



TREASURY/AIOFP QAR MEETING

**AIOFP and QAR Treasury team meeting, Canberra.
April 4, 2023**



INDEX

1. Executive Summary.....	Page 3
2. Opening Remarks.....	Page 4
3. Other market observations.....	Page 5
4. Recommendations.....	Page 6
5. Summary.....	Page 7
6. <i>Attachments – Super Consumers Australia/ Failed Funds</i>	



Executive Summary.

On Tuesday April 4TH AIOFP DIRECTOR Garry Crole, AIOFP TECHNICAL ADVISER Lionel Rodrigues and AIOFP EXECUTIVE DIRECTOR Peter Johnston met with the 5 person QAR Treasury team in Canberra to discuss the future direction of the Financial Advice industry.

We are very pleased to say that the QAR Team are genuinely pragmatic and open minded with their approach to this critical point in our industry's history. This is in stark contrast to the previous Government's approach where they had already decided on their direction/agenda before meeting with stakeholders.

A critical issue that needs addressing is the confusion and bewilderment in Canberra with the number of different Associations supposedly representing the Advice Community. Politicians and Bureaucrats are justifiably dubious of this malaise but we argue that Canberra must initiate some due diligence and take responsibility for who they are actually dealing with.

The financial services industry is broadly divided into product manufacturing and advice, two diametrically opposed functions, with the obvious conflicts involved an Association must either represent Advisers or the Institutions, you cannot do both.

Over the years too many Associations have entered the Advice space masquerading as representatives of Adviser interests whilst being subservient to the Banks and pushing the Banking agenda. Other Associations who are not involved in either Advice or manufacturing products are trying to have a say. We respectfully suggest these Associations should stay with their core activities in their own industry.

We also suggest that political events over the past 8 years have conclusively demonstrated that there are only 3 Associations who act in the best interests of Advisers - the Self Managed Superannuation Fund Association [SMSFA], Stock Brokers Investment Advisers Association [SBIAA] and the AIOFP.



This meeting experience has positively reinforced the judicious direction Minister Jones has taken with a truly industry wide consultative process, critically including industry practitioners in the process. We congratulate the Minister and his Advisers on this approach.

The following is a summary of the discussion points and recommendations the AIOFP presented to the Treasury QAR team for consideration. Please note this document contains only what the AIOFP presented, we were pleased however that the Treasury Team asked many relevant questions and took copious notes.

Opening remarks.

The AIOFP has been opposed to the QAR from the outset for the following reasons –

- The Quality of Advice Review [QAR] concept was incorrectly worded, the quality of financial advice in Australia leads the world, QAR should have been titled the Reducing the Cost of Advice [RCA] review.
- After a bruising 9 years of the Liberal Party's draconian treatment of the Advice industry, we think most know exactly what needs to be done to reduce the cost of advice for consumers. We did not need to waste 9 months waiting for a Review from a person outside of our industry who had no Advice experience either as a practitioner, business owner or AFSL holder. Knowing the Law is no substitute to knowing how an advice business operates. QAR is a politically motivated process, designed to mask serious ongoing policy failure by the previous Government and could have been conclusively and successfully dealt with by a small panel of ASIC/AFCA/TREASURY/INDUSTRY people literally in an afternoon.
- As above, we consider QAR was a political strategy to defer the Liberals Party's poor treatment of the Advice industry until after the 2022 election. The Shadow Spokesperson now acknowledges their performance was exceedingly poor and politically motivated.
- What Canberra needs to understand is the Advice community does not want 'bad egg' Advisers operating and products failing, we only want the



best outcome for clients – otherwise we don't have clients, we do not have a business and we do not have an industry.

Other market observations.

- The compliance measures imposed since the February 4th 2019 BANKING ROYAL COMMISSION FINAL REPORT were targeted at the poor behaviour of the major Banks/Institutions /Insurance Companies [Banks] **NOT** the independent advice/risk sector. Now that the Banks have largely left the Advice industry, the current compliance regime is no longer fit for purpose, it must be rationalised. This absurd compliance regime is precisely what has driven up the cost of Advice for Consumers. The regulatory infrastructure that was designed to contain any future harm to consumers **by the Banks** has been retained to the detriment of consumers and the now dominant professional independent/independently owned Advisers.
- QAR acknowledges that the nations underinsurance position is out of control BUT then in contradiction to the findings of the Reviewer, declares that the current LIF conditions should be maintained, this does not make commercial or practical sense in our view. LIF has been outrageously inefficient for consumers and the industry in general since inception, commissions need to be lifted to at least 80/15% and Consumers should be given a clear choice of a commission or fee for service formula to select from. Currently Advisers generally do not write any Risk cover due to the compliance costs involved, this must change to protect families and future Centrelink welfare liabilities. Emphatically LIF **has NOT** been beneficial to consumers and the QAR recommendation only serves to maintain that detriment.
- We note that QAR favours diluting consumer protection with a 'Good Advice' concept replacing a Best Interests duty and removing the safe harbor provisions. We vehemently disagree with this position, all industry stakeholders should be protecting Consumers from poor advice and Institutional product failure by not exposing them to vulnerable



situations. We consider this is an effort to let the Banks back into advice with minimal legal obligations at the peril of consumers, an appalling and unconscionable situation for any stakeholder to contemplate in our view.

