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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.

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):** (i) adequacy of retirement savings; (ii) investment allocation in superannuation; (iii) investments outside superannuation; (iv) superannuation contribution advice; (v) adequacy of insurance; and (vi) other (please describe the topic(s) of advice). (b) If you allow the provision of limited advice, please provide details of: (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 (ii) what limited advice services you would like your employees and/or authorised financial advisers to provide in the future. (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? **(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?** **(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: (i) updates to regulatory guidance; (ii) podcasts and/or videos; (iii) a dedicated advice guidance webpage on the ASIC website; (iv) standalone examples on different topics; and/or (v) other guidance (please describe). (b) Have you read RG 244? (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? (d) Are there any specific parts of RG 244 guidance that you do not understand? If so, which parts? (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. **(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?** **(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.

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?** **(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

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: (i) limited advice; (ii) narrow-scope advice; (iii) piece-by-piece advice; (iv) transactional advice; or (v) episodic advice. (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

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?** **(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?**

(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

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?** **(b) Do you think technology could be better used to reduce the cost of advice? Please explain your response.** **(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.** **(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.** **(e) What changes do you suggest to reduce the cost of personal advice for consumers?** **(f) Apart from the issue of cost, what changes do you think would improve the availability of personal advice to consumers?** **(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?** **(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?** **(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?** **(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.** **(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?**

	(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?**

	(b) If yes, please provide details of the strategic advice you: (i) currently provide; and (ii) would like to provide in the future. **(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?** (d) In your experience, which type of clients would benefit most from receiving strategic advice? Please explain your response. (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

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:** **(i) currently provide; and** **(ii) would like to provide in the future.** (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. **(c) Have you read RG 255?** **(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?** **(e) In your experience, are there barriers to providing good-quality digital personal advice? Please explain your response.**

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

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.