ASIC

Australian Securities & Investments Commission

REPORT 224

Access to financial advice in Australia

December 2010

About this report

In 2009–10, ASIC conducted research into the demand and supply of financial advice in Australia. The aim of our work was to identify ways of improving access to financial advice.

This report summarises our findings and identifies current gaps in the advice market.

We hope that the report stimulates debate and discussion on access to advice issues. We look forward to continuing to work with all interested stakeholders on this important area of work.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Examples in this report

Industry examples in this report are real-life examples with details changed to protect privacy. Consumer examples are hypothetical case studies.

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Executive summary

Consumers and financial advice

1 Today's consumers are being asked to make more financial decisions than ever before and the environment in which they are making those decisions is becoming increasingly complex.

2 Many consumers are ill-equipped to make sound financial decisions and would benefit from better access to financial advice. Yet fewer than 40% of the Australian adult population have ever used a financial planner.[1]

3 The need for improved access to financial advice has been recognised by the Australian Government, ASIC, industry and consumer groups alike. Through its 'Future of Financial Advice' reforms (Government reforms), the Government is currently actively exploring ways to improve access to financial advice.

4 Before the announcement of the Government reforms in April 2010, ASIC had begun looking at the demand and supply of financial advice in Australia to identify ways of improving access to advice.

5 This report summarises our findings, identifies current gaps in the advice market and highlights some of the actions ASIC and industry already have underway to improve access to advice. Where possible, we have used anonymous examples to show how some licensees are currently tackling access to advice issues.

6 Improving access to advice is about helping consumers get the advice they need when they need it. It might consist of personal advice, general advice or access to factual information. It is also about helping industry innovate so that they can provide high quality advice services as efficiently as possible to consumers.

7 Ensuring Australians have access to quality financial advice and information is a key component of ASIC's forward program that aims to reduce risks for consumers and to promote confident and informed participation by Australians in the financial system.

8 We have looked at access to advice from both the demand (consumer) and supply (advice provider) perspective. On the demand side, we have looked at how many consumers currently access advice, what types of advice consumers are interested in accessing, how consumers like to access financial advice, how much consumers are willing to pay for advice and what, if anything, is currently preventing consumers from accessing advice.

9 On the supply side, we have looked at what types of advice providers are currently offering consumers, how providers are delivering that advice, what

[1] Roy Morgan Research, *2009 Single Source database*, Roy Morgan Research, Melbourne, 2009 (unpublished).

providers are charging for advice and what, if anything, is preventing the provision of advice.

Issues affecting access to advice

10 Through our work we have identified a number of issues that adversely impact access to advice:

(a) *Cost of advice:* A significant gap exists between what consumers are prepared to pay for financial advice and how much it costs industry to provide advice.

(b) *Scale of advice provided:* Many Australians, particularly those who have never previously accessed financial advice, want piece-by-piece simple advice rather than holistic advice. Many advice providers still provide holistic advice as the default option.

(c) *Consumer perceptions that advice is out of their reach:* Evidence suggests some people do not seek financial advice because they feel their financial circumstances do not warrant advice.

(d) *Consumer mistrust of financial planners:* Lack of trust in financial planners to provide unbiased, professional advice limits the number of consumers who seek advice and the value they place on financial advice.

(e) *Access to general advice and information:* The provision of general advice or factual information is less extensive than it could and should be. For many consumers general advice and factual information may be sufficient to meet their current advice needs.

(f) *Financial literacy*: Gaps in financial literacy, especially among certain demographics and in relation to certain financial topics, limits some consumers' engagement with financial matters and so stops them from seeking advice.

11 Obviously, these issues represent significant challenges to industry, ASIC, Government and consumer groups. If we are to improve access to advice, we will all need to work together on solutions.

Improving access to advice

12 In this report we discuss some of the work we are already doing to improve access to advice. This work was commenced prior to the announcement of the Government's Future of Financial Advice reforms. We also discuss some of the work industry is already undertaking to improve access to advice: see Table 1. This work is discussed in more detail in Sections E–K of this report.

13 The Government's proposed reforms will be the subject of much discussion in coming months. We think that discussions on simple advice, intra-fund advice and access to advice generally will be extremely beneficial in identifying additional ways of improving access to advice.

Table 1: Work already underway to improve access to advice

Advice gap	ASIC actions	Industry actions
Cost of advice (see Section E)	Develop new consumer website promoting the value of good financial advice, with information on the different types of advice services available and the typical costs The website will include real-life case studies demonstrating the value of advice available to consumers	Examine current cost structures for provision of advice Explore offering online advice alternatives Consider the potential cost benefits of specialisation in certain advice areas Offer more flexible payment options
Scale of advice (see Section F)	New consumer website providing information and resources to consumers to help them think about their advice needs Work with advice providers on new advice initiatives as requested	Provide more piece-by-piece/single topic advice Explore offering online or telephone advice alternatives Offer more services which focus on the review of existing investments and strategies rather than on fresh advice Talk through any new scaled advice initiatives with ASIC to obtain regulatory comfort
Consumer perceptions that advice is out of their reach (see Section G)	Develop new consumer website containing information on the value of financial advice to people in a variety of different financial situations The website will also contain money guidance (e.g. content and tools to help people make sound and informed decisions about their finances, regardless of their financial situation)	Provide 'advice menus' to help consumers understand the different advice services available
Consumer mistrust of financial planners (see Section H)	Ban 'bad apples' from the advice industry	Focus on strategic advice rather than product centred advice Be more active in helping to weed out the bad players in the industry by sharing market intelligence with ASIC and by conducting proper reference checks at the time of employment
Streamlining the planning process (see Section I)		Consider ways to streamline the advice process through the better use of technology Explore offering online or telephone advice alternatives
Access to general advice and information (see Section J)	Develop new consumer website incorporating a money guidance service, helping consumers not only become more informed but also take action and make sound financial decisions	
Financial literacy (see Section K)	Work collaboratively with industry to promote financial literacy strategy and on financial literacy projects, including developing and distributing resources	

A Background to the report

Key points

Most people could benefit from access to quality personal or general financial advice and access to factual information especially at the time of key life events or transitions.

Industry studies have shown that consumers who access financial advice benefit financially as a result of the advice, even after the cost of the advice is taken into account.

The objectives of ASIC's work on improving access to advice are to:

- help consumers get the advice or information they need when they need it; and
- help industry innovate so they can provide better services to consumers.

Access to advice: ASIC's forward program

14 In 2007, ASIC undertook an extensive strategic review to ensure it is more effective in performing its oversight role. Since this review, we have developed a forward program that aims to reduce risks for consumers and retail investors.

15 Our forward program identifies a number of issues potentially impacting consumers and retail investors. One of these issues is limited access to financial advice and information.

16 We have publicly stated we are looking at ways to improve access to financial advice. In our submission to the Parliamentary Joint Committee Hearing into Financial Products and Services in Australia, we stated that we would:

> ... conduct a review of the demand for advice by consumers and the nature of the current supply more generally to identify current gaps in the market. ... [We will] then develop initiatives seeking to address these gaps and improve access to advice.[2]

Why improved access to advice is important

17 'Financial advice' means different things to different people. Consumers view financial advice as anything from information available on a website that guides their decision making, or help from a family member in setting a household budget, through to engaging a financial planner to provide

[2] ASIC, *PJC Inquiry into Financial Products and Services in Australia: Submission by the Australian Securities and Investments Commission*, August 2009.

comprehensive personal advice. As such, the list of possible sources of information and providers of advice catering to different consumers' needs is extensive.

18 Improving access to advice is important for consumers and retail investors because of:

(a) the complexity of financial products and disclosure documents which people are presented with;

(b) the increased onus on consumers and investors to make active financial decisions (about superannuation and other investments) to ensure their financial security;

(c) low levels of financial literacy; and

(d) low utilisation of personal financial advice among adult Australians.

19 Accessing personal and general financial advice, as well as factual information can be beneficial to consumers and investors. It can lead to:

(a) individual financial gains;

(b) individual psychological benefits; and

(c) economy-wide fiscal and competitive improvements.

Financial gains

20 Most people could benefit from access to quality personal or general advice and factual information, especially at the time of key life events or transitions (e.g. starting a family, preparing for retirement or managing an unexpected redundancy). Industry studies[3] have shown that consumers who access financial advice benefit financially as a result of the advice, even after the cost of the advice is taken into account. The financial benefits of advice can include increased savings, less interest expense through faster debt reduction or higher investment returns.

21 While many consumers have the perception that financial advice is only valuable if they have significant assets to advise upon, advice can be beneficial for people in a wide variety of financial circumstances. For example, having appropriate insurance is arguably more important for consumers who have high levels of debt than for those who have more assets to tide them over should something go wrong. Similarly, simple general advice about budgeting and debt management (e.g. about getting on top of credit card and personal debt) can result in significant improvements in financial and psychological wellbeing for consumers who are struggling financially.

[3] See, for example, KPMG Econtech *Value Proposition of Financial Advisory Networks*, report prepared for the Investment and Financial Services Association (now known as the Financial Services Council), 29 October 2009.

22 Unlike some other forms of professional advice, financial advice is usually provided with a medium to long-term view. As a result of this, the benefits derived from financial advice can continue for many years. For this reason, the long-term financial impact of seemingly small financial decisions can be significant.

Example 1: Financial benefits of advice

Sarah is 25 years of age and recently graduated from University. She has just commenced employment with her first employer and as part of that was presented with choice in terms of superannuation fund and investment options. Sarah has, in her view, a basic understanding of superannuation. She allows her superannuation guarantee payments to be directed to the default fund 'Balanced' option. Assuming that Sarah receives 9% superannuation guarantee (SG) contributions on her income of $48,000 per annum and remains invested in the 'Balanced' option which earns 8% per annum, she would have a retirement benefit of $239,000 at age 65.

Alternatively, Sarah could have accessed advice from ASIC's consumer website www.fido.gov.au. The website has an online superannuation calculator which shows the projected balance if Sarah selected a 'Growth' investment profile. Again assuming 9% (SG) on her income of $48,000 and an earning rate of 8.5% on the 'Growth' profile, the calculator projects Sarah would have $265,000 at the age of 65 (assuming total fees of 1.8% p.a. for both scenarios).

The higher amount appealed to Sarah, but she was not sure she met the characteristics of a 'Growth' investor, so she decided to find out. She spoke with a client service representative of the superannuation fund, explained that she had done her own research and wanted to determine if a 'Growth' profile was suited to her. Sarah was comfortable that the general advice she accessed via the website calculator and the super fund representative met her needs and as a result she nominated the 'Growth' option.

The long-term financial benefit of seeking advice in this example is $26,000.

Psychological benefits

23 Accessing financial advice can also provide psychological benefits to consumers and investors, in addition to financial payoffs. Many consumers lack confidence when it comes to financial matters and feel uncomfortable making financial decisions. Accessing quality financial advice or knowing where to get reliable information can provide peace of mind for consumers.

24 Financial decision making is often required at times of extreme personal stress (e.g. death of a family member, redundancy from employment, marital breakdowns, retirement or starting a new job). Accessing financial advice at these times can be a source of support and comfort. It can help consumers make a sound decision or put in place a strategy.

Example 2: Peace of mind

Diane is 42 years of age and recently divorced from her husband Mark. Diane has not been employed outside of the home since her first child was born 12 years ago. Diane previously had only a small balance in her superannuation fund, but as a result of the settlement received $200,000 in superannuation which was split from her husband's fund. Diane has been advised by her solicitor that she needs to provide instructions in terms of where those funds are to be directed. Diane has no knowledge of superannuation or financial matters as her husband always dealt with their finances. Diane is particularly stressed about this decision as she feels that this money is vital to her future financial well being.

Diane decides to meet with two financial planners, one her solicitor referred her to and one recommended by her uncle. The first financial planner dominates the conversation and focuses the discussion on the XYZ Superannuation Fund and how this fund would suit her. Diane leaves the meeting with a Product Disclosure Statement (PDS) and research to read.

The second financial planner spends time talking with Diane about her objectives and future plans for lifestyle and employment. The planner discusses superannuation and other financial issues in general terms, but does not mention any particular product. The planner provides details of the process going forward, the services she offers and the fees for that service.

Diane feels much more comfortable and informed after meeting with the second financial planner and engages her to prepare a financial plan. The financial plan is comprehensive, providing advice on her overall position as well as advice in relation to the superannuation funds. As a result Diane now has a cost effective superannuation strategy in place that fits her investment and risk preferences. Diane is incredibly relieved that this is sorted out and that she can focus on rebuilding other areas of her life.

Economy-wide fiscal and competitive advantages

25 The sense of confidence, control and engagement with financial matters that can come with accessing advice is of significant value. It can motivate consumers to stick to a budget, save for a purpose or look forward to a more comfortable retirement.

26 The potential positive benefits of good financial advice extend beyond the individual, to the broader community. The benefits to the wider community can include a decreased reliance on social security by virtue of increased savings and higher levels of insurance protection, and a more financially literate society capable of sound financial judgement and decision making. More confident and informed investors can lead to greater competition and efficiency in financial markets, and improved financial products and services.

Our approach to improving access to advice

27 Improving access to advice is not about providing inferior quality advice to consumers or assisting financial services licensees to simply sell more products to consumers.

28 The two inter-related objectives of our work are to:

(a) help consumers get the advice or information they need when they need it; and

(b) help industry innovate so they can provide better services to consumers.

29 For this reason, we have looked at access to advice from both the demand (consumer) and supply (financial services licensee) perspective.

30 In this report, we identify current gaps in the market between the types of advice consumers need and want and the types of advice that industry is providing. We originally intended to include a number of initiatives aimed at improving access to advice, but do not want to pre-empt the Government reforms. Instead, we have focused on the work we currently have underway to improve access to advice. We have also included some anonymous examples of actions some licensees are already taking to improve access to advice.

31 It is important to recognise at the outset that consumers have a range of different advice needs. Some consumers might want a comprehensive financial plan while others might simply want advice on a specific issue or just some basic information so they can ‘do it themselves’.

32 Typically, consumers do not differentiate between personal financial advice, general financial advice and information. The demand section of this report (Section B) therefore covers advice in general terms, although there is still a heavy focus on personal financial advice. Interestingly, the barriers consumers identified in accessing advice nearly all related to accessing personal financial advice.

