In practice, consumers reading this statement would expect that the product they are purchasing is offered at a reasonable price. Yet, even expensive products carry this statement. It would make more sense to place this on the ASIC site and show the product fees relative to peer products in deciles. For example, *our fees are in the middle range of products*.

[16] Insurance Council of Australia - Consumer Research on General Insurance Product Disclosures.

We note that the FSC has worked on some simplification of these documents in the past. By way of alternate models, the superannuation industry has produced two-page *key facts sheets* as part of the *Insurance in Super Code* which is another model.

4.2.2 Advice documents

There is a range of documents used in the process delivering Financial Advice. The number of documents has grown over time in response to the developing regulatory environment. The keys ones are:

- **Fact Find** - The adviser has an obligation to *know their client*. This requires collection of information to do the analysis accurately. This information would include personal details, financial situation (wealth, annual income, and budgeted expenditure), health information (if applying for life insurance) and details of any Financial Products held including superannuation.
- **Fee Disclosure Statements (FDS)** [17] - This sets out the services provided in the last 12 months and the fees levied for them.
- **Statement of Advice (SoA)** - A lengthy document that confirms the advice received from a licensed financial planner or adviser.
- **Record of Advice (RoA)** – A shorter and less formal document, being the equivalent of an SoA. It is given to existing clients to confirm changes to, or implementation of, advice provided in a previous SoA.
- **Opt-in requirement –** This requirement (for clients joining after July 2013) is for financial advisers who have an ongoing fee arrangement with a retail client to obtain their client's agreement at least every two years to continue the ongoing fee arrangement.

Many of these documents are lengthy, particularly an SoA where a range of needs are addressed, and a range of products might be compared. There is no flexibility in using these documents; the requirements are similar whether the advice is simple, single issue or complex. Further, there is no triaging based on the risks faced by a consumer – so simple risk-free advice has the same legal requirements as a high-risk plan or recommendations regarding high risk products; this leads to higher costs than most consumers will bear.

4.3 Education

With the aim of making the delivery of Financial Advice more professional, the government now requires all advisers to obtain a tertiary degree in financial planning under the Financial Adviser Standards and Ethics Authority (FASEA) regime. These requirements might improve standards for those offering comprehensive advice, but they have not considered complexity, consumer risks nor specialisation. Nor have they considered other qualifications which are already appropriate for many forms of advice. In fact, the changes create a ***barrier*** to many people who seek to provide these services and to consumers who seek to access them.

The intent is to raise the minimum educational standard for all financial planners since a specialised, tertiary degree is perceived to be a hallmark of a professional. Unlike other professions, there is no legal education relating to specialisation in any advice practice area; once you are a financial planner, you can practice in any segment from life insurance through to retirement planning. The licensee (Australian Financial Service Licence (AFSL) holder) self-determines the areas where an adviser should be authorised to provide advice.

[17] See ASIC RG 245.

While the objective of higher standards is admirable, the implementation has been woeful. According to Adviser Ratings[18], the number of advisers leaving the industry is at record levels, a 15% decline last year and an anticipated further 36% fall over the next five years. The reduction in advisers will make Financial Advice more difficult to obtain and more expensive.

The position will deteriorate further in future. As an example, qualified accountants and actuaries who want to transfer into a financial planning role will receive virtually no recognition for their education and skills. Even though their training is far more complex than that of a financial planner, they are arguably more skilled in delivering some of these services, and they operate under rigorous professional regimes. Consequently, there is a huge barrier to other professionals becoming advisers.

The essential problem is that the law regards all Financial Advice (outside single-issue advice) to be complex and risky for consumers. In many cases, the regime enforces an unnecessary expensive complex process which simply increases costs.

4.4 Delivery of advice

To provide Financial Advice today, an adviser must either be personally licensed or be an Authorised Representative of an AFSL holder (dealer group or Licensee) and must meet the minimum education standards.

In the case of intra-fund advice, Call Centre operators do not need to be licensed. However, they must follow a prescribed script and be supervised by a someone who is RG 146 compliant.

4.5 Approved Product Lists

Advisers need to have a basis for recommending a Financial Product, so they generally confine their advice to those on an Approved Product List (APL). These are products that have been researched, generally by the research department of a Licensee.

