INDUSTRY FUND SERVICES

# IFS submission to the Quality of Advice Review

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# Contents

# Introduction

1. IFS provides a range of services to industry superannuation funds, including advice licensing and advice assurance services, through our Advice Solutions business. Our services include issuing licensee standards and guidance, supply of advice technology, paraplanning, compliance audits, adviser education, and product research.
2. At 13th June 2022, 113 advisers were authorised to provide financial advice under the IFS AFSL.
3. In most instances advice provided under the IFS licence is provided by authorised representatives of IFS, who are employed by superannuation funds to provide pre-retirement and retirement advice to the members of the fund and their families.
4. IFS also employs a small number of advisers who are located within a trustee office to provide an advice service to members of the fund.
5. In recent years IFS has unbundled its services and now conducts assurance reviews for several superannuation funds that provide advice under their own AFSL.
6. Between them our clients have over 5.54m members and are the custodians of $460bn of members' retirement savings[1]. In a typical year, advisers operating under the IFS AFSL will issue around 6-7,000 statements of advice to members of these funds.

# IFS approach to the Review

7. IFS is pleased to make a short submission to the review. We provide more detail to support our submission in the attachments:
    - Consumer-Centred' Reimagining how Australians access help and advice, IFS July 2021
    - Assessing the limits and regulatory definitions of financial advice, IFS October 2020
    - Submission to Consultation 332: Promoting access to affordable advice for consumers, IFS January 2021
8. Our ambition is to improve the outcomes for members of industry super funds that our advisers serve each year, and to advocate for the millions of members who do not ever receive personal financial advice.

[1] APRA Annual Fund Level Statistics December 2021, adjusted for fund mergers.

9. Not all those members need financial advice. Ideally, effective default mechanisms would ensure most people can move through their life stages, including into retirement, without the need for personal financial advice.
10. For example, this could involve a person at retirement simply requesting that the default income be paid from their superannuation account to their bank account without the need to "start a pension" or switch to a new product. The default drawdown would be based on the known aged pension entitlement, and changes to the product to move it to pension phase could be made in the back office.
11. Effective defaults need to be coupled with advice at scale. We need a regulatory framework that facilitates the delivery of education, support, guidance, and point of time assistance – including recommendations if needed - to super fund members to help them make and implement wise choices at those times where the default arrangements are not adequate.
12. One of the strengths of the compulsory superannuation system is that it provides investment and insurance services to members at scale. Unfortunately, the current regime does not facilitate mass advice.
13. IFS has experience in licencing online digital advice tools that generate limited advice such as contributions advice and investment choice advice. We have no doubt that digital advice can and should play a part in providing mass advice, but to date it has proven difficult to build the right tool to answer the questions that fund members commonly ask.
14. For that reason, IFS would welcome the emergence of "one to many" or "people like you" advice. We anticipate that demand for this style of support will increase as superannuation fund trustees implement the strategies developed under their retirement income covenants, and we will need a modern and responsive regulatory environment in which to develop these services.

# The need for wholesale reform

15. Our submission calls for wholesale reform of the regulation of financial advice. The current framework is a broken patchwork of legislation, regulation and delegated regulation that is the result of almost 2 decades of tinkering. The resulting complexity and ambiguity dampens licensee appetite to explore, take risk and innovate, and consequently advisers' ability to serve consumers well and at scale.
16. Further tinkering with this patchwork of regulation will not support Australians to access quality financial advice at a reasonable price when they need it. We urge the Review to take a clean-sheet approach to this task and focus on the principles of good, principles based, and clear regulatory design, avoiding superficial reform that will not materially improve access to good quality advice.

# The focus of regulations

17. Financial advisers and financial advice should be regulated as a profession and a professional service, and the regulation of sales and distribution by financial product manufacturers or their agents be separately regulated.
18. In hindsight, efforts to regulate mis-selling should have been squarely directed at the product manufacturers rather than at the salesforce of "advisers". The ban on paying conflicted remuneration, DDO obligations and enhanced anti hawking provisions are a partial but incomplete framework to regulate mis-selling of financial products.
19. Where product manufacturers employ financial advisers to provide a financial advice service, there is a conflict of duties. This inherent conflict is at the heart of much of the past failings of the industry.
20. However, the complete structural separation of product manufacturing and financial advice is not the solution as it would, and is leading to pushing the cost of financial advice out of the reach of many, if not most, Australians.
21. Instead, the conflict can be managed by aligning the adviser's duty to their employer with their duty to their client. Employed advisers must unambiguously be engaged to provide a professional advice service to their clients only, in compliance with the professional standards and conduct obligations, without commercial pressures for retention or product placement. Where superannuation trustees offer a limited scope service (eg intrafund advice) the service provider must be clear about the scope of the service offered.
22. Sales and support staff should be clearly and appropriately identified as such, and the service they provide must not be provided as advice.

# Consolidation of regulation

23. All regulation of financial advice and financial advisers should be in one place. The current pool of this regulation sprinkled across the Corporations Act, ASIC Act, Code of Ethics, regulations, ASIC instruments, ASIC regulatory guides and, for some advisers, the SIS Act – must be consolidated into a single place. Whether that is in an existing piece of legislation, or through the creation of a new Act is not important.
24. Similarly, disclosure obligations, conflict of interest rules, fee disclosure and consent rules would be consolidated in one place. It would also be possible to locate the conduct regulator and the professional standards within the one instrument.
25. This would allow careful thought to be given to which obligations best sit with advisers or licensees, and which restrictions sit with product manufacturers and their agents.

26. Even since the development of the Financial Advisers Code of Ethics in 2019, the industry has debated the intersection between the Code of Ethics and measures addressing conduct, integrity and quality of advice in various acts of parliament. Commentators have pointed to duplication and to nuanced inconsistencies.
27. This Review offers an opportunity to address these concerns through consolidation. IFS is agnostic as to the appropriate location of the conduct and quality rules –it could be the Corporations Act, or a new Financial Advice Act.
28. While we support professional bodies to assist planners and licensees meet their professional obligations, we would not support self-regulation, and firmly believe that the industry needs a well-resourced enforcement body – be it ASIC, or another code and quality monitoring body.
29. In general, we support principles-based regulation, but recognise that for many advisers the transition from command-and-control regulation is challenging, and that a blend of principles and prescription will be required for a period of time.

# Scalability of regulation

30. The current regulatory regime does not adequately cater for the wide range of services and service models that are available to consumers today. Moreover, it makes it difficult for new services and service models to emerge.
31. Despite ASIC guidance (eg RG244 and INFO 267), the regulations are anchored in the traditional notion of complex and holistic advice. Advice that is periodic, limited, delivered in micro-doses through nudges or next best steps, or delivered in one-to-many services through “people like you” advice is seen as “other”, while personalised strategy advice (that does not recommend a product) has no place in the regulatory hierarchy.
32. While these types of advice can be delivered within the law, the current framework – which presumes that holistic advice is the gold standard - conditions the environment for advisers and has a dampening effect on innovation and investment in new service models.
33. In our view, we need a new regime that consciously designs for simple, low-risk, high volume advice as well as for more traditional advice. We need a model that consciously designs for digital, human, and blended advice delivery.
34. This might include scalable qualification standards for advisers. It might include scalable consumer disclosure and documentation obligations, and scalable professional and fiduciary obligations, that scale as complexity and risk of the service rises.

35. Unpicking the tangled web is not a realistic, nor worthwhile endeavour. The Review must start with a clean-sheet approach, designing the framework that the industry needs and that will service Australians best – not trying to unwind and alter the existing framework to make it fit. Such a design must have a strong focus on increasing accessibility to advice by decreasing cost to provide, and increasing the ability and appetite of licensees and advisers to innovate novel ways of delivering advice to consumers.

# Quick wins

36. That is not to say that there are not reforms that could be delivered quickly. IFS' report "Assessing the limits and regulatory definitions of financial advice" sets out some quick wins that could be readily adopted. In addition, we would support:

- expanding the scope of intrafund advice to allow the financial position of the super fund member's household to be within scope.
- tax deductibility of advice (subject to a cap), and
- simplification of the fee disclosure and industry wide standardised fee consent forms.

37. We also support the recommendations of ISA and AIST to this Review.

38. We have previously called for the introduction of a private ruling function within ASIC, that would enable AFS licence holders to obtain comfort that a particular service (or potential new service), licensee standard or business rule was within acceptable guardrails, and could be implemented as compliant.

39. While each of these reforms would be valuable, none is likely to significantly move the dial in respect to access or affordability of advice.

# What is good quality financial advice?

40. Good advice has both a material and psychological component. Good advice should optimise the consumer's finances and help them implement sound decisions to achieve their goals. It should also empower the consumer, provide them with clarity about their situation, and ideally with ease about their future.

41. And a good advice *system* will reduce the barriers to such advice – cost and lack of clarity about how to find a trusted adviser etc, as well as normative barriers, such as feelings of vulnerability, fear of being pressured, and fatalism/perceived futility of advice.

42. Interestingly, there is a lack of clarity and consensus on exactly what constitutes financial advice.

43. The industry engages in constant debate about the boundary between general and personal advice, the scope of intrafund advice, the types of advice that satisfy the sole purpose test to be funded from a superannuation account etc. Increasingly there is discussion about "strategy-only" or financial advice that does not refer to a financial product.

44. We know that the concept of personal financial product advice is not well understood by consumers[2] But even amongst financial services professionals, "financial advice" means different things to different people.

- For some, financial advice is primarily investment management – stock picking, asset allocation, manager selection, etc. which requires constant oversight to respond to market insights etc. This type of advice lends itself to an ongoing service, with regular reviews and significant post advice activity on behalf of the client. This will be personal advice.
- For some, advice is assisting a client to identify realistic lifestyle goals, understand the financial resources that will be required to support those goals, and suggest spending, savings, investment, and protection strategies (and associated trade-offs) that will maximise the client's chances of achieving those goals. This type of advice is likely to require a relatively deep discovery process, and may require periodic post-advice support, or a refresh in response to significant events. Depending on the interaction, this could be delivered as financial coaching, general advice, or personal financial product advice.
- For some, advice is retirement income planning - assisting a client to understand the purchasing power of their retirement savings, providing information to assist the client to maximise government payments, minimise unnecessary taxes, and potentially leveraging the family home. This type of advice is likely to be a one off, require a relatively deep discovery, but minimal post-advice support. Depending on the interaction, this could be personal financial product advice, general advice, or general advice and credit advice. It may be delivered by a Centrelink Information officer.
- For some, advice is a simple product comparison, an assessment of fixed or unitised insurance cover, or matching a client's risk tolerance to a pre-mixed investment product. This type of advice is likely to be one-off and unlikely to require post-advice support. This will be classified as personal financial product advice.
- For some, financial advice is advice and support about whether and how to access various hardship payments. This type of advice is likely to be one-off, may require a

[2] ASIC, 4 May 2021 Findings from consumer research on "general advice" label .https://asic.gov.au/about-asic/news-centre/news-items/findings-from-consumer-research-on-general-advice-label/

relatively deep discovery, and may require significant post-advice support. It may be classified as financial counselling.

45. Why does this matter? Because the existing regulatory buckets are not indicative of the complexity of the subject matter, the cost to serve, or the risk of harm to the consumer. Factual information might be technically complex and costly to provide, while personal financial product advice can be relatively straight forward (eg consolidation of small inactive super accounts) and could, with regulatory reform, be provided at relatively low cost. The consumer protections should scale to reflect the potential harm associated with the service that is being provided.

# Cost drivers of advice

46. The review is required to look at the factors that drive the cost to provide quality financial advice. Industry estimates of the time taken to provide a statement of advice to a single consumer can vary from 12 to 30 hours[3].

47. The inputs to traditional (human delivered) advice that should be addressed are:

- regulatory complexity
- access to data
- simplified advice documentation
- streamlined disclosure
- a simpler fee regime; and
- the supply of qualified advisers.

However, even with reform, the number of consumers that a qualified adviser can serve will be limited, and more needs to be done to facilitate new service models – such as financial coaching and counselling – and computer generated (digital) advice.

# Access to Data

48. The cost associated with gathering and verifying consumers' financial position to generate accurate financial advice is significant due to the amount of time that an adviser or support staff spend on obtaining and verifying that information. Open banking and the consumer data rights regime promise of significant time savings and fewer errors in advice should drive a material improvement in the cost to produce advice, as we currently think of it. It also offers the prospect of new models emerging.

[3] Professional Planner March 18, 2022 https://www.professionalplanner.com.au/2022/03/turnaround-times-for-soas-not-a-difficult-problem-to-solve/

49. However, the financial advice industry is now dominated by small to medium enterprises with limited balance sheets to invest in large scale technology platforms. There is a role for government to improve access to government portals (ATO, Mygov) and potentially support the data flow between superannuation and life firms.

# Advice Documentation

50. In recent years the advice industry has lobbied for reforms to facilitate the production of Statements of Advice, and to allow "lighter touch" documentation of the advice provided to a client. IFS supports calls for a less prescriptive approach to the documentation of the advice.
51. Advice documents cluttered with content designed to appease regulators or protect licensees do not serve consumers well and in many instances act only to confuse them from the advice contained within the document. For example, the requirement to document the basis of the advice recommendations contained within the SOA is an ineffective control over mis-selling. Of course, an adviser must have a sound basis for all the advice they provide to their clients, but it's questionable whether taking up as much or more space in an SOA with the basis of the advice, compared with the actual advice itself, actually delivers anything to consumers. Clients should be able to trust that their adviser has a basis for their recommendations and just have those presented to them simply and clearly. The requirement to document the recommendations to the consumer should also scale with the risk of consumer harm, and the regulations should contemplate that advice can be delivered digitally, and in small nudges, snippets and micro-strategies.
52. Too much focus is placed on the Statement of Advice. The advice process includes explanations and scenarios discussed with consumers throughout their engagement with an adviser. These include helping answer "what could I do?" as well as "what should I do?". Technology allows for the interaction with the consumer to be captured in systems, which can reduce the role of the SOA as the source of truth about the advice provided. While advisers/licensees understandably wish to limit their liability to the formal recommendations, consumers do not distinguish between the advice journey and the statement of advice.
53. The needs of vulnerable customers should be considered in a re-design of the documentation that must be provided to consumers. Vulnerable customers are unlikely to be served by more documentation.

# Disclosure documentation

54. The regulations rely on disclosure to alert consumers to conflicts of interest, on the assumption that disclosure will curb aberrant behaviour, and that informed consumer will either avoid or accept the risks associated with the disclosed conflicts.
55. However, there is a significant body of evidence that disclosure of conflicts is ineffective to prevent harmful conflicts, and in fact that more prescriptive regulation is potentially counter-productive. [4]

    Similarly, advice warnings are generally ineffective in protecting consumers. Consumer research conducted by IFS in 2018[2] suggested that consumers see the warnings provided with financial advice as protecting the adviser, not the consumer.
56. At a minimum the disclosure obligations should be consolidated into a single principles-based regulation, which incorporates both the form of the required disclosures and the requirements on advisers to ensure that clients have understood the information provided.

# Fees and charging

57. The fee charging and disclosure regime should be simplified. The primary obligation, which is reflected in the Code of Ethics, is that fees should be fair and provide value for money.
58. Fees need to be openly and clearly explained, there must be evidence the client understood and gave genuine consent to the fees, and if there are ongoing services, there must be a limit on the period of the contract, and a process for renewal.
59. If fees are to be deducted from superannuation accounts, there could be a cap. The distinction between types of accounts should be removed, so all super accounts are treated the same. The application of the sole purpose test to advice fee deductions is interpreted differently across the sector and would benefit from greater clarity.
60. The scope of intrafund advice should be reviewed. Intrafund advice was introduced as to allow trustees of superannuation funds to provide simple advice related to a members' interest in their superannuation account to be provided as a general service to all members rather than a user-pays service. While the intrafund rules have seen trustees offer single topic advice (investment choice, insurance configuration and retirement adequacy) it has proven incapable of supporting members to retire as it precludes consideration of the finances of their partners and Government entitlements which directly impact their superannuation and retirement strategies. Expanding the

[4] Kinander, M (2018) "Conflicts of Interest in finance: Does regulating them reduce moral judgement, and is disclosure harmful?" Journal of Financial Regulation and Compliance, Vol 26, No 3 pp 334-350

scope of intrafund advice would enable trustees to partly subsidise pre-retirement advice.

# Supply of qualified advisers

61. Affordable advice will require a stock of qualified advisers, trained, and accredited to provide the service. IFS is largely supportive of the educational standards required of the profession and does not support a wholesale winding back of the requirements to hold a degree in financial planning or equivalent, although we would welcome a broader role for recognition of prior learning and equivalent degrees.
62. We do however hold some concerns about the capacity of industry to support the professional year obligations for provisional planners. Most small advice practices cannot absorb the cost to support a new graduate through their first year, particularly give the tight labour market and risk that the person will move on. Unlike the medical and legal professions, the advice industry has neither a public sector nor large scale private sector licensees able to wear the cost of on-the-job practical training.
63. At IFS we have developed a pilot programme to support our clients to train staff to become fully accredited advisers that involves gaining experience in intrafund and paraplanning teams as part of their professional year programme. The Review should consider whether the PY obligations are fit for purpose, or whether there should be greater emphasis on practical skills and industry placements as part of the formal qualifications regime.

# Fintech and digital advice

64. `As noted above, while there are real opportunities to drive efficiency and improve access to traditional advice services, mass advice, or advice at scale will rely on digital services. IFS has experience in delivering single topic calculators and tools that allow a member to self-serve and generate projections and advice, including generating a formal statement of advice.
65. In our observation, much of the digital advice software has been developed as a bolt-on to existing advice software. An advice process designed to support a qualified professional is not the same as a consumer-led journey of self-diagnosis and discovery. Better integration with education and information to support the consumer self-serve will be important.
66. We also see that the stand-alone digital advice tools currently in market have been developed to meet the "intrafund" set of topics – because technology vendors are building to the superannuation trustee budgets, not necessarily to consumer needs. It

is difficult to identify a commercial model where the investment in more complex multi-strategy/retirement planning advice can be justified when consumers are unwilling to pay for advice.

