**10 June 2022**

Quality of Advice Review
The Treasury
Langton Crescent
PARKES ACT 2600

Hejaz Group
Level 11/2 Queen Street
Melbourne VIC 3000

By email: AdviceReview@treasury.gov.au

**Federal Government Review of the Quality of Advice**

Dear Madam,

The Hejaz Group is Australia's leading diversified provider of Islamic financial products and services.

Hejaz combines Islamic Finance knowledge and technical expertise to create specialised products and services, customised to meet the needs and ethical considerations of its Muslim and non-Muslim clients. Hejaz has created bespoke Sharia-compliant solutions including funds management, financial planning, accounting, property finance, super and tax, legal and insurance offerings—often the first time these products have been available in Australia.

We welcome the opportunity to provide feedback on the current review into the quality of financial advice. The Hejaz Group supports the Federal Government's focus on better enabling the provision of high quality, accessible and affordable financial advice for retail clients. Moreover, we welcome any dialogue at a national level that will allow the industry to better service growing demographics like the estimated 1.2 million Muslim Australians in our country.

**Quality of Financial Advice**

The financial advice industry has been tarnished by the unscrupulous practices of some advisers and a lack of customer-centricity. Regulatory pressure following the Hayne Royal Commission has led to an increase in quality and transparency in the financial advisory sector – a crucial step in rebuilding trust. The financial services industry was never going to be sustainable while advisers were heavily incentivised to be 'product sellers', rather than professionals who advise clients on how to improve their financial situation.

Consumers should be entitled to sound, high-quality financial advice. Current regulation has drastically improved the educational status of advisers, weeding out the sector's "cowboys" who were responsible for unscrupulous practices. These were the exception rather than the rule.

Advisers need to act in the client's best interests; they need to know and understand clients' individual circumstances. When speaking about client's best interests however, we posit that this needs to extend beyond just fees and higher returns. It's too easy for advisers to search for products by maximum returns or lowest fees, and this isn't the best way to build meaningful relationships. Financial advisers should be considering the values and philosophies of their clients in assessing which investments to include or exclude from their portfolio.

We, as a society, have moved to a model where consumers want more choices. A café can offer oat milk, almond milk, soy milk, dairy—and cater to a consumer's dietary requirements. Why can't advisers cater to their ethical financial requirements? The Hejaz Group is very vocal about the need for fact-finding to include additional questions like, "are there any companies or industries you would like to avoid investing in?" or "do you have any religious requirements to take into account?" In our view, client engagement should begin with a values-based conversation. Products and tailored financial strategics should then be developed around said values. Traditionally, a client's values are not discussed and advice is based solely on financial considerations.

Modern consumers want to see a reflection of themselves in their investments. When it comes to the quality of advice, advisers require greater regulatory flexibility in creating more tailored financial solutions. By taking into account a client's ethics, religion and world outlook—rather than just the highest returns – we can help increase trust in the financial advice sector.

**Affordable Financial Advice**

The increase in costs in the advisory sector have been well publicised. The exit of traditional banks from the space eliminated a major recruiter and employer of advisers, while more stringent exams and tougher rules on commissions (that were correctly introduced to increase the quality of advice provided to clients) have increased costs. As a result, it has been estimated that the number of advisers in the industry has fallen by 40%, and this has led to the 'advice gap' that this review is seeking to understand.

One factor that is less talked about is the cost of Personal Indemnity Insurance, which has increased significantly since the Royal Commission. This insurance is expensive because there is a lack of insurance providers, but also because ASIC, in pushing to raise standards, has often resorted to legal prosecution. This has led to advisers becoming more risk averse and focusing their time on ticking Terms & Conditions and ensuring they are legally covered for any advice they provide. The outcome is that a client often doesn't receive proper advice, and instead receives documents that are largely made up of disclaimers and disclosures.

To fix this, ASIC needs to work more constructively with adviser groups, pushing them to meet high standards but creating an environment of trust. This will encourage PI Insurance premiums to be reduced, helping to bring down the overall cost of advice and make it more accessible to Australians.

Advisers should also be able to offer general advice rather than specialist advice. We should create an environment where a customer can speak to a financial adviser on a general basis, and that adviser should not be fearful that they are opening themselves up to liability. Advice provided to groups of consumers who share similarities in beliefs or religious background for instance, should be regulated differently from advice provided to an individual. This will again help to build trust and ensure that everyday people are less reliant on digital or social media influencers for general advice.

**Accessible Financial Advice**

There are a number of situations where consumers may need financial advice but may not seek it, or may be provided with advice that does not align with their ethical and religious requirements. For instance, to be relevant for Australia's Muslim population, advisers need to ensure that products are sharia compliant. Sharia-compliant investing refers to ethical investment in products, companies and industries which align with Islamic beliefs. Under these rules, investment in the following business activities is not allowed: conventional banking and insurance; alcohol; pork and all non-Halal food items; gambling; tobacco; adult entertainment; conventional derivatives; weapons, as well as highly leveraged firms.

Although this is a very specific demographic case, it provides a useful template for how advice can be made more relevant for members of the Australian public.

To encourage greater accessibility of financial advice, we would urge more advisers to become specialists in their field, servicing the needs of previously underrepresented demographics. We argue that specialist advisers are in a better position to understand their clients' circumstances, ask appropriate questions, and ascertain exactly what clients need to grow their wealth. Akin to how the legal profession operates, advisers will not be expected to demonstrate knowledge in every possible financial area. Rather, they will be sought out for specialist services and advice, building trust with clients, reducing PI insurance costs, and encouraging others to enter the field by exploring areas they are particularly passionate about.

Further, specialisation allows advisers to show value more clearly to clients and charge appropriately based on this value. Pricing models need to be more focused on the benefits to a target market. The industry would obviously benefit from greater competition and a reduction in overall costs, however we argue that again, less regulatory burden on advisers is needed in allowing them to offer both specialist and general advice when relevant, depending on the circumstances and financial situation of the client (or cohort of clients) at the time.

**Conclusion**

Increased regulatory pressures, education and professional training requirements imposed following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in 2017 have directly reduced instances of unscrupulous conduct from Australian financial advisers. The quality of advice and overall trust in the industry has also improved dramatically since these changes came into effect.

While we are fundamentally supportive of the reforms and the renewed focus on customer-centricity, we see benefits in additional statutory guidance on factors to consider when applying the 'best interests' and 'know your customer' tests. Under the legislation, there could potentially be an additional positive duty for financial advisers to ask whether their clients have ethical or religious requirements to consider when offering tailored financial advice and looking to include or exclude certain products. Client engagements should begin with a values-based conversation, with products and strategies developed with these values in mind.

Moreover, greater flexibility should be allowed for advisers to offer both general and specialist advice pertaining to the clients' individual circumstances at the time. Advice provided to groups of consumers who share similar characteristics or are required to adhere to certain religious beliefs when it comes to finance, should be regulated differently from personal advice. We also encourage more advisers to consider offering general advice without receiving an upfront fee, so as to increase financial literacy in typically underserviced and underrepresented groups, and build longer-term relationships with clients.

Please do not hesitate to contact myself or the team directly for additional information and to discuss these matters further.

Yours sincerely,

Muzzammil Dhedhy

Chief Operating Officer and Co-Founder at Hejaz Financial Services; certified Islamic Scholar