APLs act as a limit on the scope of advice. As an example, an adviser might review the arrangements of a couple approaching retirement. If one member of the couple is in a fund not on the APL, it is easier to leave them in their own fund, rather than reviewing the merits of their own fund and their partner's fund. This is inefficient and may well be sub-optimal, but the requirements for moving a client to a different fund are onerous.

Many APLs have few options due to the difficulties in researching a wide range of products.

[18] https://www.smh.com.au/money/planning-and-budgeting/clients-left-in-limbo-as-financial-advisers-head-for-the-exits-20200214-p540xi.html

4.6 Best Interest Duty[19]

All financial advisers are subject to a *Best Interest Duty*.

When providing personal advice to a retail client, this requires them:

- to act in the best interests of their clients
- provide appropriate advice
- warn the client if the advice is based on incomplete or inaccurate information
- prioritise the client's interests over their own.

This requirement makes sense, but it is difficult to apply to single-issue advice which will not consider the client's full financial requirements, strategies, and goals.

4.7 Barriers to taking advice

The current regulatory regime as discussed provides several barriers to consumers who need to or want to take advice. These are at many levels, but some key ones are:

- Value – the service is partially intangible, and the value is difficult for consumers to quantify.
- Cost – Financial Advice as currently regulated is costly to deliver and consumers believe it to be too expensive in relation to what they perceive as its value.
- The delivery of the advice service is heavily focused on compliance rather than the client's strategy.
- It is particularly difficult to provide simple advice efficiently.

The scope of advice as contemplated by legislation and regulation is too loose, and the delivery needs to be clarified.

[19] RG 175.

5. Proposed future model

We recommend a new model which is partly predicated upon introduction of ASIC's Design and Distribution Obligations (DDO). This structure reduces the risk of consumers being placed in inappropriate products. The carve out for MySuper products from DDO indicates that the controls on their distribution are at least equivalent to DDO and can provide a model for wider application.

To make an impact, the new model must meet the following criteria when dealing with the needs of most Australians:

- Simplification – It must be easy for consumers to understand and it must be delivered cost-effectively. This means simpler processes, shorter, better documentation delivered in multiple channels, and improved ways of delivering simple advice which does not carry high risks for consumers.
- Affordability – The price of simple advice needs to be reduced to a level where consumers believe it offers value.
- Accessibility – It should be easy for consumers to seek out and obtain Financial Advice which meets their needs.
- Consistency – There should be a level field across different structures and channels.
- Quality of advice – Obligations and rules should relate to the complexity of advice and the risks for consumers. This also allows qualifications to be tailored to the type of advice presented.

A new model will be successful if it significantly increases the number of Australians receiving Financial Advice and if this advice is provided at a lower cost than is available today.

5.1 Proposed model

5.1.1 New structure

We recommend the following new legal definitions:

All advice would be in one of two categories:

- **Strategic Advice** – This is advice used to assist a consumer to control their finances and set a financial plan. Its purpose is to determine the mix of generic Financial Products, and the size and timing of the financial commitment to each, that a consumer would need to meet their identified goals. This advice could influence a consumer to decide to purchase or change a Financial Product or service or indeed their spending behaviour. However, it would not be advice recommending any product.
- **Financial Product Advice** - This continues to be advice which evaluates, compares, or recommends one or more Financial Products or services. Financial Product Advice would be required to implement any Strategic Advice but could be provided without Strategic Advice.

The classification of advice will be under the following headings:

- **General Information:** which will incorporate the existing definitions of Education, Information and General Advice.
- **Personal Advice:** to be simplified (for delivery purposes) by separating into *Simple* and *Complex* based on the extent of risk for the consumer.
  - **Simple Personal Advice** – This is advice that deals with well understood financial needs and Financial Products (such as MySuper) and specifically those that are nominated under DDO as being for average family consumers.
  - **Complex Personal Advice** – This is advice that is not *Simple Advice* but should also specifically include products and strategic topics that are known to be complex and/or risky.
  - **Specialised Advice** – This is *Complex Personal Advice* relating to a specialist field which is outside the skillset of most practitioners and requires specific expertise. Examples include:
    - investing in derivatives, CDC's or other complex asset classes
    - Aged Care
    - advice on Self-Managed Super Fund's (SMSF)
    - advice for small businesses.

5.1.2 Rationale for change

This is an attempt to align Financial Advice with consumer perceptions and risks.