67. Despite some clever technology, take up by consumers has been modest, in part because the stand-alone topics do not adequately address the strategic questions that consumers want help with, and in part because integration with other systems makes implementation difficult.
68. Finally, the regulations need to contemplate hybrid advice – where a digital tool generates the strategies and recommendations, but a qualified human can assist the consumer without needing to take on the full responsibility for all the advice journey.

# Conclusion

69. This Review is an opportunity to overall the regulation of Advice from the bottom up.
70. We should start by identifying the desired integrity, conduct and quality framework -the Code of Ethics provides a solid base. We should then build the right rules to support that framework, and finally address the transition issues from the current regime.
71. We acknowledge that reform of this magnitude will require collaboration and goodwill by all participants in our industry, but we believe that a firm focus on access to quality advice for every day Australians can be a unifying guide.

# Attachment 1: Consumer-Centred' Reimagining how Australians access help and advice

# ‘Consumer-Centred’

Reimagining how Australians access help and advice

July 2021

# Foreword

The not for profit superannuation sector has been remarkably successful in the delivery of investment and insurance solutions that meet the needs of ordinary Australians, harnessing the collective power of its large member base to deliver services at scale that would otherwise be beyond the reach of most.

But, as a sector, we have not yet found a scalable model of help, guidance and support that would provide our members and their families with the advice they need, when they need it at a realistic price.

There are many reasons for this: regulatory complexity, the conundrum of delivering a highly personalised service to a mass audience, norms and biases borrowed from the traditional financial product advice sector.

And while we can and should continue to tailor the traditional model to serve our members, it will never be capable of meeting the latent demand for help and guidance.

We know that improving access to financial advice will improve retirement outcomes for Australians. We know that many Australians miss out on formal advice[1]. We know that those who receive it value the service[2]. And we know that cost is a significant barrier.

We also know that super funds have struggled to identify an optimal service model. That too often the question is not "will this solve a problem for our members?" rather "will this solution be treated as general or personal advice?", "limited or complex advice?", "intrafund or not intrafund?"

In this project, we attempted to throw off the regulatory constraints. Consumer needs were our sole focus - ensuring we develop services that solve their problems, not our problems.

We purposely remained agnostic to the regulatory environment. We wanted to know what was possible if regulations weren't a constraint at the design phase, while recognizing that appropriate consumer protections would ultimately need to wrap around any new model.

With our Steering Committee we developed three service model concepts that could meaningfully improve how many Australians access advice.

Each concept tackles the problem in a different way, focusing on different consumer needs and addressing different barriers to accessing help, guidance and advice.

None of these ideas are a silver bullet. Our intent for publishing this work is to encourage our industry to consider different ways of designing advice models for members.

We will continue to work with industry partners to progress these ideas beyond concept and into implementation.

If you want to hear more about the content of this report, or would like to participate in the next steps for this work, please contact Adrian Gervasoni at AGervasoni@ifs.net.au.

1 – ASIC. (2010). Access to financial advice in Australia. https://download.asic.gov.au/media/1343546/rep224.pdf
2 – Adviser Ratings. (2019). *Australian Financial Advice Landscape*.

# We acknowledge the following organisations for their contributions

## STEERING COMMITTEE MEMBERS:

Industry Fund Services

right lane

me Bank

Gallagher

CORE DATA

HESTA

iress

HOSTPLUS

## PROJECT CONTRIBUTORS:

AustralianSuper

catholic super

COTA VICTORIA

cbus

FIRST super

Super Consumers Australia

LGIAsuper Let's Grow

media super

choice

Rest

SUPER SA contributing to your future

Household Capital

TWUSUPER

vision super

ASIC Australian Securities & Investments Commission



We met with ASIC to inform ASIC of this project. ASIC was not involved in the concept design and nothing in this report should imply ASIC endorsement.

# Objective for this work

**We want to move away FROM …**

**Traditional advice**

How financial advice (and support) is delivered today

- Service models focus on client-adviser relationships and development of compliance documents (e.g. SOAs)
- Constrained by today's regulations and capabilities
- Ineffective at meeting the needs of all members

The **objective** is to explore alternative service models that can help, guide and support members make sound financial decisions

**… and consider how we can move TO …**

**Consumer-led advice**

How financial advice[1] *could be* delivered in the future to **best meet the needs of Australians**

- What service models for financial support could exist in the future?
- What if we were totally unconstrained by today's regulations and capabilities?
- How could we best meet the needs of all members and overcome the barriers to accessing support?

This work **didn't** focus on improving existing advice models

This work **did** focus on developing entirely new/different service models

1 – While we use the term 'advice' here for consistency, in the future state we expect Australians will receive a broader scope of financial support beyond traditional financial advice. This includes other services such as counselling, coaching, etc.

# Approach and rationale for this work

- Steering Committee included staff from IFS, industry superfunds, and service providers.
- Role was to consider alternative service models may better meet Australians'[1] needs in the future.
- In collaboration with stakeholders [2] the Steering Committee worked through a five-step process.

STEP

**1** — Dec 20 – Jan 21

**ENGAGEMENT AND RESEARCH**

- Conducted research on the advice needs of Australian consumers
- Interviews with funds and service providers
- Drew heavily on existing ASIC research.

**2** — Jan 21 – Mar 21

**VALUE PROPOSITION CO-DESIGN**

- Several **value proposition design** workshops
- Included senior professionals from industry superfunds, service providers, and consumer advocates.
- Used a consumer-centred design process

**3** — Mar 21

**FEASIBILITY ASSESSMENT: CAPABILITIES**

- Considered existing capabilities and gaps to deliver new service models

**4** — Apr 21

**FEASIBILITY ASSESSMENT: REGULATORY ENVIRONMENT**

- Engaged with ASIC to consider potential regulatory implications
- Sought guidance on how we can **protect members** in the service model concepts and experiments

**5** — NOW

**ENGAGE FUNDS TO BEGIN IMPLEMENTATION**

- Engage industry on the new service model concepts.
- Gain support to run 'experiments' for each idea.

1 – For the purpose of this work, the terms 'Australians' and 'members' are used interchangeably. 'Members' are a direct reference to the members of industry superfunds.
2 – Page 3 includes a full list of organisations that were project contributors.

# Consumer needs led the design of 3 service model concepts

### Benefits consumers expect from advice

- Optimising their finances.
- Achieving specific financial goals.
- Establishing themselves financially.
- Facilitating the transition to a new life stage.
- Providing a ‘reality check’.
- Managing anxiety.
- Feeling empowered and motivated.
- Improving financial knowledge and skill.

### Barriers to accessing advice

- High cost.
- Distrust of financial advisors.
- Lack of clarity about how to best engage with the industry.
- Lack of interest in finances.
- Too much hassle.
- Lack of urgency.
- Perceived lack of relevance.
- Fear of being pressured into taking risks.
- Feelings of vulnerability.
- Not wanting to change lifestyle.

### Consumer preferences for accessing advice

| | | |
|---|---|---|
| **Online (self) discovery—** having access to relevant and reliable information that is targeted to them, based on their personal situation and life stage. | **Learning with peers**— understanding what similar people in their positions have done (or are doing), and being able to share their personal experiences and learnings with peers. | **Easy to engage experts**— knowing who to go to when they need expert advice, and having total clarity of what it will cost and what the process includes. |

**We used these consumer needs to lead the design of three service model concepts:**

**Help-finder platform**: Helping consumers find the right adviser

**Digital Advice Journey**: small pieces of advice and guidance delivered along the way

**Moderated peer communities**: harnessing the wisdom of people like you

**Each service model is explored in detail over the following pages.**

ASIC. (2019). Financial advice: What consumers really think. https://asic.gov.au/media/5243978/rep627-published-26-august-2019.pdf.

# Consumer-led advice service models

**Help-finder platform: Helping consumers find the right adviser**

**Digital Advice Journey: small pieces of advice and guidance delivered along the way**

**Moderated peer communities: harnessing the wisdom of people like you**

Concept 1: Help-finder platform

# Overview of concept and features for the help-finder platform

## Problem being addressed

- Members struggle finding advisers in general, let alone ones they can trust and at a price-point they can afford.
- Creates an efficient and transparent digital marketplace for members and financial coaches to interact.
- This will help members to find coaches, understand how others have reviewed them, and get transparent and competitive pricing for support.

## Overview of the help-finder platform

- The help-finder platform is a digital platform that members, funds, and financial coaches[1] 'plug into'.
- At its core, the platform is a marketplace for members and financial coaches to connect.
- Analogous to platforms such as Airtasker and Uber.
- Connects with members' data to build a data-driven service that helps members identify the type of support they need, and facilitating the process of soliciting and receiving support from professionals.

## Key features of the concept

**1. Efficient digital marketplace for members and coaches.** The platform includes:

- A network of 'signed on' coaches available to connect with members and provide financial support. Coaches join directly as individuals. Trusted financial services firms could join their network of educators, coaches and advisers to the platform. This may include superfunds and their in-house planners.
- Members/users join the platform directly, or via their superfund, and can engage coaches through the platform.
- When members seek support, the platform will target a specific cohort of coaches, based on the members' needs, and the qualifications/specialisation of the coaches.
- Coaches/advisers quote for work, and members can compare multiple quotes
- Members can rate and score coaches based on their performance (and fees).

**2. Building a central library of members' financial information.**

- The platform would connect directly to sources of financial data—such as ATO, MyGov, funds, and banks (leveraging Open Data initiatives)—and synthesising the information into a single picture.
- The platform also prompts members to share information about themselves, such as their financial goals, hopes for retirement, etc.
- Any advice that members receive is stored in the platform, and access to member data is controlled by the member.

**3. Offering some automated advice to build engagement.**

- An automated process would guide members to identify their financial goals and needs, and potentially serve some simple advice as a starting point for members, such as high-level strategies and plans.
- Members could also access financial literacy tools and templates, but prompt members to consider engaging 'signed on' coaches for more in-depth support.

1 - The terminology 'coach' is intended to capture a broad group of financial professionals that can support members, such as advisers and counsellors.

Concept 1: Help-finder platform

# Illustrative model of the help-finder platform

**Member profile**

J. Smith

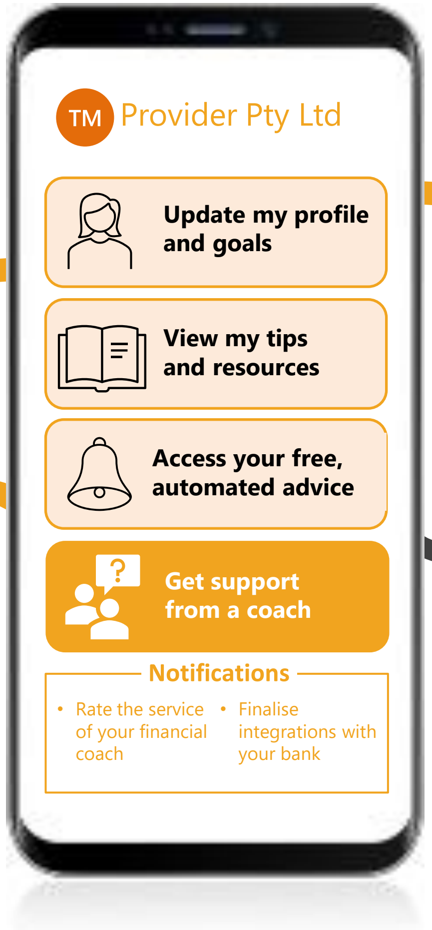
Career: ...
Income: ...
Goals: ...

## Members

- Members can sign-up to the platform directly.
- As part of the sign-up, members are supported via an automated process to identify their financial goals and needs.
- Once signed up, members can access all features of the platform; some are illustrated to the right.

## Funds

- Funds can access the platform and provide automated opt-in or opt-out sign-up for their members.
- Information is automatically transferred to the platform and requires minimal effort by members.




## Coaches[1]

- Coaches can sign-up to the platform, either directly or through organisations they work for.
- The platform shares coaches experience, qualifications, and ratings with members.

**Coach profile**

J. Smith

★★☆

'Jane did a fantastic job ...'

## Data sources

- When members sign up, the platform establishes integrations with providers of essential financial information. This Includes ATO, MyGov, banks, etc.
- These integrations are expected to be facilitated by the rollout of open data initiatives (e.g. Open Banking).

1 – The term 'coach' is broader than financial advisers. It could include financial councillors, planners, wealth management specialists, etc.

Concept 1: Help-finder platform

# Open questions for the help-finder platform

We are clear on the **concept** of this service model, but there are many elements that remain as open questions. We have set out below the most pressing questions, and some hypotheses, that will need validation.

| Q: Who is the provider? | Q: What is the commercial model? | Q: What are the key risks and mitigants? | Q: What are the regulatory and consumer protection considerations? |
|---|---|---|---|
| **A:** Two main options were identified. Under both models the platform is built and operated by a third party.<br>• Under a 'closed' model, the platform is licenced to funds.<br>Funds operate their own front-end, connecting their members with a curated selection of coaches (e.g. the funds' internal planners and a selected number of other planners or firms).<br>• Under an open model, all users and coaches on the platform can interact with each other freely. | **A:** Potential commercial models include:<br>• Charging members directly (e.g. per annum).<br>• Charging participating funds for access (perhaps on a flat or per-member basis).<br>• Charging coaches an annual fee for accessing the platform.<br>• Charging a flat or percentage fee for transactions on the platform (i.e. when coaches and members connect).<br>Any commercial model will need to avoid or manage conflicts, support quality advice, and consider intra-member equity and unfair cross subsidies. | **A:** Key Risks and mitigants include:<br>• Risk of including unqualified / poorly skilled coaches<br>• Mitigated by due-diligence process for new coaches (ideally automated, but likely to require some human input), and using pre-existing quality controls (e.g. planners on Adviser Ratings, fund financial planners).<br>• Risk of members receiving poor service, including poor advice, and not having recourse.<br>• Mitigants include dispute resolution process; real time monitoring, document storage to facilitate auditing; and sophisticated user feedback mechanisms.<br>• Risk of data or security breaches, controlled via mature technology partner. | **A:** Potential regulatory issues include:<br>• Responsibility for advice. Will need clear accountability for advice given over the platform between (1) individuals coaches / businesses or, (2) the platform provider<br>• Blended advice delivery: The current friction where advice is delivered through a blend of member-driven technology and humans will need to be resolved.<br>• Data source integrations. Privacy and data security issues will need to be addressed in service design and operating controls<br>• Labour market regulation to ensure coaches / advisers attract fair compensation |

Note: This is not an exhaustive list of open questions for the service model.

# Consumer-led advice service models

**Help-finder platform: Helping consumers find the right adviser**

**Digital Advice Journey: small pieces of advice and guidance delivered along the way**

**Moderated peer communities: harnessing the wisdom of people like you**

Concept 2: Digital advice journey

# Overview of concept and features for the advice journey

## Problem being addressed

- Most members aren't engaged with their personal finances
- Accessing traditional advice is too much hassle/effort.
- This service model removes the onus on members to get advice
- It proactively engages members on financial topics that are relevant to them—in an easily accessible, engaging and 'low effort' format.

## Overview of the digital advice journey

- Will occur progressively throughout a member's life, rather than the traditional point-in-time advice, guiding them on what they should be thinking about and sharing guidance on how to navigate these topics.
- Uses data to build a picture of the member (who they are, what their goals are, what life stage they're at) and pro-actively engages them (education, support and advice) on financial topics that are relevant to their situation.
- Delivered via a purpose-built app or as an add-on to superfunds' existing apps.

## Key features of the concept

**1. Building a coherent, data-driven understanding of the member.**

The application will:

- Provide a platform that connects with members' sources of financial data, including Centrelink, ATO, personal banks, MyGov, etc to create a centralised and real-time picture of members' key personal and financial details.
- Using this, the platform would fit members into personas and tailor specific types of content for them.
- Members would add data to supplement and validate the generic personas to allow more nuanced and tailored support

**2. Set short-term goals and provide real-time updates to keep members on-track.**

- On sign-up process, and continuously through their lifetime of a member, users will be prompted to setup shorter-term financial goals (savings target, monthly savings goals, etc.).
- Users will receive real-time updates and nudges on their progress to these goals. This ongoing tracking of spending habits will give members a clear picture of where their money is going, and how they can manage their outgoings (in-line with their goals).

**3. Give regular, pro-active advice to members, driven by life events.**

- Triggers are used to flag when a user experiences a key life event and share relevant information and advice (e.g. first job, getting a promotion, buying a car or house).
- This advice starts small and incrementally becomes more comprehensive as the user engages with the tracker.
- In-between life events, the service regularly shares advice on broad financial topics that are most relevant for the user at their stage in life. This is not restricted to financial products, and can include more general lifestyle decisions that influence individuals' financial situation (e.g. downsizing or upsizing homes at different stages in life).
- Support from a human to help navigate the platform, answer queries and access a qualified adviser will be provided.