33 The supply section of this report (Section C) is more focused on personal financial advice because this tends to be the biggest area of interest to advice providers.

34 While our report touches on access to general advice and information, we focus predominantly on access to personal advice, as this is the area where we think there is the greatest need to improve access. Over time, it may be appropriate to do a more tailored piece of work on access to general advice and information. That noted, when we analysed some of the current gaps in the provision of financial advice we found that increasing access to general advice and information could go some way to addressing some of the gaps.

Future of Financial Advice reforms

35 The Australian Government announced earlier this year a number of important reforms that impact the provision of advice. Some of these reforms are aimed at improving access to personal financial advice. In the information pack announcing these reforms, Chris Bowen, the then Minister for Human Services, Minister for Financial Services, Superannuation and Corporate Law stated:

> The Government considers that access to simple advice is an important issue, where this suits the client's needs. The provision of simple advice also assists with the affordability of advice issue. ... The Government's proposal builds on the existing success of the intra-fund advice project on superannuation advice and seeks to address broad issues raised by industry around regulatory barriers to providing low-cost, compliant, simple advice.[4]

36 As part of its reform proposals, the Government is considering extending intra-fund advice to new topics as well as looking at how to improve access to advice.

[4] Office of the Hon Chris Bowen MP, *Future of Financial Advice Information Pack*, 26 April 2010, pp. 11–12.

B The demand for advice

Key points

Recent survey results suggest that 60% to 80% of adult Australians have never used a financial adviser.

Many consumers feel financial advice is beyond their reach or not appropriate for their financial circumstances (e.g. they did not have enough money to make it worthwhile or seeking advice would cost too much money).

One of the biggest areas of perceived need is superannuation advice with retirement the most commonly identified trigger for seeking financial advice.

While face-to-face meetings are still the preferred method for receiving advice, there is growing interest in email, phone and internet-based advice. Many Australians are also expressing a preference for piece-by-piece simple advice, rather than holistic advice.

There is a significant disconnect between the amount consumers are willing to pay for financial advice and the typical costs to licensees of providing financial advice.

Our research

37 On the advice demand side, we examined:

(a) how many consumers are currently accessing advice;

(b) what types of advice consumers are interested in accessing;

(c) how consumers would like to access financial advice (e.g. face-to-face meetings, online, by phone);

(d) how much consumers are willing to pay for advice; and

(e) what, if anything, is currently preventing consumers from accessing advice.

38 To assess the demand for advice from a consumer perspective, we:

(a) reviewed the material on the consumer demand for advice;

(b) had input into a survey conducted by Investment Trends on the current and future advice needs of Australians; and

(c) commissioned a qualitative research project with pre-retirees and retirees to investigate among other things, their advice needs (referred to in this document as ‘ASIC’s retirement research’).

This section summarises the findings from our research.

Who currently accesses advice?

39 Our research in this area focused on use of financial advisers for personal financial advice by consumers, as this was the type of advice where the greatest amount of research was available. It is difficult to pinpoint the percentage of Australians who use a financial adviser because:

(a) some survey respondents have a loose understanding of what a financial adviser is (e.g. some view knowledgeable friends/colleagues as financial advisers); and

(b) the result varies depending on the method of research at hand, including the way the question was asked, when the survey was conducted and who was included in the survey (i.e. the proportion of Australians who have ever used a financial adviser is higher than those who currently use or have recently used a financial adviser).

40 Recent survey results suggest that 20% to 40% of the Australian adult population use or have used a financial adviser.[5] This means that 60% to 80% of adult Australians have never used a financial adviser.

41 While the research results vary, socio-economic factors and age appear to be the most consistent drivers of financial adviser use:

(a) those with higher socio-economic status and those aged 50 years or older are more likely to use or have used a financial adviser; and

(b) those with lower socio-economic status and those aged under 25 are less likely to use or to have used a financial adviser.[6]

42 Even using the most generous research findings, we know that about 60% of the Australian adult population do not access professional advice from a financial adviser. Many of these Australians could benefit from accessing professional financial advice. In particular, we are concerned that younger people and those with less wealth or income are less likely to access financial advice, when in fact a sound long term financial strategy could deliver them proportionately the greatest benefit.

43 There are many reasons why most Australians do not access financial advice. One reason is that many consumers feel financial advice is beyond their reach or not appropriate for their financial circumstances. In an omnibus survey commissioned by the Financial Planning Association (FPA) in 2007, one of the main reasons cited by consumers who said they did not use a financial planner was that they did not have enough money to make it worthwhile (39%). Other reasons included the perception that they did not need financial advice (56%), that seeking advice would cost too much

[5] Different surveys report varying findings on adviser usage. See the Appendix of this report for a summary of research findings.

[6] See the Appendix to this report for a summary of research findings.

money (21%), or they did not know where to find a good adviser (18%).[7] The remainder of this section discusses other barriers to consumers seeking financial advice.

What are consumers' levels of financial literacy and engagement with financial matters?

44 Some engagement with financial matters and a basic level of financial literacy is necessary for most consumers to even begin considering seeking financial advice. Considerable research has been done in Australia on the issue of how financially literate we are, from large-scale national surveys to smaller studies about specific products and services.

45 ANZ's national survey of adult financial literacy[8]—generally recognised as the most comprehensive survey in Australia, with reports published in 2003, 2005 and 2008, and a commitment to continue conducting the survey going forward—enables us to measure movements in literacy levels over the long term. Other seminal pieces of work include a survey by the Financial Literacy Foundation (FLF) of 7500 Australians aged 12–75,[9] and studies conducted for the Commonwealth Bank which in some cases focused on youth, in others the broader population.[10] These reports tell us that, while most Australians have reasonable levels of financial literacy, clearly some groups have greater difficulties than others with financial concepts, and some financial products cause considerably more problems than others.

46 Similar to earlier surveys, the 2008 ANZ survey[11] found that overall the lowest average levels of financial literacy are associated with:

(a) those aged 18–24 years and people 70 years and over;

(b) females, particularly aged 70 years and over;

(c) people with lower levels of education (Year 10 or less);

(d) people not working (for a range of reasons) or in unskilled work;

(e) people with lower incomes (household incomes under $25,000 p.a.);

(f) people who speak a language other than English at home; and

(g) people of Aboriginal or Torres Strait Islander descent.[12]

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[7] FPA, *Consumer Attitudes to Financial Planning*, (Galaxy Research) Financial Planning Association, Sydney, 2007.
[8] For information about ANZ's research on financial literacy see http://www.anz.com/about-us/corporate-responsibility/community/financial-literacy-inclusion/research/.
[9] Financial Literacy Foundation, *Financial literacy: Australians understanding money*, Commonwealth of Australia, Canberra, 2007.
[10] See, for example, Commonwealth Bank Foundation, *Australian financial literacy assessment*, CommFoundation, Sydney, 2006 and Commonwealth Bank Foundation, *Improving financial literacy in Australia: Benefits for the individual and the nation*, CommFoundation, Sydney, 2004.
[11] ANZ Banking Group Limited, *ANZ survey of adult financial literacy in Australia*, (The Social Research Centre) ANZ Banking Group, Melbourne, 2008, pp. 4–5.

47 There is an overlap between several of these population groups, and the population groups who were least likely to seek financial advice.

48 Overall, people seem to be more knowledgeable and confident about simple and familiar finance topics such as budgeting, credit, savings and debt; and less knowledgeable and confident about more complex and unfamiliar topics such as investing, superannuation and saving for retirement.

49 Factors that influence people's knowledge and understanding of financial matters include their attitudes and beliefs about money, confidence levels, interest and engagement levels and socio-demographic backgrounds.[13]

50 It is also clear that people don't always know what they don't know. Studies show a significant mismatch between what people say they know and what they do know.[14]

51 These results, when considered together with Australian Bureau of Statistics' research into Australians' general document literacy and numeracy,[15] in particular their ability to meet the complex demands of a knowledge-based economy, suggest that about one in two Australians do not have the skills required to make informed choices in their interactions with the financial services sector.[16] There is also an identifiable age link, with document proficiency tending to decrease with age.

What type of advice do Australians want?

52 Those Australians who access financial advice use a wide range of financial advice services depending on their individual needs.

53 Not surprisingly, one of the biggest areas of perceived need is superannuation advice with retirement being the most commonly identified trigger for seeking financial advice. Fortunately for consumers, these are topics which most financial planners advise on, as discussed in Section C.

[12] Aboriginal and Torres Strait Islander results should be treated with some caution due to small sample size.
[13] See Financial Literacy Foundation, *Financial literacy: Australians understanding money*, Commonwealth of Australia, Canberra, 2007 and ANZ Banking Group Limited, *ANZ survey of adult financial literacy in Australia*, (The Social Research Centre) ANZ Banking Group, Melbourne, 2008.
[14] For example the 2008 ANZ study of financial literacy found that '67% of respondents said that they understood the principle of compound interest, but only 28% were rated with a 'good level' of comprehension when they solved the problem', ANZ Banking Group Limited, *ANZ survey of adult financial literacy in Australia*, (The Social Research Centre) ANZ Banking Group, Melbourne, 2008, p. 19.
[15] As part of an international study, the ABS measured skills in document literacy, prose literacy, numeracy and problem solving and found that approximately 7 million (46%) of Australians (and 7.9 million (53%) of Australians aged 15 to 74) had proficiency less than 'the minimum required for individuals to meet the complex demands of everyday life and work emerging in the knowledge-based economy' for document literacy and numeracy respectively', Australian Bureau of Statistics, *Adult literacy and life skills survey results*, cat. no. 4228.0, ABS, Canberra, 2006, p. 5.
[16] These findings have implications for our regulatory regime, which relies upon disclosure as a critical element of our consumer protection system.

54 The recent Investment Trends Advice and Limited Advice survey asked participants where they currently need the most advice. Participants most frequently cited:

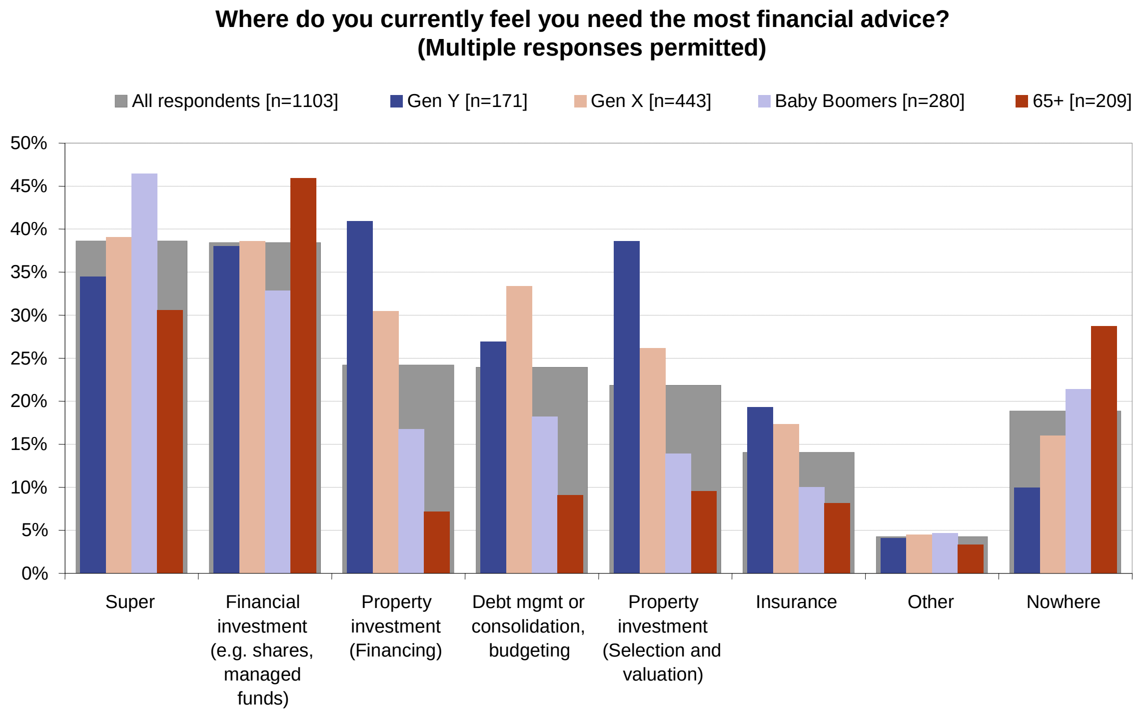
(a) superannuation;

(b) financial investment (shares and managed funds); and

(c) property investment.[17]

55 Younger demographic groups were relatively more likely to state they needed advice about property investment, whereas older demographic groups were more likely to need advice about superannuation and financial investments. Younger consumers' interest in advice about property investment is less well served by the financial planning sector currently, and this may contribute to the relatively lower proportion of young people seeking advice.

