

Dear Ms Levy and whomever it may concern,

Thank you for the opportunity to provide a submission

### About me:

I have been working as a financial planner for more than 16 years and operating a small suburban financial planning practice since 2008. I am passionate about the positive difference good financial advice can make to the lives of Australians. Among other qualifications, I hold a Masters Degree in Financial planning and I am passionate about the need to raise standards in our profession.

### The problem:

The overwhelming increase in red-tape and compliance that I have witnessed in my 16 years as a financial planner has been devastating to witness first hand. It has had an enormous impact on the quality of life of financial planners, their families and consumers. Large numbers of financial planners have walked away from the profession in the last 3 years. Some people assume these individuals were not good operators, or were on the verge of retirement. Nothing could be further from the truth. Two good friends of mine have left the profession, despite holding relevant degrees and having successful practices. Despite being in my mid-40's, I have also had moments myself, when I have seriously considered a career change.

It is difficult to describe what it is like to operate in a position with such enormous expectations, complex laws and regulations. We have constant monitoring from our licensees and there is an ever present threat of life changing sanctions which can be imposed on us for relatively minor misinterpretations, oversights or errors; even if clients are not negatively impacted or disgruntled. Research from Deakin University last year found almost 75% of financial planners are suffering from burnout and depression\*. The researchers noted that it was the worst result they had witnessed from any industry they had previously studied and that financial planners were 51% more likely to be suffering serious mental health issues compared to the general population. These are the people, with whom many Australians trust with their life savings and retirement plans.

To survive as a financial planner under the current regime, many financial planners have been forced to increase the fees they charge clients, cut-off low value clients and turn away prospective clients, who would benefit from our services. This is a bad outcome for the Australian public.

Some of the provisions which have been put in place to protect consumers over the last two or three decades, are now causing more harm than good. With the large number of baby boomers heading into retirement, the lack of affordability for first home buyers, the ongoing pandemic disruption and the widespread dissemination of unlicensed and potentially dangerous advice via social media, the accessibility of qualified, properly licensed advice, with appropriate consumer protections, has arguably never been more important.

### An opportunity:

Despite the difficult state of affairs in the financial advice industry there are some relatively simple measures which could be implemented immediately to dramatically change the landscape and improve access and the affordability of financial advice.

The risk or downsides of my recommendations, are negligible. Especially considering the mandatory Code of Ethics, to which financial planners must abide. The changes I have recommended would also be widely embraced by the financial advice community. If adopted, my recommendations would breathe new life into the financial planning profession, encourage higher professional standards,

reduce conflicts of interest and allow financial planners to deliver service at a lower cost, to a significantly greater number of consumers. They could also encourage some people who have left our profession, to consider returning, and allow financial planning practices to grow and bring new entrants into the profession.

## Recommendations:

1. *Exempt the provision of Statements of Advice and Records of Advice for the following circumstances*
  - a. *Where the financial advice provider has met the FASEA education standards.*
  - b. *Where the scope of advice and recommended products do not involve in-house products, commissions or asset-based fees*

## Expected outcome

- Financial planners are required to meet the requirements of the FASEA Code of Ethics. The Code contains obligations for financial planners to obtain consent and ensure clients understand the financial advice. As such, financial planners will still be required to issue a document to ensure their clients understand the advice and are informed of the consequences. Abolishing the requirement of Statements of Advice will allow financial planners greater flexibility to issue documents which are simpler, more client focused and easier to produce.
- I would roughly estimate a saving of approximately 6 to 12 hours per client, bringing us closer to other professions, which are not required to produce these extensive and time-consuming documents. Financial planners would be free to service a larger number of clients, thereby improving access to financial advice. The cost of financial advice should also fall, as the heavy cost of producing statements of advice is a key contributor to the cost of delivering financial advice.
- By limiting this measure to advisers who have met the FASEA education standards, it will encourage those who have not yet completed the necessary studies (or those who may intend to rely on a possible 10-year experience exemption floated by the government) to fast-track their studies, thus raising the standards of the profession.
- By limiting the measure to advice situations which are free from commissions, asset-based fees and in-house products, financial advisers will be encouraged to avoid these potential conflicts of interest, thereby increasing the quality of financial advice.

2. *Streamline the Annual Opt-In Requirements (Fee Disclosure Statement and Consent Form)*

- a. *Amend the legislation to allow financial planners to bring forward the Renewal Date, rather than locking this date into the same anniversary day every year*
- b. *Amend the legislation to allow financial planners to include the historic fee information for any consecutive 12-month period in the most recent 14 months, within Fee Disclosure Statements*
- c. *Remove the list of services within a Fee Disclosure Statement, which clients have received in the previous 12 months.*
- d. *Limit the requirement to provide forward looking fees only to situations where it is reasonable to expect the fees will be more than 20% higher than the previous year.*
- e. *A panel of experienced, practicing financial planners should be engaged by Treasury to create a standard template for a combined Fee Disclosure Statement and Consent Form, which ASIC, all Licensees (AFSL's) and product providers must accept.*