## Concept 2: Digital advice journey

# Illustrative model of the digital advice journey

Member journey

### Get first casual job

**Indicator:** Account created with fund

**Possible advice topics:**
- Guide to super, tax, etc.
- Prompt for basic savings goals / targets
- Basic budget tips/tools

### Finish school/university

**Indicator:** Change in Centrelink status

**Possible advice topics:**
- Guide to financing minor life purchases (e.g. bike, phone)
- Prompt for savings targets
- Basic budgeting tips/tools

### Get first career job

**Indicator:** Consistent super contributions

**Possible advice topics:**
- Financing big purchases (e.g. car)
- Advice on credit/ BNPL[1] services
- Professional development and career advice

### Become married/defacto

**Indicator:** Tax submission partner info

**Possible advice topics:**
- Financially preparing for children
- Guide to buying first home (finance, location, size)

### Buy first home

**Indicator:** Set up mortgage with bank

**Possible advice topics:**
- Guide to debt management
- Advice on life insurance
- Guide to budgeting and saving with children

### Approach retirement

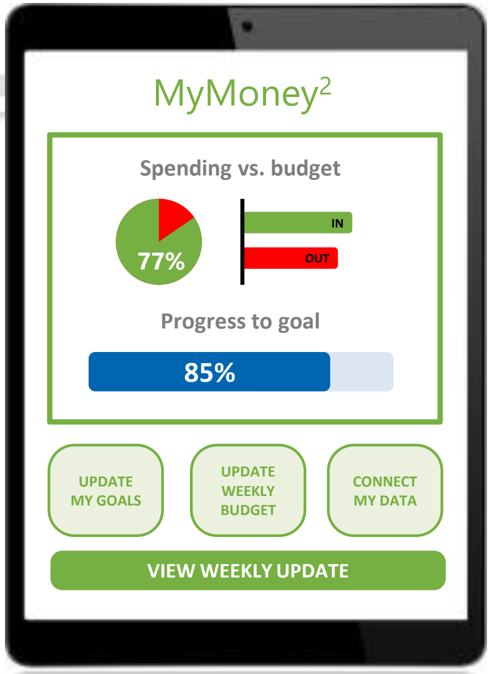
**Indicator:** Age

**Possible advice topics:**
- Guide to government support (e.g. pension)
- Retirement product advice
- Guide to retirement planning

### Ongoing life events

Regular interval check-ins

**Possible advice topics:**
- Ongoing prompting to review goals
- Ongoing check-ins / notifications of progress to goals




Here to help you on every step of your journey

1 – Buy now pay later
2 – The application name is indicative and for illustrative purposes only. There are other applications called ‘MyMoney’: this does not imply this application will function in a similar way.

Concept 2: Digital advice journey

# Open questions for the digital advice journey

We are clear on the **concept** of this service model, but there are many elements that remain as open questions. We have set out below the most pressing questions, and some hypotheses, that will need validation.

### Q: Who is the provider?

**A:** Discussions mainly focused on:

- A third party building, owning, and operating the platform, who would partner with superfunds to provide this service to their members.
- It would be possible, but less likely, for the platform to be developed by a trusted organisation such as IFS, or a special purpose vehicle
- Superfunds would be able to customise the front-end for the application
- Funds may require integration with their channels (e.g. providing it via existing superfund apps/websites).
- There is also opportunity for other consumers to access the platform directly via the third party.

### Q: What is the commercial model?

**A:** Options include:

- Charging partnered funds for access to the service. This could be based on the number of members they have signed up, or the FUM these members represent, or something else entirely.
- Charging members a subscription fee (e.g. per annum/month), that may or may not be deducted from their superannuation account, depending on the size of the fee and the frequency of the service offer.
- Offering 'premium' content and resources on the platform (for services that are more complex / expensive to provide) which members must pay to access (one-off or ongoing). This must be done carefully to ensure that free content is still meaningful and helpful for members.

Any commercial model will have regard to conflicts of interest and duty, intra-member equity and reasonable or sustainable cross-subsidies, and the investment required to deliver a quality service.

### Q: What are the key risks and mitigants?

**A:** The key risk and potential mitigants are:

- Risk of data or security breaches, mitigated by mature technology partner
- Risk of serving generic automated advice that isn't appropriate for the member. Possible mitigations include data entry and data re-fresh controls, and careful design and governance of the scope of advice given via the solution.
- Risk of users being charged for this service after becoming inactive. Mitigants include controls and governance to ensure inactive accounts are not charged.

### Q: What are the regulatory and consumer protection considerations?

**A:** Regulatory considerations include:

- Provision of generic "people like you" advice based on member attributes such as life stage, life events and personas does not easily satisfy the test of general or personal advice. Consumer protections will need to balance efficiency and the potential benefits of getting some advice vs getting no advice, or getting perfect advice.
- Data security, privacy & permitted use – as with other digital platforms strong controls will need to be in place. Potential for government to support broader use of TFN.



Note: This is not an exhaustive list of open questions for the service model.

# Consumer-led advice service models

**Help-finder platform: Helping consumers find the right adviser**

**Digital Advice Journey: small pieces of advice and guidance delivered along the way**

**Moderated peer communities: harnessing the wisdom of people like you**

Concept 3: Moderated peer communities

# Open questions for the moderated peer communities

## Problem being addressed

- The cost of professional advice is a major barrier for members
- Some members seek and act on advice from their trusted, but unqualified peers: family, friends, with potential adverse outcomes.
- Model leverages members' natural desire to consult peers, but in a controlled environment with financial professionals (and other safeguard) to protect them from bad advice.

## Overview of moderated peer communities

- Platform facilitates the transfer of financial knowledge and experience between peers.
- Members sign-up to an online community and are grouped with similar peers (who are undergoing similar life events).
- Platform forums and resources for peers to interact with each other and share tips and advice in a safe format that is moderated by professionals.

## Key features of the concept

**1.** Members of the online community can access the following **features**:

- Formation of online groups. Users are matched to "people like you" and encouraged to interact and share their knowledge via posts, live discussion threads, Q&A forums.
- Regular quizzes to help educate members on financial topics, promote knowledge retention, and build engagement with the online solution.
- Dynamic libraries of online resources for a range of financial topics, including videos, articles, budgeting tools, debt calculators, etc.
- Opportunities to receive coaching from qualified financial professionals in small group online settings
- Online forums where all users are encouraged to ask questions, and share their opinions, on specific financial topics (similar to online communities such as Reddit or Facebook).
- Potential to add in-person functions and events to build social networks and further facilitate the transfer of knowledge between peers.

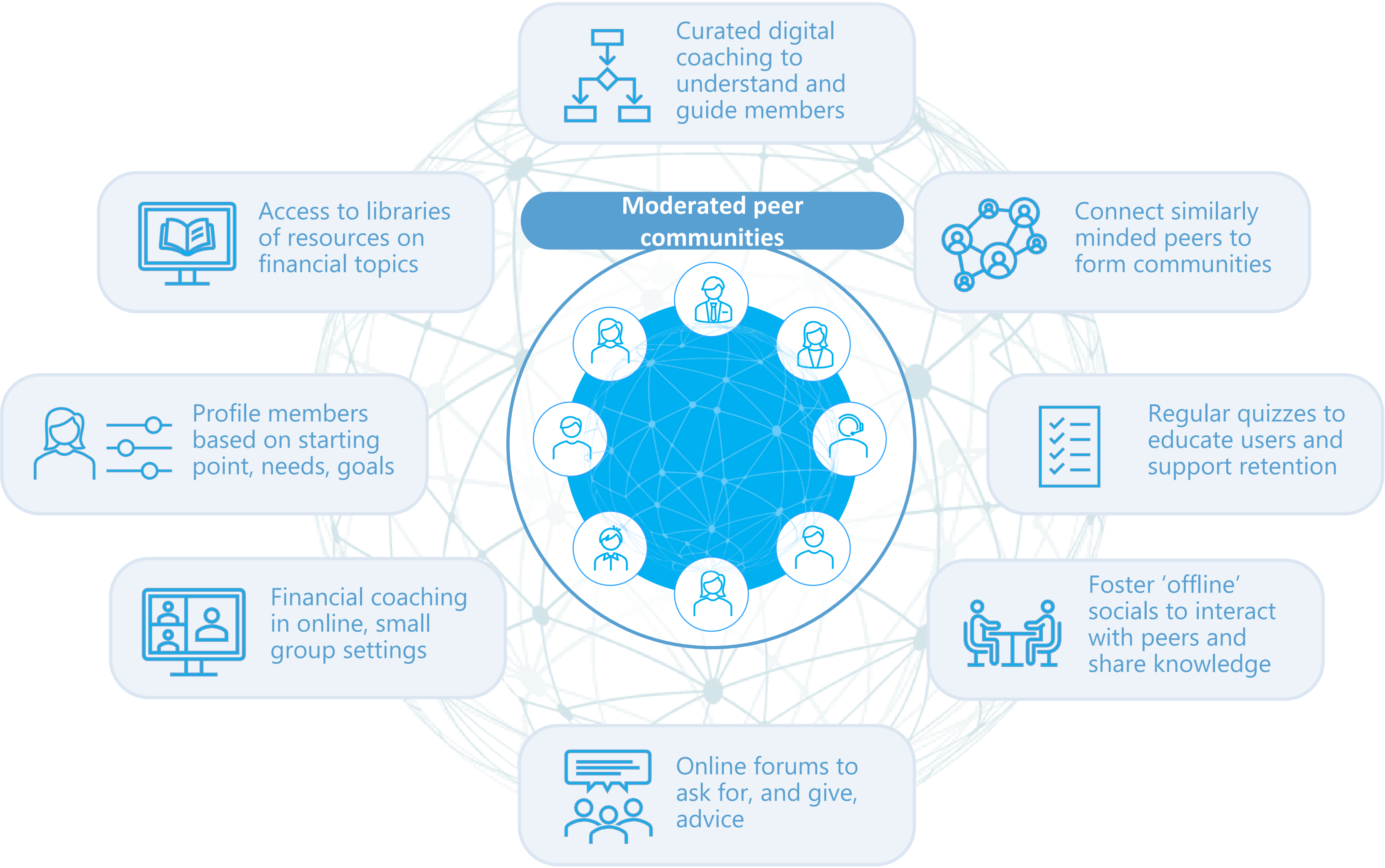
**2.** The online community will be supported by:

- Diligent oversight and moderation of online forums and exchanges, enabled by a combination of automated tools and human oversight, to avoid the spread of misinformation or other bad practices.
- Ability to profile and group similar members, based on their available data, to form communities of like-minded peers that collaborate on common financial topics and challenges.
- Ability to automatically mix members who are experienced on a topic with those that are inexperienced, to facilitate targeted and efficient transfer of knowledge.
- Qualified financial coaches to interact with members and offer advice (such as via contributing to online communities, hosting seminars etc.). The addition of real coaches plays a key role in building trust for, and legitimacy in, the solution. They will also play a role in moderating content in the community.

Concept 3: Moderated peer communities

# Illustrative model of moderated peer communities

| **Enablers** |
| --- |
| Diligent oversight and moderation |
| Mixing ‘veteran’ and ‘novice’ members to facilitate knowledge sharing |
| Grouping of similarly profiled members |
| Real coaches interact with and advise members |



Concept 3: Moderated peer communities

# Open questions for moderated peer communities

We are clear on the **concept** of this service model, but there are many elements that remain as open questions. We have set out below the most pressing questions, and some hypotheses, that will need validation.

### Q: Who is the provider?

**A: We considered the following options:**

- A third party could build and operate the peer community platform. The third party would be responsible for moderating/curating content on the platform.
- Users access the community directly
- The platform could be promoted by super funds.
- "Open communities" could be formed where members from different funds would be mixed together on the platform
- A super fund could lease the platform and create member-only communities. The fund could assume greater responsibility for content curation, moderation and day to day operations.

### Q: What is the commercial model?

**A:** Commercial models include:

- Charging participating funds for access (perhaps as a flat fee or per-user basis)
- Charging members directly (either once-off or on a subscription basis)
- Generating advertising revenue on the platform for products or services that align with the values and objective of the idea (less likely and will need to be done carefully to avoid conflicts)

The commercial model would depend on the role of different stakeholders (who is the owner, provider, etc.)

### Q: What are the key risks and mitigants?

**A:** The key risk is that members receive poor quality advice from other people on the platform.

Mitigants include:

- Controlled and monitored communication. All interactions are monitored, to allow the provider to intervene
- Embedding real financial coaches into communities. Real, qualified financial coaches will be connected with online group to create, curate, and moderate content that is shared.
- Complementing moderators with automated oversight mechanisms. Potential for automated flags to identify instances of bad advice or malicious behaviour, to trigger intervention by moderator
- Mixing 'veteran' and 'novice' members in communities. Peer moderation by experienced members in each group will help to notify instances of poor conduct and moderate this content.

Other risks – eg privacy – controlled through mature technology partner.

### Q: What are the regulatory and consumer protection considerations?

**A:** There is no current regulation of online groups providing peer to peer support, although ASIC guidance on internet discussion sites designed to allow non-professional people to exchange information about securities.

That said, there are many thousands of unregulated groups where users discuss financial issues and retirement using existing social media platforms

Key issues are:

- Safeguarding users from inappropriate advice
- Enforcing participation guidelines
- Liability for inaccurate or inappropriate peer-generated content

Note: This is not an exhaustive list of open questions for the service model.

# Next steps

- This report outlined three service model concepts that may better meet some of the needs of Australians.
- Progressing these service model beyond the *concept* phase, and into implementation, could be done over three phases to validate the desirability, viability, and feasibility of each idea. This is outlined below.

| | |
|---|---|
| **1. DESIRABILITY**<br>Are members interested in these service model concepts? | Validate members interested in these service model concepts via a series of experiments that funds and service providers run to test this perspective. Experiment design is explored in the longer version of this report.[1] |
| **2. VIABILITY**<br>What revenue model will ensure the long-term sustainability of the service model concepts? | Validate the revenue model, including testing for unintended bias or conflicts as well as commercial sustainability. |
| **3. REGULATORY FEASIBILITY**<br>What regulatory environment will enable these service models to operate? | Validate regulatory environment that would enable these service model concepts to operate effectively, including if necessary regulatory relief to pilot and test the concepts, and reform to construct appropriate consumer protections. |

## How can I be involved?

If you or your organisation are interested in participating in the next steps for this work: please contact Adrian Gervasoni from Industry Fund Services at agervasoni@ifs.net.au to discuss how you could be involved.



1 – One experiment was developed per idea. These experiments are not included in this version of the report (for brevity). You can reach out to hear more on these experiments as outlined in the introduction.

# Attachment 2: Assessing the limits and regulatory definitions of financial advice

INDUSTRY FUND SERVICES

# Assessing the limits and regulatory definitions of financial advice

October 2020

# Contents

# Purpose of this report

## The challenges facing superannuation funds seeking to design and deliver financial guidance and advice to their members are considerable.

The provision of financial advice in super comes with a complex set of overlapping regulations addressing adviser conduct, conflicts, the scope of advice, fees and charging, disclosure, and an obligation to provide advice that is in the member's best interest.

These are overlaid by new professional and ethical standards, in place from 1 January 2020, which do not appear to have been drafted with advice in super in mind. For the superannuation trustee, it can be opaque and confusing.

So, what to do? In our view, the first thing is to be clear about what is possible.

It is evident that anyone designing an advice service should start by identifying member needs. Solutions must be directed at meeting those needs and delivering the best possible member experience, commensurate with the commercial realities of delivering a personalised service at scale.

The regulatory environment should not dictate the service model, yet the dominant model across super funds at present is one in which the service is tailored to fit into a regulatory bucket.

It is understandable that trustees, licensees and other service providers – including IFS – design services to align with the various advice regulations. Obviously, the service must be compliant with the law, however there is no doubt that being constrained by these regulations will undermine optimal service model design. Pricing and fee regimes tied to regulatory categories, rather than the cost to serve, can be unfair or inefficient.

This paper aims to:

- establish a common understanding and clarity about which advice can, and which advice cannot, be offered by super fund trustees
- examine issues currently attracting the attention of the industry, regulators and policy makers.

These issues are:

- What assistance can be offered within the limits of factual information and general advice?
- How can limited/scaled advice be offered considering the ambiguity/vagueness of the FASEA Code of Conduct?
- How does the sole purpose test constrain advice services in super?

We hope that by providing clarity about what can be delivered within the current regulatory framework, trustees will feel more confident to explore new service models to better meet members' needs.

The challenges identified in this paper were discussed and validated at an AIST/IFS Advice Forum on 31 August 2020, attended by 70 representatives of not-for-profit super funds. Throughout this document, you will see highlighted the questions posed at the Forum and IFS's position on these. They are also detailed in Appendix 3.

This paper will feed into ASIC's current research program to identify opportunities to reduce friction in the advice process, reduce costs and increase access to advice.

IFS will follow this paper with a thought leadership piece focussing on the key elements of advice model design that considers member needs and expectations, commercial considerations and the regulatory framework.

# Context

## The external pressures are rising

Over the past decade, advice within super has moved from the periphery to being a key strategic service and potential differentiator for fund trustees.

Today, it is not uncommon to see a super fund member offered a choice of digital, intra-fund and comprehensive personal advice, and trustees continuously honing the way they triage members to serve them in the most efficient and cost-effective manner.

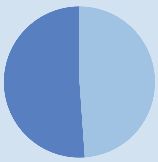
This has helped super funds to establish advice offers reasonably quickly, particularly in addressing the simpler needs that traditional advice firms didn't or couldn't cater to.

But as the super industry has matured, the needs around providing advice have evolved. Members now have higher expectations, and a new set of competitors are seeking to attract their attention and assets.

What's more, the demands on trustee budgets have never been higher. To compete, funds need to invest in the areas of brand, data analytics, technology and digital.

This has put pressure on super funds' sometimes heavily subsidised advice offers, whether it's an intra-fund service or a broader advice service which does not entirely cover its costs.

It has been questioned whether the attractiveness of subsidised advice could become an Achilles' heel for a fund. Eventually the fund reaches financial capacity and can no longer grow its offering. Some industry commentators may also question how much members value intra-fund advice they receive at no cost and, therefore, how likely they are to implement it.