General Information should be freely given as it informs consumers. The major restraint should be on accuracy and avoidance of unreasonable claims such as promoting a product as suitable for a specific consumer or being the best in field.

Personal Advice is to be simplified by separating into *Simple* and *Complex*. This is done to facilitate easier (and cheaper) delivery of **Simple Personal Advice** and to reflect the risks associated with the delivery of such advice. For example, most intra-fund advice related to a MySuper product should be Simple Personal Advice. The concepts of Intra-fund and Single-Issue advice will become redundant.

Another example is someone buying life insurance for the first time. This could be categorised as Simple Personal Advice if simply adding to the cover in their MySuper product, but Complex Personal Advice if they consider all life insurance needs for an individual, family or business. However, any later discussions, renewal or product changes should be easier for a consumer to understand and should carry lower risks. Therefore, the later advice could be downgraded to Simple Personal Advice.

Complex Personal Advice would involve advice on multiple topics and prioritisation of goals as well as advice dealing with complex topics like Estate Planning. Some areas will require specialised knowledge and expertise. These are designated as **Specialised Advice** and would be expected to have specific, extra regulatory requirements or guidance.

Strategic Advice could fall into any of the above categories. For example:

- General Information would include advice used to assist a consumer to control their finances and to set a financial plan. It would include advice on budgeting and savings as well as any advice (unrelated to product) on debt management or mortgages.

- Simple Personal Advice would include superannuation contribution strategies, determining the size of a life insurance need, or looking at goal priorities (should I pay off a mortgage before putting extra into super?).
- Complex Personal Advice would include the plan for complex situations such as a comprehensive pre-retirement plan (again, not including any product recommendation).

Financial Product Advice – will continue much as it is now and will relate to the recommendation of specific Financial Products to suit a consumer's specific circumstances. Advising on a house mortgage would be Simple Personal Advice whereas a mortgage on an investment property would be Complex Personal Advice. Importantly, it could be focused purely on product selection and provided without Strategic Advice.

Regulation can be greatly simplified if it is aimed at the elements of advice as laid out here. These simplifications would go to the processes involved in giving the advice as well as the necessary training and qualifications of the deliverers.

5.2 Examples of Advice

Appendix A – Matrix of sample mappings, sets out some common types of advice and shows where they would lie in the new structure.

5.2.1 General Information

This can be delivered freely without any need for an advice licence and without formal education in financial planning. However, the FASEA Code of Ethics (as suitably amended) should still apply.

We need to be clear that when we indicate that no formal education should be required, we do not imply that the deliverers of these services should have no expertise or knowledge, merely that the level of expertise or knowledge required is such that a formal, especially tertiary, qualification is not necessary.

This will allow several organisations to work ***in this area*** without being subject to unnecessary regulations:

- Academia
- Accountants
- Media
- Researchers
- Financial counsellors
- Financial commentators
- Call Centre operators[20]
- Counter staff/Tellers.

Where General Information is provided by a Registrable Superannuation Entity or Responsible Entity or a holder of an AFSL, they need only state that they are providing General Information and must ensure that the staff providing this General Information are not, in any way, seeking to persuade the consumer that the product is suitable for them and their circumstances.

[20] Noting that calls would be triaged so that Personal Advice is handled appropriately.

The cost of delivering this advice will be considerably cheaper than under the current regime.

Examples of General Information include:

- education providing facts which increase a consumer's knowledge
- insights from journalists
- explaining material contained within a PDS
- showing the impact of expected returns and risks of different investment strategies
- describing the different types of life insurance.
- rating products based on facts (researchers)
- aiding with budgeting and saving (accountants).

5.2.2 *Simple Personal Advice*

The concept of Simple Personal Advice is to simplify the delivery of low-risk strategies or products. It would include the existing intra-fund and single-issue advice services.

It is intended that much of this advice could be delivered through online tools backed by Call Centres. The material should be signed off by experts (who are not necessarily Financial Advisers) and the Call Centre team should be led by a qualified Financial Adviser.

Similarly, a client wanting to renew their life insurance could be managed by someone qualified to do so at a lower requirement than applies today. However, a recommendation to change an insurer or policy would be Complex Personal Advice.

The intention is to significantly simplify the initial Fact Find and the SoA.

