Time is now for meaningful advice reform

One of the great errors we make in life is to overcompensate for the last mistake we made.

When last in government the ALP legislated the Future of Financial Advice (FoFA) reforms. These important reforms were in response to an industry that had failed to evolve into a profession and in which too many had forgotten to place the interests of their clients above their own.

Much has changed since. For better and worse.

FoFA has improved the professionalism of the advice industry, addressed conflicts of interest and raised the overall quality of advice.

At the time, as CEO of the Financial Services Council, we participated in the reform process and overwhelmingly supported the new regime, but with a crucial warning.

I argued at the time that while the reforms would do good, they would make financial advice more expensive, less accessible and exclude Australians who most need advice from getting it.

In broad terms there are three groups of Australians who face into retirement:

- High income earners who will be securely self-funded in their retirement and little burden on the government. This group can afford the price of financial advice.
- Lower income earners who will principally rely on the age pension and other government support during retirement. For this group financial advice, in general, does not impact their quality of life in retirement.
- Middle income earners for whom their superannuation, home ownership and investments are at a level that will be critical to the quality of their retirement. Some will self-fund and others will receive a part pension to top up their superannuation.

For this last group – which is millions of Australians - financial advice is critical. The right investments tailored to their personal circumstances, type and level of insurance cover, draw-down considerations, downsizing or otherwise accessing any home equity are just some of the many areas where advice is needed.

Ensuring this group can access financial advice is arguably just as important to these individuals as it is to the government. We provide significant tax subsidies – another way to say forgone government revenue – to encourage higher savings in super and greater self-reliance in retirement. So the taxpayer benefits from this group self-funding to the maximum extent possible.

10 years after the FoFA reforms, my greatest concerns have been realised.

The number of Australians who now receive financial advice has fallen by around half. And as expected, it is the ones who need it most.

At the same time the number of advisers has dropped to around 15,000 from over 26,000 just three years ago. While it was right for some of these advisers to leave the industry this exodus has not been matched by an influx of new advisers joining the profession.

And the cost of holistic financial advice has also increased steadily to around $4,000.

Over this same period, the need for advice has increased as superannuation balances have grown and our retirement system has become even more complicated.

The former Government commissioned a Quality of Advice Review to address the “significant impediment to consumers accessing financial advice”. The Assistant Treasurer Stephen Jones has acknowledged that the pendulum has swung too far. In his words, “the regulatory burden has gone crazy” when it comes to financial advice.

This government has a chance to get the balance right. To preserve the uplift in quality advice and consumer protections that has been achieved and create regulatory conditions to ensure millions of Australians can access the affordable financial advice they need.

Research by the Financial Services Council has found that if advice policy settings are left unchanged, only a third of retirees will get financial advice over the next decade.

As a Trustee Director at Colonial First State, I see an advice gap that is worrying and expanding.

What we see is too many superannuation fund members not accessing the financial advice they need.

The data is clear. There are fewer advisers serving fewer clients with higher average balances that can afford higher fees. The current model is simply leaving more and more Australians behind.

This was never the intention of the FoFA reforms, but has become the outcome.

The Quality of Advice Review now presents an opportunity that must be embraced.

It is a considered and objective assessment of the regulatory framework governing advice which at its core finds that “by focusing on the quality of the advice given, the law does not need to regulate or prescribe the inputs”.

A clearer focus on the outcome of any advice rather than the inputs would allow for numerous requirements to be reconsidered and just as importantly for advice to be scaled to meet different customer needs.

Focusing on the quality of the advice rather than the prescriptive process by which it is arrived would also allow greater flexibility in the way advice is provided, be it face to face, phone or online/digital.

The final report is now with the Minister and a response from the Government is expected soon.

My caution to policy makers is that tinkering at the edges will not achieve the desired outcomes.

Minor ‘housekeeping’ to streamline fee disclosure requirements or to iron-out peripheral obligations like the design and distribution obligations will address some administrative pain points but they will not make a meaningful difference to the cost of advice.

I am encouraged that a bipartisan approach in this area is possible, potentially increasing the likelihood of meaningful reform.

Both major parties have recognised that the pendulum has swung too far and made similar commitments around the need for reform in this area leading into last year’s election.

Both major parties want to see more Australians get advice.

We encourage the Government to look to the future needs and not the past failures in the interests of millions of Australians.

John Brogden is a Trustee Director of CFS and was CEO of the Financial Services Council from 2009 to 2015.