ASIC Report 639 on advice in super found that **51% of files** reviewed did not meet the compliance requirements of the Corporations Act

## The regulatory environment

The provision of financial advice to ordinary Australians is heavily regulated.

As the FPA noted last year, advisers are covered by seven regulators, three disciplinary and complaints bodies and are also subject to licensee oversight.

Advisers employed by APRA-regulated super funds must also comply with the policies of their employer governing some of the same domains such as:

- conduct
- conflicts
- privacy
- fit and proper person tests
- continuous education
- integrity
- AML/CTF and more.

Despite all this regulation, ASIC Report 639 on advice in super found that 51% of files reviewed did not meet the compliance requirements of the Corporations Act, and that 15% were likely to result in member detriment.

So, how does a trustee make sense of it all?

The regulators view advice through two key lenses – the scope of the advice and the fee regime.

### 1 The scope of advice

When considering the scope of advice, the first distinction is between factual information and financial product advice.

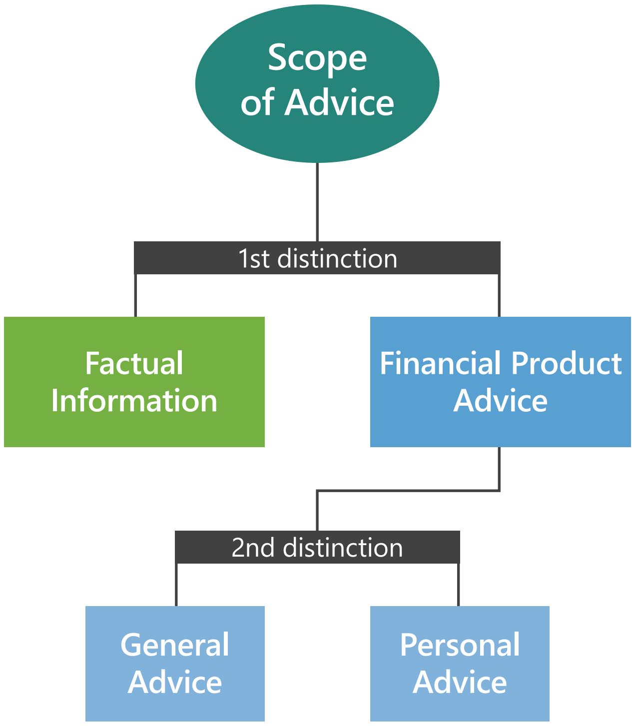
- **Factual information** is objectively ascertainable information, the truth of which cannot be reasonably questioned. Trustees may provide factual information without an AFSL.
- **Financial product advice** generally involves a qualitative judgement about a product or its features.

The second distinction is between the two types of financial product advice – general advice and personal advice.

- **General advice** does not consider the person's individual circumstances and does not recommend nor influence them to make a decision about a financial product or strategy. Whether the term "general advice" is understood by consumers or should be replaced is currently under review.

- **Personal advice** is given when the adviser has considered the person's specific objectives, situation or needs, or could be reasonably seen to have done so, and includes a recommendation or opinion that could reasonably be regarded as intending to influence a person to make a decision about a financial product or class of products.

Personal advice can be limited or not limited. As a rule, the same consumer protection and ethical standards apply to all forms of personal advice, regardless of its scope, although the application of the rules will vary in practice.




## 2 The fee regime

The second regulatory lens relates to the way advisers charge for their service. This has been the subject of significant and ongoing reform, including the partial ban on conflicted remuneration.

The regulation of ongoing advice fees and the proposal to ban the deduction of advice fees from MySuper accounts will not be considered in this paper. However, we will examine the fee charging regulations applying to super trustees who offer advice to their members.

## Intra-fund advice

Trustees are prohibited from offering advice to their members that's funded by apportioning costs collectively across the membership, unless the advice falls within the boundaries of 'intra-fund advice'. Intra-fund advice is a special form of limited advice that is designed to be:

- simple
- not ongoing
- provided to existing fund members only and
- purely about their existing interest in the fund.

Many topics, such as account consolidation, cannot be covered under intra-fund advice.

All other personal advice must be charged directly to the member.

## Deducting fees from accounts

If the subject of the personal advice falls within the sole purpose test, the member can elect to pay from their super account.

Advisers and licensees are also required to have protocols in place to ensure compliance with these regulations.

This can add operational complexity as members receive services from both advisers and the trustee office in the same advice journey.

**Not surprisingly, a common response is to segregate the advice offer into three discrete services – general advice, intra-fund and comprehensive advice.**

Yet this segregated approach fails to capitalise on two elements:

- the flexibility that could be leveraged if trustees and licensees had greater confidence in how the best interest test and FASEA Code can scale up and down with advice complexity; and
- a greater ability to apportion fees to meet regulatory constraints.

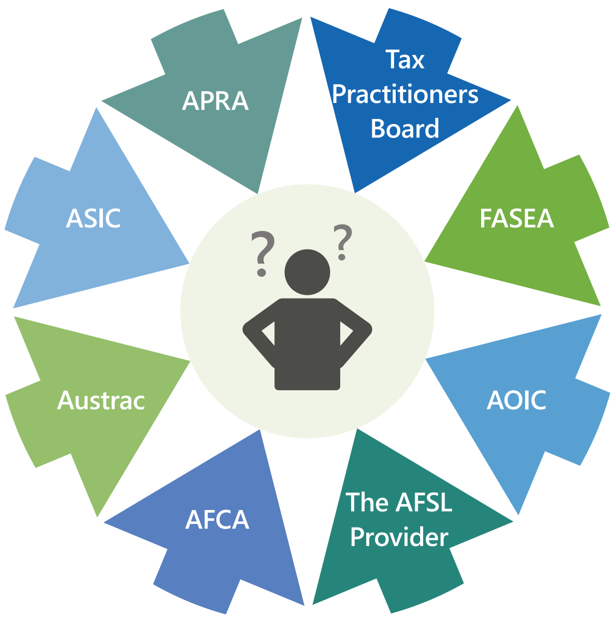
The federal government says it intends to cut red tape in the advice industry to reduce costs and complexity for advisers. However, its current focus is on implementing the recommendations of the Royal Commission regarding deduction of fees from MySuper accounts and informed consent regarding other fee deductions.

There is ongoing industry commentary about the extent to which advice is subsidised in the not-for-profit super sector. This focuses particularly on the breadth of intra-fund advice offers, and whether the fees deducted from a member's account are in line with the sole purpose test.

## Regulatory complexity

Multiple regulators and regulations govern a single interaction with a member.

Presently, a super fund providing advice to its members is regulated by several bodies.




There is no single body responsible for the way different regulatory bodies and legislation work together in a super fund context, which only adds to the complexity.

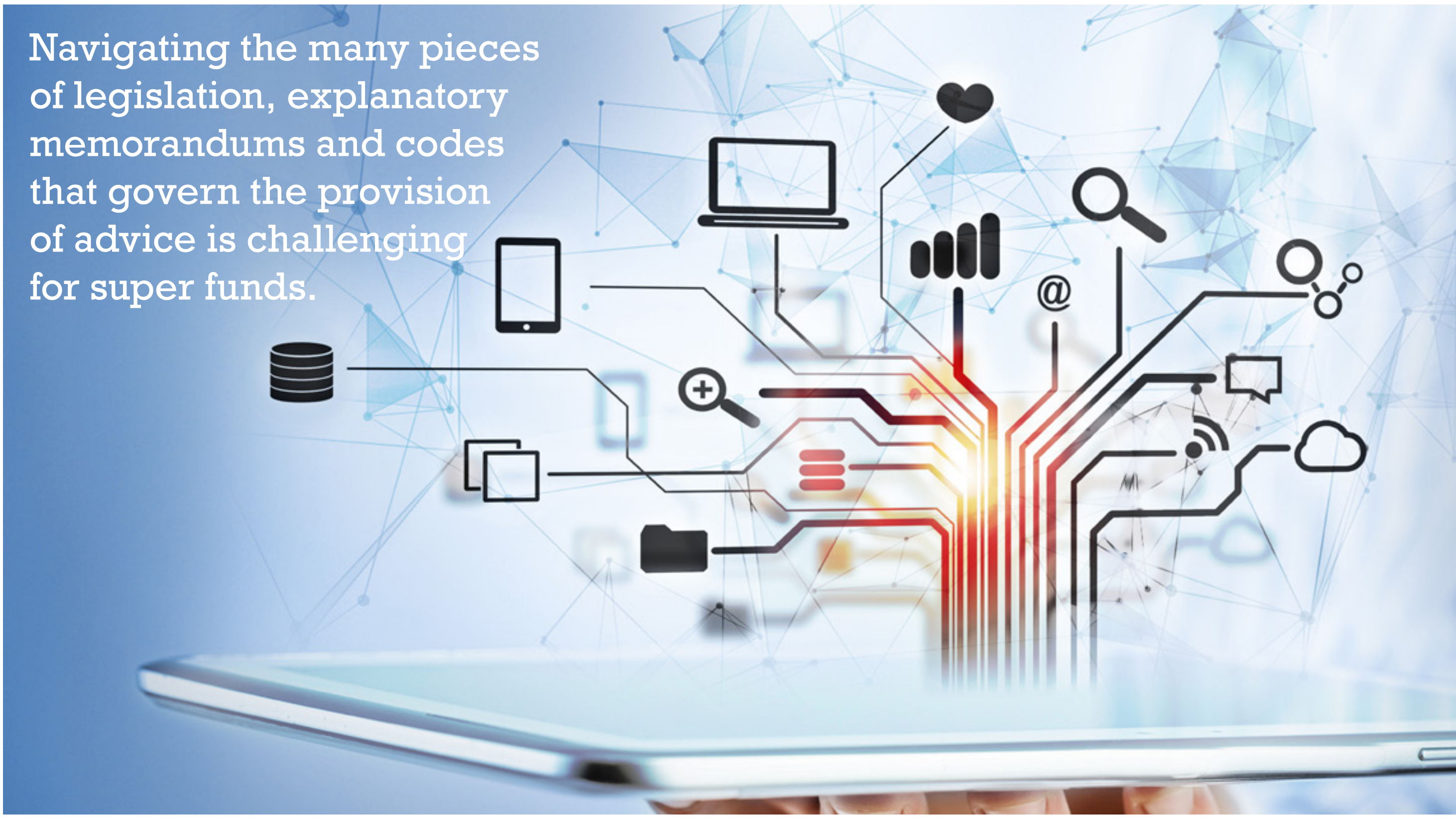
The multiple regulations frequently govern the same conduct or advice interaction from a different perspective. Take, for example, the obligation to act in a member's best interest. An adviser is required to meet the obligations under the:

- Tax Practitioners' Code 'to act lawfully in the best interest of the client'
- FASEA Code 'to act with integrity and in the best interests of each of your clients'
- Corporations Act, 'to only provide advice that is appropriate to the clients and in their best interest'. An advice provider can meet this test if they have complied with the safe harbour steps s961B (2).

A piece of advice that fails this test could potentially be reviewed by six agencies:

- the Licensee
- ASIC
- AFCA
- a professional association and
- the soon-to-be established disciplinary body
- Tax Practitioners Board.

While IFS supports and welcomes the lifting of professional standards, there is clearly room to reduce friction and limit the scope for regulatory overlap.



# How do super funds provide advice?

## General advice

Historically, super funds have relied heavily on factual information and general advice to support members' basic needs.

Factual information and general advice are provided through marketing campaigns, websites, call centres and field staff, and via seminars and webinars.

Increasingly, that factual information or general advice is quite complex, such as retirement and insurance information.

This may be targeted to specific cohorts of members, based on information held by the trustee, and can be supported by calculators where the member has supplied additional personal information.

The resulting information may be reasonably tailored to the member and help them make sense of their own circumstances and options, but it is designed to stop short of providing personal financial product advice.

These services are typically not seen as financial product advice and are delivered at no additional charge:

- one to many via marketing or websites
- one to several via webinars
- one to one, delivered digitally.

**Trustees have tended to avoid delivering a one to one general advice service, partly due to cost but partly for fear of stepping into personal advice.**

This has undoubtedly received even greater focus since the decision of the Full Federal Court in the Westpac general advice case, which sent a shot across the bow for those general advice providers – motivated by sales – who can easily cross the line into personal advice.

But from a regulatory perspective, factual information and general advice can be simple or complex, and can be provided free of charge or at a fee for service.

In contrast to super trustees, the financial planning industry, with its historical focus on product recommendations, has ignored the opportunities to assist consumers through general advice. But as advice firms look for new ways to deliver services without the support of product fees, there is a newfound interest in advice to address more fundamental consumer needs.

At the same time, trustees are seeking better ways to help members make good decisions using general advice.

### Current issues in general advice

#### How much assistance can be provided as general advice and factual information?

Factual information and general advice does not need to be simple and does not need to be free.

A trustee, for example, could provide factual information to sophisticated investors about its liquidity strategy or valuations policies, and in theory could charge for the resources allocated to delivering this information.

IFS is not advocating this service, but it does illustrate the opportunity to offer individual member support on complex topics within the scope of general advice.

Throughout the COVID-19 pandemic, the advice that members have needed most has been general advice, with a focus on budgeting, debt management, social security and accessing their super.

This could well be the catalyst for trustees to revisit their appetite for delivering strategy-only advice as general advice.

# Forum Discussion

## Key questions

### Q Can strategy-only general advice be provided about super and retirement?

**IFS:** While an adviser can suggest what a member could do in terms of super and retirement planning, they cannot tell a member what they should do, as this takes the interaction into personal advice.

### Q How do the general advice rules intersect with the sole purpose test? What limits apply to the subject matter of general advice in terms of the sole purpose test?

Some funds have quite broad education and ancillary service arrangements, while others have a much stricter interpretation.

**IFS:** There is enough flexibility for funds to provide service that goes beyond super. That said, this remains an area of significant uncertainty

### Q If a member is using a digital advice tool but being guided by an adviser or call centre representative, who is the entity providing the advice?

**IFS:** If the assistance is about use of the tool itself, or helping articulate goals, then the advice licensee of the digital advice tool is the provider. However, validation of the strategy by a human adviser, by default makes them the providing entity.

*Refer to Appendix 3 for more details of IFS's position on questions raised.*

## Limited advice

Limited advice is not a category of advice, but rather a way of meeting the applicable legal obligations by scaling the obligations down as the complexity of the advice reduces.

All advice is limited in some way, and all the regulatory obligations relating to giving appropriate advice in the member's best interest still apply, as do the FASEA education and ethical standards. *Refer to Appendix 1: Regulatory Guidance – Intra-fund advice.*

To give compliant advice that is limited in scope, trustees and licensees must:

- ensure that members are aware of the limited scope of the advice
- have good triaging processes in place
- have a discovery process to identify members for whom limited advice is not appropriate.

## Intra-fund advice

The most controversial form of limited advice is intra-fund advice – the only form of financial advice in super that was allowed to remain cross-subsidised by product fees after 2013's FoFA measures.

> Industry funds see this collective charging is an important equity measure to ensure ordinary Australians have access to simple advice. However critics see it is an inequitable impost on members who do not use the service.

Regardless, in many funds the introduction of intra-fund charging rules became an offer unto itself, commonly provided by phone-based teams focussed on meeting simple advice needs.

The teams often comprised junior advisers with call centre backgrounds, with members referred to a 'comprehensive' licensed adviser for any needs that they were unable to address.

Over time, some trustees built more sophisticated teams and models, and today there is significant divergence between funds in what is covered under their intra-fund advice offering. This is, in part, due to the grey areas in the regulatory definition.

At the same time digital advice firms have developed advice tools to fit within the intra-fund definitions, which allows the cost of the service to be borne by the trustee and not individual members.

> With the advent of the FASEA regime, there is a question mark over how to contain the costs of intra-fund advice since the same educational and ethical standards apply to all advisers whether they're providing comprehensive or intra-fund advice.

## Current issues in limited advice

### How can limited advice be delivered in a way that's consistent with an adviser's professional and ethical obligations?

Despite more than a decade of regulatory guidance on how to deliver compliant limited advice, the issue is now being re-litigated. This is due to the apparent conflict between the provision of limited scope advice – particularly single-issue simple advice – and the ethical obligation in the FASEA code to consider the broad effects of the advice on the member, including their wider long-term interests and likely circumstances.

### FASEA – December 2019 guidance:

*Limited scope engagement and/or scaled advice can be highly effective in meeting the member's immediate needs. Such limited advice scenarios may include … intra-fund advice. The Code is not seeking to prohibit this type of advice.*

*The adviser must make an assessment whether scoping the advice is in the best interest of the member and it is important the adviser considers the longer-term requirements for the member within the scope of the advice provided.*

*Example: insurance advice should include confirmation that the member understands the long-term cashflow implications and is expected to have the appropriate funds to pay the premium currently and in the future.*

Pleasingly in October 2020, FASEA released updated guidance reaffirming its position that limited scope advice can co-exist with the Code of Ethics.

However the licensee must still determine how. Some practical questions therefore remain.

- How does an adviser reconcile the role of limited advice in 'meeting a member's immediate needs' with the obligation to 'actively consider the member's broader long-term interests?'
- Can advisers provide advice on a single issue or very limited scope advice when the member clearly has a broad range of advice needs and opportunities?

In IFS's view, advisers must undertake a reasonable investigation into the member's broader circumstances, to ensure that the limited advice they are giving, is appropriate in light of those broader circumstances and not harmful – but they don't need to actually give broader advice.

Advisers also need to call out member advice needs they have identified – even if they aren't giving advice about those needs.

### What if advisers were doctors?

If a 25-year-old visits the doctor complaining of a sprained ankle, it is reasonable for the GP to ask if they are otherwise healthy. If the patient says yes, the GP can treat the ankle without offering other medical treatment.

