



3 June 2022

Quality of Advice Review Secretariat

Financial System Division

The Treasury

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PARKES ACT 2600

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The Principals' Community Submission: Quality of Advice Review Issues Paper

The Principals' Community is a community of successful self-licensed Australian Financial Services Licensees (AFSL), operating across Australia. There are 122 AFSLs within the community, with 1220 advisors servicing approximately 129,000 client groups (client groups include families, extended families, and clients with multiple entities). The service offering of the Principals' Community has been developed and continues to be shaped by its Advisory Council, which includes Principals from 10 AFSLs from the 122 AFSLs within the community.

The Principals' Community is a privately owned service provider that draws its strength from 3 key pillars, being:

Community – Access to an industry leading community of like-minded self-licensed business principals' that share insights, key learnings, business metrics and opportunities,

Scale benefits – Leverage the support and negotiated arrangements of selected business partners who provide preferred negotiated rates, and

Governance – Comprehensive governance accountability framework and solutions to support AFSLs in managing their current and future legislative and regulatory obligations.

1. Introduction

The objective of this submission is to address through real life client examples and statistical information from advisors within the community and their AFSLs that if addressed would reduce the cost and complexity to provide advice and thereby result in more Australians being able to access advice.

There is a significant opportunity in Australia to improve the financial wellbeing and health of all Australians through their adviser's deep knowledge and understanding of the unique differences of each of their clients. Advisors make a meaningful difference to their clients lives and are well positioned to embrace positive change that is designed with Australians at the heart of such change.

Transparency and accountability are critical in continuing to develop a profession and protecting Australians, though so too is simplicity and the need to enable advisors to provide advice for today and tomorrow more efficiently.

This submission addresses the key questions captured below from the Quality of Advice Review – Issues paper (Issues paper), though does not seek to address or respond to all areas of the Issues paper. The areas of focus in this submission were determined by the AFSL Principals' who were surveyed by the Principals Community, which sought to identify their priorities in responding to the issues paper.

The key questions addressed are:

- 15.** What are the barriers to people who need or want financial advice accessing it?
- 47.** Do you consider that financial advisors should be required to consider the target market determination for a financial product before providing personal advice about the product?
- 57.** To what extent can the requirements around the ongoing fee arrangements be streamlined, simplified or made more principles-based to reduce compliance costs?
- 58.** How could these documents be improved for consumers?
- 60.** How much does meeting the ongoing fee arrangements, including the consent arrangements and FDS contribute to the cost of providing advice?
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- 61.** To what extent, if at all, do superannuation trustees (and other product issuers) impose obligations on advisors which are in addition to those imposed by the OFA and FDS requirements in the Corporations Act 2001?

The AFSL Principals identified these specific areas of legislation that have created complexity and driven up the operational cost of providing advice for Australians. Our proposed recommendations which are detailed in [section 4](#) are as follows:

1. Simplification of the Statement of Advice (SOA) and Record of Advice (ROA).
2. Alter Ongoing Fee Arrangements (OFAs) to allow advisors to enter into a yearly agreement with clients to provide ongoing advice services with a 60-day grace period, and that all services be delivered within this period. Enable the client and advisor to mutually agree on when the agreement commences with all relevant obligations applying from this agreed date. Allow the flexibility for a new yearly agreement and consent form to be agreed to and signed up to 6 months ahead of the current agreement's expiry date. In addition, empower ASIC to ensure the market operates efficiently in meeting the fee consent requirements from product manufacturers.
3. Remove TDM requirements in acknowledgements of advisors' best interest obligations.

Typical client experience when seeking advice

As part of this submission understanding what the typical experience is from Australians seeking advice is critical to provide the context and drivers of cost and complexity within the Financial Advice industry. We have gathered data (relevant metrics) from the principals that authored this submission as well as data from a detailed benchmarking survey conducted in 2021 across 110 self-licensed advice businesses within the Principals Community.

