# MEDIA RELEASE

Thursday, 26 November 2026

# Government's financial advice bill risks reintroducing vertical integration

The Financial Services Council (FSC) is warning that the Albanese Government's financial advice bill introduced into Parliament today risks reopening the flood gates to consumer harm that could arise from facilitating the reintroduction of conflicted vertically integrated business models in superannuation.

The Government's financial advice bill will provide the legislative scaffolding for the topics that superannuation funds can collectively charge all members in order to provide financial advice to a subset of members, known as 'intrafund advice', but also foreshadows allowing funds to use intrafund advice to recommend to their members that they commence a retirement income product offered by their own fund.

The legislation would also treat a member of an accumulation product as already having an interest in a retirement product *that they have not yet even considered or purchased*, thereby facilitating the transition of members from accumulation phase into retirement in the same fund.

Personal advice about retirement can be inherently complex, with advisers expected to consider the member's broader financial circumstances before considering an appropriate product to deliver a retirement strategy that is in the member's best interests. This requires a product comparison between different funds, involving consideration of the merits of competing products. The FSC is concerned the proposed legislation enables intrafund advisers to prioritise a fund's commercial goal of retaining members in retirement over adhering to their legal obligations to conduct a full assessment of what is in a member's best interests.

The proposed reintroduction of vertical integration into the superannuation sector raises the question of whether the lessons of the Hayne Royal Commission into the financial services industry have been ignored to instead promote the commercial interests of superannuation funds who are losing members to innovative competitors.

With over 2 million Australians retiring over the next decade, there is an urgent need to expand access to affordable and high-quality financial advice. The FSC has been a long-term proponent of advice reform, recommending the Government:

- Streamline the financial adviser education standards to boost the supply of advisers;
- Allow scaled advice by maintaining the current Best Interest Duty safe harbour steps but committing to removing s961B(2)(g) of the *Corporations Act 2001*. This involves professional advice paid for by the consumer with the scope of the advice agreed to by the consumer. Relevant amendments should also be made to the Financial Adviser Code of Ethics;

- Permit collective charging, including through a new category of adviser (NCA), that allows funds to provide *information* about a funds' products (without extending to professional advice product recommendations). What a member 'could' do rather than what they 'should' do;

- Introduce superannuation nudges to targeted cohorts of consumers;

- Reform and simplify statements of advice, to reduce the cost of producing advice documents;

- Ensure the name of the NCA makes it clear that it is a product representative and not a provider of financial advice; and

- Ensure no consumer is left at a guidance or advice dead end by requiring pathways for referrals to qualified financial advisers for consumers with more complex affairs.

Together, these reforms will enable superannuation funds that want to genuinely invest in a high-quality advice offering for their members to provide conflict free and lower cost financial advice to 'middle Australia' consumers at retirement, without resorting to a financial advice model that has a clear conflict of interest at its heart.

The CEO of the FSC Blake Briggs said: "The FSC is a long-term proponent for financial advice reform, however it has become clear the Government is ignoring the lessons of the Financial Services Royal Commission and is placing consumers at risk of harm from conflicted advice models. The FSC cannot support the Government's proposed intrafund advice bill in its current form.

"Superannuation funds have a commercial incentive to recommend their own retirement products to consumers, even where that product does not suit a member's needs, creating significant risk of consumer harm at scale.

"A decision to place a consumer in a poorly performing retirement product through a conflicted advice model cannot easily be unwound and can have a significant impact on the consumer's quality of life in retirement. By proposing to facilitate conflicted retirement advice the Government would create an unacceptable risk of broad-based consumer harm driven by conflicted, vertically integrated business models.

"The Royal Commission resulted in a remediation bill of $4.7 billion for 1.6 million Australians. Our industry has taken the lessons from the Royal Commission to heart, and we do not want to go back to those days. The positive legacy that came from the Royal Commission is a strengthened professional framework and enhanced consumer protections that have reshaped the advice industry.

"It is important consumers have confidence financial advisers are genuinely acting in their best interests when providing complex retirement advice. This includes undertaking a reasonable assessment of relevant retirement products available in the market and exercising independent professional judgement when recommending a solution that meets their clients' needs", Mr Briggs said.

The FSC acknowledges the Assistant Treasurer is attempting to solve the large advice gap that exists. We will work with the Government on the best way to do that without expanding the risk of consumer harm.

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### About the Financial Services Council

The Financial Services Council is a peak industry body which sets mandatory Standards for its Full Members and develops policy in one of Australia's largest industry sectors, financial services. Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, platforms and financial advice licensees. Supporters represent professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The Associate category provides access to industry tools. The financial services industry is responsible for investing more than $4.5 trillion on behalf of over 17.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is one of the largest pools of managed funds in the world.