Figure 1: Consumer advice needs



Source: Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

56 When asked who they would go to for the above advice, individuals indicated that that they were most likely to approach financial planners for advice related to:

(a) reviewing an existing financial plan;

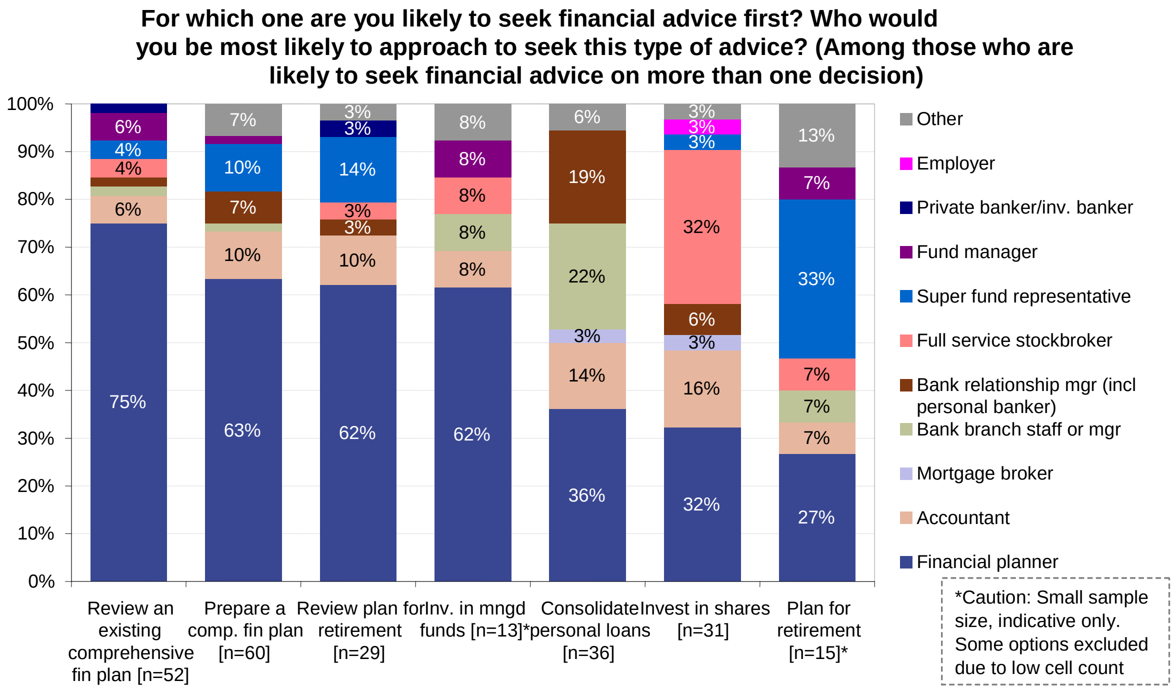
(b) preparing a comprehensive financial plan; and

(c) reviewing a plan for retirement.[18]

[17] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

57 Individuals were most likely to go to their super fund representative for advice on planning for retirement.

Figure 2: Where consumers go for advice



Source: Investment Trends, *Advice and Limited Advice Report,* Sydney, December 2009.

58 In relation to superannuation, individuals were most likely to seek super advice in the next two years in relation to:

(a) changing investment options;

(b) making additional contributions;

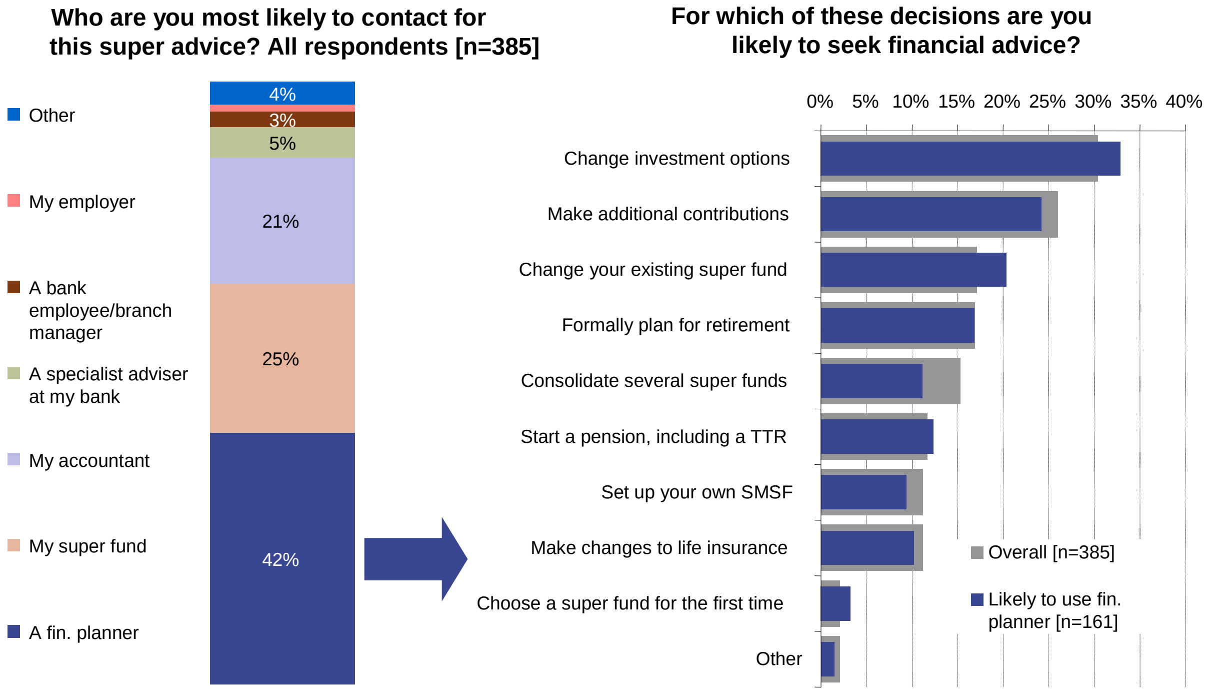
(c) changing an existing super fund; and

(d) formally planning for retirement.[19]

59 Again, individuals were most likely to say they would seek this advice from financial planners followed by super funds and accountants.

[18] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[19] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

Figure 3: Where consumers go for advice



Source: Investment Trends, *Advice and Limited Advice Report,* Sydney, December 2009.

60 Participants in ASIC's retirement research said they specifically wanted advice about the types of retirement products available to them, how they should invest their retirement savings and the level of income they could realistically achieve in retirement.

61 Despite high levels of interest in financial advice as demonstrated by the findings above, only a limited proportion of the population actually take the step of consulting a financial adviser. From our review, consumers are most interested in getting advice on issues which are generally well covered by existing advice providers. This suggests that the low level of consumer utilisation of financial advice is not due to a mismatch between the areas of advice consumers want, and the areas of advice financial planners currently address.

How do Australians want to access advice?

62 Australians like to access advice in a variety of ways. There is growing interest in email, phone and internet based advice. A third of Australians are now expressing a preference for piece-by-piece simple advice rather than holistic or comprehensive advice. The preference for piece-by-piece simple

advice is more pronounced for those consumers who have never used a financial planner than for those consumers who have previously used a financial planner.[20] The relatively low levels of provision of scaled or piece-by-piece advice currently could be one reason why the overall proportion of the population who access financial advice remains fairly low.

63 Sixty-two percent of consumers have a preference for written advice that is not more than three pages in length.[21] Long advice documents do not speak to consumers and are considered alienating.

64 Among some demographic groups, pre-retirees and retirees in particular, there is a reasonable level of interest in attending information sessions run on general topics including retirement, investments and current financial issues.

65 On the whole, consumers like interactive tools like online calculators, but the tools need to be easily understandable.[22]

66 Our research findings suggest that there is a gap between the advice services some consumers are interested in accessing, and the advice services which most providers currently promote, as discussed in Section C.

Preference for face-to-face advice

67 Face-to-face meetings were identified as the preferred method for receiving advice for both the respondents to the Investment Trends Advice and Limited Advice survey[23] and for the participants in ASIC's retirement research.

68 Participants in ASIC's retirement research emphasised the importance of a face-to-face meeting with a financial planner for at least the first meeting where there was a perceived need to establish trust in the planner and to 'put a face to the voice'.[24]

69 Once the client/adviser relationship had been established, most consumers were happy to communicate by phone or email with their adviser.

70 The Investment Trends Advice and Limited Advice survey asked respondents how they would prefer to receive super advice. A total of 73% of respondents said that they would prefer to receive super advice through a

[20] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[21] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[22] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).
[23] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[24] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).

face-to-face meeting while fewer than 10% of respondents said that they would prefer to get super advice on a website.[25]

71 When asked about whether they would be prepared to access simple advice online, however, more than 60% of respondents to the same survey said that they were likely to use an online service to obtain simple advice by entering personal information into a series of questions and calculators. Nine percent of respondents said that they already used such a service. Not surprisingly, the use of online simple advice services was more popular with younger generations with 86% of Generation Y and 76% of Generation X saying that they were either likely or very likely to use such a service or were already using such a service.[26]

72 Anecdotally, the appetite for non face-to-face advice is the greatest in insurance. This might be because most consumers already have some experience in getting car insurance, home and content insurance and travel insurance online or by phone.

73 The above findings show that while face-to-face meetings with a financial adviser are still the preferred mode of contact, at least for initial advice, consumers are becoming more familiar and comfortable with receiving some types of advice online or by phone.

74 It is also worth noting that 69% of consumers cited email as the best way for their financial institution to contact them regarding advice and relevant information.[27]

Comprehensive advice versus scaled advice

75 The Investment Trends Advice and Limited Advice survey[28] asked respondents how, from a prescribed list of options, they would generally prefer to receive financial advice. Overall, respondents indicated the following preferences:

(a) piece-by-piece simple advice as required;

(b) comprehensive plan, reviewed regularly with adviser;

(c) prefer to DIY using readily available information; and

(d) comprehensive plan that can be followed for the next few years.

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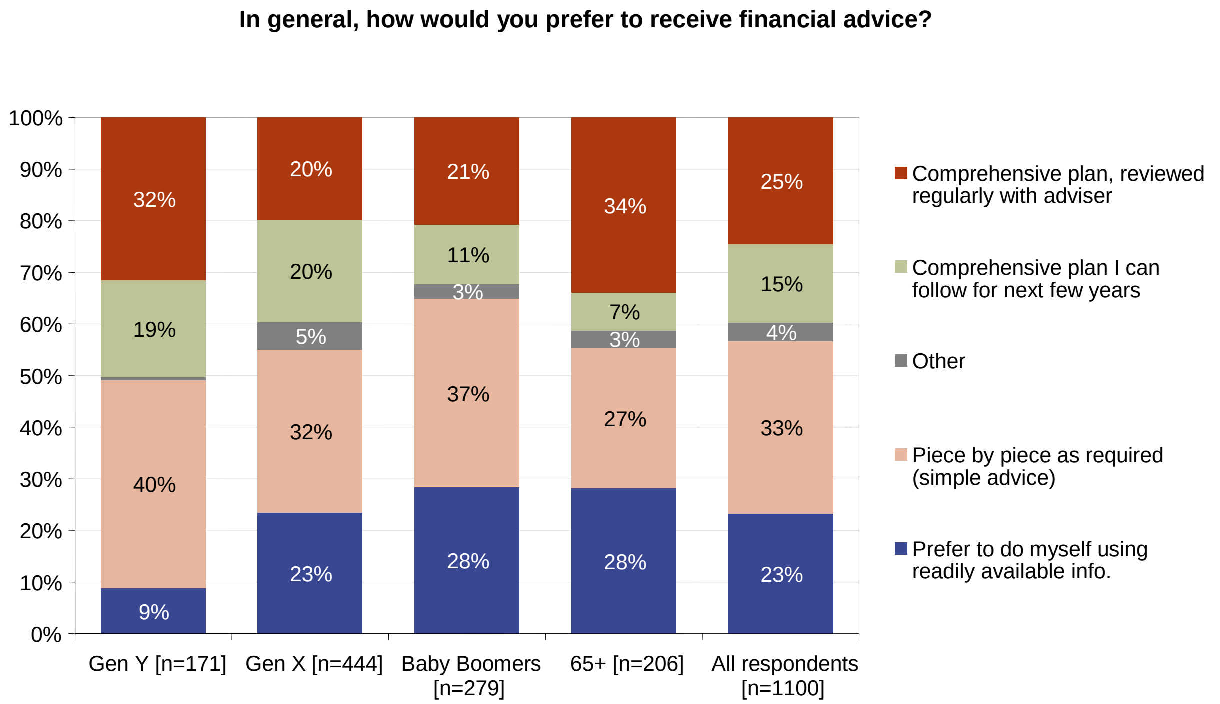
[25] Investment Trends, *Advice and Limited Advice Report*, Investment Trends, Sydney, December 2009.
[26] The Investment Trends study was conducted via an online survey, so respondents may have been more inclined than the general population to prefer or feel comfortable with online advice services.
[27] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[28] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

Figure 4: How consumers prefer to receive advice

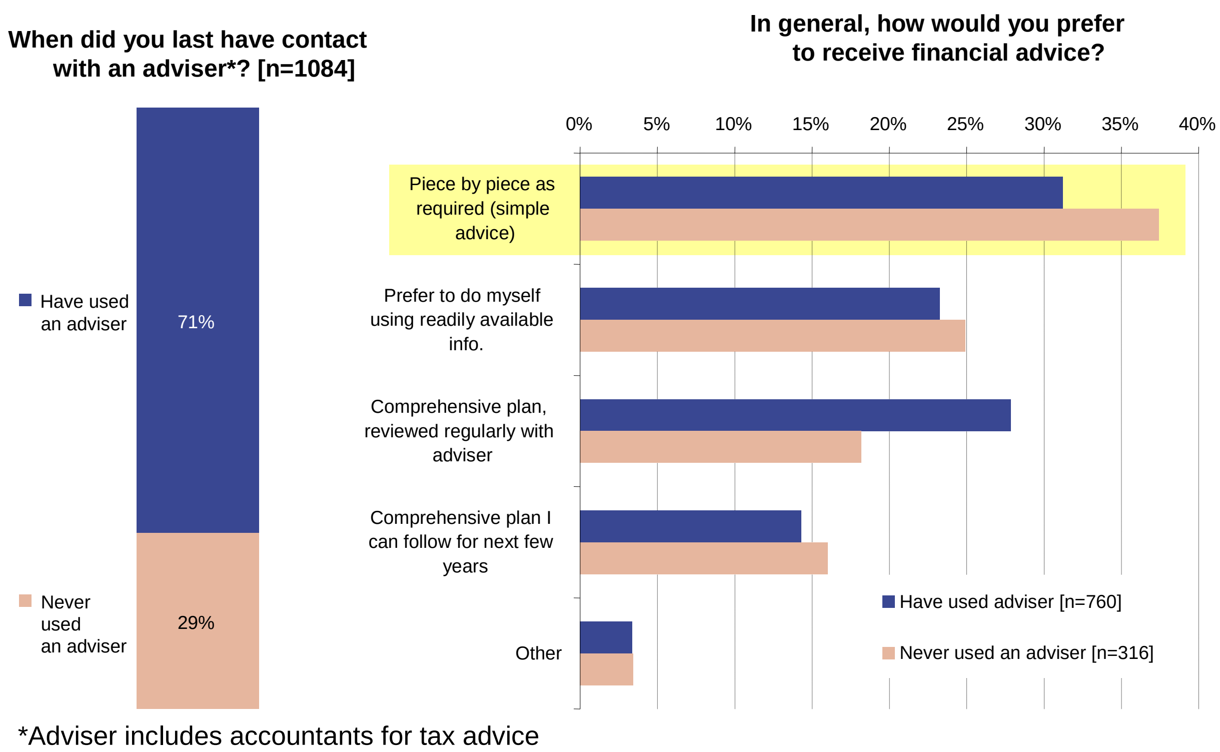


Source: Investment Trends, *Advice and Limited Advice Report,* Sydney, December 2009.