- We also note QAR favours the Banks re - entering the Advice industry based on insufficient Adviser numbers to service Consumer needs, we disagree with this assessment. The attached SUPER CONSUMERS AUSTRALIA survey demonstrates that only 25% of consumers want advice, considering there are around 18 million adult consumers, 25% of those represents 4.5 million consumers divided by 15,000 Advisers and we get 300 clients per Adviser – this ratio is commonplace in the industry. We think this is an alarmist strategy to justify the Banks re entering Advice.
- We contend that recent history clearly demonstrates that Banks are not very good at Advice or Wealth Management, we respectfully suggest they should just stay with standard banking practices. The Banking Royal Commission outcome and attached Failed Funds are quite damning on their performance to the point where ‘no advice from the Banks’ is often better than ‘taking their advice’ – an utterly stupendous outcome.
- Vertical Integration is an admission by the Banks that their financial products are not market competitive and they need to have their own internal/aligned salesforce to sell their often-second-rate products to consumers. This profoundly conflicted environment should not be allowed to exist, the Banking Royal Commission exposed the harm done to consumers by such sales tactics. Excessive management fees and poor performance are common with Bank products, the ‘compare the pair’ advertising campaign unfortunately says it all.

Recommendations.

Based on the above commentary the AIOFP suggests the following Industry changes need to occur to ensure all stakeholders are acting in the best interests of consumers, that consumers are ultimately protected, and the cost of advice is dramatically reduced -



- Immediately eliminate the Annual Fee Consent Forms, Fee Disclosure Statement [FDS] and Annual Opt – in requirements, they are all now surplus to needs, expensive and obstructive to efficient business conduct with consumers.
- Maintain the SOA concept but it is greatly simplified to cater for all levels of advice requirements for consumers. The QAR recommendation to merely keep a ‘written record’ is grossly insufficient and no doubt suits the Institutions. Consumers are entitled to at least a brief written report for their records and to be informed of key issues. A written report also protects Advisers and assists AFCA and ASIC with their procedures.
- Maintain the best interest’s duty and safe harbour guidelines to protect consumers.
- Super Funds and Institutional staff have an exemption from FASEA requirements to only give internal factual product information to consumers, anything more than this must then be considered ‘personal advice’.
- Risk commissions are immediately increased to at least 80/15% and consumers are given choice of a fee for service or commission formula to select from. Let consumers decide on what they want, not Canberra.

Summary.

The Hayne Royal Commission exposed the exceedingly poor financial advice and compliance culture of the major Banks, the additional compliance measures were justified at the time to protect consumers from their profoundly conflicted, costly and inefficient culture.

We argue however this is no longer the case.

With the Banks departure from Advice these now superfluous compliance measures are no longer required, they are solely responsible for the massive cost of advice escalation for consumers.



Apart from one Adviser misrepresenting their qualifications and another for a relatively insignificant compliance breach, the independent advice community were rarely spoken about in Royal Commission proceedings but are subjected to this Bank inspired draconian and expensive compliance regime over the last 4 years. As many market commentators have suggested in recent times, rationalisation will dramatically and immediately reduce the cost of advice by at least 40%.

It should be noted that Adviser clients are getting suspicious/frustrated by the duplicated paperwork they are continually subjected to and ultimately paying for. This consumer realisation and its political consequences were underestimated by the last Government leading into the election.

We acknowledge that both Banks and Super Funds need a solution to their dilemma of large consumer bases to service but giving them a consumer protection weakened, highly conflicted Vertical integration outcome is not the answer. Vertical Integration is a profoundly conflicted anti – consumer environment that has been the scourge of the industry for the past 30 years and should be consigned to history.

Banks and Super Funds should be permitted to have internal staff giving clients factual product information to consumers, nothing more. If they think their products are market competitive and in the best interests of consumers, they should go to the open market to seek support.

In closing we feel it is pertinent to point out the following statistics – **AFCA's** latest consumer complaints reveals only 1.5% against Advisers and 98.5% against Banks and other entities. **ASIC's 627 'FINANCIAL ADVICE - What Consumers really think'** Paper involved an independent agency surveying 2,545 consumers indicates 89% are happy with the advice outcome.....very compelling facts but QAR wants to assist Banks back into advice.....why?!

We again congratulate Minister Jones for his sagacious approach to finding the best outcome for consumers and the financial advice industry in general.

We thank the Treasury QAR Team for their time and balanced approach to this complex issue.