#### Expected Outcomes:

- By allowing financial planners to bring forward the annual Renewal Date, financial advisers will be able to better align the process with client reviews. It will reduce our costs and reduce the confusion this requirement has been causing our clients. If left unchanged, we will end up in a perverse situation where advisers will be discouraged from meeting with clients earlier than the Renewal Date, to avoid the additional paperwork involved with ending an agreement and starting a new one. Surely it is in the client's best interest to receive more service from their financial advice, not less?
- By allowing financial planners to report the consecutive 12 months of fees, from their choice of a 14 month window, it will allow financial planners to streamline the creation of Fee Disclosure Statements using their financial planning software. Presently, there is a problem with a time lag between the deduction of fees from client accounts, and the payment/reporting. As a result, financial planners may, in many cases, have to manually run reports from each platform which is labour intensive and adds unnecessary cost.
- Removing the list of past services delivered in Fee Disclosure Statements will reduce the time it takes to produce these documents. It will also simplify the documentation for the client. What value is there, in regurgitating back to the client a list of services they have themselves received? It doesn't make any sense. Our clients know the services they receive. Now that consumers of financial advice are required to provide their consent on an annual basis, the inclusion of a historical list of services in an FDS should no longer be necessary. It is time for the regulator and the government to accept that a client who is actively engaged with their financial planner, to the extent that they sign a form every year consenting to

deduct fees, understands the services they are receiving and is satisfied with their ongoing relationship with the advice provider.

- The current FDS and ongoing consent obligations have resulted in documents which provide different fee tables for different periods of time, which are confusing for consumers. By disclosing both historic and forward looking fee information in the same document, we are essentially duplicating the disclosure of information for each time period in the following year. In cases where the fees are a set dollar amount, the duplication doesn't make any sense at all. By limiting the forward looking disclosure, only to cases where it is reasonable to expect the fees to rise by more than 20%, it will cut out the duplication for the vast majority of these documents and limit the instances of duplicated disclosure only to cases where there is a significant change.
- By having a single, universally mandated form, it will reduce client confusion and make the production of these documents quicker and easier.
- ASIC was supposed to deliver a single, universal FDS/Consent document, but has failed to do so. This should have been delivered prior to 1 July 2021. 7 months later, we are still waiting. We have a terrible situation where clients are being provided with multiple different forms, from different providers, for each account and a separate one required by the licensee. In some cases I am presenting (or posting) as many as 5 different forms to my clients, some as long as 7 pages each! These forms require the fees to be presented in different ways which is confusing for our clients.
- Financial planners who operate at the grass roots level are best placed to design and deliver a universal FDS/Consent form. It is time to recognise financial planners as professionals, and allow us to become involved in the improvement of processes and the regulation of financial advice. The panel I have recommended for Treasury could become part of a longer-term process, to better inform Treasury and ASIC, on further improvements to remove red-tape and enhance the quality of financial advice in the future.

### *3. Inclusion of Financial Advice as an ancillary purpose of superannuation in the SIS Act.*

#### Expected Outcomes:

- Presently, financial advice is not listed in the sole purpose test within the SIS Act. This is causing significant challenges for trustees, which are being required to monitor and check whether fees deducted from superannuation funds are acceptable. Adding financial advice as an ancillary purpose will reduce the costs for super funds.
- As it stands, clients cannot obtain advice from a financial adviser who is remunerated from fees deducted from superannuation, unless the advice relates to the specific account from which the fee is deducted. This limits the availability of advice in many instances, because financial advisers are forced to either: a) charge clients additional fees outside of the super fund; or b) limit the subject matter of the advice by excluding certain issues which may be important to the client.

- By allowing clients to pay for more broad financial advice via their super, it will open the door for consumers to access financial advice when they may not otherwise be able to afford it, to improve their overall financial circumstances. This would encourage more holistic retirement planning advice, overall wealth generation and wealth protection, which should consequently improve retirement outcomes. After all, wasn't the improvement of retirement outcomes the purpose of superannuation?

#### 4. *Expand the definition of 'independence' to include specific financial advice situations. Such as:*

- a. Where the specific client does not have products, and is not recommended a product, which pays commissions or asset-based fees to the financial advice provider*
- b. Where the financial advice provider and Licensee, does not have ownership links to the products held or recommended to the client*

#### Expected Outcomes

- Presently, the notion of independence is assessed at the licensee level. If a single client has a commission or asset-based fee, the advice provider is not permitted to use the word 'independent' or similar, to describe their services, even if they offer advice to other clients which is free of commissions, asset-based fees or ownership links to the products recommended.
- Furthermore, consumers are required to be warned about the lack of independence. This has the potential to confuse and potentially mislead those consumers, for which the issue causing the lack of independence, may not apply.
- By narrowing down the lack of independence disclosure requirement to the individual client level (such as a prominent display in an advice document or fee consent form), it will make the disclosure more timely and more powerful for the individual concerned.
- This improvement in the definition of independence, will encourage a greater number of financial advisers to move away from commissions, asset-based fees and in-house products, thereby, improving the quality of advice and removing conflicts of interest for a greater number of consumers.

Thank you for considering my submission.

\* *The E-Lab and Deakin University 2021 'The Wellbeing of Financial Advisers in Australia Report'*, Sydney Australia. Sponsored by AIA Australia

<https://www.aia.com.au/content/dam/au/en/Adviser/adviser-study-report.pdf>