

Quality of advice review submission - June 2022

HESTA welcomes the opportunity to make a submission to Treasury's Quality of Advice Review. Our members rely on us to ensure that their retirement story is told, and that their working life is considered in complex policy deliberations. This submission outlines the advice needs of our members, how HESTA has responded to their needs, and how the regulatory regime can evolve to assist us to better meet their needs in future.

From industry-led to consumer-led advice

The advice gap

In the past, consumers broadly had two options: either pay a significant fee and get a comprehensive financial plan that often included sales-driven product advice, or pay nothing and get very limited general advice. While comprehensive financial advice exceeds the needs of most consumers, generic do-it-yourself online information isn't always sufficient to provide the help they are looking for.

There is increasing consumer pressure for advice provision to change from industry-led product distribution to more appropriately priced and scaled models that are driven by the needs of consumers, and super fund members in particular, for personalised guidance on topics delivered in a way and at a time that suits them. The reduction in the number of financial advisors set up to offer comprehensive financial plans is reflective of this consumer-centred evolution.

We just want help when we need it

HESTA is playing a part in this change. In 2018 HESTA undertook a comprehensive review of our advice model and set about co-designing a new model with our members. Our members told us that they really just wanted "help" on the issues they were worried about at a time that suited them.

Being able to access financial help improves our members' financial outcomes, increases their financial confidence and alleviates their anxiety surrounding superannuation and retirement. With around 900,000 members to help, we need to be able to provide this help at scale, in a cost-efficient and member-driven way.

HESTA members

HESTA is a trustee that invests around \$68 billion of assets on behalf of more than 900,000 members who work in caring industries, primarily in the health and community services sectors. Our largest member cohort works in aged care. Around one-quarter of our members moved to Australia as an adult from overseas.

Eighty per cent of our members are women, and most are on low-to-middle incomes. They earn 16% less than their male counterparts on average,¹ are less likely to be able to save outside their super, and are more likely to struggle to meet day-to-day expenses. Many of our members spend considerable time in unpaid care work, which adds enormous economic benefit to the country at the expense of their own financial security.

HESTA members' advice needs

Straightforward needs

When our members seek financial help, it is rarely on complex issues. Most members are simply looking for help to allow them to better understand their situation, deal with administrative issues around transitioning to retirement and other matters, and build confidence by taking modest steps to maximise their financial security.

Because of their limited resources, most of our members do not have a need for complex financial products. They rarely seek advice on non-super investments, retail insurances or defined benefit schemes. Members generally do not seek comprehensive financial advice and of those who do, almost half have their needs met through limited within-product advice, and only about one in five seek comprehensive personal advice on topics outside of superannuation.

Building their balances

Where accumulation members seek guidance, it is generally to build and manage their super – contributions, investment choice, insurance, savings adequacy and administrative matters. The need for advice on consolidation of super accounts is low and declining with industry consolidation, stapling and ATO consolidation tools greatly reducing the incidence of multiple accounts.

Planning for retirement

Members planning for retirement have some additional, but often still modest, needs for assistance. Their questions are generally things like: "Will I have enough?" and "How do I apply for or manage my Centrelink benefits?". The help they are looking for is around meeting retirement income goals, establishing income streams, meeting capital requirements, pension arrangements, and providing guidance across both partners in the relationship.

¹ <https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance>

Support ... but leave members in the driving seat

The majority of our members are actively engaged in their household finances and budgeting, tracking how much they earn and spend each week. They have a high appetite for detailed tasks and the majority cite themselves as the main (or a main) influencer of financial decisions in their lives. Only a small number rely on professional advisors. But while they prefer to be involved with managing their finances themselves, they have a need for support and guidance with longer-term planning.

Our members are time poor and have told us they want help that is accessible to them when they need it. Their engagement is driven by the need for help around a specific issue and the information provided must not just be immediately available, but also respond to their situation.

They prefer to be able to access initial financial help digitally, with phone-based and face-to-face options available when they need them. The help should provide a clear path to action.

Barriers to getting financial help

Members have told us that barriers to engaging with their financial circumstances include not enough help and information being available when they need it, leading to lack of knowledge about options, as well as lack of trust in the financial sector, disadvantage due to financial circumstance, and lack of time and energy given life pressure.

Our members strongly favour simple language and a visual presentation of information. The language that has evolved over years of changes to financial advice regulation has distanced them from the service.

Importantly, there is a need to reduce the cognitive load of engagement for members by providing a smooth member journey and language that is jargon free. This is challenging where regulatory requirements and disclosures are not well suited to digital channels or the simple information that members are seeking.

Meeting our members' need for financial help

HESTA's new advice offering is designed to respond to the spectrum of our members' financial needs and circumstances. Our needs-based model is driven by a robust triage service that combines personalised digital help with face-to-face and phone delivery to ensure that the spectrum of our members' needs are met.

Digital provision allows us to achieve repeatability and immediacy – increasingly it is our members' preferred channel.

The design allows members to self-serve personalised, bite-sized information digitally through general and limited personal advice, and progress through to limited advice phone and face-to-face interactions with HESTA advisors if needed. Comprehensive financial advice is available should they need it, but this is no longer at the heart of our approach and is now outsourced.

Our model can be provided at an affordable cost, which is the crucial component in making advice accessible to our members. An example of the offering is Future Planner, a unique digital help and education approach that is designed for HESTA members to better understand their financial circumstances and goals. Since it was launched in the second half of last year, more than 100,000 members have accessed it, pointing to a large, previously unmet need.

Other examples include on demand interactive 'persona' videos modelled on our membership, where members can 'choose their own adventure', digital transition to retirement advice, and digital instructor-led sessions supported by an advice library based on relevant life events.