Examples of these services include:

- Savings and budgeting support (such as the work done by a Money Coach or accountant).
- Mortgage broking.
- Life insurance needs and strategies.
- Debt reduction.
- Savings (showing the value of an insurance bond; showing the value of savings due to compound interest).
- Superannuation contributions (value of additional contributions; impact of pre- or post-tax contributions).
- Asset allocation (linked to when funds will be withdrawn from a pension account).
- Modifying an existing product by increasing premiums, adding contributions, or making a higher investment.

It is important that a Code of Ethics be maintained for all these services.

Advice on new products could still fall under Simple Personal Advice. Examples include:

- Australian Prudential Regulation Authority (APRA) regulated superannuation products provided they are MySuper products or nominated for use by retail investors under DDO.

- Life insurance products nominated as being suitable for retail investors under DDO providing investments and/or death benefits only.
- Advice relating to re-configuring an existing product. This would be equivalent to the current Intra-fund Advice but would extend the concept to all products. It would include products that were acquired following the provision of Complex Advice.
- Consolidation of life insurance, investment, or superannuation where the surviving contract is an approved one – recognising we will need simple guidelines for this.
- Home mortgages.

Note that financial advisers will be able to deliver some types of advice more cheaply by using suitable staff to prepare Simple Personal Advice.

5.2.3 Complex Personal Advice

This is advice that is not Simple Personal Advice and is intended to deal with concepts that are more difficult to understand or where the risk and impact of making the wrong decision is both high and substantial:

- Retirement strategies.
- Transition to retirement strategies.
- Estate Planning including tax planning.
- Advice on investments in direct equities, or riskier investment strategies such as managed funds.
- Any gearing strategy (including mortgages on investment properties).
- Retirement Planning /Adequacy.
- Any Financial Product Advice not classified as Simple. This would include products with high capital value risks like derivatives and those with intrinsic gearing and those with low liquidity like private equity, property syndicates, and direct property. It would also specifically include all products not nominated under DDO as being suitable for retail consumers.
- Aged Care.

Once these strategies are established, any future advice on many of these matters might revert to being Simple Personal Advice.

Advice on some of these topics and products, because of their specific risks and complexities, would be categorised as Specialist Personal Advice and nominated as requiring specific expertise and processes.

5.2.4 Advice on Financial Products

The law has been written to protect consumers against the worst risks – losing money through inappropriate investments, paying too much, or taking risks which are too high for their circumstances.

Many activities do not carry these risks, yet the level of regulation does not differ. With the new DDO legislation[21], the risks associated with placing unsuitable consumers in risky products will decrease.[22] These proposals would complement the DDO obligations by focusing compliance and regulation on risky products and risky areas of advice.

5.3 Documents

Documents need to be tailored to the complexity of the advice and the risk exposure of the consumer.

For **Simple Personal Advice**, the following documentation would be needed:

- Fact Find – this needs to be related to the advice given. For example, if the advice is related to insurance, a simple Insurance Needs analysis is needed as occurs now with intra-fund advice on life insurance.
- RoA – A simplified document can be provided for this service. It can include details on fees charged for the service.

For **Complex Personal Advice**, the key change should be to reduce the time required to prepare a plan and to cutback the size of the SoA.

5.4 Best Interest Duty

The test of *Best Interest* will be much easier to achieve with Simple Personal Advice cases. Effectively, this is sensible guidance which carries a lower level of risk than Complex Personal Advice. That should lead to much simpler documentation and reduced cost of delivery.

We note that the Best Interest Duty should recognise that what is in a consumer's best interest will change as and when their circumstances change.

There is an issue with superannuation in relation to the consolidation of funds. Consumers will still need to be cautioned about lost insurance benefits – especially now that *Putting Members Interest's First* (PMIF) and *Protecting Your Super Package* (PYSP) changes mean that some, particularly younger, members may not have life insurance.

There are areas where more pragmatism is required. For example, it should be easy to consolidate into any MySuper fund on the basis that APRA maintains a reasonable standard for all products in this category and that most consumers have homogenous needs.

This structure would operate much as it does today, but the system would be considerably simplified - the *Best Interest Duty* should relate to satisfying the *Know-Your-Client* obligations and then with setting the right strategy for the consumer.

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[21] DDO applies at point of sale, so there still would need to be guidance about retaining suitability if circumstances change later.