76 The above responses indicate that more than 50% of respondents across all age groups want simple advice or a DIY option.

77 The preference for piece-by-piece simple advice was higher (37%) for those respondents who had never used a financial adviser than for those who had (31%).

Figure 5: Adviser contact preferences for receiving advice



Source: Investment Trends: *Advice and Limited Advice Report,* Sydney, December 2009.

78 These findings are consistent with feedback from ASIC's retirement research. A common comment from the research participants was that advice needed to be offered in 'bite size chunks' so that consumers could 'ease into' the advice process. Many consumers expressed the view that if they received simple advice they were happy with they were likely to get more comprehensive advice in the future.[29]

79 Our supply side research, as discussed in Section C, found that while several licensees now provide or are looking to provide simple advice services, the majority of licensees still focus on providing comprehensive advice. This mismatch between consumer preferences and the advice on offer no doubt contributes to fewer consumers accessing financial advice.

Preference for short written advice

80 Consumers expressed a strong preference for written advice to be presented in a short document.

[29] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).

81 In response to an Investment Trends survey question, 'What is your preferred format for receiving any advice provided in writing?', 62% of respondents said that they would prefer to receive written advice that is no more than three pages long.[30]

82 Even among respondents who stated that they wanted to receive a comprehensive financial plan, 56% said that their preferred format was a summary of pertinent information of not more than three pages.[31]

Seminars and information sessions

83 Participants in ASIC's retirement research were quite interested in attending information sessions and seminars on topics such as retirement, investments or current issues. Information sessions were attractive because they required no commitment other than time, offered the promise of an explanation without embarrassment, patronisation or exposure of personal details and because they allowed participants to benefit from other people's knowledge and experience. Information sessions run by organisations such as Centrelink were seen as a good source of unbiased advice and information.[32]

The use of calculators and websites

84 Some of the participants in ASIC's retirement research used calculators and other tools regularly. Many participants, however, found these tools difficult to use and understand. Participants said that they would place the most trust in tools that were accessible through a Government website such as ASIC's FIDO website or Centrelink.

85 A large number of participants said that they were also interested in researching advice on the internet. According to the study participants, a good website:

(a) is easy to use;

(b) uses plain language;

(c) has questions with answers;

(d) allows the user to ask questions;

(e) explains and simplifies legislation;

(f) allows for inputs that can be tailored to a person's individual circumstances;

(g) offers advice; and

(h) has different levels, providing simple information for those who want it and more complex information for those who can cope with it.

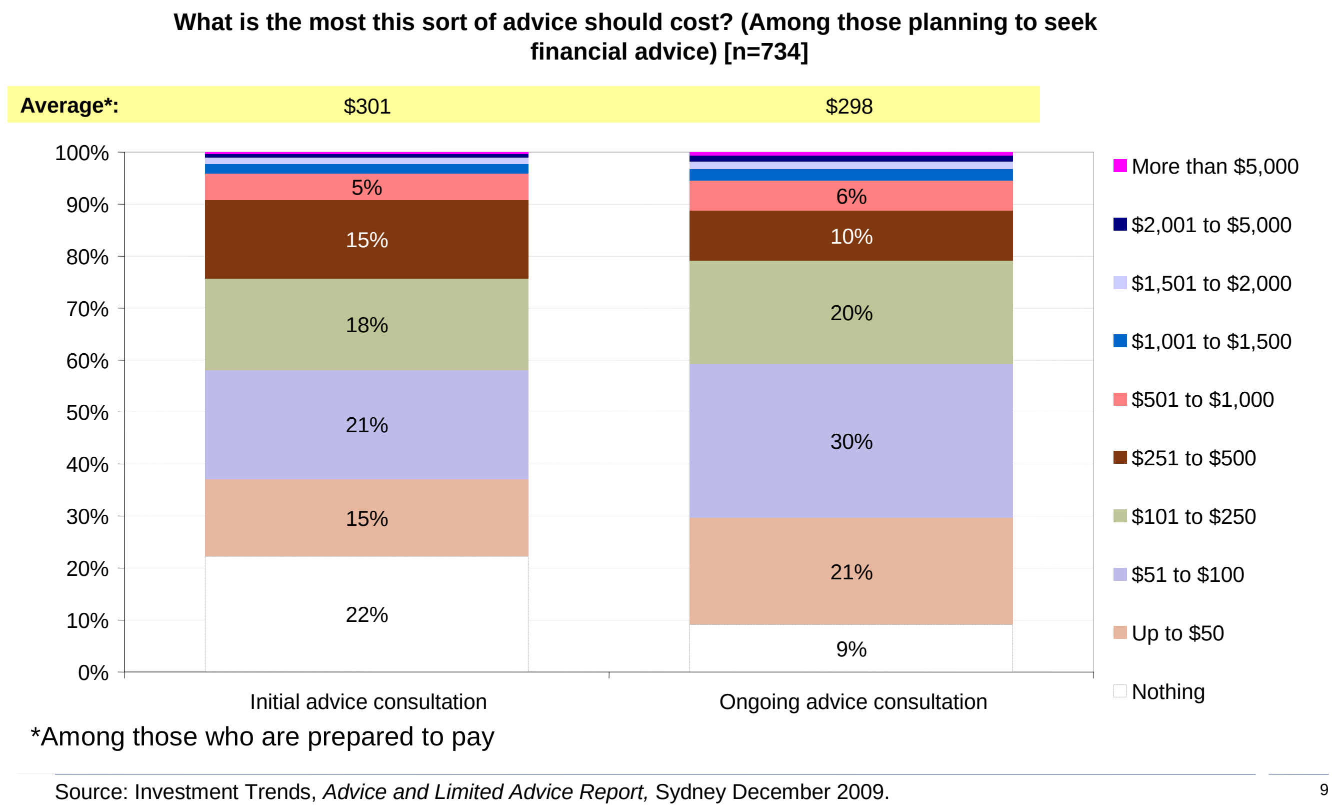
[30] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[31] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[32] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).

How much are Australians prepared to pay for advice and how do they prefer to pay?

86 Our review of the Investment Trends research revealed a significant disconnect between the amount consumers are willing to pay for financial advice and the typical costs to licensees of providing financial advice.

87 On average, consumers believe that initial advice should cost $301 and ongoing advice should cost $298 per annum. Twenty-two percent of consumers believe that the initial advice consultation should be free.

Figure 6: Consumer preparedness to pay for advice



Source: Investment Trends, *Advice and Limited Advice Report,* Sydney December 2009.

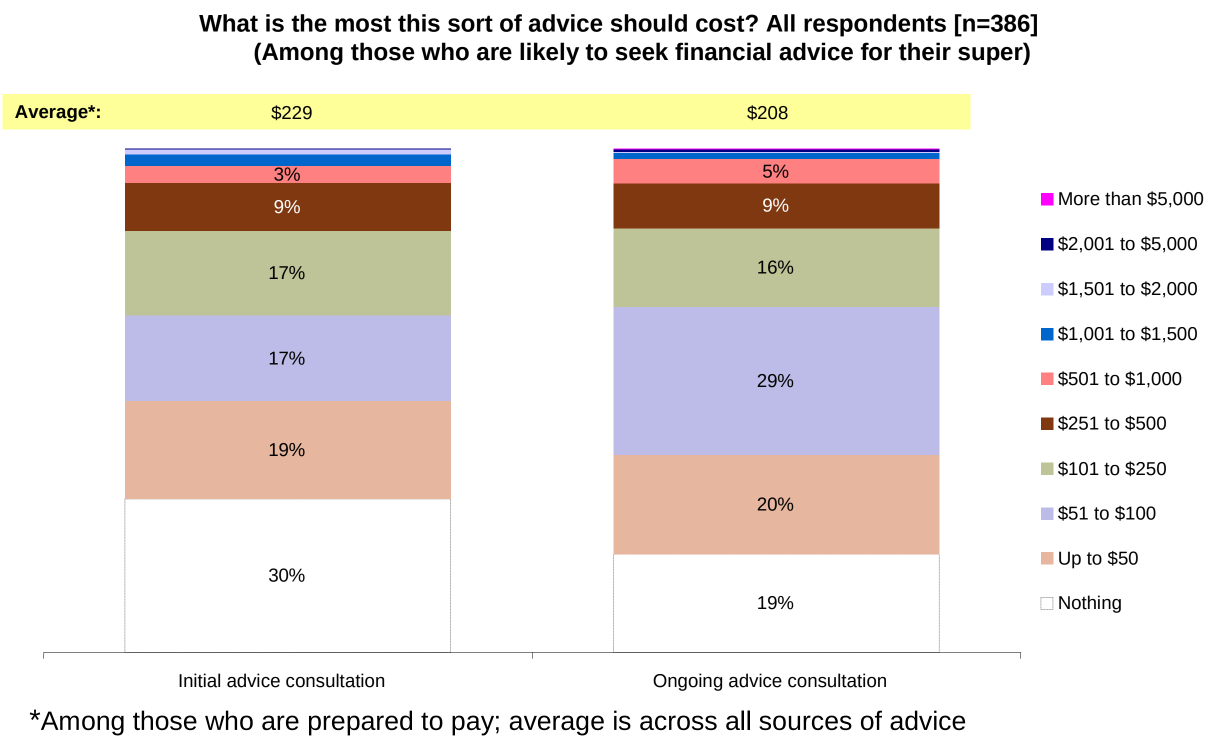
88 Consumers are more willing to pay for ongoing advice when reviewing retirement plans ($664), existing comprehensive plans ($553) and investing in shares ($516).

89 Sixty percent of consumers say that they would seek advice sooner if the cost was lower. This was most apparent for those who would seek advice to take out a home loan or prepare a comprehensive plan. The survey also indicates that a tax rebate might entice 52% of consumers to seek advice sooner.

90 Older generations are prepared to pay more for advice. Specifically, consumers aged between 45 and 55 with over $500,000 invested in super were, on average, prepared to pay the most for their initial advice consultation, with a similar finding for those seeking ongoing advice.

91 In relation to super advice, even more consumers (30%) did not expect to pay for the initial advice consultation with 19% not expecting to pay for the ongoing consultation.

Figure 7: Consumer preparedness to pay for super advice



Source: Investment Trends, *Advice and Limited Advice Report,* Sydney, December 2009.

92 The relatively low amounts consumers are prepared to pay for financial advice, and the sizeable proportion of people who are not willing to pay anything at all, suggests that many consumers do not fairly value professional financial advice.

93 Fee sensitivity varied between those who had previously used an adviser and those who had never used an adviser. Users of financial planners were prepared to pay nearly twice as much for simple advice than those who had never used an adviser. This suggests that once consumers receive financial advice they see some value in it, though still less value than what it generally costs to provide personal financial advice.

94 Fewer than 10% of consumers want to pay for financial advice through the product or platform or have the cost deducted from their super. Instead, BPAY and credit card are the most popular payment methods for both initial and ongoing advice.

What are the demand side barriers to Australians accessing advice?

95 Our research suggests several reasons why consumers do not access financial advice:

(a) Australian consumers tend to have a lack of engagement with financial matters and low levels of financial literacy. Low levels of financial literacy and people's lack of awareness of what they don't know are barriers to considering or seeking advice. Even though the Investment Trends survey found many consumers thought they could benefit from financial advice, very few consumers translate this into taking action.

(b) Consumers feel precluded from accessing advice because of the cost of advice. There is a significant difference between what consumers are willing to pay for advice, and the typical market cost of obtaining that advice as discussed in Section C. This suggests many consumers are currently unable to see 'value' in getting advice.

(c) Many people feel that their financial circumstances and assets do not warrant getting financial advice. This is reflected in the lower utilisation of advice by people in lower socio economic groups.[33] This can be especially true if they are in debt or are struggling with everyday financial management. While financial advice can be very useful for people in these circumstances many do not think it will be relevant as they have little or no assets to invest.

(d) ASIC's retirement research found that many consumers do not trust financial planners or the advice process.[34] This has been a lingering issue for the industry and has been exacerbated by recent issues involving financial planning firms and investments and by the general market downturn experienced in the last two years. This lack of trust results not only in reticence to seek advice, but also impacts how much consumers are willing to pay for advice as they see the payoffs or benefits of seeking advice as uncertain. Trust is also a reason many people seek advice from family and friends, rather than from an adviser.

(e) Anecdotal evidence suggests a large number of consumers drop out of the advice process after the first (usually free) meeting with a planner.

[33] See the Appendix to this report.
[34] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).

While the reasons for this are unclear, it is likely that they include concerns about cost issues, the trustworthiness or value of advice and the time commitment it takes to get advice.

(f) Some consumers simply do not know how to access financial advice or a financial planner. Research indicates that most consumers source planners through a family/friend or via web searching.[35]

(g) Some consumer's preferences for how they want advice delivered do not appear to match up with how advice is commonly provided. Research suggests there are strong consumer preferences for piece-by-piece simple advice and short written advice documents.

96 In Sections E–K of this report, we discuss in more detail the barriers to accessing advice as well as some work that is already underway that is aimed at improving access to advice.

[35] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

C The provision of advice

Key points

The financial advice industry in Australia has over 750 adviser groups operating over 8,000 practices and employing around 18,200 people.

Industry provides advice developed in accordance with the client's circumstances, needs and ability or willingness to pay for the advice.

However, there is a disconnect between the scope of advice that many advisers provide, and the scope of advice that many consumers want to receive as discussed in Section B.

While the majority of licensees surveyed offer scaled advice, most do not actively promote it either internally to their advisers or externally to their clients.

Face-to-face contact between the adviser and the client remains the primary method of advice delivery, particularly for the initial client meeting, with alternative methods of contact such as email or telephone used later to develop the client relationship.

The fee charged for advice can vary significantly across advice providers, with the most common remuneration models being hourly rate/time-based charging, service-based charging, asset-based charging, commission and subsidised advice.

Overall, the current costs of providing financial advice are much higher than the average amount consumers are willing to pay.