Making sure members are protected

To support member-led change in the way advice is provided, the regulatory regime must allow providers, particularly super funds, to deliver help and assistance through scalable channels at the lowest possible cost, while ensuring that we avoid a return to the bad old days where "financial advice" was interchangeable with "product sales".

To this end, any changes to the way that advice is regulated should ensure that members remain protected from mis-selling of financial products.

While regulation should facilitate a range of advice options available for members to choose, receiving advice should not be required for members to experience good financial outcomes. System settings should deliver members the best possible outcomes, placing responsibility on product providers, not individuals.

Recommendation 1

Changes to the regulation of advice should not reduce member safeguards. The regime should provide strong systemic protections. A thorough consideration of the impact on member interests of changes arising from this review should be conducted and consulted on prior to any changes being made.

Helping super funds help their members

The aim of HESTA's financial help offering is to assist members to improve their financial outcomes. HESTA advisers are measured on activity volumes and qualitative metrics only, and are not measured on growth or revenue targets, because HESTA sees advice as a way of helping members rather than as a distribution channel.

However, we are operating under a regulatory regime that, out of necessity, has been developed to protect consumers from product providers that use advice for acquisition rather than to provide help. This has resulted in regulatory requirements that reduce our ability to efficiently provide the help our members need.

Measures that require disclosure and regulate the primacy of member interests are important where other safeguards are lacking. However, this is not the case in superannuation, particularly where there is no sales motive. Superannuation funds are subject to strong trustee duties and product obligations² that rightly place the responsibility for protecting member interests on the fund, not the member.

Where these safeguards are present, and there is no sales motive, there is the opportunity to reduce the regulatory barriers for members seeking advice. This will not only bring down costs, it will make advice more accessible for our members who are lower income earners, don't work in desk jobs, have extensive demands on their time, and may not have the confidence to engage with detailed disclosures.

Simple help from your super fund

HESTA could improve our ability help our members at scale through a reduced disclosure burden where we are delivering limited personal advice to our existing members through digital channels. This would include, for example, significantly simplified Statement of Advice requirements that would remove the need for unnecessary 're-disclosure' like that of product fees and charges that are disclosed elsewhere.

To ensure the risk of harm is minimised, product recommendations would not be allowed under this reduced burden, with the exception of transitioning to a retirement product offered by the same provider that is part of the Retirement Income Covenant.

Transitioning to a retirement product is part of a member's journey with the fund and should be treated differently to product recommendations made for other purposes.

² Performance testing, APRA member outcomes obligations, design and distribution obligations, Retirement Income Covenant, fiduciary obligations

The obligations on Trustees introduced under the Retirement Income Covenant reduce the risk of potential member harm for transitioning to these retirement products.

Recommendation 2

Reduce the disclosure burden for superannuation funds giving limited personal advice to existing members including on transitioning to a retirement product that a fund offers as part of the Retirement Income Covenant.

Personalised help driven by data

Regulation and guidance should support funds using existing individual and cohort data to more efficiently scope limited advice.

This would facilitate the development of digital guidance modules that draw on known information, demonstrating the outcome of different scenarios without the need for a full fact-find.

Super funds are required under Prudential Standards, design and distribution obligations and the Retirement Income Covenant to ensure strategies and products meet the needs of member cohorts in similar financial situations.

In addition to RIC requirements, HESTA has a sophisticated segmentation model that allows us to understand our members based on a range of more granular demographic, financial and attitudinal attributes.

Help received on the basis of existing data should also reduce the regulatory burden where members then choose to receive personal retirement advice.

The starting point is reviewing and clarifying what reasonable consideration of personal information is in the context of the data that funds hold on their members and the development of segmentation approaches.

Recommendation 3

Regulation and guidance should support funds using existing individual and cohort data to more efficiently scope limited personal advice for existing members where there is no product recommendation outside of products that fall under the Retirement Income Covenant.

Code of Ethics – improving scalability and reducing duplication

While best interests duty requirements are clearly scalable, the scalability of the Code of Ethics requirements is less clear, resulting in a compliance burden that is at-odds with the provision of limited advice for members that don't have complex needs. The Best interests Duty provides safeguards in areas that are covered by the Code. The tensions between the best interests duty requirements and Code requirements need to be resolved, and clearer guidance on scalability of Code requirements provided.

Recommendation 4

Requirements related to conduct obligations in the Code of Ethics should be reviewed and guidance provided to better support a scalable approach to advice provision and remove duplications with other legal obligations.

A regulatory approach that facilitates innovation

ASIC should take a facilitative approach on new models developed by current licensees that innovate scaled advice through digital channels, working with providers and delivering clear regulatory feedback as part of the development process. This includes providing clearer guidance on digital disclosure and scalability – while the regs are broad to allow for providers to innovate, the take up is limited because uncertainty remains across the industry.

Guidance should be regularly updated to take into account both developments in the way that financial help is provided, and to provide clarity around the way the law is being interpreted by the courts.

ASIC has established a consultative panel that could strengthen their focus on innovation in digital advice with terms of reference that reflect the need for feedback on innovations in digital advice.

Recommendation 5

ASIC should take a more facilitative approach that gives funds regulatory feedback and regularly updated guidance to assist and encourage providers to innovate provision of scaled advice through digital channels.

Advice charging that works for members

The current charging regime for intra fund advice supports the provision of the limited personal advice that our members need at a price that they can afford. Well-regulated collective charging is appropriate to support member expectations of, and access to, the limited help they expect their super fund to provide on a one-off basis. There is the ability to triage members to more comprehensive, more costly offerings with different approaches to charging if they have the need for this.

Recommendation 6

There should be no change to the way that limited advice is charged through super fund membership as current arrangements meet the needs of members who expect to be able to receive help on their super through their super fund.