3 June 2022

Quality of Advice Review

The Treasury

By email: advicereview@treasury.gov.au

Dear Michelle and Treasury team

Thanks for undertaking this review. Balancing the need of retail clients to source affordable financial advice with the risk of them being screwed by financial advisers is difficult.

I'm a practicing financial adviser and have a few suggestions:

1. **Regulation has been a good thing for the industry and consumers**

Most of your submissions will complain the industry's over-regulated. There's some sampling bias there as the upset people will write in. It ignores the fact that our industry got so bad it needed regulation.

Pre-FOFA and the follow-up reforms in the wake of the Royal Commission, a lot of financial advisers could rely on people's naivety and opaque payment structures (percentage-based fees, commissions) to make a lot of money at their clients' expense.

The reform process shone a light on that and got rid of the worst excesses. There's a huge cohort of consumers out there who are better off for not having paid advice fees to be put into dud products for the last 10 years, but there's no dataset which quantifies the value of that. Regulation has been good.

2. **There's a gap in 'general advice'**

A lot of the people who seek financial advice have simple situations which don't need complex solutions. Advisers can give them the answers in a short meeting and know the client will be better off. The alternative is to charge them $3 - $4k for an SOA which contains the same answers, with a series of disclaimers and PDSs which don't get read.

In practice advisers take on the risk of presenting short personal advice as 'general advice' and letting the clients get on with it, in the knowledge they could get pinged in an audit. Relaxing things here would improve outcomes for the consumer. For example, easing the restrictions on personal advice where the adviser has no stake in the outcome, like someone making a deductible contribution to an industry super fund.

3. Annual fee reviews are important

You know how Amazon and Netflix give you a free trial which switches over to an ongoing fee arrangement after a few months? They understand that once those arrangements are set up, people let them run and don't check them.

Annual advice fees are a couple of thousand dollars a year, minimum. That amount has a material impact on peoples' retirement savings. It's appropriate that advisers be required to sit down with the person once a year and explain what that person's paying, the service they're receiving for it. People need a regular prompt to consider whether that's good value. Good advisers are happy to have these conversations with clients because they know they've earned the money.

The alternative is to have a whole cohort of disengaged clients who end up with $50k less in their super because they let their advice fees run – which their adviser had no incentive to point out.

4. Insurance is a basket case

Advisers who recommend life insurance (and its relatives) to their clients have a strong incentive to over-insure, because they don't want blowback five years down the track if their client has an insurable event. This dovetails nicely with the fact that the more insurance the client has, the bigger the adviser's trailing commission.

This creates bad outcomes for clients, who pay more than they need to for insurance cover. The effects of that are compounded because:

- Most insurers build indexation into their cover, meaning the coverage amount (and premiums, and commissions) go up over time
- Advisers continue receiving the commissions indefinitely, but have no obligation to check in with the client to see if the cover amount's still appropriate (despite most people needing less rather than more cover over time).

I see 60 year-olds with $150k in super, no debts or dependants, having $20k of premiums deducted from their fund each year for a life insurance policy that some long-ago adviser set them up with in 2007, and still collects commissions on. The effect on their retirement is disastrous. No rules have been broken.

Insurers offer advisers the ability to set up insurance cover with no trailing commissions, and to remove trails from (most) existing policies. Advisers just chose not to. Why would they?

A regulatory environment where advisers are incentivised to over-insure their clients via trailing commissions, whilst have no ongoing service requirement to earn those commissions, creates terrible consumer outcomes. Aligning adviser incentives with client incentives here would improve things for the latter.

Thanks and good luck with the review

Ed Macartney

Financial Adviser