If a 55-year-old attends the clinic with a sprained ankle and no other obvious symptoms of ill health, the GP may take the patient's blood pressure and ask about their medical background, including cholesterol and cancer screenings, before treating the ankle.

If the 55-year-old patient was overweight, pallid, sweating and complaining of chest pain, the GP might order an ambulance and refuse to treat the ankle.

### Are charging rules overly influencing limited advice service design?

Intra-fund advice can only be charged collectively if the advice is provided to a current member about their existing interest in the super fund. In order to fall within the collective charging model, the adviser cannot advise on any product outside of the fund.

There are questions over whether the adviser must consider the suitability and quality of the member's existing product before providing any advice.

A balance should be struck between:

- not allowing an adviser's employer to unduly influence advice, and
- the good that can be done by advice being made accessible to as many people as possible.

More fundamental, however, is whether the use of limited licensing to align with intra-fund charging rules is creating challenges for advice models and advisers.

The scope of member advice needs rarely fall neatly into one single charging bucket. The limited adviser needs to judge whether the member sufficiently under-stands the impact of only receiving limited advice before determining if it's appropriate to proceed with only giving that advice.

Through the lens of 'members' best interests', we take the position that charging rules should not have such a significant say in how advisers are licensed, and hence which members' needs are addressed.

# Forum Discussion Key questions

## Limited advice

### Q What advice can be collectively charged under intra-fund advice provisions?

Some aspects of s99F of the SIS Act and related regulator guidance are unclear. For example, where is the line between simple and more complex advice?

This lack of clarity is seen in diverging approaches by funds in how they define their intra-fund advice offerings.

Some funds do not allow intra-fund advice to make contributions into super from bank accounts because it may technically be a recommendation to dispose of a financial product outside of super. This means that in order to recommend such a strategy, the member would need to pay for this advice.

### Q What strategies are in/out?

### Q Can you define and base the 'simplicity' of the advice on the resulting recommendation, and disregard/overlook the advice discovery process?

### Q Can 'retirement planning' be simple?

### Q Can 'goals based' advice be simple, or is it only 'transactional' advice?

### Q What are the scenarios in which members may reasonably consider that further advice will be provided or that 'the implementation of the advice will be monitored'?

### Q Can contributions advice involving disposal of funds from a bank account be charged as intra-fund advice?

**IFS:** Such advice should be allowed under intra-fund, but we acknowledge that the law and subsequent guidance isn't clear.

### Q Can retirement advice be provided as intra-fund advice?

This is where we see the biggest contention from the broader advice industry, and the widest range of interpretations among super funds. Some funds provide near full retirement planning advice under its 'intra-fund offering' and remain silent on advice relating to other products or a spouse. Other funds do not provide retirement advice in any form, on the basis that it isn't simple and cannot include strategies for a non-member spouse.

**IFS:** It is possible to recommend the commencement of an income stream with retirement projections, including Centrelink. However, at present we do not allow our limited licensed advisers to provide retirement advice, given the need to consider the broader set of inputs that make up retirement. These include other assets, Centrelink maximisation opportunities and the advice needs of a spouse – areas prohibited under intra-fund. We believe members do not sufficiently understand the implications of receiving limited scope retirement advice, or what other strategies could have been employed by an unrestricted adviser which may have improved their retirement scenario.

### Q Can Transition to Retirement (TTR) be provided under intra-fund charging rules?

Some funds do not allow transition to retirement advice, on the basis that it needs to be reviewed regularly and might fall foul of the prohibition on ongoing advice. If contributions advice and pension commencement is allowable, is TTR allowable? Or does combining them together into a TTR increase complexity so much it is no longer 'simple'?

**IFS:** Allow TTR pension commencement to supplement part-time work, not as a superannuation savings strategy due to the need to regularly review/amend advice.

### Q Can a TTR 're-boot' be recommended? Does it matter whether the original TTR advice was provided by the same adviser or fund? What if it's a re-boot into an account-based pension at retirement?

**IFS:** TTR tax strategy advice is not allowed under intra-fund charging rules, as there is often an expectation by the member that the advice will be monitored and reviewed from year to year, particularly regarding contribution levels.

### Q How can the spouse be considered?

If the spouse of a member isn't a member of the fund, that fund will typically not allow intra-fund advice relating to spouse splitting, spouse contributions or withdraw/recontribution advice. Although this is a correct reading of the law, ultimately it means that opportunities to further enhance a member's overall position are left unrealised.

**IFS:** Not allowed under intra-fund.

### Q Does the restriction around 'unrelated Cash Management Trusts' affect what type of contribution advice can be provided?

Some funds/licensees do not allow contributions outside of salary sacrifice to be covered under their intra-fund advice offering, due to the need to dispose of a financial product such as a cash account.

**IFS:** It is reasonable and expected to allow all super contributions advice under intra-fund.

### Q Can 'retirement planning' be the scope? Or must the scope of limited advice be kept to short-term, transactional, needs-based advice, such as 'making contributions to super', not 'retirement planning'

In order to satisfy FASEA Ethical Standard 2, broader long-term interests must consider their ability to afford contributions now and in the future.

If 'retirement' advice from limited scope is purely transactional, such as commence ABP, how do you then help the member understand the options and implications of not seeking more holistic advice?

**IFS:** The question we can solve through limited scope advice is 'how do I generate $x from my super, and how long will my super last', not 'how much do I need in retirement?' or 'how can I achieve my retirement goals?'

### Q Does the member's interest in the fund need to be tested every time they receive advice?

### Q Must the adviser consider the suitability and quality of the member's existing product before any advice can be provided? And, if so, when in the advice journey does this occur? It will add to the cost of advice, and see fewer members access simple investment choice or insurance advice.

### Q Can the adviser start from the position that their role is to provide advice and recommend strategies available to maximise the member's interest in that fund?

### There are many questions surrounding limited advice that require further consideration and discussion

*Refer to Appendix 3 for more details of IFS's position on questions raised.*

# Comprehensive (or full) advice

For advice that sits outside of that allowed under intra-fund, funds typically refer the member to a comprehensive adviser, either one they employ or an external adviser via a referral arrangement.

Some fund-employed advisers provide advice to the member and the member's spouse on matters including insurance, non-super investment, debt management and other tax and investment issues.

In other funds, these issues do not figure prominently, in part because members do not pay for this advice from their super account. In these funds, the service is dictated by the advice topic and whether advice fees can be deducted from the member's super account under the sole purpose test.

## Current issues in comprehensive advice

### Deducting advice fees from members' accounts

Advice fees can be deducted from members' accounts only where the advice relates to a member's super and ancillary matters. This is because the retirement savings in the account have attracted favourable tax treatment and can only be used for the sole purpose of providing a retirement benefit.

The role of the sole purpose test in regulating advice within super was thrown into the spotlight in April 2019 when ASIC and APRA issued a joint letter to RSE licensees. It urged trustees to ensure they have oversight of the advice fees deducted from members' accounts.

While the letter covered all elements of fee deductions – express authorisation, that the service paid for is actually provided, and member best interest – it was a reference to the sole purpose test that caught the attention of trustees and licensees.

APRA and ASIC chose to express the sole purpose test narrowly, stating that only costs that 'relate to the member's super and insurance obtained through super' can be funded from account deductions.
*Refer to Appendix 1: Regulatory guidance – sole purpose test and advice fees.*

This is consistent with the narrow view expressed in the final report of the Hayne Royal Commission:

> *(It) is limited to advice about particular, actual or intended super investments. This may include such matters as consolidation of super accounts, selection of super funds or products, or asset allocations within a fund. It would not include broad advice on how the member might best provide for their retirement or maximise their wealth generally. Any practice by trustees of allowing fees for these latter kinds of financial advice to be deducted from super accounts must end.*

Under this strict reading, advice about the age pension, estate planning and aged care cannot be funded from super accounts, unless the advice is tied to the super benefit. An example of this is age pension advice given in the context of cashflows and drawdowns from an account-based pension.

IFS has seen a significant divergence in the way funds approach cost recovery for advice that cannot be collectively charged.

Some funds take a quite conservative approach, charging the member directly, on average, up to 70% of the advice fees. Other funds charge the member very little.

## Cost recovery

There is scrutiny about the cost of advice, and whether trustees are partially subsidising advice that is captured by the intra-fund rules.

Are funds required to cost their advice functions by taking into account corporate overheads, and then determine their pricing, and their policy regarding fee deduction from super accounts versus direct payment? Many funds would struggle to point to a specific piece of analysis to determine their position.

On face value, trustees may find that their comprehensive advisers do recover the full cost of the service from member fees. However, we expect most comprehensive advice provided by fund-employed advisers could be seen as intra-fund advice and therefore allowed to be collectively charged.

Determining the fee payable by the member, either as a deduction from their super account or paid from their own funds, is an inexact science.

APRA had been expected to release the outcomes of its review of the sole purpose test in March 2020, which may have provided greater flexibility to deduct fees where the advice is directed at improving the member's position in retirement.

The sole purpose test was originally designed to ensure that super tax concessions were not abused for non-retirement purposes.

As the deduction of fees from super accounts is a matter arising from the Royal Commission, it would make sense to allow a broader definition of the advice that can be offered while maintaining the protections against improper fee deductions.

# Forum Discussion

## Key questions

### Q What advice fees can be charged to the member's super account under the sole purpose test?

Does the sole purpose test (SPT) cover fees for super-related advice where the purpose of that advice is to help the member meet an objective other than to do with their retirement asset?

### APRA has not provided clear guidance on what is permissible in the following cases:

- What advice is in and out when it comes to fee deduction from a member's account?
- Related entity advice and insurance models (an issue of funds not having a capital base of their own)
- Does the SPT cover fees for retirement projections where the broader financial situation of the member (and their spouse) must be considered in preparing those projections?
- Have Commissioner Hayne's comments in the Royal Commission final report changed the existing interpretation of what is allowable under the SPT?
- Does the super sector need explicit guidance from APRA about the circumstances where advice fees are allowable under the SPT?
- Can the charging be determined after identification and acceptance of advice needs? Can a full, comprehensive, complex advice needs discovery process be run, and then collectively charge the components which would otherwise be permissible under 99F? Is it complexity of service and process, or just the resulting recommendation?
- Can the comprehensive adviser discovery process be funded through collective charging?
- What are the implications of Section 99F and the Royal Commission Recommendation 3.2 for the structure of comprehensive advice offerings within super funds?
- Section 99F of the SIS Act provides guidance to funds about which super-related advice topics cannot be collectively charged. However, could Section 99F be interpreted to extend to the trustee costs incurred in providing a comprehensive, non-intra-fund, advice service where the charges to individual members do not fully recover the costs of making the service available to all members?
- Similarly, is Royal Commission recommendation 3.2 intended only to mean that non-intra-fund advice fees cannot be deducted from an individual member's MySuper account? Or can it also be interpreted to mean that no unrecovered fund-level costs of providing a comprehensive advice service can be deducted from any member's MySuper accounts?

*Refer to Appendix 3 for more details of IFS's position on questions raised.*

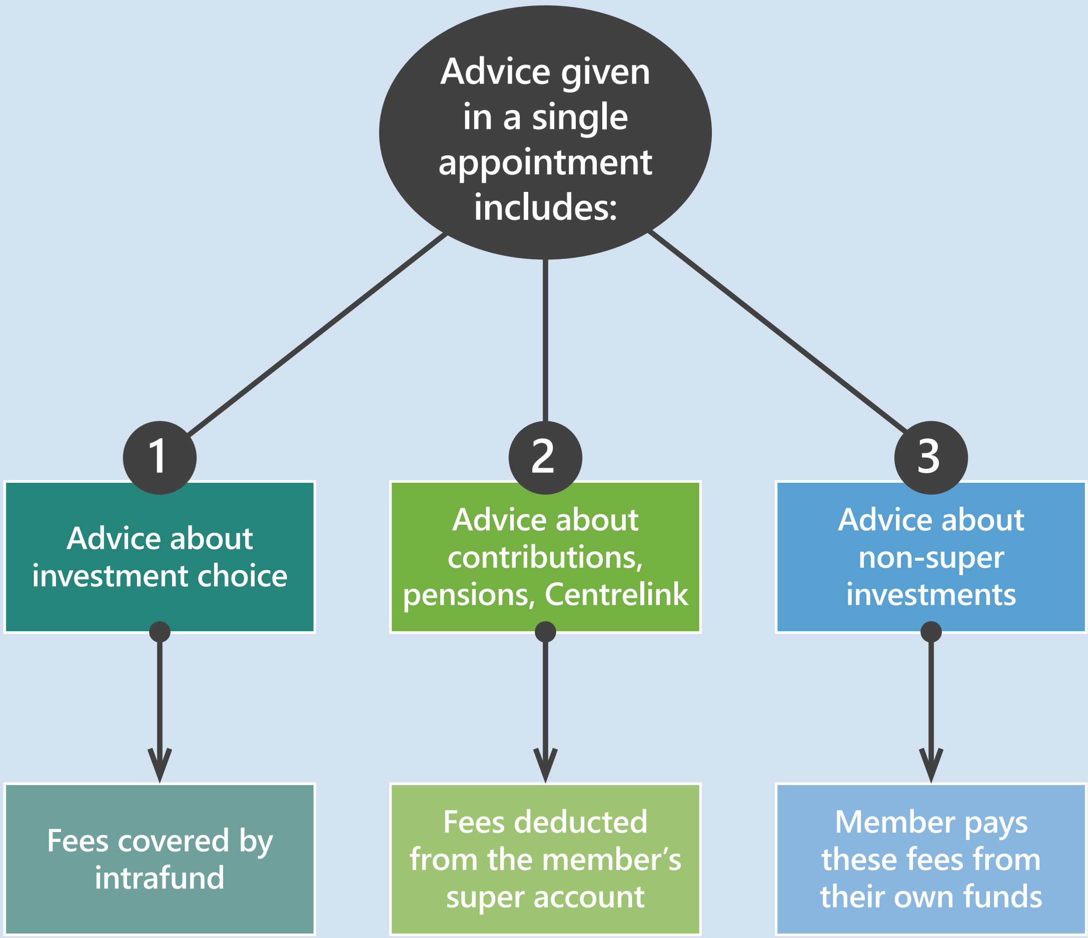
**These are matters that IFS's member funds need regulatory clarity about when reviewing the design of their advice offerings.**

### Pricing methodology

Is it possible to split an SOA fee into three components (part intra-fund, part fee deduction from account, and part payable directly by the member)? A full retirement plan may involve advice on investment choice (covered by intra-fund), contributions and pension recommendations, including Centrelink, that we charge the member via a deduction from their account, and a non-super investment recommendation which the member needs to pay from their own funds, for example.

What is the expectation of a fund to accurately cost their advice in order to set their advice fees? Further, for advice that goes beyond intra-fund, how is it to be determined what the costs of those elements are in achieving cost recovery?

## Example



# How uncertainty impacts the help members can receive

## Debt vs Super

A member with a small amount of spare cashflow or who has been bequeathed some money is deciding whether to put the money into super or on their home loan.

If the member met with a limited licensed intra-fund adviser, the adviser would typically not be allowed to address the member's debt and could only provide contributions advice if it were in that member's best interests. Most limited licensed advisers would likely decline to provide any advice to this member.

Therefore, the member's only option often is to seek comprehensive advice, either from the fund or via an external adviser, at an average cost of $2,000-$4,000. Further complexity exists about how this fee is to be paid. Debt repayment recommendations do not align with sole purpose test so the advice must be paid by the member from their own funds, whereas a superannuation recommendation may either be collectively charged or deducted from the member's super account.

## Retirement advice

A single member is seeking advice about planning for retirement. Apart from their home and a small amount of personal assets, their superannuation is all they have.

The member could get retirement advice that considers adequacy, longevity risk and Centrelink from a limited licensed financial adviser employed by her super fund, typically for as little as $300-$500 or at no direct cost.

If this same member had a spouse, the situation is immediately complicated. The limited licensed adviser cannot provide any advice to the non-member spouse if it is to be deemed intra-fund and hence collectively charged, leaving two options:

- Provide advice only to the member, excluding the spouse and Centrelink maximization strategies from the advice
- Refer the member to a comprehensive adviser who can consider a broader range of strategies to maximise their retirement position, such as asset sheltering, spouse contributions and gifting.

If the member received comprehensive advice, the advice fees could be treated in three parts:

1. The part of the advice that qualifies as intra-fund can be collectively charged
2. Strategies that align to the sole purpose test but are broader than intra-fund can be deducted from the member's account
3. Strategies for the spouse can be paid for directly by the member from their own funds.

**The challenge, when member consent is required up front, is that the adviser does not know in advance what strategies they will recommend, nor the corresponding fee charging mechanism.**

As a result, most advisers working in superannuation take the conservative route and insist the member pays from their own funds if there is any doubt.

# Are there any common themes?

## The advice offerings of superannuation funds tend to reflect the charging rules they must adhere to instead of expressing the advice needs and expectations of their members.

What's more, there seems to be a desire to stay with the pack and maximise the amount of advice cost that can be distributed across members, rather than developing a model that strives for financial sustainability.

Funds that charge members for advice services typically do so to ensure compliance with the regulations, instead of the fee reflecting the value or input cost of the service.

Not surprisingly, the common theme across all advice offers in superannuation is a focus on super and retirement planning.

Advice is delivered through a combination of channels, including digital, centralised phone-based teams – either outsourced or employed directly – and dispersed advisers, either employed directly or via a referral arrangement, who provide a face to face service.

# Where to from here?

With the aim of making advice financially more sustainable and more accessible to members, IFS will:

- Seek better, more focussed guidance from the regulators on the most common examples where trustees are challenged or uncertain of what the rules allow
- Determine where the focus on regulatory reform should be – for example, to broaden the scope of intra-fund, to protect the challenge to general advice, or the disclosure requirements in the form of an SOA
- Develop a better understanding of how funds should review the models they have today
- Identify the demands of key partners in the industry – technology vendors, licensees, auditors, and external advice providers.