Our research

97 On the advice supply side, we examined:

(a) what types of advice providers are currently offering consumers;

(b) how providers are delivering that advice;

(c) what providers are charging for advice; and

(d) what, if anything, is preventing the provision of advice.

98 To assess the provision of advice in Australia, we:

(a) surveyed 35 holders of an Australian financial services (AFS) licence (licensees) selected as a sample of the personal financial advice industry;

(b) engaged with a number of licensees who were trialling or developing new advice models and concepts on a one-on-one basis;

(c) conducted a workshop attended by representatives of the largest licensees to understand and discuss the issue of access to advice from a provision perspective; and

(d) considered, reviewed and researched some general advice models.

99 The section summarises the findings from our research.

Who provides advice?

100 'Financial advice' means different things to different people. Consumers view financial advice as anything from discussions about home mortgages with the local bank manager to help from a family member in setting a household budget. As such, the list of possible advice providers is enormous.

101 In this section of the report, we have primarily concentrated on providers of personal financial product advice as defined in the *Corporations Act 2001* (Corporations Act). Where possible, however, we have also included relevant information for providers of general advice and information.

102 The financial advice industry in Australia has over 750 adviser groups operating over 8,000 practices and employing around 18,200 people.[36]

103 There are three dominant business models in the financial advice industry:

(a) medium to large sized 'dealer groups';

(b) institutionally owned financial adviser firms; and

(c) smaller firms with their own licence.[37]

104 Financial advisers operate within one of the three abovementioned models, as either authorised representatives or employee representatives, to provide financial advice to consumers.

105 We have set minimum standards for the training of financial advisers.[38]

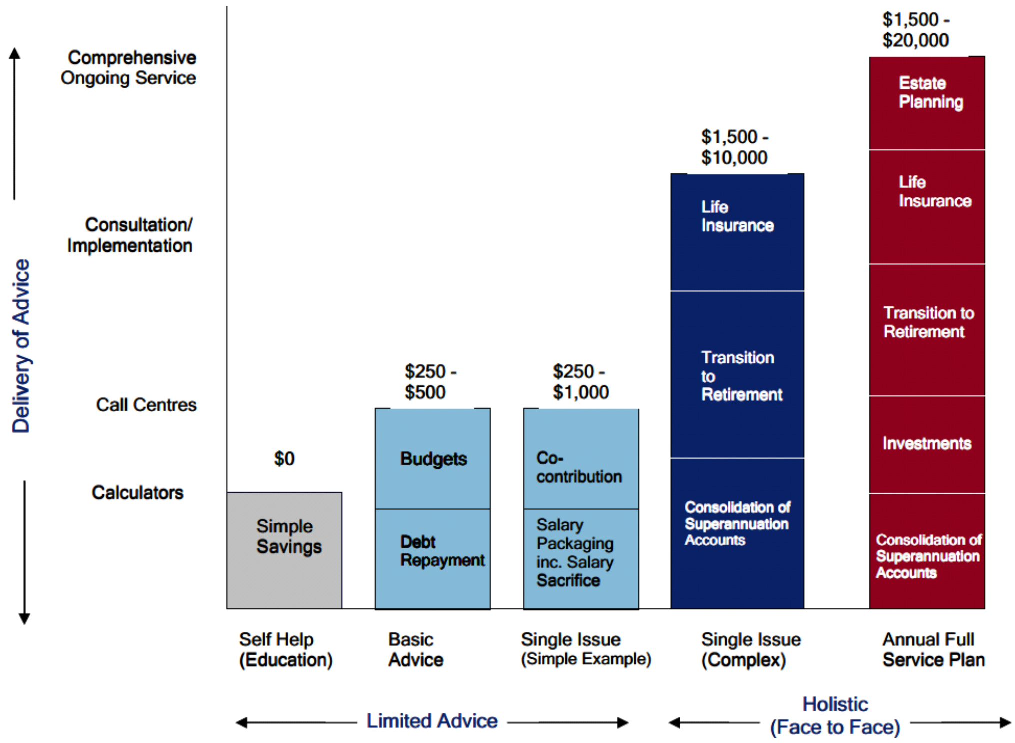
What type of personal financial product advice is available?

106 Industry provides advice developed in accordance with the client's circumstances, needs and ability or willingness to pay for the advice.

[36] Rainmaker Information, *The Australian Financial Planning Report, Volume 2, No. 1*, January 2009, p.1.
[37] ASIC *PJC Inquiry into Financial Products and Services in Australia: Submission by the Australian Securities and Investments Commission*, August 2009.
[38] See ASIC Regulatory Guide 146 *Licensing: Training of financial product advisers* (RG 146).

107 A study commissioned by the FPA considered the variances in advice provided in terms of content, complexity and comprehensiveness. This is illustrated in Figure 8.[39]

Figure 8: Type of advice



Source: Rice Warner Actuaries, *Value of Advice*, report prepared for the Financial Planning Association, February 2008.

108 Financial advisers advise across a range of subject areas, strategies and financial products. Although not an exhaustive list, the following are key advice topics:

(a) superannuation;

(b) retirement income;

(c) borrowing and credit;

(d) insurance; and

(e) investments.

109 Our survey of licensees identified that retirement income and superannuation, managed investments, securities, insurance and estate planning were the most common advice areas. Additional advice areas identified included property advice and more strategy focused advice such as

[39] Rice Warner Actuaries, *Value of Advice*, report prepared for the Financial Planning Association, February 2008.

tax minimisation (including structures), social security and debt reduction and/or debt management.

110 Licensees’ focus on superannuation, retirement income and investment advice corresponds well with the advice topics consumers are most interested in, as discussed in Section B.

How advice providers determine the scope of the advice they provide

111 There is a disconnect between the scope of advice that many advisers provide, and the scope of advice that many consumers want to receive as discussed in Section B. Many financial advisers start from the premise that most consumers need comprehensive advice provided by way of a full financial plan.

112 The majority of the licensees we surveyed believed that a comprehensive offering was important in delivering a better outcome for the client and also was an effective tool in mitigating the risk of providing inappropriate advice.

113 However, some parts of industry are reporting that that an over-reliance on comprehensive advice and the costs associated with delivering it might be limiting the ability of Australians to access advice.

114 Comprehensive or holistic advice is the ‘traditional’ advice model offered by financial advice licensees. Under this model, advisers make enquiries and provide advice to the client on all relevant aspects of their financial circumstances.

115 Licensees largely view comprehensive advice as optimal in ensuring client needs are adequately and thoroughly met and addressed. According to a number of licensees:

(a) comprehensive advice ensures that a client’s full objectives, needs and financial position are considered, which may be at risk if advice is isolated to a particular area or subject matter;

(b) clients may seek scaled advice based upon their own potentially incorrect or inaccurate assumptions about their objectives, needs and financial position to their detriment;

(c) comprehensive advice may be the only suitable type of advice for certain clients, depending on their individual circumstances. For example, one licensee surveyed stated that scaled advice may not be appropriate for clients in the retiree and pre-retiree market who need broad advice on their retirement planning strategies; and

(d) the provision of scaled advice may require the same amount of time and effort as comprehensive advice.

116 Despite these comments, there has been a growing interest and investment by industry in the concept of providing scaled advice. Scaled advice is typically advice provided on a single issue or on a limited range of issues. Industry has adopted differing terminology to refer to this type of advice including, but not limited to:

(a) limited advice;

(b) single issue advice;

(c) targeted advice;

(d) defined scope advice;

(e) simple advice; and

(f) piece-by-piece simple advice.

117 ASIC has provided guidance on the provision of scaled advice. In Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175) at RG 175.115, we state:

> Although all personal advice must comply with the suitability rule, the client inquiries requirement and the requirement to consider and investigate the subject matter of the advice are 'scalable'. 'Scalable' means that the requirement varies depending on the circumstances, including the potential impact of inappropriate advice on the client, the complexity of the advice and the financial literacy of the client. For example, where personal advice is provided for a relatively simple purpose, such as the purchase of car insurance or the opening of a deposit account, less extensive client inquiries are likely to be required than for advice about complex financial products, classes of financial products or strategies (such as tax-related strategies or higher risk strategies such as the use of margin lending in connection with the purchase of a financial product).

118 ASIC's regulatory guidance builds on the thinking underpinning the Revised Explanatory Memorandum to the Financial Services Reform Bill in 2001 which states:

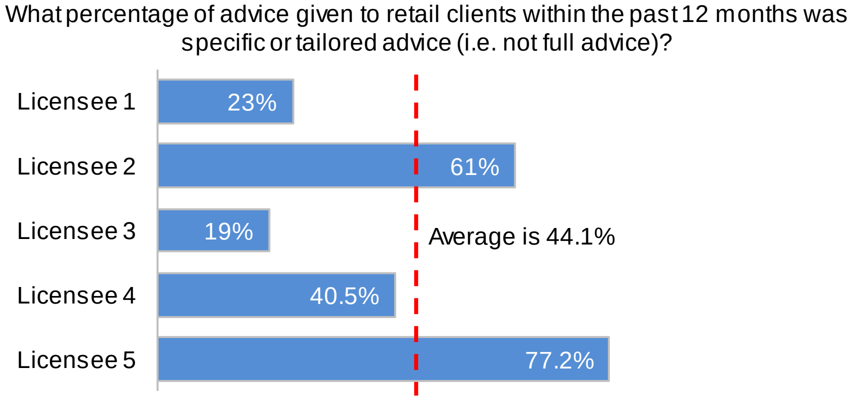
> The level of inquiry and analysis required will vary from situation to situation and will depend on the advice requested by the client. The providing entity need only obtain and analyse sufficient information about the client to provide the advice requested or proffered. So, for example, a comprehensive analysis of the client's full financial position may not be necessary where the client has sought personal advice on a specific product.[40]

119 Anecdotal information provided to us by licensees indicates that in spite of the abovementioned guidance, a considerable amount of confusion exists within industry about how to appropriately scale advice.

120 Some licensees are clearly more comfortable with and active in the provision of scaled advice than others as illustrated in Figure 9.[41]

[40] Paragraph 12.34, Revised Explanatory Memorandum to the Financial Services Reform Bill 2001.
[41] Research conducted by ASIC in 2010 as part of our industry surveillance (unpublished).

Figure 9: Provision of scaled advice



Source: ASIC Licensee Survey 2010 (unpublished).

121 In response to our survey, several licensees stated that the provision of scaled advice required a greater reliance on the adviser's skills and expertise.

122 There were opposing views among the surveyed licensees as to the appropriate course of action in a situation where the adviser determined that scaled advice was not the best advice model for the client.

123 Some licensees felt that only a warning was required:

> Clients are informed about the inter-relationship between different aspects of their personal/financial situation and warned that limiting advice to one specific area may not always lead to the most appropriate solution.[42]

124 Other licensees maintained that a vetting process should be undertaken to determine the suitability of scaled advice to the individual client having regard to the client's circumstances and level of financial literacy. If, after the vetting process had been conducted, the adviser concluded that the consumer might not be able to appreciate the risks inherent in scaled advice, the licensees felt that scaled advice should not be offered.

125 Some licensees have elected to internally mandate when scaled advice can/cannot be used. One licensee stated, 'We require our financial advisers to always provide a full financial plan when gearing and retirement planning advice is provided.'[43]

126 Another licensee stated:

> Business Owner clients are good at directing us as to the services they want and establishing clear parameters for our advisers to work in. This makes delivering specific purpose advice efficient and low risk.[44]

[42] ASIC Licensee Survey 2010 (unpublished).
[43] ASIC Licensee Survey 2010 (unpublished).
[44] ASIC Licensee Survey 2010 (unpublished).

127 Other licensees identified that clients with lower investment balances or investable assets, were more suited to scaled advice.

Do providers promote the provision of scaled advice?

128 While the majority of licensees surveyed offer scaled advice, most do not actively promote it either internally to their advisers or externally to their clients. We found that only 27% of the licensees surveyed promote the availability of scaled advice to their clients.

129 Of the licensees that do promote scaled advice externally, they typically do so as a means of engaging clients and use seminars, information sessions, newsletters and annual reviews to promote potential scaled advice offerings.

130 Although 63% of licensees who responded to the survey do not explicitly promote scaled advice externally, many feel that clients are aware of the availability of this form of advice. One licensee stated:

> Most of our advisers are flexible in their approach and the client has the ability to mandate the advice (including ongoing advice) they wish to receive even if scaled advice is not actively promoted.[45]

131 Our survey identified only one licensee that has moved away from the comprehensive advice model as a starting premise and instead looks to provide scaled advice in the first instance to clients. Other licensees are looking to promote both models side by side.

Generalist advice versus specialist advice offerings

132 Many professional service industries offer specialised services. For example, in the legal profession, many practitioners and firms specialise in single areas such as family law, personal injuries and commercial law. The alternative to a specialist approach is a generalist approach where one individual or firm is required to have skills and knowledge across a broad range of areas.

133 Our licensee survey indicated that the majority of licensees and the advisers who operate within them adopt a generalist approach to the provision of financial product advice. Only a small number of the licensees surveyed have a business model that concentrates predominantly on one area of specialisation such as retirement planning.

134 Approximately 75% of the licensees surveyed who offer a more extensive advice range considered that they also offer some form of specialised advice within their broader offering (e.g. in the areas of risk insurance or self-managed superannuation funds).

[45] ASIC Licensee Survey 2010 (unpublished).

135 Approximately 17% of licensees surveyed indicated that they considered it difficult to ascertain when a financial planner could be defined as a specialist in relation to a particular subject matter. It was thought that a competent financial planner should have a specialist level of knowledge in multiple areas.

136 Several licensees indicated that they were examining a greater degree of specialisation, 'We are currently developing specialist accreditation pathways'.[46] Other licensees reported that where their advisers required specialist technical assistance in a specific subject matter, the licensee had an internal technical team to assist.

How do advisers deliver advice?

137 Through consultation with industry we found that it is standard practice for licensees/advisers to deliver advice in three phases—initial, implementation and ongoing advice:

(a) The initial advice phase typically includes building the client relationship, making enquiries, developing and communicating the financial strategy and making product recommendations.

(b) Should the consumer elect to proceed with the advice, the adviser assists with the second phase being the implementation of the strategy and/or financial product (if required).

(c) Subsequent to implementation, an arrangement for ongoing advice is often established. This third phase can take many forms (e.g. regular reviews or ad hoc communication).