Author Relevant Metrics:

Metric	Author 1	Author 2	Author 3	Author 4	Author 5	Average
Average timeframe to provide advice ¹	31 Days	65 Days	36 Days	90 Days	60 Days	55.5 Days
Number of client groups per advisor (at capacity) ²	120	100-120	162 ³	120	120	128
Average fee paid Statement of Advice (SoA)	\$5,400	\$5,000	\$3,000	\$4,400	\$3,300	\$4,450
Average fee paid Ongoing Advice Service (OAS)	\$5,400	\$9,467	\$4,400	\$8,000	\$5,000	\$6,817

Principals Community Relevant Metrics:

Metric	Low ⁴	Medium ⁵	High ⁶	Average
Average fee paid Statement of Advice (SoA)	\$2,840	\$4,502	\$6,238	\$4,527
Average fee paid Ongoing Advice Service (OAS)	\$3,325	\$6,538	\$12,977	\$7,617
Average number of client groups per adviser.				107

As can be seen through the metrics in the table above, these are the real timeframes and costs associated with Advisors giving advice and Australians receiving advice and therefore highlights the level of Australians not receiving advice. There is also research readily available that highlights the value and impact advisors make to ordinary Australians through advice. with [the Future of Advice paper](#) produced on the 6 August 2020 by Rice Warner demonstrating the tangible and intangible value of advice. Intangibles being peace of mind, more informed

¹ This represents the end-to-end timeframe (average number of days) from the initial client engagement and agreement to progress with advice, the discovery process, and subsequent changes to the agreed scope of advice, through to the time the Statement of Advice is delivered. This does not include the timeframe to implement the advice.

² The AFSLs have indicated that advisors are currently at capacity, with the businesses reviewing their client base to ensure they remain focused on their ideal clients. This is often leading to lower paying fee clients being disengaged and typically replaced with higher demand higher fee clients.

³ This business is in the process of disengaging client groups on ongoing fee arrangements that pay less than \$3,000 and adjusting the level of resource supporting the advisor accordingly (current a higher level of support staff to advisor ratio exists).

⁴ Low complexity defined as 1-2 Strategies, 1 Tax Entity

⁵ Medium complexity defined as 2-3 Strategies, 1 -2 Tax Entities

⁶ High complexity defined as 3+ Strategies, Multiple Tax Entities

financial decision making, and tangibles being a more comfortable retirement and reduced reliance on government support in retirement.

To assist you to understand how these metrics are relevant to the specific focus questions in the issues paper, and how they impact Australians, real-life examples are provided below. We will first review an example of an advisor giving advice to a client and their relevant experience.

Example advice time frame to provide advice:

The following is an example of a typical Australian's experience in dealing with an advisor (Note - the steps and process vary from business to business; thus, we have only captured the key steps up to the point where advice is provided).

Initial engagement (1 to 2 meetings) – The advisor conducts an initial client meeting and completes a client fact find, provides an FSG, a letter of engagement, client product authorisations, and AML/CTF identification and verification. Approximately **60 to 90 minutes** per meeting is allocated to this engagement. Depending on the client's complexity there may be multiple meetings, and further post engagement (such as strategy development and education).

Post meeting file note/s – The advisor completes a file note summary and actions from each client meeting. This process takes approximately **15 to 30 minutes per meeting**.

Advisor administration – The client service team is engaged to input all client data into the AFSLs client relationship management (CRM) system and commence contacting product providers to gather the required existing product information. Depending on the complexity of the client situation and number of existing products – this may take approximately **1 to 2 hours**.

Paraplanning engaged - Once all the client information is gathered, and in the CRM, the Paraplanners will generate the Statement of Advice (SOA). The current average amount of time is approximately (noting that timing varies business to business):

Low level complexity – **5 hours**

Medium level complexity – **10 hours**

High level complex – **15 hours**

Advisor reviews output - Once the SOA is produced by paraplanning and has been quality reviewed, the advisor will then review. This can take approximately **15 to 90 minutes** depending on the advice complexity.

Advice presentation preparation – Once approved by the adviser, the client service team will then prepare the Statement of Advice for presentation and create implementation paperwork and materials to be provided to the client. This takes approximately **30 to 90 minutes** depending on the advice complexity and the product providers involved (Note – each product provider has different processes and application forms that adds complexity and time, in gathering the same basic client information to enable implementation to occur, such as to open a superannuation account).

Providing the advice - The advisor will then conduct a Statement of Advice presentation meeting. This meeting will take approximately **1 to 2 hours** to ensure the client understands the advice and is able to complete the implementation paperwork required.

Post meeting file note - The advisor completes a file note summary and actions from the Statement of Advice presentation meeting. This process takes approximately **15 to 30 minutes**.