[22] There is an ongoing issue about getting consumers to read and understand documents. Some of this could be simplified by standard wording and education.

5.5 Approved Product Lists

These lists could be expanded, provided the additional products do not add significant risk to the consumer. For example, any MySuper product should be acceptable given the high standards of oversight from the regulator. Similarly, any retail life insurance policy could be on an APL as the standards for life companies are high. Licensees would not need to maintain specific APLs in relation to these low risk products.

5.6 Encouragement to take financial advice

Most Australians do not obtain Financial Advice as they do not value it (see Section 2.6.1 - Pricing). If we can make it more accessible by simplifying the system and thereby reducing costs and the perceptions of risk, it will benefit the users and taxpayers alike.

Most forms of Financial Advice generate growth in taxable income and put people in a position where they will use lower social security benefits over their lifetime. Therefore, Australia will benefit if more people use this advice.

Given the value added by financial advice, and its part in generating future taxable income, there are arguments for making it tax-deductible up to a reasonable limit. This has been promoted in the past, but government has been reluctant to allow this on the grounds that it would be a cost to revenue. This is inconsistent given other costs of generating taxable income are deductible.

To our knowledge, the government has not tried to calculate the benefits which might flow from encouraging more Australians to take advice. Rice Warner has done work on *underinsurance* to show the cost of not obtaining financial advice; we have also shown the *Retirement Savings Gap* from low levels of personal saving in superannuation. More needs to be done to improve the levels of insurance and savings.

We are aware that tax-deductibility can have the impact of increasing the cost of a service, examples include Child Care and Private Health Insurance. Further, the objective is to encourage middle-Australia to obtain advice, not to reward wealthier people. Consequently, the amount of tax-deductibility need not cover complex situations nor be over-generous.

To provide an order of magnitude, we consider an annual amount of $500 per individual (or $1,000 a couple) should be deductible. This amount should also reflect our expectation that the cost of delivering advice will fall considerably under the new model.

Appendix A Matrix of sample mappings

Table 9 provides an example of how various types of advice could be categorised. It is not intended for direct implementation.

Table 9. Sample mapping examples by type of advice

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Cash flow budgets	Saving	Low	Low	Strategy	General Information	Not Financial Product Advice	Annual	Cash flow spreadsheet or equivalent	Para Adviser, Software
Cash flow budgets	Investments	Low	Medium	Strategy	General Information	Not Financial Product Advice	Annual	Cash flow spreadsheet or equivalent	Para Adviser, Software
Saving via ADI	Saving	Low	Low	Product	N/A	N/A	1 to 3 years	N/A	N/A
Mortgage: Owner occupied home	Saving	Low	Low	Product	N/A	N/A	10 to 20 years	N/A	N/A
Mortgage: Investment Property	Investments	Medium	Low-Medium	Product	Simple Personal Advice	N/A	10 years	RoA	Para Adviser, Software
Life insurance: Need	Life Insurance	Low	Low-Medium	Strategy	Simple Personal Advice	Personal Financial Product Advice	3 years	RoA	Para Adviser, Software
Life insurance: Market compare/select/ implement	Life Insurance	Medium	Medium	Product	Simple Personal Advice	Personal Financial Product Advice	10 - 20 years	SoA	Adviser, Software
Life insurance: Implement existing product	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Life insurance: Product renewal	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser
Total and Permanent Disability Cover: Need	Life Insurance	Low	Low-Medium	Strategy	Simple Personal Advice	Personal Financial Product Advice	3 years	RoA	Para Adviser, Software
Total and Permanent Disability Cover: Market compare/select/ implement	Life Insurance	Medium	Medium	Product	Complex Personal Advice	Personal Financial Product Advice	10 - 20 years	SoA	Adviser, Software
Total and Permanent Disability Cover: Implement existing product	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Total and Permanent Disability Cover: Product renewal	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser
Income Protection Cover: Need	Life Insurance	Medium	Medium-High	Strategy	Simple Personal Advice	Personal Financial Product Advice	1 year	RoA	Para Adviser, Software
Income Protection Cover: Market compare/select/ implement	Life Insurance	Medium-High	High	Product	Complex Personal Advice	Personal Financial Product Advice	10 - 20 years	SoA	Adviser, Software