138 We found the three stepped approach to advice delivery consistent across all licensees regardless of their size or advice offerings.

139 Our research found that this approach to advice delivery has developed because of the need to make the initial provision of advice viable. One licensee stated:

> ...One-off advice is normally not profitable. Advisers must therefore secure an ongoing benefit in order to recoup the real cost. Client relationships will become profitable over time. Thus practice profitability will usually be driven from ongoing client relationships, while a considerable proportion of value for a client comes from initial advice.[47]

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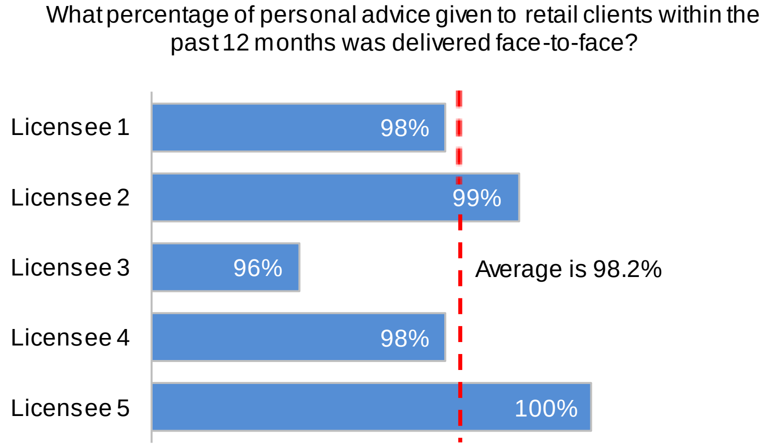
[46] ASIC Licensee Survey 2010 (unpublished).
[47] ASIC Licensee Survey 2010 (unpublished).

What are the methods of advice delivery?

140 Delivery of advice in the financial advice industry is not dissimilar to other advice industries and is restricted predominantly to face-to-face, telephone, mail and email correspondence.

141 We found that face-to-face contact between the adviser and the client remains the primary method of advice delivery (see Figure 10[48]), particularly for the initial client meeting. Many licensees, however, have indicated that alternative methods of contact such as email or telephone are utilised either before or after the initial meeting or meetings to facilitate development of the client relationship. For example, some licensees indicated that they send their fact finding document to the client by email prior to the meeting for the client to consider, complete and send back to the financial planner prior to the first meeting. Some licensees are also experimenting with newer technologies such as Skype.

Figure 10: Advice delivered face-to-face



Source: ASIC Licensee Survey 2010 (unpublished).

142 Once the initial relationship with the client is established licensees have reported that email, phone and to a lesser degree facsimile communication continue to be used by licensees to complement and facilitate the delivery of financial advice.

143 One licensee said that while they offer an online general insurance quotation service, they could not see this online model easily translating to other forms of advice. This is because more filtering of client circumstances would be required to ensure that advice is appropriate.

[48] Research conducted by ASIC in 2010 as part of our industry surveillance (unpublished).

144 There is a growing trend, particularly among larger licensees, to engage more in alternate advice delivery channels. One licensee stated:

> While face-to-face is the predominant form of providing advice services, our intention is to explore the use of email, phone and internet based on the growing demand from customers and planners.[49]

145 Licensees that are active in this space have expressed the view that this delivery method is/may be appropriate only for simple scaled advice needs and/or advice on very discrete and specific subject matter.

146 Telephone and information contained on websites and online appear to be a predominant delivery method of general advice. This is particularly the case for general superannuation advice. We have found that of 44 superannuation funds researched, approximately 64% of funds offered phone based advice and that this figure was higher in the industry funds represented.[50] Most funds also had useful factual information about topics such as accessing super, preservation rules and early access to superannuation in exceptional circumstances readily available on their websites.

Documenting the advice

147 RG 175.149 states:

> Generally, where personal advice is provided to a retail client... a Statement of Advice (SOA) must be provided to the client at the same time as, or as soon as practicable after, the advice is provided.

148 According to many licensees, it is the preparation of the advice documentation that is the most costly and labour intensive part of the advice process. In practice, the size of the document varies significantly between licensees with the average SOA length being around 30 pages. While the average length of SOAs has reduced in recent years, a document length of 30 pages is still significantly longer than the three-page length preferred by consumers.

149 In response to our survey, one licensee stated, 'The creation of statements of advice, from fact find through to the final version is many hours of work.'[51]

150 A number of licensees have told us that the content requirement for SOAs is too onerous and that as a consequence they are unable to provide consumers with short documents.

151 However, other licensees argued that advice documents have become too focused on limiting a licensee's liability, rather than on providing meaningful disclosure and information to the client.

[49] ASIC Licensee Survey 2010 (unpublished).
[50] ASIC research with superannuation funds in 2010 (unpublished).
[51] ASIC Licensee Survey 2010 (unpublished).

152 Many licensees also opt for a production line approach to SOAs. One licensee stated:

> The FPA example SOAs were very tailored and bespoke to each customer. The trade off for this style of SOA is efficiency in production of the document. Lowering the cost of SOA production will require a balance between a high degree of automation and pre-population from the financial planning software, but also strong focus on clear, concise and effective disclosure and the optimal levels of disclosure.[52]

Innovation in advice delivery and service

153 Investment in technology is considered by licensees to be crucial element in streamlining advice delivery, particularly in the areas of:

(a) SOA creation;

(b) the implementation of advice recommendations;

(c) improving data feeds, fee calculations, account calculations and reporting functions generally for both the licensee and client directly;

(d) the exploration of telephone and/or email advice delivery; and

(e) creation of new and easier payment systems for clients.

154 Licensees believe technology will drive further efficiencies in their business which will ultimately drive down the cost of advice.

155 Overseas, a number of financial planning firms are also exploring new methods of delivering advice and engaging new clients. In the United States in particular, there is growing demand for advice that is delivered purely in an online format that delivers cheap, trustworthy advice.[53] A number of firms have identified this demand and are offering services to meet it. For example, a Philadelphia-based firm offers clients the opportunity to input details about their goals, finances, assets and risk profile on their website.

156 Using this information, an adviser then generates a financial plan, which can include advice such as insurance plans, planning for marriage, planning for retirement, managing tax and estate plans.

157 The advice is then followed up with live video chats. For this service, the firm charges US$250 for the initial planning fee, followed by a monthly fee that ranges from US$25–$40, depending on whether the client is single, a family, or a retiree. No commissions are received and clients are generally invested in index funds, rather than pricier investments.

[52] ASIC Licensee Survey 2010 (unpublished).
[53] Zweig, J. 'You have financial advice' *The Australian, Wealth* section, 18 August 2010, p. 9.

158 Another firm offers a similar service where financial advice is provided based on an 'online chat' with a financial adviser. The process begins with an online interview that asks questions such as:

(a) What is your estimated annual income?

(b) What is the estimated market value of your non-financial assets?

(c) What is your estimated debt?

(d) What are your estimated monthly living expenses?

159 At the end of this interview, the client is presented with an analysis of his or her financial position, weighed against his or her current life cycle stage. A written financial plan is then emailed to the client and can include information such as:

(a) benchmarks to compare where the client is financially and where he or she should be;

(b) specific recommendations in order to realise potential taxes and investment fee savings; and

(c) recommended changes in client's financial behaviour to accumulate wealth faster.

160 Once the advice is received, the client is able to consult the adviser to ask additional questions and discuss the advice further. The firm does not receive commissions and charges US$99 for a financial plan and a further US$99 for each additional telephone consultation with an adviser.

161 Some Australian advice providers have also been quick to embrace technology to deliver advice solutions to clients. For example, some life insurance products are now offered solely online. A number of advice providers are also offering consumers a chat function so consumers can ask questions and receive answers in real time and in some cases avatars are being used to provide general advice. The use of avatars is a clever technique designed to encourage consumers to interact with a 'virtual' adviser. Over time, it is possible that avatars could be used to deliver simple personal financial advice.

162 Innovation is most commonly occurring in the superannuation industry where competition is stronger than ever before. Funds are constantly seeking new ways to attract members and to retain existing members. Many super funds are now using interactive techniques to engage with members including:

(a) online advice;

(b) full phone-based advice;

(c) video conferencing and Skype facilities;

(d) enhanced calculators that allow sensitivity analysis and allow for things like potential Centrelink benefits to be considered; and

(e) proactive life stage advice models where members who have reached particular life stages are offered tailored advice.

163 A number of super funds have also been exploring the use of simple new products. The focus of these products varies, but includes:

(a) demographic-specific products which reflect a growing trend by funds to clearly segment their members and tailor services accordingly;

(b) online self-service products and services around investment choices and insurance; and

(c) personalised super plans.

164 A number of super funds have also invested in rapid advice delivery software aimed at simple advice. According to one super industry participant, 'the key to the superannuation funds' greater efficiency is due to their focus on delivering transactional advice...most financial planning groups are still attempting to achieve rapid advice with some kind of cut-down version of their holistic planning software. This will never achieve the required efficiency in this market and it is for this reason that funds have looked at entirely new tools for this space.'[54]

165 Overall, the majority of Australian advice providers have been slower to embrace new technology and service innovations because of the cost and the perceived lack of consumer demand. Over time this is likely to change.

How advisers charge for service

166 We found that the advice industry offers a number of different charging models. The FPA has identified that the most common remuneration models are hourly rate/time-based charging, service-based charging, asset-based charging, commission and subsidised advice.[55]

167 An Investment Trends study has indicated that fee for service remuneration models are expected to increase significantly. It also found that the practice of charging on a fee-for-service basis was more prevalent amongst newer advisers as opposed to those who have been in the industry for a longer period of time.[56]

168 As shown in the following figure, trail and up front commissions have been decreasing as a percentage of total revenue.[57] This trend is expected to continue.

[54] Papandrea, V, 'Super funds trump planners in advice game', *Investor Daily*, 4 June 2010. http://www.investordaily.com.au/archive/9366.xml.
[55] *FPA Financial Planning Magazine*, 'Proactive response to remuneration paper', June 2009, p 11.
[56] Investment Trends, *Planner Business Model Report*, Sydney, October 2009.
[57] Investment Trends, *Planner Business Model Report*, Sydney, October 2009.

Figure 11: How planners charge for services rendered

Revenue derived from fixed price and hourly rate fee for rose slightly in 2009 and was 17% of total planner revenue. Planners expect revenue derived from fee for service (hourly rate and fixed price) to increase to 34% of total revenue over the next three years.

Asset based fees continued to increase (from 16% to 26% of practice revenues in 3 years) despite the falls in FUA.

Planners expect revenue from fixed price and hourly rate fee for service to increase over the next few years, with a corresponding decrease in up front commission and trail commission based fees. Planners may be aggressive in their expectations of changes in 2012 and the shift is likely to be slower in the absence of major regulatory or industry changes.

Proportion of revenue derived from each fee type	2006	2007	2008	2009	Change (09 vs 08)	2012 (P)	Forecast change (12 vs 09)
Fixed rate/hourly rate fee for service	15%	16%	16%	17%	1%	34%	17%
Asset based fee for service	16%	19%	23%	26%	3%	28%	2%
Trail commission	38%	35%	35%	33%	-2%	22%	-11%
Up front commission	32%	30%	26%	23%	-3%	15%	-8%

Source: Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

The cost of providing advice

169 Overall, it appears that the costs of providing financial advice are much higher than the average amount consumers are willing to pay. Licensees have stated that the cost of providing advice depends on a number of factors. A study commissioned by the FPA found that these include:

(a) the business model of the licensee and internal costs associated with the provision of advice;

(b) the level of service provided; and

(c) the complexity of the personal circumstance of the individual seeking the advice.[58]

170 Our research found that despite contrasting business models and the differing sizes of licensees, they provide a similar dollar range in terms of the cost of providing advice.

171 Licensees reported an estimate of the cost of providing comprehensive financial advice to a client in the range of $2500–$3500.

172 Reasons cited for the cost of advice included the input costs of:

(a) employing and remunerating the financial planner providing the advice;

(b) employing and remunerating any paraplanning function assisting in the provision of the advice;

[58] Rice Warner Actuaries, *Value of Advice*, report prepared for the Financial Planning Association, February 2008.

(c) compliance costs (including professional indemnity insurance);

(d) technical support and ongoing training of the financial planner; and

(e) monitoring and supervision costs of the financial planner by the licensee.

173 In response to our survey, most licensees indicated that on average, advice providers spend about six hours on the provision of initial comprehensive advice. Some licensees, however, reported spending much more time.

Fees

174 ASIC has found that the fee charged for advice can vary significantly across advice providers.

175 The factors that contribute to the fees charged include:

(a) the complexity of the advice provided;

(b) the level of support required by the advice recipient;

(c) the qualifications and experience of the adviser; and

(d) the level of service agreed upon.[59]

176 Despite the estimated costs of providing advice, very few licensees acknowledge that they maintain minimum client criteria in terms of investable assets or minimum charging rates.

177 Without minimum criteria in terms of investable funds or fee for service provision of advice, licensees instead adopt alternative practices to make the provision of advice viable and profitable. In response to our survey many licensees commented on the propensity of other licensees to direct their advice to clients towards the acquisition of certain financial products in order to subsidise the true cost of providing the advice.

178 There appears to be a level of agreement within industry that this cross-subsidisation between stand-alone advice and product placement may be contributing to the current disconnect and value distortion in the advice industry.

179 The Value of Advice Report commissioned by the FPA[60] found that the cost of providing advice represents an acceptable percentage of assets for clients with larger portfolios. However, for the average Australian the costs of obtaining advice, and therefore the fees charged for the provision of advice, are prohibitive.

[59] Rice Warner Actuaries, *Value of Advice*, report prepared for the Financial Planning Association, February 2008.
[60] Rice Warner Actuaries, *Value of Advice*, report prepared for the Financial Planning Association, February 2008.

180 We found that while many of the licensees surveyed reported that the cost of advice should reflect the amount of time and skill required to provide the advice to the individual client, in reality high net worth clients often subsidise lower value clients.

181 In instances where client subsidisation does not occur, many licensees stated that clients with lower investment balances and/or less desire to pay for advice will not receive advice and/or may not receive advice that is comprehensive.

What are the supply side barriers to the provision of advice?