Based on those estimates of time we end up with the following based on advice types:

Low level complexity: 10 hours to 16.5 hours

Medium level complexity: 15 hours to 21 hours

High level complexity: 20 hours to 24 hours

In the examples above approximately **50% - 60% of time** is spent on generating and reviewing the Statement of Advice by skilled/limited resources to ensure regulatory and compliance obligations are satisfied. Through the Principals' Community survey mentioned earlier, the principals' indicated that this is a key detractor in recruiting new talent into advice, and in retaining talent, as advisors and support staff see this as not adding additional value or benefit to clients.

If the size and complexity of the Statement of Advice could be reduced and simplified, there would be a material reduction in the cost of advice and accessibility of advice.

Average fees paid for advice:

The following is an example of an Australian family being disadvantaged as they were unable to pay the advisor the cost to receive the advice.

A potential client came into an adviser's office seeking advice on consolidating their small super funds, which had life insurance and TPD attached to them. The advisor explained their process and obligations, and what fees would be applicable to access advice and implement any recommendations. Although the potential client wanted assistance, they could not afford to pay for the advice, and the advisor could not justify providing the service at a significant discount as this would lead to a financial loss for the business to provide such a service. The Australian chooses to undertake the consolidation process themselves. Through the process of consolidation, the Australian consumer inadvertently loses access to insurance linked to their superannuation funds of approximately \$420,000. The Australian consumer was subsequently diagnosed with terminal cancer, which would have been a claimable event on their existing superannuation funds leaving his family in significant financial trouble.

The next brief client example relates to life insurance advice and charging advice fees to provide advice.

Several of our AFSL principals have indicated that advisors are seeking to move away from providing life insurance advice (such as outsourcing the life insurance

advice to a specialist life insurance adviser), as life insurance advice has become more complex, premiums continue to rise significantly, clients are questioning the value of insurance, and the commissions paid at times does not cover the cost to provide such advice.

An existing client has received a notification from their insurance company in respect to a sizeable increase in their insurance premiums. The client would like advice from their advisor as to the ongoing suitability of the policy and whether an alternative policy should be considered.

The advisor explains to the client that they can reduce any commissions to zero and charge a fee for their advice, thus the advisor is happy to undertake a review and charge an advice fee. Or alternatively the client can be referred to an external specialist life insurance advisor that does not charge advice fees and will accept life insurance commissions.

The client chooses to not progress with either approach. The client also indicates that the size of the fee is not a cost they would like to pay. Instead, the client chooses to reduce his life insurance policy with the insurance company. Unfortunately, the client's personal health position changes and the client is diagnosed with bowel cancer. The advisor lodges a claim with the insurance company that pays the client's claim at the reduced insured level.

Complexity of advice:

The following is an example of an Australian family being disadvantaged due to the complexity of the Statement of Advice documentation.

A client was provided with personal advice, though wanted time to review the statement of advice (the advice made recommendations relating to super, estate planning, \$810,000 life/TPD and income protection, and liability/asset matching). This review was due to the level of detail included in the Statement of Advice and the client preference to read the information in full. The advisor supported the client's approach in taking his time to ensure he understood the advice, which is consistent with the Financial Planners and Advisers Code of Ethics obligations, standard 5. The advisor made the client aware of the risks of not progressing with the insurance.

After the advice was provided and prior to the client accepting the advice, the client was diagnosed with terminal cancer. The client had no insurance in place, with the financial impact associated with not progressing with the advice (due to the size and complexity of the information required to be covered in the Statement of Advice) significant to the client and the family let alone dealing with the stress involved in such a diagnosis.

Number of client groups per advisor (at capacity):

As advisors continue to deal with the increase in demand for advice, limited capacity, and increase in costs, Australians continue to be disengaged as the advisors focus on their target market that can afford to pay larger advice fees.

The following is an example of how lower-level fee paying clients are being disengaged even where they want to retain the ongoing advice relationship.

A long-term husband and wife client attend their annual review. At this meeting the advisor discusses their ongoing fee arrangement, and that the adviser's business is increasing their fees for all clients on their service package, reflecting the increase in costs to provide ongoing advice and services.

The clients indicate that they are happy to pay the higher fee. However, the advisor reflects on their current financial position and that the size of the fee comparable to their investments may not be fair or reasonable and represent value for money for the client, consistent with the Financial Planners and Advisers Code of Ethics obligations standard 7. As such the advisor does not believe the ongoing fee arrangement should continue between them. As an alternative and reflecting on their relationship the advisor offers to remain available to provide advice for a fee as and when the client has a specific need (such as a life event).