This paper has highlighted some of the grey areas in the regulatory advice environment. By achieving consensus on the practicalities of the rules around advice today, we can better achieve advice model design and policy reform in the future.

It would serve our industry well to demonstrate leadership and maturity in leading this discussion, instead of waiting to be led by policy makers and regulators.

## Follow up work

IFS will use this paper as a baseline for a subsequent thought leadership piece on advice model design. It will seek to support funds in taking a product design methodology to the review and build of future advice offers.

They key questions we will be exploring are:

- What are the common member needs super funds typically need to meet with their advice offers?
- What are the member expectations when it comes to service experience design?
- What are the financial and commercial considerations in designing an advice offer for a super trustee?
- How does the trustee meet the best interest and member equity obligations when approaching collective charging or transaction-based advice fees?

**We welcome industry input and feedback to inform our future thought leadership development.**

# Appendix 1

## Regulatory Guidance – Intra-fund advice

There are three key documents to draw from to understand the rules with regards to 'intra-fund' advice:

- SIS Act, Section 99F: Cost of Financial Product Advice
- Explanatory Memorandum – Super Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012
- ASIC Information Sheet 168 – Giving and collectively charging for intra-fund advice.

Section 99F of the SIS Act stipulates that a super fund cannot collectively charge for advice across a fund membership in the following circumstances:

- The person is not yet a member of the fund
- The advice is about another financial product
- The advice is about consolidating your super
- The offering of an ongoing review service.

There is nothing explicit in the legislation that limits advice to simple topics, however the Explanatory Memorandum – Super Legislation Amendment Act 2012 provides some useful guidance:

- '...it's important that members seeking more complex personal advice in relation to their super bear the cost of that advice
- '...provide a member with simple, non-ongoing personal advice...and that this advice be able to be collectively charged across the fund membership'
- 'It is important to ensure the cost of providing this advice are kept at reasonable levels...'.

The Explanatory Memorandum notes the following as allowed intra-fund topics:

- insurance needs (within fund)
- contributions
- changing investment options, including changing from accumulation to pension
- advice about a related pension fund, related insurance product or related cash management facility within the fund.

There is a warning with regards to TTR and where there is an expectation that advice will be ongoing and/or has some complexity, it should not be collectively charged.

## Regulatory Guidance – Sole purpose test and advice fees

The sole purpose test (section 62 of the Super Industry (Supervision) Act 1993) means that only costs associated with advice that relates to the member's super and insurance obtained through super may be deducted from the member's super account.

Advice that relates to investments outside of super, for instance, cannot be funded from super account deductions.

# Appendix 2

## Extract from ASIC submission to House of Reps Economics Committee 2020

*"When assessing whether an advice provider has complied with the best interests duty, we will consider whether a reasonable advice provider would believe that the client is likely to be in a better position if the client follows the advice provided,"* the regulator said.

Elsewhere in its submission, ASIC said intra-fund advice is not a legal concept or a separate type of advice.

*"Intra-fund advice is a term widely used in the industry to refer to the scaled or limited scope personal advice that a superannuation trustee can provide to members on the basis that the cost of the advice is borne by all members of the fund,"* it said.

*"Under the SIS Act the cost of scaled or limited scope personal advice can only be borne by all members of the fund if it covers certain limited topics, related to the member's interest in the fund, and is not ongoing advice. The SIS Act deals only with the funding mechanism for this advice; it does not deal with the obligations of the financial advice provider in providing the advice,"* ASIC said.

*"Any personal advice provided under an intra-fund arrangement must, like all scaled advice or limited scope personal advice, comply with the best interests duty and related obligations and the disclosure obligations in the Corporations Act that are applicable to personal advice."*

# Appendix 3

## Areas requiring regulator guidance and clarification

| Theme | Topic/Example and impact on consumer | IFS view | Priority |
|---|---|---|---|
| General vs personal advice | **If a member is using a digital advice tool but being guided by an adviser or call centre representative, who is the entity providing the advice?** This is limiting new advice models being tested as funds are hesitant to put human assistance around digital advice tools. | The licensee of the tool so long as human assistance is only focussed on inputs into the tool and not validation of the advice itself. | Low |
| | **What practical considerations exist for super funds wanting to provide one-on-one education and general advice to members?** Since the Westpac case on general advice, super funds are hesitant to offer one-on-one service to members outside of personal advice captured in an SOA. | One-on-one wealth coaching focussed on budgeting and understanding money does not need to be personal advice. | Low |
| | **Can strategy-only general advice be provided about super and retirement?** | While an adviser can suggest what a member can do in terms of super and retirement planning, they cannot tell a member what they should do, for this takes the interaction into personal advice. | Medium |
| Fee charging/ cost recovery | **Can fee charging mechanism be determined after identification and acceptance of advice needs?** i.e. can you run a full, comprehensive, complex advice needs discovery process, and then collectively charge the components which would otherwise be permissible under 99F?<br>Some funds are interpreting that 99F requires the whole advice interaction, not just the advice, to be in line with approved advice topics covered under 99F. | The restrictions outlined under 99F only relate to the explicit advice being provided, and not the needs analysis and fact-finding process. Therefore, yes the fee charging mechanism can be determined after fact finding has been completed. | Medium |
| | **How do the general advice rules intersect with the sole purpose test?** What limits apply to the subject matter of general advice in terms of the sole purpose test?<br>Some funds have quite broad education and ancillary service arrangements, while other funds have a much stricter interpretation. | It is our belief that the rules permit funds to offer education and ancillary services that relate to the member's retirement planning more broadly than just the provision of an income stream (e.g. debt management, estate planning career planning). | Low |
| | **What advice can be collectively charged under intra-fund advice provisions?** There are some aspects of s99F of the SIS Act that are not clear. For example, where is the line between simple and more complex advice? This lack of clarity is leading to distorted advice propositions and leaves a significant gulf between that which is deemed intra-fund and the fees associated with broader advice.<br>**What strategies are in/out of intra-fund?**<br>1 Can you fund the comprehensive advice discovery process through collective charging?<br>2 Can 'retirement planning' be simple?<br>3 Some funds do not allow contribution advice outside of salary sacrifice due to the need to recommend disposal of a product if funds are coming from a bank account. This means that in order to recommend such a strategy, the member would need to pay for this advice.<br>4 Can 'goals based' advice be simple, or is it only 'transactional' superannuation advice?<br>5 Can Transition to Retirement (TTR) be provided under intra-fund charging rules? Some funds do not allow TTR advice on the basis that it needs to be reviewed regularly and might foul the prohibition on ongoing advice being provided.<br>6 If the spouse of a member isn't a member him/herself, can their affairs be addressed, particularly for things like spouse contributions, spouse splitting and retirement planning? | 1 Yes – Code of Ethics requires broader discovery process in any case.<br>2 Yes when there is no spouse, other assets, debts and other product types (e.g. annuities) to consider.<br>3 We believe the rules should allow contribution advice where the funds are coming from a basic bank account (i.e. rather than being treated as a product disposal).<br>4 Goals based advice often isn't simple because of the various strategies that can be considered.<br>5 TTR advice, where the goal is to maximise superannuation (withdraw and recontribute pre-tax), requires monitoring and ongoing advice and is difficult to provide as intra-fund.<br>6 No. | High |

| Theme | Topic/Example and impact on consumer | IFS view | Priority |
|---|---|---|---|
| Fee charging/ cost recovery (cont'd) | **What advice fees can be charged to the member's super account under the sole purpose test?** This uncertainty is limiting the investment of time and money into scaling up existing offerings, and developing new propositions for fund members.<br>1 Can funds capitalise a related entity to enable advice and other member services that go beyond what 99F and sole purpose test allow? (an issue of funds not having a capital base of their own) What are the implications of Section 99F and the Royal Commission Recommendation 3.2 for the structure of comprehensive advice offerings within super funds?<br>2 Does the sole purpose test cover fees for retirement projections where the member's (and their spouse's) broader financial situation must be considered in preparing those projections?<br>3 Section 99F of the SIS Act provides guidance to funds about which super-related advice topics cannot be collectively charged. However, could Section 99F be interpreted to extend costs in providing a comprehensive (non intra-fund) advice service to the trustee, where the advice fee charged to individual members does not fully recover the costs of making the service available to all members?<br>4 Similarly, is Royal Commission recommendation 3.2 intended only to mean that non-intra-fund advice fees cannot be deducted from an individual member's MySuper account? Or could it also be interpreted to mean that unrecovered fund-level costs of providing a comprehensive advice service cannot be deducted from any member's MySuper accounts? | 1 Yes, it needs to be treated as an investment and hence offered on a commercial basis, with an appropriate return on capital derived. Further the trustee cannot manage the operations of this related business, and therefore there needs to be a separate management team and board.<br>2 Yes.<br>3 Yes, so long as the trustee can demonstrate that the costs not recovered as part of comprehensive advice offered, are otherwise covered under 99F.<br>4 Our understanding is that it relates to advice costs that presently are deducted from a member's account directly. Therefore funds could still provide the advice so long as the costs of it are paid by members from their own funds. | Medium |
| | **Pricing methodology**<br>1 Is it possible to split an SOA fee into three components (part intra-fund, part fee deduction from account, and part payable directly by the member? As an example, a full retirement plan may involve advice on investment choice (covered by intrafund), contributions and pension recommendations (including Centrelink) charged to the member as a deduction from their account, and a non-super investment recommendation which the member pays from their own funds.<br>2 **What is the expectation of a fund to accurately cost their advice in order to set their advice fees?** Further, for advice that goes beyond intra-fund, how are advice elements costed in achieving cost recovery? | 1 Yes this is possible and a preferable outcome as opposed to offering a member two different interactions and advice documents, something commonly seen in funds today.<br>2 A trustee needs to demonstrate that analysis has been undertaken on a periodic basis to determine advice fees based on productive capacity and a true reflection of cost base (explicit costs plus reasonable overhead for management oversight, compliance and technology). | |
| Advice Scoping | **Can retirement advice be provided as intra-fund advice?**<br>This is where we see the biggest contention from the broader advice industry, and the widest variance of interpretation amongst super funds. Some funds provide near full retirement planning advice under its 'intra-fund offering' and remain silent on advice relating to other products or a spouse. Other funds do not provide retirement advice in any form on the basis that it isn't simple and cannot include strategies for a non-member spouse. | Only in very limited circumstances where the member has no spouse, other assets/ debts and their advice needs are limited to the provision of an income stream.<br>For most members the potential for benefits resulting from a broader range of strategies means that scoping advice down to meet intra-fund rules will not be in the their best interest. | High |
| | **Should the charging rules have such a significant impact on how advisers are licensed, and hence which members needs are addressed?**<br>More fundamental is whether the use of limited licensing to align to intra-fund charging rules is creating challenges for advice models and advisers i.e. the scope of needs rarely falls neatly into one charging bucket. The limited adviser needs to assess whether the member sufficiently understands the impact of only receiving limited advice and then determine if it's appropriate to proceed with giving it. | This is a growing conflict for limited licensed advisers who often need to operate at the limits of what they are allowed to do, yet are qualified and capable of solving for more. Further the member's expectations are for them to address their superannuation and retirement needs. Limited super licensing is not something that a consumer should be expected to understand.<br>Instead advisers should be licensed to solve for super and retirement and scope up and down as required. | High |

| Theme | Topic/Example and impact on consumer | IFS view | Priority |
|---|---|---|---|
| Product advice | Q **Insurance product comparison advice is too hard to provide. How can we do this better?** Insurance is complicated and comparing insurance products is complicated so we do not offer advice in this area. Where a member needs an insurance comparison, we refer elsewhere. | Intrafund insurance advice is useful to identify the insurance need a member might have. However, an adviser is challenged in some instances to recommend a product given the limited offerings they typically have available to them. | **Medium** |
| | Q **Can strategy-only personal advice be provided about super and retirement?** Does the member's interest in the fund need to be tested each and every time they receive advice? Presently some funds are mandating that analysis of the existing product's suitability should be undertaken before any strategic advice can be provided. Should there be a different view on this where there is no new product or consolidation of products being recommended? | There should not be a need to undertake an analysis of the member's existing product if they don't want it and the Adviser isn't recommending a product switch, new product or product consolidation. Advisers should educate members about the product and explain to them how their current product ranks against peers so they can make an informed choice whether they want a full analysis. | **High** |
| Other | Q **Does there need to be more thought given to the guidance around goals based digital advice?** Digital advice has been primarily focussed on portfolio management to date, but funds are increasingly looking for it to address broader retirement planning needs. In particular the accountabilities on the licensee and how this looks in the eyes of FASEA Code of Ethics, given retirement planning requires trade-off discussion of goals and consideration of long term implications of advice.<br><br>Further, there are challenges for licensees and super funds wanting to design digital advice propositions that tries to blend elements of a calculator (to make it more interactive and engaging) and the more traditional linear advice process required of a personal advice journey. | We are uncertain of how digital advice will need to be evolved or be answerable to the Code of Ethics. There is an issue of two standards being accepted depending on who provides advice (human vs technology).<br><br>There is some confusion amongst super funds in terms of the purpose and requirements of a calculator vs digital advice solution, and when one becomes the other. | **Medium** |
| | Q **What obligation do trustees have around the quality of advice (not just sole purpose) where they have a relationship with an outsourced provided and how does this work in practice under SPS 231?** | IFS is often subject to reviews by our clients to ensure we have the appropriate governance, policies, training and operational support in place for our licensed advisers to ensure the advice they provide is in the best interests of members.<br><br>In fact, we believe it is a strength of our model that the advice licence (and hence advice standards) is separated from the trustee as this best manages the conflict that would otherwise exist. | **Low** |

INDUSTRY FUND SERVICES

**For more information**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# Attachment 3 Submission to Consultation 332: Promoting access to affordable advice for consumers

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18 January 2021

Australian Securities and Investments Commission

Via email: accesstoadviceconsultation@asic.gov.au

Dear ASIC,

**Re. Consultation 332: Promoting access to affordable advice for consumers**

Industry Funds Services (IFS) welcomes the opportunity to provide input to ASIC on the issues and impediments that affect delivery of affordable personal advice. As an advice licensee to 12 profit to member superannuation funds, IFS supports making advice accessible to all Australians.

## Summary of response

Industry Super funds are uniquely placed to provide affordable advice to their members. Superannuation funds want to play a more active role in providing advice, guidance and support to their members.

The number of members who receive personal advice is modest compared to the potential need for simple and complex personal advice. While some of the impediments to extending access to advice are commercial, the complex regulatory environment also acts to drive up costs and dampen supply.

The current regulatory framework is fragmented. There are seven separate regulators, three disciplinary and complaints bodies as well as Licensees themselves overseeing the conduct of Financial Advisers. While the proposed transfer of responsibility for the FASEA Code of Ethics to ASICs in 2021 will remove some of the friction in future, the need for further rationalisation and inter-regulator cooperation remains. In addition to this, advisers employed by APRA-regulated superannuation funds must also comply with regulation specific to superannuation, which covers similar subject matter, but with nuanced differences. Alignment between regulators would reduce cost and complexity.

This regulatory environment leads to uncertainty. This is compounded by:

- a lack of enforcement action in recent years, creating an absence of precedent;
- foreshadowed changes without set timetables for implementation; and
- kite-flying by policy makers muddying the waters.

Funds are hamstrung in their ability to innovate on such unstable ground. Recent commentary seeking to solve through simplistic headlines aiming to 'cut red tape' and attribute blame to overly conservative Licensees does not help.

The regulatory environment should not dictate the service model, yet the dominant models across super funds have been built to fit into a regulatory bucket; not by purposeful design, rather by necessity. A lack of meaningful quality engagement between ASIC and advice businesses leads to a reliance on external consultants and lawyers to interpret regulation. This drives up costs and leads to criticisms of Licensees being too conservative due to the fear of implementing a non-compliant service and being deemed to have broken the law only after the fact.

The traditional way our industry approaches regulatory uncertainty – being to seek further guidance with more examples to cover every possible scenario – is not fit for purpose. We need a different approach that recognises that many ideas in the creative stage are left on the table for fear of whether they would satisfy the relevant regulatory requirements.

While the parliamentary inquiry into Financial Technology and Regulatory Technology, in its interim report, recommended establishing a culture of innovation and competition in financial services, super funds and advice businesses still require assurance from ASIC. The enhanced regulatory sandbox permits financial service providers to test services for which they are not currently licensed but does not allow testing of new services which may fall within the remit of their existing licence.

We see a major opportunity for ASIC to offer a private ruling service to enable advice businesses to consult and obtain certainty during the design process when building new advice offers. This would greatly expedite the innovative thinking and new approaches to the advice affordability and access problem.

Further, any new guidance should consider implications for those advisers who are dual regulated by APRA, which can create duplicate and unnecessary regulations.

One clear example of this hesitancy to innovate is in the provision of general advice. Super funds could provide a lot more help to members on the areas of financial coaching and education, without making any product recommendations or requiring an SOA, but most funds are steering clear for fear of straying into personal advice. A lot of good could be done by getting Licensees comfortable operating in this space, and ASIC's support, engagement and validation is key to this being achieved.

In the personal advice space, the advice offerings of superannuation funds tend to reflect the charging rules they must adhere to instead of expressing the advice needs and experience expectations of their members. Intrafund charging models preclude providing relevant and valuable advice by excluding a member's spouse or household from retirement advice considerations and miss opportunities to help people by excluding advice that is tangentially but not directly related to the member's superannuation account (see following case study). The limit of the scope creates distortion in the advice that can be provided without a direct cost to the member. Affordability and accessibility of advice would be greatly improved by expanding the scope of intrafund to include a few critical areas to address this distortion.