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Income Protection Cover: Implement existing product	Life Insurance	Low-Medium	Low-Medium	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Income Protection Cover: Product renewal	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Trauma insurance: Need	Life Insurance	Medium	Medium-High	Strategy	Simple Personal Advice	Personal Financial Product Advice	3 years	RoA	Para Adviser, Software
Trauma insurance: Market compare/select/ implement	Life Insurance	Medium-High	High	Product	Complex Personal Advice	Personal Financial Product Advice	10 years	SoA	Adviser, Software
Trauma insurance: Implement existing product	Life Insurance	Low-Medium	Low-Medium	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Trauma insurance: Product renewal	Life Insurance	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Investment Strategy: Structuring of portfolios, utilisation of product categories	Investments	Low	Low	Strategy	General Information	Unclear		RoA	General Staff, Para Adviser

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Investment Strategy: Managed and cash products	Investments	Low	Low	Strategy	Simple Personal Advice	Personal Financial Product Advice		RoA	Para Adviser, Software
Investment Strategy: Broad scope	Investments	Medium	Medium-High	Strategy	Complex Personal Advice	Personal Financial Product Advice	5+ years	SoA	Adviser, Software
Investment Strategy: Broad scope including gearing and/or derivatives or equivalents	Investments	Medium-High	High	Strategy	Specialised Personal Advice	Personal Financial Product Advice	5+ years	SoA	Adviser, Specialist
Managed Funds: Single manager or asset class	Investments	High	Low-Medium	Product	Complex Personal Advice	Personal Financial Product Advice	5+ years	SoA	Adviser
Managed Funds: Multi-manager or diversified portfolio	Investments	Medium	Low-Medium	Product	Simple Personal Advice	Personal Financial Product Advice	5+ years	SoA	Para Adviser, Software
Shares	Investments	High	Medium-High	Product	Complex Personal Advice	Personal Financial Product Advice	5+ years	SoA	Adviser, Specialist
ETFs	Investments	Low	Medium	Product	Simple Personal Advice	Personal Financial Product Advice	5+ years	RoA	Adviser, Specialist
Tax and gearing	Investments	High	High	Strategy	Complex Personal Advice	Personal Financial Product Advice	5-10 years	SoA	Adviser, Specialist

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Contribution strategy	Superannuation	Low	Low	Product	Simple Personal Advice	Personal Financial Product Advice	5-40 years	RoA	Para Adviser, Software
Consolidating accounts: MySuper only	Superannuation	Low-Medium	Low-Medium	Product	Simple Personal Advice	Personal Financial Product Advice	Immediate	RoA	Para Adviser, Software
Consolidating accounts: Other including Defined Benefit	Superannuation	Medium	Medium-High	Product	Complex Personal Advice	Personal Financial Product Advice	Immediate	SoA	Adviser, Specialist
Pre-retirement	Retirement	Medium	Low-Medium	Strategy	Complex Personal Advice	Personal Financial Product Advice	Immediate	SoA	Adviser, Software
Retirement	Retirement	Medium	Low-Medium	Product	Complex Personal Advice	Personal Financial Product Advice	25 years	SoA	Adviser, Software
Consolidating retirement accounts	Retirement	Medium	Medium	Product	Complex Personal Advice	Personal Financial Product Advice	Immediate	SoA	Adviser, Software
SMSF: Establishment	Retirement	High	High	Strategy	Specialised Personal Advice	Personal Financial Product Advice	5-40 years	SoA	Specialist
SMSF: Accumulation only	Retirement	Medium-High	Medium-High	Product	Specialised Personal Advice	Personal Financial Product Advice	5-40 years	SoA	Specialist
SMSF: Pension alone or with Accumulation	Retirement	Medium-High	Medium-High	Product	Specialised Personal Advice	Personal Financial Product Advice	20+ years	SoA	Specialist

Financial Advice Description	Type of activity	Consumer Risk	Product Complexity	Product or Strategy?	New Financial Advice categorisation	Old Financial Advice Categorisation	Time frame	Requirements	Delivery
Aged Care	Aged Care	Medium-High	Medium-High	Strategy	Specialised Personal Advice	N/A	3-10 years	SoA	Specialist
Estate Planning	Estate Planning	High	High	Strategy	Specialised Personal Advice	N/A	Until life expectancy	SoA	Specialist