Although the advisor would like to ideally continue to provide ongoing advice, the cost to provide such advice is causing advisors to shift their business model or risk running an unprofitable business. The financial and emotional impact this is having to Australians losing access to their trusted advisor is significant and is undermining the financial health and wellbeing of Australians. The previously mentioned Rice Warner Future of Advice paper articulates this well.

2. Ongoing Fee Arrangements (OFA)

Operationally one of the key drivers of complexity and subsequently cost to provide ongoing advice and services to Australians relates to the obligations associated with the definition of an OFA under the Corporations Act s962A.

The need for transparency and accountability of ongoing fee arrangements is well known, as reported by ASIC in October 2016 through Report 499 Financial advice: Fees for no service and evidenced through the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. This submission supports the need to retain transparency and accountability in these arrangements, though seeks to highlight through a real-life client scenario the complexities and challenges in the implementation of the current approach.

Our AFSL Principals have indicated that they have had to recruit additional staff to manage the new OFA obligations, in particular the costs of producing and following up clients to obtain signed FDS and Consent forms, let alone the need to re-issue Consent forms that have expired due to client delays (forms typically expire in 60 days). The production challenges in producing a compliant FDS are well known. As examples, ASIC Report 636 highlighting the level of failure with FDS and Opt-in compliance, and the AFA Submission – CP 332: Promoting access to affordable advice for consumers articulated the significant manual effort and cost required to produce such a document. If we go back to pre FOFA legislation that was first tabled to bring in annual opt-in obligations, the concept of an FDS was not a part of the proposed framework. It was introduced off the back of industry seeking to shift opt-in to a bi-annual process.

The following is a typical example of the challenges for clients in seeking to continue their ongoing fee arrangement with their advisors.

Husband and wife attend their annual review with their adviser. The clients have an investment in their own name, a joint investment, and individual superannuation funds (5 separate products in total).

The advisor produces a FDS covering the fees and services for each entity (individual, joint names, and SMSF). The advisor explains to the client that they have undertaken their best endeavours to ensure the FDS is accurate by obtaining the fee information for the last 12 month relevant period from the clients product provider systems (Note: this is a manual process, as the advisor can't rely on their commission systems, knowing there are challenges with the timing and accuracy of their commission systems data vs what is appearing on the clients product statements with what was actually paid over the relevant period. The Corporations Act s962H requires the amount of each ongoing fee paid by the client to be disclosed, the value must be exact and is not flexible).

The client questions why the fees paid for the prior year are lower than the fees to be charged for the next year on their superannuation fund. The advisor explains that their current fund offsets the advice fees charged upfront through what is called a reduced input tax credit. What this means practically is that the fees shown in the FDS are after the tax credit has been applied by the superannuation fund based on the gross fee for the OFA, they had agreed to last year. Next year's fees are the amount of each ongoing fee arrangement (pre-tax), thus there is no difference in the fee the client is going to pay. The client indicates that they trust the advisor and are both happy to sign the FDS renewal statement to continue with the ongoing fee arrangement. The advisor has also explained the need for product provider consent forms to be signed.

The product providers all require their own product consent forms to be utilised, thus the advisor has produced 5 fee consent forms. Some of the forms are digital and the advisor logs into the relevant systems, and some are paper based forms with the clients to sign. 6 signatures are required to be signed on the 5 forms, noting 1 form is in joint names.

The client questions why they need to sign 8 times to continue their ongoing fee arrangement and how much this administration is going to cost them, as ultimately the clients pay the time and costs of the advisor and their business to support them.

This example has utilised a client meeting where the forms can be explained and managed. Where forms are sent out to clients, it is easy for the clients to miss a consent form, or not date a consent form, leading to further administration and costs. Furthermore, this example has assumed the client is available to attend their review meeting at the time of their anniversary dates. In reality, it is common for clients to schedule meetings to fit their lifestyle and travel plans, often involving a meeting held a month early or late. The inability to easily have the fee renewal and consent covered off early due to the rigidity of the anniversary date adds additional and unnecessary complexity to what could be a very straightforward and transparent client renewal process.

3. Target Market Determinations where personal advice is provided

The introduction of the Design and Distribution obligations was a well-intended change designed to empower ASIC and making issuers and distributors more accountable. This was designed to strengthen consumer protection. This change was part of the Government's response to the Financial System Inquiry, Improving Australia's Financial System 2015.