182 Our survey of licensees identified a number of barriers associated with the provision of advice:

(a) There is a significant gap between the average cost of providing advice, and the average amount consumers are willing to pay as discussed in Section B. Most licensees claim that without some form of subsidisation the provision of advice is unviable because consumers are not prepared to pay the 'true' cost of advice. Licensees say that they are unable to reduce the cost of providing advice because most of the costs are 'fixed' costs.

(b) Complexities in the advice process mean that delivering advice can be very time consuming and makes it difficult to engage new clients. A number of licensees reported needing to meet multiple times with clients (in some cases up to six times) to gather information before advice was provided. Licensees also stated that drafting advice documentation takes about six hours and is very resource intensive.

(c) There is some confusion about how to provide simple advice and associated concerns about legal liability. This means that despite considerable consumer interest in receiving simple advice as discussed in Section B, few licensees currently offer or promote this form of advice.

(d) Licensees are uncertain about regulatory reforms and the impact these reforms are likely to have on the provision of advice.

183 These and other barriers to providing advice as well as some work that is already underway that is aimed at improving access to advice are summarised in Section D and discussed in detail in Sections E–K of this report.

D The challenges associated with improving access to advice

Key points

This section summarises the challenges associated with improving access to advice in Australia.

In Sections E–K of this report, we explore each of these challenges in more detail and identify some work that is already underway that is aimed at improving access to advice.

Summary of challenges

184 There are a number of challenges associated with improving access to advice in Australia. Our research suggests that the following are some of the biggest challenges:

(a) *Cost of advice:* A significant gap exists between what consumers are prepared to pay for financial advice and how much it costs industry to provide advice.

(b) *Scale of advice:* There is a gap between the type of advice consumers want and the advice most commonly provided or promoted by licensees. Many Australians, particularly those who have never previously accessed financial advice, want piece-by-piece simple advice rather than holistic advice. While financial services licensees are moving in this direction many advice providers still provide holistic advice as the default option.

(c) *Consumer perception that advice is out of their reach:* Financial advice is perceived as being out of reach by many Australians because they think they do not have sufficient assets to make getting financial advice worthwhile.

(d) *Consumer mistrust of financial planners:* Some consumers do not trust financial planners to provide them with unbiased, professional advice and so are reticent to seek advice. Many consumers do not appreciate the value of good financial advice.

(e) *Complexity in the planning process:* Some current methods of providing advice are alienating for some consumers and also very costly for licensees, reducing both demand for and supply of advice.

(f) *Access to general advice and information:* The provision of general advice or factual information is less extensive than it could be. For many consumers, general advice and factual information is sufficient to deal with their advice needs at a particular point in time.

(g) *Financial literacy:* There are still a large number of Australians who are disengaged with their financial affairs or have low levels financial literacy. This lack of interest and/or knowledge of financial matters prevents some consumers seeking out financial advice even if it might ultimately benefit them to do so.

185 Obviously, these are significant challenges and it is not possible for industry, ASIC or Government alone to improve access to advice. Instead, it is important for industry, ASIC and Government to work together on solutions.

E The cost of advice

Key points

One of the most significant challenges associated with trying to improve access to advice is the very real gap that exists between what consumers are prepared to pay for advice and what it costs industry to provide advice.

Some licensees have been trying to narrow the gap by:

- making a better case for the value of advice; and/or
- looking more closely at their advice business model to see if the model is adversely affecting the cost of advice.

The challenge

186 According to licensees, the cost of providing advice is on average $2,500 to $3,500, as discussed in Section C. This is considerably more than the average $301 that consumers are prepared to pay to receive advice as reported in the research in Section B.

187 While a number of licensees are aware of the significant gap between what they charge for advice and what consumers are willing to pay for advice, our research found that licensees are having difficulty lowering the cost of advice. This is because there are a number of 'fixed' costs associated with providing advice including:

(a) employing and remunerating the financial planner providing the advice;

(b) employing and remunerating any paraplanning function assisting in providing the advice;

(c) compliance costs (including professional indemnity insurance);

(d) technical support and ongoing training of the financial planner; and

(e) monitoring and supervision costs of the financial planner by the licensee.

188 Another major expense cited by licensees is the cost associated around the production of often lengthy advice documents. One licensee stated, 'As an industry we need to look towards reducing the cost base of giving advice. Continued ability to streamline documentation and the method of delivery of the documentation is an important part of achieving this.'[61]

189 Although scaled advice is considered a possible avenue by industry in terms of providing more cost effective advice, one licensee highlighted, 'It is hard

[61] ASIC Licensee Survey 2010 (unpublished).

to provide scoped or scaled advice in a cost effective manner because of the apportionment of fixed costs that must be factored into each transaction.'[62]

190 The reasons for the disconnect between what consumers are prepared to pay for advice and what it costs industry to provide advice are unclear. One theory is that the prevalence of commissions has distorted the 'value' of advice with many consumers mistakenly believing that advice is 'free'.

191 In the short term it is likely that a significant gap will remain in terms of what licensees need to charge to make the provision of advice commercially viable and consumers' preparedness to pay for advice.

Work underway on this issue

192 There is no easy fix to this issue. To help in narrowing the gap some licensees are approaching the issue in two ways:

(a) they are making a better case for the value of advice; and/or

(b) they are looking more closely at their own advice business models to see if the models themselves are adversely impacting on the cost of advice.

193 There is a significant opportunity for financial services licensees to better promote the value of advice to consumers. As noted in Section B, fee sensitivity varied between those consumers who had previously used an adviser and those who had never used an adviser. Those who had previously used an adviser were prepared to pay nearly three times as much for simple advice (although the actual dollar amount was still comparatively low). This suggests that once consumers get advice they do see some value in it.

194 To assist with this, the FPA, along with a number of other industry bodies is encouraging members to invest time determining and documenting their 'Client Value Proposition'. This is defined as 'the value or the outcomes a client experiences by dealing with you as their adviser'. [63]

195 Importantly, in its communication with members, the FPA highlights that a 'unique value proposition is more than just giving your clients "confidence with their money" or "peace of mind"—it is how you create this peace of mind by solving their specific issues and helping them with their needs'.[64]

196 However, the difficulties associated with better promoting the value of advice should not be underestimated.

[62] ASIC Licensee Survey 2010 (unpublished).
[63] Banaei, L, *FPA Financial Planning Magazine*, December 2009.
[64] Banaei, L, *FPA Financial Planning Magazine*, December 2009.

197 By way of example, in November 2005 AXA UK conducted a financial social experiment which aimed to demonstrate the value of financial advice. The final report entitled AXA Avenue explained how the experiment tracked the financial wellbeing of 20 households over a 12-month period. Half of the participants received free access to an independent financial adviser, while the other half did not.

198 The key findings of the experiment included:

(a) collectively, the ten households that received financial advice were £50,000 better off, with significant savings increases and debt reduction;

(b) households who did not have free access to an independent financial adviser actually got poorer through frivolous spending of a quarter of their savings; and

(c) participants admitted that they relied on the adviser to check up on them; without this extra pressure they would have found it difficult to motivate themselves.

199 Notwithstanding the obvious benefits to the households who received financial advice, only three out of 10 households said that they would be willing to pay for advice from an independent financial adviser in the future. A common attitude was that financial advice was too expensive when there were no guaranteed returns.[65]

200 AXA's work demonstrates that educating consumers about the value of advice, while not impossible, is not easy and is likely to be a slow journey.

201 Rather than just focusing on the value of advice proposition, some licensees have also started looking at whether their own business models are adversely impacting the cost of providing advice. For example, there is nothing in the law that requires advice documentation to be lengthy or complex. Indeed, the Corporations Act contains a specific provision requiring advice to be clear, concise and effective.[66]

202 As well as the specific legal requirement that advice be clear, concise and effective, consumers express a clear preference for short, easy to understand advice documentation. The majority of consumers want advice that is less than three pages long.

203 Some licensees are also expanding or better promoting the payment options available for advice. Many other professions (e.g. doctors, lawyers, accountants and dentists) offer a variety of payment options including the ability to pay a small monthly fee, retainer or payment in instalments.

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[65] AXA UK PLC, *AXA Avenue Fourth Quarter Review: Learnings and Recommendations*, January 2007.
[66] Sections 947B(6) and 947C(6), Corporations Act.

Contrary to industry wisdom, recent research found many consumers express a preference to pay for advice by way of BPAY or credit card with fewer than 10% of consumers wanting to pay for financial advice through the product or platform or have the cost deducted from their super.[67]

Industry actions

E1 Some licensees are offering and promoting a variety of flexible payment options to consumers wanting to access financial advice: see Example 3.

E2 Some licensees are examining whether the internal costs of providing advice are real costs or are derived from the way in which they have chosen to run their business: see Example 4.

E3 Some advice providers are exploring offering cheaper, online advice alternatives: see Example 5. Several advice providers have already started offering internet-only insurance advice.

E4 In an industry dominated by generalist advice businesses, some advice providers have started 'specialising' their advice offering in accordance with a defined target market: see Example 6. This may allow for the provision of high quality advice, due to expertise developed in a niche advice area, which can be offered more widely and cost effectively due to better economies of scale. This practice is common and effective in other industries, particularly the legal industry.

Example 3: Offering clients payment options

QRS Financial Planning has a wide spectrum of clients, ranging from high net worth clients who want comprehensive advice to those who only require simple advice on topics such as superannuation. Traditionally, QRS Financial Planning has only offered flexible payment models to high net worth clients. However, the licensee has recently begun offering a wider range of payment options to all clients in order to increase their access to financial advice.

The new payment options include:

- set price fees based on the advice provided (e.g. one strategy will cost $300 and three strategies will cost $500; more strategies will lead to more comprehensive advice, but will be more cost effective on a 'per strategy' basis);
- flexible advice and payment models including one-off strategic advice with a one-off fee, or ongoing advice with a set fee that has flexible payment options (e.g. monthly, quarterly or annually);
- discounts for upfront payments (e.g. for one-off strategic advice, the fee is paid after the client consultation but before the SOA is provided to client; for ongoing advice, a discount for advice fees paid annually in advance);

[67] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

Example 3 (cont): Offering clients payment options

- flexible payment options such as credit card, BPAY and direct debit (as you would expect from other professional providers such as dentist or accountant); and
- discounts if the client completes a questionnaire, including their summary of the specific advice questions they want answered (this information would be submitted to the financial adviser before the client/adviser meeting to ensure that the financial adviser's time is used optimally).

Example 4: How business models can impact costs

Different business models and advice processes can affect the time and financial cost of providing advice as shown in the following two examples:

Company A is the financial planning arm of a large financial services institution with complex ownership and tied business arrangements. The business has a large number of authorised representatives located across Australia. As part of their risk management and compliance policies, the company requires its authorised representatives to follow a strict advice provision process which includes a pre-determined number of meetings and mandated data collection process. If after this process, the client engages the adviser to provide advice, the adviser is required to complete a paraplanning request form. The form and the covering checklist (usually completed by the advice assistant) and data collected are forwarded to the paraplanning pool, where the team leader reviews and considers the advice request and allocates it to an individual paraplanner. The paraplanner checks he or she has all of the information and develops his or her own notes on the client situation and recommended strategy. The paraplanner contacts the adviser to discuss and finalise the strategy. The paraplanner adds the client to his or her list of work in progress and diarises to ensure that the advice is 'turned around' in the seven days required. The completed advice document (65 pages including disclosure, but not including research reports) is then returned to the adviser. The adviser reviews the advice document and edits it making necessary changes and modifications. The adviser then asks his or her advice assistant to finalise the advice document, attach research reports and prepare any necessary paperwork before sending the package to the client.

Company B has offices in each of the capital cities, with an average of five authorised representatives in each. The advisers are responsible for managing their own client interactions. When seeing a new client the advisers typically collect initial information from the client by email or by phone. A subsequent face-to-face meeting is then generally arranged with the client and might take one to two hours. The adviser then commences work on the advice document. The document is completed with assistance from the advice assistant/paraplanner and is two pages long (plus attachments). The advice can be provided in a time frame suited to the client, in as little as one day if required.

Example 5: Using technology

Jack and Amy just put a contract on their first home together. They have calculated that the mortgage, while larger than any other debt they have ever had, is manageable based on their combined income. They worry though that if one of them were to have an accident or get sick, they would lose one income and then have trouble meeting their mortgage repayments.

They have heard about a type of insurance they can obtain that would cover them for this situation. They search the internet for information on 'income insurance' and in the list of results one company appears to allow them to obtain a quote and apply for cover online.

The site is easy to navigate and after reading a description of the types of insurance available, it is clear to Jack and Amy that it is 'income protection' insurance they need. They use the calculator on the website to assist them in determining an appropriate waiting period, based on their savings and elect 30 days. They enter basic details: their date of birth, gender, smoking status and occupational grouping into the quote and select a benefit period of five years.

Jack's insurance will cost $67 per month and Amy's $228 per month. Jack and Amy wish to proceed with the cover and click the 'apply now' button to lock in the quote. They then enter in personal details and these are submitted directly to underwriting. After consideration by underwriting, Jack and Amy's applications are accepted and they receive notification by email the following day.

Example 6: Specialist services

Joanne has been a financial planner for 10 years, working for several licensees, and has enjoyed meeting and working with a mix of clients with different situations and advice needs. In her most recent role, Joanne has worked frequently with widowers and their families who need help with review of estates, development of strategies, asset transfers and government benefit and aged care assistance. Joanne feels this area of work is suited to her skill set and gives her with a sense of satisfaction.

Joanne has decided that she wants to open her own financial planning practice, specialising in this area. She intends to brand and market her business as a financial planning practice focused on this niche market, and herself as an expert to local solicitors, accountants and aged care facilities. Joanne considers that as she will focus on just this area, she will be in a position to service more clients with similar needs and circumstances more cost effectively than if she offered a generalist service, as her expertise will make the process more efficient.

ASIC actions

E5 ASIC is currently redeveloping its consumer website. The new website will contain enhanced content about financial advice including information on the different types of advice services available and the typical costs for each type of service. The new website will also promote the value of good financial advice throughout the site (e.g. by encouraging consumers to consider seeking financial advice when making complex financial decisions or before investing in a product they are unfamiliar with). See Section J.

