

Financial advice has reached the precipice, however the industry can be saved by scale & financial literacy



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OPINION: *The Australian financial services sector has reached the precipice and desperately needs a different way of thinking about reform if it is to have a viable future at all.*

Two decades of reform has resulted in the ranks of advisers being decimated, immense reputational damage and a legacy of systemic problems for the industry, consumers and the well-being of the Australian economy as a whole.

The reforms of the past have resulted in a regulatory system and industry that are unfit for purpose and an unprecedented challenge that both the federal government's Senator Jane Hume; shadow Minister Stephen Jones and the major political parties need to address as a matter of urgency.

Although a bleak picture, there is still time to reverse these failings with reforms that facilitate scale and better consumer financial education and literacy...and I outline my suggestions in the following narrative.

Tuesday February 8, 2022. Australia's financial services industry is quite literally facing a problem of national significance that has adverse implications for the industry's viability, competitiveness and most importantly, for the financial health and well-being of the Australian populace.

Two decades of reform have been characterised by the Federal Government listening to the loudest voices of 'self-interest' and as result the sector is now needlessly complex, expensive, with affordable advice out of the reach of most Australians...and overseen by a regulatory framework that's increasingly incapable of dealing with modern industry issues.

In fact, it has accelerated the exit of advisers from the industry whilst simultaneously dissuading new entrants from considering a career in advice, hindered innovation and uptake of technology, growth and capacity to respond to new opportunities, rapid changes in consumer needs and overseas competition.

In order to have a viable and successful future, as basic principle of business, advice has to be affordable and underpinned by a genuine framework that facilitates transparency, best interest of the client, and most importantly, scalable!

Future of Advice

To achieve this, financial advice needs to move down the path of removing power away from super funds, lawyers, institutions and putting it the hands of the consumer.

By placing the consumer at the centre of the financial services universe, it will ensure the provision of advice is affordable, fit-for-purpose, reliable, simplified and outcomes-based rather than responding to the prescriptive regulatory framework that is currently in place.

To achieve this, the first step is a new advice framework comprised of three categories or levels of advice:

1. **Consumer Information** – not specific, not product focused.
2. **Proprietary Advice** – product / service focused e.g. industry funds, super funds, robo advice, digital advice, shares, life insurance, mortgage, finance, SMSF, age care, etc.
3. **Personal Advice** – Holistic Independent advice- not product focused.

Whether **Consumer Information**, **Proprietary Advice** or **Personal Advice** the financial practitioners will help consumers achieve their specific financial goals. While they share similarities, they differ in the types of service they offer and the remuneration rates at which they offer them.

Proprietary and Personal advice operate on the principals that the adviser has a fiduciary duty to act in the best interest of the client.

Scale

Most importantly, the three categories will facilitate **scalability** in the provision of advice.

In Australia we need to improve the accessibility and affordability of financial advice, and this can only be achieved by increasing the scalability through the new advice framework and cutting the over regulation of the industry.

Scale is essential and an immediate benefit will be the ability for advice practices to grow, streamline operational/administrative/compliance operations and activities; reduce costs and encourage new entrants to join the advice industry.

Financial Literacy

Throughout their lifetime, Australians are more responsible for their personal financial well-being than ever before, yet simultaneously the vast majority lack the fundamentals of **financial literacy**.

This of acute concern and needs immediate attention.

The current education curriculum is literally failing the nation as it neglects to provide financial literacy as an essential skill in the 21st Century.

In fact, financial literacy should be considered as important as basic literacy.

Financial markets and the growth in fintech are changing rapidly and no nation can avoid being impacted from developments in technology, and new and more complex financial

products. The range and complexity of financial products consumers have to choose from is literally mind blowing, and decisions relating to the purchase or investment in these have far reaching consequences and implications if the wrong choice is made.

At present, schools are providing courses in financial literacy on an ad hoc basis – and this is unacceptable.

Financial literacy courses should be compulsory in all schools for students in years 10 to 12.

Government & The Regulators

Far-reaching advances in technology and globalisation are creating a sea of unprecedented change in Australia's regulatory environment, resulting in significant challenges for the government and the regulators.

Emerging technologies such as artificial intelligence, distance learning, big data, crypto currencies and the digital platforms are disrupting traditional business models – and in their wake, government is struggling to keep pace.

This is an era where the past tendency to overregulate is doomed to fail and will not be tolerated.

Australia needs a 21st Century regulatory regime to oversee and guide the new framework of face-to-face advice underpinned by advances in technology. It must be proactive and based on the principles of common sense and these are –

- No retrospectivity in legalisation, regulations, or education
- Move advice out of the Corporation Act
- High education standards – on industry entry and on going
- Full advice fee disclosure – clients can opt out at anytime
- SOA not required – client communication should be clear, concise, and in an effective format the consumer can understand
- Move to individual advice licencing regime
- Advice profession is based on fiduciary duty to act in the best interest of the client
- Separation of product advice and strategy advice

Digital Media Platforms

The Australian advice industry needs to utilise digital media platforms more effectively as a vehicle to engage with consumers of all ages. Far too many are still failing to use it effectively as an essential component of their client experience, business marketing and communication strategy.

As it continues to grow and weave itself into the daily patterns of every day Australians, more consumers will turn to existing and emerging digital platforms for their purchasing decisions.

Consequently, digital platforms will dominate ASIC 's surveillance focus and processes over the next decade and well into the future.

Conclusion

The history of financial services industry reform can best be described being afflicted by a commitment to reductionism. While there have been commendable advances, by and large reform has been a failure.

Consequently, industry reform in Australia has been too long characterised by conflict and division, and has failed to effectively respond to technological and social changes.

Nor has reform been utilised as an opportunity to make advice affordable and accessible, to drive productivity and promote a positive public image.

So not surprisingly, the situation we see today, is of an industry that has reached a crisis point and in an environment in which consumers have lost faith in the sector's ability to deliver affordable and accessible advice and reliable / relevant products and services.

The solution is simple...the sooner politicians adopt a bi-partisan approach and vocal lobby groups put self-interest aside, the sooner all stakeholders will find the courage and wisdom to restructure financial services with purpose, for growth and success.

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