The final Design and Distribution obligations provided an exemption from the reasonable steps obligations, which requires issuers and distributors to take reasonable steps to ensure that a product is distributed consistently with the Target Market Determination (TMD). ASIC through Regulatory Guide 274 and Information sheet 264 indicated that it expects advisors and their AFSLs to consider TMDs as part of meeting their best interest duty in the same way they would consider other sources of research or information about a financial product. This was on the basis that the TMD would contain important information about the product and the class of consumers the issuer considers the product is likely appropriate and referred to RG 274.202.

Advisors and AFSLs utilise a range of research resources to assist them in providing appropriate advice, knowing their products, and meeting their best interest duties (existing obligations). The TMDs do not provide any meaningful new information to advisors that does not already exist through their existing arrangements as the client attributes reflect the nature of the products.

As practical examples, Insurance TMD's relate to the need for insurance, anyone needing income protection who meets the providers requirements will meet the TMD obligations. Superannuation and Pension platforms TMDs relate to age or employment and are dictated by superannuation law. Underlying Investment TMDs often have wording that discusses how that investment works in an overall portfolio, with advisors assessing investments against a client's risk profile (which is common industry advice practice). Thus, the time and cost to review and consider TMDs along with the associated reporting obligation for significant dealings (Note -some product providers also require any dealing outside the TMD to be reported) outside of TMD, in addition to their existing obligations creates an administrative burden and cost that will be covered by the client with no benefit to the client.

4. Proposed solutions

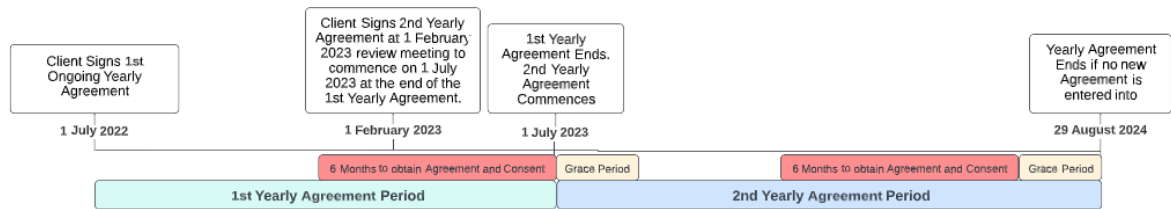
1. **Production and content requirements for Statement of Advice (SOA) and Records of Advice (ROA)** – We recognise that there are a range of approaches that may assist to simplify and reduce the time and complexity of providing a SOA or ROA. Our recommendations are:
 - a. **SOA simplification** - The SOA should be streamlined to focus on its core purpose (goals and objectives, scope of advice, summary of the advice to achieve the objectives or otherwise, risks/implications of the advice, and relevant costs of the advice and any relevant product costs should be disclosed in summary form – disclosures should not have to repeat in detail information contained in other regulatory documents like PDSs

- i.e. the total cost for platform A with the 10 underlying recommended investments are \$X refer to the PDS for the detail breakdown),
- b. **Safe harbour step 7** – Be removed to reduce complexity in how this step is risk assessed by AFSLs and considered by compliance and regulatory experts. Where complexity exists, advisors and AFSLs will seek to reduce the significant regulatory risks associated with failing to meet compliance obligations,
 - c. **Alternative strategies (products)** – Provide clear regulatory guidance and amend the law if necessary to ensure the inclusion of alternatives in advice documents is not required. Advisors should continue to have obligations and evidence on file to consider alternatives, though including statements in advice documents that are not being recommended adds time, cost, and complexity and no tangible client benefit,
 - d. **Expanded ROA** - Once a SOA has been provided to a client, the ROA provisions should allow all future advice to be provided by an ROA, irrespective of whether there has been a significant change in client circumstances or the basis of the advice. Utilising the learnings from [ASICs relief](#) during COVID 19 in extending ROAs even where there was a significant change in circumstances,
 - e. **ROA simplification** - Like the SOA being streamlined, so should the ROA in relation to costs of the advice, and any relevant products costs should be in summary form only and not repeat in detail information contained in other regulatory documents. Where there is no change in the advice there should be no obligation to duplicate disclosure obligations relating to ongoing fees that may be considered a conflict, reflecting the fees are being disclosed under the OFA obligations.
2. **Ongoing fee arrangements** – As stated earlier we support transparency and accountability of ongoing fees and service delivery. Our solution is focused on simplifying the process, removing duplication, and ensuring that the Australian consumers receiving the relevant materials are front and centre. We would propose to amend the Corporations act to remove the definition of Ongoing Fee Arrangement and relevant obligations such as the need to provide a Fee Disclosure Statement, and replace them with the following:
- A new obligation relating to ongoing advice services, that requires a financial advisor and/or AFSL to enter a yearly agreement to provide ongoing advice services with a 60-day grace period. The 60 day grace period will commence at the end of the yearly agreement, and will need to expire before fees are switched off and services cease to allow for client delays, product provider fee runs and processing times (i.e., if the client does not put into place a new yearly agreement and sign a new fee consent form, then the fees and the arrangement will cease 60 days after the end of the yearly agreement expiry). All services must be delivered between the commencement of the agreement and the expiry of the grace period. The yearly agreement will allow the client to mutually agree with the advisor on when the agreement commences, with all relevant obligations applying from this mutually agreed date. Post establishment of a yearly agreement, the flexibility for a new yearly agreement and consent form to be agreed to and signed by clients and