**Case study: A member wants to know whether they should allocate their surplus income/cashflow into super or repay their debt faster.**

For the adviser to meet their obligations they would need to gather the client's relevant circumstances around debt, cash flow and superannuation, and analyse the two possible outcomes.

If the best outcome is super, the process is completed under intrafund at no extra cost to the member.

If the best outcome is debt repayment, the process is not covered under intrafund. The adviser needs to decline the advice, and/or

- Refer the member to a fee charging adviser who would need to re-commence the advice journey, or
- Inform the member they could only provide the advice if they agree to pay an advice fee, which could be substantial, and that could only be paid for from non-superannuation funds.

This highlights that the adviser needs to devote the time to complete the entire discovery process with the member, only then not to be able to provide the end advice.

In preparing our answers to the consultation, we have referenced our Discussion Paper "*Assessing the limits and regulatory definitions of financial advice*" setting out the gaps and issues identified through our IFS-led industry discussion with funds and other stakeholders in 2020, and we refer to examples detailed in that paper. We strongly recommend that our submission and the paper be read together. We have also surveyed a sample of advisers who operate under our licence for their views.

We will address these common themes of uncertainty, over-regulation and limited innovation in greater detail in our specific answers to the consultation questions and propose the following solutions as key priorities:

- Expedite the rationalisation of regulators and disciplinary bodies overseeing financial advisers.
- Update all existing ASIC personal advice guidance, particularly RG 244 and RG 175, to incorporate FASEA Code of Ethics reference and guidance.
- ASIC to offer a private ruling service to enable advice businesses to consult and seek certainty during the design process
- Expand the scope of intrafund advice to allow members to obtain more personal advice on a broader range of topics (such as retirement advice for non-member spouse and debt vs super advice) and provide more support and guidance around the provision of General advice.
- Lessen the time and compliance burden of providing advice by not requiring product validation in very limited and strategic advice situations.

Please feel free to contact me on 03 9657 4305 if you would like to discuss any of these issues.

Yours sincerely,

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## Questions and answers

| B1Q3 Questions about you | |
|---|---|
| | **(a) How many financial advisers do you employ and/or authorise?** |
| | **(b) Are you a limited advice licensee (see the definition of 'limited advice licensee' in the area of focus at B1 and on our website)? If yes, please describe the kinds of services you are authorised to provide under your licence.** |
| | **(c) Approximately how many clients are advised under your licence each year?** |
| | **(d) In the past 24 months, have your financial advisers and/or employees reported that the demand for advice has increased, decreased or stayed the same?** |
| | **(e) What are the most common topics or areas clients advised under your licence seek advice on?** |

**(a) How many financial advisers do you employ and/or authorise?**

IFS currently has 99 advisers listed on ASIC's Financial Advisers Register. Approximately 10% are Paraplanners and head office staff who are not currently providing personal advice.

**(b) Are you a limited advice licensee (see the definition of 'limited advice licensee' in the area of focus at B1 and on our website)? If yes, please describe the kinds of services you are authorised to provide under your licence.**

No.

**(c) Approximately how many clients are advised under your licence each year?**

Over the last three financial years, the average number of advised clients is over 5,000 per year.

**(d) In the past 24 months, have your financial advisers and/or employees reported that the demand for advice has increased, decreased or stayed the same?**

Prior to COVID, the demand for advice remained reasonably constant. In the past 12 months, during periods of lockdown the demand for retirement planning advice decreased, but members sought other forms of assistance and guidance.

**(e) What are the most common topics or areas clients advised under your licence seek advice on?**

We license advisers as either 'comprehensive' or 'limited'.

For our comprehensively licensed advisers the most common advice topics are:

- Pre-retirement planning, such as contributions to super, investment advice, consolidation and transition to retirement
- Post retirement planning, such as commencing income streams, Centrelink and investment advice.

Our limited licensed advisers mainly provide intrafund only advice over investment choice and contributing to super.

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| **B1Q4 Questions about providing limited advice** | **(a) Do you allow your employees and/or authorised financial advisers to provide limited advice? If not, why not? If yes, please indicate the approximate percentage of advice your employees and/or authorised financial advisers provide on each topic (you can add additional topics in the 'other' field, if necessary):**<br>(i) adequacy of retirement savings;<br>(ii) investment allocation in superannuation;<br>(iii) investments outside superannuation;<br>(iv) superannuation contribution advice;<br>(v) adequacy of insurance; and<br>(vi) other (please describe the topic(s) of advice).<br>(b) If you allow the provision of limited advice, please provide details of:<br>(i) the limited advice your employees and/or authorised financial advisers provide (including approximately how many times limited advice is provided by your employees and/or authorised financial advisers each year and whether or not the advice is provided under an ongoing service arrangement); and<br>(ii) what limited advice services you would like your employees and/or authorised financial advisers to provide in the future.<br>(c) If you do not currently allow your employees and/or authorised financial advisers to provide limited advice but would like to, what is stopping you from allowing limited advice under your licence?<br>**(d) If you currently allow your employees and/or authorised financial advisers to provide limited advice:**<br>**(i) have you experienced barriers in building this part of your business; and**<br>**(ii) what are these barriers?**<br>**(e) How do you support your financial advisers providing limited advice (e.g. through specific training or by providing specific template documents)?** |

**(a) Do you allow your employees and/or authorised financial advisers to provide limited advice? If not, why not? If yes, please indicate the approximate percentage of advice your employees and/or authorised financial advisers provide on each topic (you can add additional topics in the 'other' field, if necessary):**

Yes. Our limited licensed advisers provided approximately 1,500 pieces of limited advice over the last 12 months. 90% of this advice was in relation to contributing to super and investment allocation to super. The remaining 10% was in relation to retirement adequacy and insurance within superannuation.

Our comprehensive licensed advisers also provide limited advice in accordance with ASIC guidance by scaling up and down their advice based on the client's requirements.

**(d) If you currently allow your employees and/or authorised financial advisers to provide limited advice:**

**(i) have you experienced barriers in building this part of your business; and**

**(ii) what are these barriers?**

IFS allows its licensed advisers to provide limited personal advice. IFS recognises the potential for limited advice to assist Australian consumers to improve their financial position.

The primary barrier IFS has experienced is uncertainty regarding the types of financial advice that can be paid for a) collectively through a superannuation fund and b) deducted from a client's superannuation account.

Most Australians, particularly approaching retirement, have few substantial assets - these are typically their home, and/or their superannuation. Most Australians cannot afford to pay thousands of dollars out of pocket to receive personal advice, even where that advice would reap financial benefits many times greater than the fees paid. Consequently, paying for advice collectively, or deducting advice fees from a client's superannuation account are two critical factors to increasing access to financial advice for these everyday Australians.

Gaining explicit clarity on exactly what types of financial advice can be charged for collectively, and what types can have their fees deducted from superannuation accounts, is critical to increasing the market offerings in these areas. The current lack of clarity creates confusion and increases regulatory and legal risk (be it real or perceived) for licensees, leading to a reduction in those offering these services.

This lack of clarity has inhibited the development of service models and is a product of both current regulation and foreshadowed regulation:

- APRA review of sole purpose – announced 27 March 2019 but still no report released
- The recommendations of the Hayne Royal Commission regarding fee deductions from MySuper – announced 31 January 2020, with legislation only introduced to Parliament on 9 December 2020
- Comments by MPs that certain limited advice models are unlawful
- APRA ASIC joint letter, April 2019, 'Oversight of fees charged to members' superannuation accounts'
- Westpac case passage through appellate jurisdictions

While we recognise ASIC cannot control these matters, they have contributed to the perception that advice providers are working on an unstable regulatory platform.

Any guidance aimed at remedying this issue must be set out in a real-world, industry level that licensees can operationalise. These issues have, since 1 January 2020, been further complicated by the introduction of the FASEA Code of Ethics, its inconsistent interpretation and application, and the subsequent deferral of the code monitoring / single disciplinary body.

**(e) How do you support your financial advisers providing limited advice (e.g. through specific training or by providing specific template documents)?**

IFS supports its advisers to provide limited advice by providing extensive training, guidance and coaching, enabled using extensive technology, templates and administrative tools.

IFS has a dedicated set of limited advice templates, tools and software that is used to provide limited advice in an efficient manner. A significant amount of time and resources has been spent on embedding custom templates and workflows into our preferred financial planning software. The tools and workflows are coded so that only relevant information is required as the adviser progresses through the advice journey, thus making the advice production and resulting output as automated as possible, while also providing the adviser with the flexibility to personalise the documents to the client's circumstances.

Training via PD sessions and specific advice guidance documentation on how to appropriately scale advice is provided to all our licensed advisers. Within this training and guidance, we give examples of how scaled advice can be provided compliantly and when it cannot. We give examples on what documentation and discussion is required with the client, over various advice scenarios, before an adviser can agree to scope the advice. We have also provided client engagement training to ensure our advisers have the appropriate skills to hold the conversations required in order for the adviser to elicit client responses that will enable them to gather the required personal circumstance information and then scale the advice in accordance with compliance requirements.

## Our guidance on and examples of limited advice

| | |
|---|---|
| **B2Q1 Questions about ASIC guidance on limited advice** | (a) We are considering new formats for our guidance. What form of guidance would you find most useful for future ASIC guidance on limited advice? Some examples are listed below, please list in order of preference:<br>(i) updates to regulatory guidance;<br>(ii) podcasts and/or videos;<br>(iii) a dedicated advice guidance webpage on the ASIC website;<br>(iv) standalone examples on different topics; and/or<br>(v) other guidance (please describe).<br>(b) Have you read RG 244?<br>(c) If you have read RG 244, did it help you to understand how to provide good-quality limited advice? If not, how could the guidance be improved?<br>(d) Are there any specific parts of RG 244 guidance that you do not understand? If so, which parts?<br>(e) Is there other ASIC guidance on providing limited advice that would be useful? Please note the topics on which you think additional guidance would be useful.<br>**(f) Given the issues you have identified in response to these questions, what do you see as potential solutions to help you provide good-quality limited advice?**<br>**(g) What do you see as the future challenges to providing good-quality limited advice? How do you think industry can best respond to and work through these challenges?** |

*94% of the IFS advisers surveyed agree that RG244 should be updated to provide more current relevant examples & guidance, incorporating FASEA obligations*

**(f) Given the issues you have identified in response to these questions, what do you see as potential solutions to help you provide goodquality limited advice?**

Gaining explicit clarity on exactly what types of financial advice can be charged for collectively and what types can have their fees deducted from superannuation accounts is critical to increasing access to advice. Guidance should set out real-world, industry-specific scenarios that Licensees can operationalise.

**(g) What do you see as the future challenges to providing good-quality limited advice? How do you think industry can best respond to and work through these challenges?**

Most of the advice IFS provides are to a couple or a member of a couple. Providing advice to a member who is nearing or at retirement without appropriately considering their partner can lead to outcomes that would not be in the best interest of the couple (or household). There is some confusion as to what details and assumptions can be made to a non-member partner when providing advice to a super fund member under intrafund.

Excluding specific couple related strategies, such as Centrelink, tax optimisation and Estate Planning issues, means that in many situations the advice needs to be declined and / or referred to a comprehensive licensed adviser.

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| **B2Q2 Questions about examples in appendix to RG 244** | **a) Are the examples of providing good-quality limited advice in the appendix to RG 244 helpful? If not, why not?**<br>**(b) Should the examples in the appendix to RG 244 be expanded to include other topics? If so, which additional topics would you find helpful?** |

### a) Are the examples of providing good-quality limited advice in the appendix to RG 244 helpful? If not, why not?

No. RG 244 was published in 2012 and does not reflect the genuine, real world advice needs and wants of clients in 2020. The examples are scripted to illustrate a conversation but are unrealistic and overly simplified, which is why there has been so little use or reference to the examples by the industry. Furthermore, RG244 pre-dated the FASEA Code of Ethics, and does not incorporate requirements and steps to satisfy both Best Interests Duty and Code of Ethics obligations.

**Case Study: RG244 Example 3: A retirement savings health check**

*Bruno and Rosa contact Tim, an adviser, to obtain personal advice about whether they are on track with their finances in the lead-up to their retirement. They are not interested in product advice. They want to know if they are on track financially to meet their retirement goals or whether they need to be saving more. They would like to retire in five years, and they estimate they need $55,000 a year to meet their expenses.*

**Issues with the example:**

This scenario is uncommon and unlikely in the real world. A client seeking a 'retirement savings health check' would likely require and want validation and endorsement over current arrangements and pre-existing decisions. However, in this example, the adviser has accepted instruction from the client regarding their preference for narrowing the scope and not addressing key advice needs such as their investment/risk profile and financial product selection with the advice. An adviser's obligations cannot be removed simply by instruction from a client. There is no evidence that the adviser has undertaken a full analysis of the client's advice needs, either directly in connection with their requested topic, or their broader situation and likely future circumstances, nor fully explained the advice options to the client before providing such a narrow service.

Both the scoping and discovery processes presented would fail to satisfy both the Best Interest Duty and Code of Ethics obligations.

A client seeking such a narrow advice service, and not wanting validation or 'challenge' to their thinking, would be better directed to an online calculator or provided with an option for general advice to help understand relevant concepts and allow them to make their own decisions.

The scenario also does not address the advisers' ability or obligation to call out areas which may improve the clients' financial position or achievement of objectives (i.e. utilisation of cash savings or maximisation of contribution strategies). Without being provided with the option for limited scope advice which will address some but not all their advice needs, or comprehensive advice, the client cannot make an informed decision as to what is most appropriate to their needs and wants.

### (b) Should the examples in the appendix to RG 244 be expanded to include other topics? If so, which additional topics would you find helpful?

Yes, but guidance and examples should be more focused on clients 'life events' driving and requiring financial advice, rather than a desire to seek advice over 'topics'. Clients engage in advice either in response to or achievement of life events and both expect and require advice to identify the relevant topics and needs in relation to that event. For example, no client seeks advice specifically about salary sacrificing, but they may be concerned about whether they are on track towards retirement or how they can best allocate surplus cashflow. This is the trigger to engage with an adviser who can then identify the relevant topics and options.

Examples should address various key events, such as retirement, redundancy, purchase of property, family events and so on, and likely client questions in these scenarios. This will assist industry to provide compliant and ethical limited scope advice services to assist with these needs.

## Terminology—How we talk about limited advice

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| **B3Q1 Questions about terminology in RG 244** | (a) We would like your feedback on how we refer to the advice that we currently refer to as 'scaled advice' in RG 244. Do you think that any of the following terms would be easier to understand:<br>(i) limited advice;<br>(ii) narrow-scope advice;<br>(iii) piece-by-piece advice;<br>(iv) transactional advice; or<br>(v) episodic advice.<br>(b) Do you have any other suggestions for terminology we could use? |

*57% of IFS adviser respondents prefer the term "Limited" to any of the other terms offered*

IFS use the term 'Limited' for licensing, templates and compliance guides, and this is the term used most commonly across the industry.

## Our guidance on and examples of Statements of Advice

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| **B4Q1 Questions about ASIC guidance and examples on SOAs** | **(a) Are the model example SOAs in RG 90 and the appendix to RG 244 helpful? If not, why?**<br>**(b) We are planning to review and revise our guidance in RG 90. What changes to RG 90 would make it more useful?**<br>**(c) Is there any other guidance you would like on SOAs for limited advice?** |

**(a) Are the model example SOAs in RG 90 and the appendix to RG 244 helpful? If not, why?**

**(b) We are planning to review and revise our guidance in RG 90. What changes to RG 90 would make it more useful?**

**(c) Is there any other guidance you would like on SOAs for limited advice?**

ASIC must engage with industry in the revision of RG90. The example SOA's in the current guidance are not reflective of industry standards, actual real-world client scenarios or of the interactions between clients and advisers. For the examples in RG90 to be of value, the situations which they address must be founded in the everyday client concerns, situations, and interactions with advisers.

Both RG244 and RG90 assume the client knows exactly what is in scope and what is not. However, in real life the adviser would need to be able to educate the client over all of their advice needs and the client could only then make an informed decision about what to scope out.The adviser would also need to agree that this was in the client's best interest.. For example, RG90 scopes out retirement planning even though the recommended insurance premiums will have a significant impact on their retirement savings. Will this stop them meeting their retirement goals? Has the client prioritised insurance over retirement from a position of knowledge? This is unclear from RG 90, and it's also unclear whether this is consistent with the FASEA Code of Ethics.

Further examples on how retirement planning can be provided to a household using intrafund advice would be helpful, as well as the common example detailed in the summary of this document 'A member wants to know whether they should allocate their surplus income/cashflow into super or repay their debt faster'**.**

As previously identified, we see a place for strategy only advice to be allowed and would welcome an example SOA that shows how this can be achieved.

Specific guidance for advisers who work for super funds would also assist. These advisers are jointly regulated by APRA and ASIC, and there is significant overlap. Additional guidance for those advisers who work for a super fund, or any product manufacturer, around how they manage the inherent conflict and provide advice appropriately.

## Affordability of personal advice

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| **C1Q2 Questions about affordability and availability of advice** | **(a) What costs inherent to the provision of advice most affect the ability of your business to provide lower cost personal advice? How could these costs be reduced?**<br>**(b) Do you think technology could be better used to reduce the cost of advice? Please explain your response.**<br>**(c) In the past year, has your business increased the minimum annual fees for ongoing advice? If yes, what was your minimum annual fee previously and what is it now? Please explain why you increased these fees.**<br>**(d) As an advice licensee, has your advice business changed its target market for advice over the last year? For example, has your financial advice business changed its marketing focus from low or average net-worth clients to high net-worth clients? If so, please explain these changes, including why these changes were made.**<br>**(e) What changes do you suggest to reduce the cost of personal advice for consumers?**<br>**(f) Apart from the issue of cost, what changes do you think would improve the availability of personal advice to consumers?**<br>**(g) As an advice licensee, what has been the experience of your advice business using ROAs? Have you found the COVID-19 relief helpful? Do you think we should provide relief to make ROAs more readily available for financial advisers to use as an alternative to an SOA?**<br>**(h) For financial advisers you employ or authorise, what is the average time it takes after they first meet with a client to provide the client with an SOA? Is this too long? What factors contribute to the length of time it takes to provide a client with their SOA?**<br>**(i) How do you calculate the price of the advice you provide to clients? What are the key features of the personal advice services you offer under your licence and for which fees are charged?**<br>**(j) Are you developing (or are you aware of others developing) new advice models, or methods of advice delivery, to make personal advice more affordable? If yes, please give details.**<br>**(k) Given the issues you have identified, what do you see as potential solutions to increase the ability of advice licensees to provide good-quality affordable personal advice?** |

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| | **(l) What do you see as the future challenges to providing good-quality affordable personal advice to clients? How do you think industry can best respond to and work through these challenges? For example, are there technological solutions to reduce the cost of providing advice while maintaining (or improving) the quality of advice provided to clients?** |

**(a) What costs inherent to the provision of advice most affect the ability of your business to provide lower cost personal advice? How could these costs be reduced?**

The costs inherent in providing advice are high and rising. Compliance is a significant cost, both as a direct expense (increased regulatory levies, training costs etc) and feeding into adviser productivity. The cost of professional indemnity insurance has also increased since the banking Royal Commission.

Advisers and Licensees must register with a multitude of regulatory bodies, often with overlapping obligations and regulations. This duplicates registration costs. Regulation in one area does not necessarily translate to appropriate guidance in another, and this complexity requires significant time and effort to unravel conflicts and train advisers accordingly.

Both of these issues could be addressed by rationalising the number of bodies Licensees and advisers must register with, expediting the incorporation of FASEA and ASIC in terms of adviser standards, and updating all adviser guidance and process manuals to remove the current duplication and conflict between the regulations of both.

Costs could also be reduced by introducing a mechanism for industry to consult directly with ASIC to obtain rulings on interpretations where published guidance is insufficient.

At the Licensee level, file audit and compliance programs are increasingly becoming a material cost item as scrutiny on the advice sector increases in the wake of the Banking Royal Commission. Greater support for a risk-based approach to monitoring and supervision would allow licensees to tailor their file audit activities to reflect the risk to clients. The existing AFCA complaint resolution process could also be reviewed as the cost of defending an unfounded complaint is often more than simply paying it out.

New adviser education standards require existing employees to upskill, typically at the time and expense of their employer, and the cost of employing new advisers is rising. The pool of adequately experienced advisers is shrinking and the Professional Year structure and removal of a junior adviser role acts as a barrier to new entrants to the industry. This is a shared problem and could be addressed by working with industry to identify the specific roles and pathways in detail to have junior advisers satisfy Professional Year requirements. Further, the increased training requirements and higher administrative burden for advisers reduce adviser productivity. The advice delivery model needs to evolve.

Productivity efficiencies can also be found in the advice journey itself. The Statement of Advice could be rationalised to remove much of the prescribed disclosure and disclaimer content which is not meaningful to the client, and product validation and recommendation hurdles could be reduced or removed in certain key circumstances, reducing the time required to prepare the advice.

For example, where a client is a long-standing member of a good quality product in a well-rated fund seeking strategic advice only within the same product set, such as retirement readiness, accumulation to pension or investment choice. Their adviser is currently obliged to determine that the current product remains appropriate before providing the advice, regardless of whether the member wants that advice or not. Removing this obligation would improve adviser productivity.

Obligations should still apply where there is potential for hawking, such as new product recommendations, consolidation of accounts or where the client requires a different product type.

Costs to clients and businesses could also be reduced by introducing alternative advice delivery models that don’t rely solely on an adviser to individual client interaction. Two potential examples are a ‘facilitated digital advice experience' which combines a digital advice tool with validation of results by a suitably qualified facilitator (see answer to C3Q1(f)) and group advice, such as moderated peer group discussions to a group of individuals with similar circumstances and the same need (e.g. retirement advice). Guidance in support of such models is required.

**(b) Do you think technology could be better used to reduce the cost of advice? Please explain your response.**

*82% of respondents agree that technology could be better used to reduce the cost of advice*

Yes, but this cannot be achieved by simply replacing advisers with digital tools and calculators. There are benefits to be realised from automating/digitising back office systems and elements of the advice process that currently rely on manual recording or processing. Automation of risk monitoring, strategy development and moving from file notes to recorded client meetings would increase the productive capacity of advisers and compliance officers, and potentially reduce the risk of incorrect advice which presently results in client compensation.

Whilst back-office efficiencies are important to focus on, this will not overhaul the advice journey itself to the point where the cost of advice is congruent with the price consumers are willing to pay. More needs to be done on service delivery models, that will involve digitisation of parts of the service for some clients and improve accessibility to those who are currently locked out of advice.

**(c) In the past year, has your business increased the minimum annual fees for ongoing advice? If yes, what was your minimum annual fee previously and what is it now? Please explain why you increased these fees.**

N/A

**(d) As an advice licensee, has your advice business changed its target market for advice over the last year? For example, has your financial advice business changed its marketing focus from low or average net-worth clients to high net-worth clients? If so, please explain these changes, including why these changes were made.**

The most common type of client seeking advice in a superannuation fund setting are members nearing retirement.

However, in recent times, accelerated by COVID events, there has been a shift by our client super funds to focus on the delivery of limited scope and digital advice to respond to younger members or those with more basic needs, such as how to invest super and how to contribute a little bit more.

**(e) What changes do you suggest reducing the cost of personal advice for consumers?**

Regardless of the charging model to the client, whether intrafund or paid for by the client, advice must be priced sufficiently that an advice business can cover its overheads. Addressing the back office expenses outlined in question (a) will improve the affordability of obtaining advice for consumers under the current advice delivery model, and we continue to innovate to improve productivity costs, but without a review of the service model, the cost of advice will still remain above consumer expectations of a fair price.

**(f) Apart from the issue of cost, what changes do you think would improve the availability of personal advice to consumers?**

Accessibility of advice can be improved by reducing the out of pocket costs to potential clients by expanding the range of topics that can be covered under intrafund charging models. Super is a valuable asset pool from which advice fees can be paid but funds have reacted conservatively to the joint ASIC/ APRA letter 'Oversight of fees charged to members' superannuation accounts' in the absence of explicit clarity over whether advice is consistent with the sole purpose test.

For members paying advice fees directly, tax deductibility of advice would be advantageous, as would more flexible payment options of what are currently upfront advice fees.

**(g) As an advice licensee, what has been the experience of your advice business using ROAs? Have you found the COVID-19 relief helpful? Do you think we should provide relief to make ROAs more readily available for financial advisers to use as an alternative to an SOA?**

The advice process is the same regardless of the template. In the context of early release of super due to COVID-19, the considerations the adviser needs to deal with don't change in providing the advice.

IFS made a ROA available but none of our advisers have used it. We attribute this to:

- We already have a short form adviser self-prepare SOA which the advisers were familiar with and were comfortable using. It's relatively quick to produce so little if no different to using a ROA
- Much of the help advisers have provided for members during this period was in fact only general advice (cashflow/budgeting, helping with access to super and exploring other opportunities to plug an income gap). We didn't see an advice need just about early release all that often, it was either general advice, or advice that needed to cover a range of issues for which a more traditional SOA format was required.

ROAs are useful for advice practices that don't have an adviser self-prepare advice document available, but our view is that the advice process and satisfying ethical and Best Interest Duty obligations is where the time is spent. The template itself, while always open to improvement, isn't the critical issue to solve for. Other practices with ongoing fee-paying clients can benefit from ROAs, but in a super fund context there are no ongoing fee arrangements, and returning members seeking subsequent advice often see a different adviser and hence ROAs aren't available to them to use.

Regarding the AISC relief for time critical advice, our advisers already work to the rules presented in the detail, so this did not have an impact on IFS.

**(h) For financial advisers you employ or authorise, what is the average time it takes after they first meet with a client to provide the client with an SOA? Is this too long? What factors contribute to the length of time it takes to provide a client with their SOA?**

For our limited licence advisers, it very much depends on what the advice is. For 'Member Investment Choice' (investment advice) only, advice can be provided same day or shortly after. For more complex limited advice scenarios - Insurance within Super or TTR advice - the advice is provided within the following 1-5 business days.

The average time spent end to end on a limited intrafund advice file, including initial and plan presentation appointments, SOA production, research and file notes, is approximately 2.5 hours.

For our comprehensive licensed advisers, the average time taken to present the SOA is 28 days. This consists of the time for the paraplanner to draft the SOA (with any required iterations) and then an appropriate time to be booked with the client to present the advice.

**(i) How do you calculate the price of the advice you provide to clients? What are the key features of the personal advice services you offer under your licence and for which fees are charged?**

Our client funds are responsible for charging clients for advice, however our approach to developing a charging model would be as follows:

- Start with determining capacity level for an adviser - how many appointments and how many will proceed with advice

- Calculate the cost base, including overheads
- Determine the charging model:
    - Intrafund (collectively charged)
    - Deduct from fund
    - Member pays from own funds
    - Split between whether there is appointment charge or only for SOA
- SOA is either a flat fee or a scaled fee depending on complexity of advice
- Add profit margin (if relevant)

**(j) Are you developing (or are you aware of others developing) new advice models, or methods of advice delivery, to make personal advice more affordable? If yes, please give details.**

IFS is continuously working with our client funds to identify new service models that will support fund members making sound decisions that improve their financial position. This includes piloting improved triage, targeted direct communications, calculators and engagement tools, and outbound contact centre campaigns. Historically these have focussed on general advice, for the reasons outlined in our answer to question C2Q1 on strategic advice.

The focus on affordability should be on reducing costs, rather than changing payment models to reduce (or worse to obscure) the up-front costs. This will require new service models, that involve a blend of technology and people, and include people with different skills and training than the current cohort of advisers.

That said, the introduction of the Code of Ethics, and continued removal of conflicted remuneration should give regulators comfort to permit or sanction more flexible payment models, including payment of up-front fees in instalments.

**(k) Given the issues you have identified, what do you see as potential solutions to increase the ability of advice licensees to provide good-quality affordable personal advice?**

See answers to (a)

**(l) What do you see as the future challenges to providing good-quality affordable personal advice to clients? How do you think industry can best respond to and work through these challenges? For example, are there technological solutions to reduce the cost of providing advice while maintaining (or improving) the quality of advice provided to clients?**

As outlined in our other answers, future challenges, if not overcome, include a lack of thought leadership, reluctance to innovate in advice model design and delivery, a shrinking talent pool of adequately trained advisers, a lack of investment by technology vendors to automate elements of advice delivery and a conflict between advice providers who are reliant on prescriptive guidance rather than a principles-based approach and prefer certainty from regulators and other industry stakeholders to interpret the grey.

## Strategic advice

| C2Q1 Questions about strategic advice | a) Do you currently offer strategic advice that does not make a financial product recommendation, or only makes a recommendation about a general class of financial products? |
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| | (b) If yes, please provide details of the strategic advice you:<br>(i) currently provide; and<br>(ii) would like to provide in the future.<br>**(c) If no, please explain why you do not currently offer this type of advice to clients. Would you like to offer this type of advice in the future? If yes, what type of advice? If not, why not?**<br>(d) In your experience, which type of clients would benefit most from receiving strategic advice? Please explain your response.<br>(e) Do you think it would be helpful to provide more examples of compliant strategic advice in our guidance? If yes, what examples would you like to see? |

**a) Do you currently offer strategic advice that does not make a financial product recommendation, or only makes a recommendation about a general class of financial products?**

IFS does not currently provide strategy-only advice.

**(c) If no, please explain why you do not currently offer this type of advice to clients. Would you like to offer this type of advice in the future? If yes, what type of advice? If not, why not?**

IFS sees merit in strategy-only advice but, to date, has declined to authorise such advice out of an abundance of caution. We would welcome additional clarity around the process or controls required to safely provide compliant strategy-only advice, particularly when the product recommendation is to hold the same investment mix and/or product provider.

Presently advisers must undertake the same product suitability assessment (captured in the Statement of Advice) for each client whether they are recommending a new product, or simply advising a client to do something with the product they already hold (e.g. contribute more and change investment option). Where the client does not request or require product advice this assessment uses precious adviser capacity and ultimately increases the cost of advice, often for little additional benefit to the client.

There would be a benefit from more clearly distinguishing the obligations on advisers between where they are recommending a new product/consolidating product, versus implementing strategic advice with the product the client already holds. This would enable the advisers working for product manufacturers to more efficiently provide valuable strategic advice, without having to first determine 'best product'. This wouldn't remove the obligation on an adviser to consider the existing product's suitability, but importantly the adviser can exercise judgement, and where not required it need not appear in the Statement of Advice (SOA).

## Digital personal advice

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| **C3Q1 Questions about digital personal advice** | **(a) Do you currently offer digital personal advice? If yes, please provide details of the digital service(s) you:**<br>**(i) currently provide; and**<br>**(ii) would like to provide in the future.**<br>(b) If you do not currently offer digital personal advice, please provide details of the digital service(s) you would like to provide in the future.<br>**(c) Have you read RG 255?**<br>**(d) If you have read the guidance in RG 255, did it help you to understand how to ensure that you provide compliant digital advice? How could the guidance be improved?**<br>**(e) In your experience, are there barriers to providing good-quality digital personal advice? Please explain your response.** |

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| | **(f) In your experience, are there specific types of clients that are more receptive to receiving digital personal advice? If so, please explain.**<br>**(g) Have you moved any of your clients across from non-digital to digital personal advice services? If yes, what have been the challenges in transitioning these clients over to digital personal advice services?**<br>(h) Are there topics of advice or specific financial products that are well suited to digital personal advice? If yes, what are they and why?<br>(i) Are there topics of advice and specific financial products that are not well suited to digital advice? If yes, what are they and why? |

**(a) Do you currently offer digital personal advice? If yes, please provide details of the digital service(s) you:**

**(i) currently provide; and**

**(ii) would like to provide in the future.**

IFS licenses digital advice tools to a number of super fund clients.

**(c) Have you read RG 255?**

Yes.

**(d) If you have read the guidance in RG 255, did it help you to understand how to ensure that you provide compliant digital advice? How could the guidance be improved?**

The current guidance tries to take the advice process from a human delivered channel and make it fit within a digital experience. Digital advice is not a controlled linear process. People will rarely start their journey and complete it all in one sitting.

While the guidance helps us to understand our obligations and how to meet the Best Interest Duty for digital advice as a Licensee, in our experience many technology providers do not understand the difference between personal advice and general advice through a calculator. IFS has reviewed a large number of digital advice tools, and has licensed digital advice provided by various vendors. The majority of digital advice tools on offer seem to be calculators designed to allow users to model various scenarios rather than tools that aim to meet the Best Interest Duty. Guidance could be improved to provide explicit guidance to technology vendors.

**(e) In your experience, are there barriers to providing good-quality digital personal advice? Please explain your response.**

In our experience, the market of technology vendors building advice tools is small. Most, if not all, provide an off the shelf offer and the majority of these provide portfolio construction advice, which lends itself to computer generated advice.

While a provider's focus is primarily on launching to market and providing a simple, engaging user experience for the client, they don't warrant that it is compliant. The onus then falls on the Licensee to ensure compliance with Best Interest Duty rules which are adapted from the linear face-to-face advice experience and often require significant investment into redevelopment of the tool. Despite the best intentions to provide an engaging and informative member experience, for the tool to become fully compliant, some screens must by necessity become overly wordy, the advice journey confusing and the user experience poor.

The few vendors seeking to provide strategic advice or limited advice have developed tools that have focused on the intrafund market, perhaps because of the ability for trustees to bear some of the development costs. There is no obvious commercial model to support the development of digital advice that covers assets inside and outside superannuation, or that is directed at improving the position of a couple in household. Development costs on top of tool licensing costs act as a barrier to take-up when most end-users will not implement the advice generated.

The alternative is to release a factual calculator version only.

Given the limited scope of the subject matter covered by digital advice, it would be helpful if the obligations could be simplified for this experience, while still ensuring the client is not at risk of harmful advice.

**(f) In your experience, are there specific types of clients that are more receptive to receiving digital personal advice? If so, please explain.**

IFS has licensed a digital tool that covered super contributions, insurance and investment advice. An analysis of tool usage data from one client fund indicated that pre-retirees were more inclined to use the tool (22% of users in their 60-70s and 21% of users in their 50-60s). This suggests that age is not a barrier to using digital advice tools. Women were marginally more likely to use the tool (57%) than men.

It is important to note that fewer than 5% of clients implemented the advice provided, and when consulted, most indicated were that they wanted to 'play around' with the tool and preferred a human to validate their answers rather than implement advice generated from a computer.

This highlights an opportunity to provide a facilitated digital advice experience with a digital tool and a human, whether this is a licensed adviser or not, to work more coherently together to provide advice to consumers. Currently if a consumer were to ask for verification of a self-directed tool's recommendations, an adviser would not be able to provide a simple answer. They would be required to undertake the whole advice journey from the beginning to ensure they meet their obligations.

**(g) Have you moved any of your clients across from non-digital to digital personal advice services? If yes, what have been the challenges in transitioning these clients over to digital personal advice services?**

No.

## Other issues relating to access to affordable personal advice

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| **C4Q1 Other issues you wish to raise** | If there are any other issues you wish to raise in relation to this consultation paper, please note them in response to this question. |