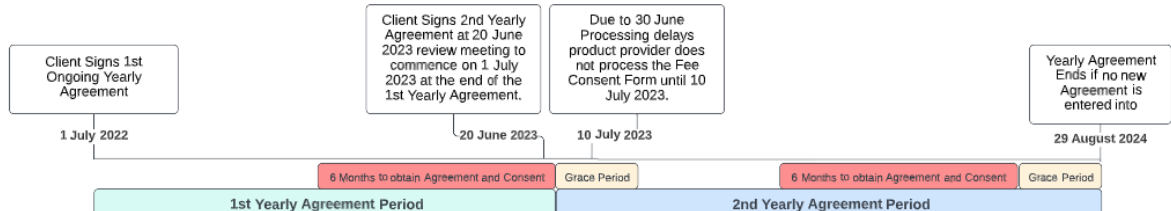
advisors up to 6 months ahead of the yearly agreement’s expiry (See example 1 and 2 below). Further, flexibility to allow a new yearly agreement to replace the existing yearly agreement before it expires (See example 3 below), and

- Treasury provide direction and powers to ASIC to ensure the market is working efficiently in respect to the consent obligations consistent with the above change. Should the industry not align its approach and the market continue to act inefficiently and to the detriment of Australians, ASIC should have the power to prescribe a standardised industry consent form (like the [reference checking protocol](#) created by ASIC) that may cover one or multiple product provider details, that addresses privacy concerns, and that requires all product providers to utilise the same process and form to remove the layers of variation, complexity, and cost for the benefit of all Australians seek advice. To note, the current example consent form produced by ASIC is simple and fit for purpose.

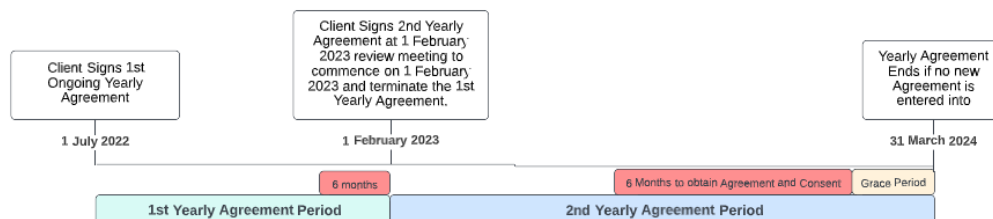
Example 1: Signed within 6 month Agreement Period



Example 2: Processed during Grace Period



Example 3: Agreement Termination and Replacement



This change will allow Advisors and AFSLs to support Australians engage with them in a flexible client centric manner, whilst upholding the intention of the law, which is to ensure Australians are actively engaged with the advice fees they pay and the services they receive and are entitled to whilst provided clear and informed consent to these fees. This change removes several of the administrative impediments and ensures a consistent, repeatable, and efficient model across the industry.

3. **Target Market Determinations (TMDs)** – Obligations for advisors to consider TMDs as part of their best interest obligations, and to report significant dealings (or any dealing variation as noted previously) outside of the TMDs to be removed from advisors providing personal advice. The TMD obligations should exist for individuals/parties that are not providing personal advice (such as general advice providers) and for product providers who may seek or allow clients to invest directly.

We would like to congratulate Treasury in undertaking such a wide review through this issues paper. Furthermore, we would be open to meeting with Treasury and/or sharing any additional information that may be of value as part of this review.

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With support from the Principals' Community:

- Brian Pollock, Director Corporate Governance at The Principals' Community.

On behalf of Australians we serve in our Financial Advice Profession.