F Scale of advice

Key points

While many consumers want simple advice and financial health checks, industry typically starts from the premise that consumers want and/or need comprehensive financial advice, with a focus on initial advice and a product placement.

The appropriate implementation of a scaled advice model presents an opportunity for the financial advice industry to get consumers in the door and deal with their specific advice needs, which is more likely to lead to the provision of future advice.

The challenge

204 As discussed in Section C, our research found that licensees indicated a preference for the provision of holistic financial advice rather than piece-by-piece simple advice, for various reasons. However, demand side research suggests that more than half of consumers across all age groups want simple advice (piece-by-piece) or a DIY option. The preference for piece-by-piece simple advice is slightly higher for those who have never used a financial adviser than for those who have accessed financial advice (see Section B for discussion of research on consumer advice preferences).

205 Our demand side analysis also found that in addition to the desire for piece-by-piece simple advice, there is also a growing demand from consumers for advice reviews or financial 'health checks' rather than for initial advice. This demand seems to grow as consumers age and there is a particular demand among baby boomers and those aged 65 and over for an advice review service. Consumers interested in a review service want to know if they are 'on the right track'. They are after strategy advice and are typically not after products.

206 While all the large licensees offer scaled advice in some form, there seems to be a degree of nervousness around its use and as such there appears to be limited promotion of scaled advice to consumers.

207 A number of licensees appear to be concerned about the extent of their liability in the event that a client receives scaled advice when comprehensive advice might have been more appropriate, particularly when considered retrospectively. In response to our survey, one licensee stated:

> It is very difficult for customers to determine the scope of any scaled advice they should receive. This creates a reliance on the planner to guide the customer and is therefore fraught with risk. In the face of such risk, the only mitigant is a full fact find and a full financial plan.[68]

[68] ASIC Licensee Survey 2010 (unpublished).

208 Echoing the views of many industry participants one licensee stated, 'We are also wary of how the complaints resolution body views scaled advice and whether it creates the potential for greater risk from client complaints.'[69]

209 A number of licensees have also expressed the view that the costs and steps they would need to take to minimise this risk to the business would mean making a heavy investment including in the area of training their financial planners, potentially making the widespread use of scaled advice cost prohibitive.

Work underway on this issue

210 ASIC does not share industry's concerns about the use of scaled advice and it is clear that we need to do more in this area to allay industry's concerns. We think the demand for scaled advice will continue to grow and over time the comprehensive advice model risks becoming irrelevant for all but a few consumers.

211 The appropriate implementation of a scaled advice model presents an opportunity for the financial advice industry to get consumers in the door and deal with their specific advice needs. The development of a relationship between adviser and client is more likely to lead to the provision of future advice.

212 Some industry participants have been experimenting with 'super health checks' and similar services. While there is a growing demand for review services, our research indicates that the supply of this type of advice is still quite limited and is not heavily promoted by licensees. Interestingly, consumers interested in this type of advice are prepared to pay more for it than they are for initial advice.

Industry actions

F1 Some advice providers have started providing more piece-by-piece advice on particular topics (i.e. insurance, superannuation): see Example 7.

F2 Some advice providers have been better using technology to service clients (i.e. internet/telephone only advice solutions): see Example 8.

F3 Some advice providers have been offering more services which focus on the review of existing investments and strategies rather than on fresh advice.

[69] ASIC Licensee Survey 2010 (unpublished).

Example 7: Scaled advice

Sue is 55 years of age, single and recently repaid her mortgage in full. Sue watches every dollar she spends and knows that if she wants to retire in 10 years, she needs to direct as much of her income to superannuation as possible. She has heard about salary sacrifice, co-contributions and concessional contributions and is very confused about which contribution strategy is best for her.

Sue feels that she needs help with this, but when she approached a financial planner recently, she was quoted $3,500 for the preparation of a full financial plan, which she considers unaffordable for her.

Sue spoke with her work friend, whose son, James, is a licensed financial planner. James' business offers scaled advice which will not provide Sue with a full financial plan, but will provide her with well considered and documented advice in her primary area of need (i.e. superannuation contributions). Given that the advice will only relate to contributions to superannuation, Sue will only be charged $750, which she considers worthwhile and affordable.

Example 8: Using technology

Following a strategic business model review, XYZ Financial Planning found that there was a mismatch in their existing client financial advice service model. Based on client feedback, XYZ Financial Planning identified two key issues:

- There were occasions when their clients' financial advice needs were limited to a specific area of advice.
- Clients had difficulty making a commitment to a face-to-face meeting and their preference was for a phone discussion.

This led to XYZ Financial Planning developing a specific team of advisers designed to meet client needs by providing advice over the phone and also offering advice via internet or video conferencing if requested (e.g. for rural/remote clients).

As with a face-to-face appointment the discussion with the adviser and client goes through the usual process of data collection, adviser assessment and analysis of information and a recommendation to the client over the phone. This is followed up with an SOA to the client confirming the discussions and recommendations made.

Client feedback has been positive and has led to some clients seeking additional subsequent advice on different issues.

ASIC actions

F4 ASIC is working on additional guidance to industry on how to scale advice. The additional guidance will include more examples of scaled advice as well as examples of the difference between personal advice, general advice and factual information as this still seems to be an area of confusion.

F5 ASIC has worked with advice providers on new advice initiatives. We are committed to working with industry to help get advice models rights. To date, we have worked with a number of large licensees on potential access to advice initiatives. The benefit to licensees of this approach is that, before investing considerable time and resources, they know whether they are on the ‘right track’.

F6 When working with licensees on new advice models, our key concern is that consumers get appropriate advice. To ensure that the end advice is appropriate, we focus on:

(a) What is the model the licensee is looking to put in place?

(b) What are the risks in the model?

(c) What steps has the licensee taken to mitigate the risks in the model?

(d) Will the chosen risk management approach work in practice? (This is tested by looking at any advice that is given, usually under a pilot program.)

F7 ASIC’s new consumer website will also contain information which will help consumers determine more clearly what the scope of their advice needs are, so they are better informed and are able to shop around more effectively should they seek a financial planner. It will also contain tools and resources to help consumers who wish to make simple financial decisions themselves, and take action to implement those decisions. See Section J.

G Consumer perception that advice is out of their reach

Key points

Financial advice is often perceived by 'ordinary Australians' as being out of their reach. While many consumers indicate a desire to access financial advice, they feel that they have insufficient investable assets to do so.

Some licensees have started to consider ways to more effectively communicate to consumers the type of advice they provide, how much it is likely to cost and whether there are any minimum client requirements (i.e. investable assets).

The challenge

213 In an omnibus survey commissioned by the FPA in 2007, one of the main reasons cited by consumers who said they did not use a financial planner was that they did not have enough money to make it worthwhile (39%). Other reasons included the perception that they did not need financial advice (56%), that seeking advice would cost too much money (21%), or they did not know where to find a good planner (18%).[70]

214 For some Australians, however, the barrier to accessing advice is as straightforward as being unable to find a planner. A survey of 1,800 Australians by Suncorp in 2009 found that confusion around how to access a financial planner may be a barrier to their use—16% of respondents reported wanting to speak to a financial planner but not knowing where to start.[71]

215 Participants in the Investment Trends survey[72] nominated a number of methods they would use to find a new financial planner. Of those methods nominated, the most popular included:

(a) asking a friend or colleague for a recommendation (46%);

(b) doing a Google search (36%);

(c) asking an accountant for a recommendation (35%);

(d) asking a bank for a recommendation (24%); and

(e) checking the ASIC website (22%).

70 FPA, *Consumer Attitudes to Financial Planning*, (Galaxy Research) Financial Planning Association, Sydney, 2007.
71 Results cited in 'Rushing to retirement in a rudderless ship', *The Australian*, viewed 1 July 2009, www.theaustralian.news.com.au.
72 Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

Work underway on this issue

216 Licensees have told us that they wish to grow their businesses by attracting new clients. In order to do so, some licensees have been considering ways they can more effectively communicate to consumers the type of advice they provide, how much the advice is likely to cost and whether there are any minimum client requirements (i.e. investable assets).

217 Some licensees have started exploring concepts like menus for advice. This concept centres on a list of discrete advice offerings and an approximate cost for the provision of the advice. This concept is potentially appealing to consumers who have reservations about committing to a full advice offering with an adviser and prefer instead to trial advice in one area for a reasonable cost. Providing a menu of advice on either the licensee's website, in relevant publications like newspapers or investment magazines or through the licensee's office might make some consumers more comfortable in seeking initial advice.

218 Research suggests that once consumers get initial advice they are more likely to be repeat advice customers.

Industry actions

G1 Some advice providers have started offering more tailored advice offerings ('advice menus') to consumers on their websites or in other publicity material which highlight the estimated costs of different advice services so that consumers are better informed and know upfront how much advice is likely to cost: see Example 9.

G2 Some advice providers are offering 'back to basics advice' with a focus on simple advice that meets the needs of more people: see Example 10.

Example 9: 'Advice menus'

David recently received a pay rise at work and is not sure if he should use the money to pay extra off his home loan every month, or start a savings plan for his future. He has never sought advice before as he has read in the media about people's bad experiences and he is concerned that he will pay a lot of money and not be given the advice he is really after.

David hears about a new advice offering from his local bank where he can select from a list of all advice units which are offered for a set price. He chooses the 'Cash Flow Planning' unit, which he understands will include a set level of advice for a fixed fee of $500. This appeals to David as it allows him to 'trial' financial advice, in an area of his choice and decide for himself if it is worthwhile without being fully committed. He decides that if the advice is good and the arrangement works, he may request advice on other areas in the future.

Example 10: Back to basics advice

Alex is frustrated. He recently paid $3,000 to a financial planner to prepare a retirement plan for him. He received an advice document recommending that he establish a self managed superannuation fund and something called a ‘security trust’ so that he can ‘leverage’ his super. His meeting with the planner did nothing to help him understand either the strategy or how he is placed for retirement.

Alex is sure that the strategy suggested is a great strategy for some, but he is a simple guy who just wants to make sure he is on the right track for his retirement. He just wants basic, old fashioned advice without the concern that he is committing to something he doesn’t really understand.

He decides to find a new financial planner who will understand and provide him with this.

ASIC actions

G1 ASIC’s new consumer website will contain information demonstrating the usefulness and value of financial advice for consumers in a wide variety of financial situations. We will include information to help consumers determine how to choose the right advice service to suit their circumstances, including what questions to ask an adviser and what pricing to expect.

G2 The new website will also will also contain tools and resources to help consumers make simple financial decisions themselves, and take action to implement those decisions, particularly around topics such as budgeting and comparing or paying off loans. This content is likely to be particularly useful for consumers who are struggling to make ends meet or who have little accumulated assets to invest.

H Consumer mistrust of planners

Key points

Among some consumers, notably those who have never used a financial planner or those who have had a negative experience with a financial planner, one of the main reasons for not seeking advice is the lack of trust they have in financial planners.

In order to build consumer trust some industry participants have been distinguishing strategic advice from product advice.

The challenge

219 In 2008, the Australia Institute released the results of six focus groups conducted with Australians in which many participants revealed that they did not trust financial planners. This was largely due to a perception that planners do not necessarily provide independent advice due to commissions or other incentives to recommend one or another product.[73]

220 A similar finding was made following a survey of Australians aged 18+ commissioned by the Industry Super Network in 2009.[74] The survey found that people had a significant lack of trust in planners, which was underpinned by negative perceptions around the influence of commissions.

221 The global financial crisis (GFC) has exacerbated the sometimes negative perception of financial planners.

222 Participants in ASIC's retirement research said that they had a more negative view of financial planners because of the impact on their superannuation savings caused by the GFC. The same group also expressed a level of distrust towards advisers as they felt that product-driven sales lay behind what they had initially considered to be 'advice'.[75]

Work underway on this issue

223 There seems to be general acknowledgement in the financial advice industry that trust in planners and the financial planning process can be improved.

[73] Fear, J., 'Choice Overload: Australians coping with Financial Decisions', *Discussion Paper no. 99, The Australia Institute*, Canberra, 2008.
[74] Industry Super Network, *Financial Planners*, Newspoll Market Research, Sydney, 2009 (unpublished).
[75] Susan Bell Research, *How Australians plan for and make decisions about their retirement*, Sydney, May 2010 (unpublished).

224 Many licensees have already embarked on a process of lifting trust in their planners by phasing out commissions and providing better training, monitoring and supervision. Industry associations like the FPA have also been very active in the space. Notably, the FPA has introduced a Code of Conduct.[76]

225 Some licensees are also looking at providing more strategy advice rather than product placement. The financial advice industry has evolved from stockbroking and insurance origins which traditionally adopted conflicted remuneration models. This has resulted in advice often being inextricably linked to product. This link represents a barrier to consumers accessing advice, as the perception is that when they do so, it will automatically result in the sale of a product.

226 Optimal financial advice often does not include a product recommendation. For example, consider a consumer who has spare income each month and seeks advice on what they should do with it. Advice in this situation should consider and compare the benefits of multiple strategies including not only investment opportunities, but also debt reduction. Debt reduction in many cases will be the optimal strategy for the consumer, although it will not result in a product sale for the adviser.

227 Strategic advice adds real value to the consumer and if products are required to facilitate the optimal strategy, then that is when they should be recommended.

228 Distinguishing strategic advice and product advice may assist in rebuilding consumer trust and confidence in the advice industry.

229 Addressing the lack of trust in financial advisers has been identified by the Australian Government as an outcome of the proposed Future of Financial Advice reforms, 'the key benefit of the reforms will be that consumer trust and confidence in the financial planning industry is strengthened'.[77]

Industry actions

H1 Some advice providers are focusing more on strategic advice rather than a product sale.

H2 Some advice providers are active in helping to weed out the 'bad apples' in the industry by sharing market intelligence with ASIC.

[76] Financial Planning Association, 'FPA unveils first Code of Professional Practice', viewed 19 November 2009, http://www.fpa.asn.au.
[77] Office of the Hon Chris Bowen MP, *Future of Financial Advice Information Pack*, 26 April 2010, p. 8

ASIC actions

H1 Each year, ASIC bans a number of advisers. Getting these 'bad apples' out of the industry helps to raise consumer confidence in the financial advice industry.

Example 11: Taking action against bad advisers

Bronwyn received an inheritance of $10,000 and wanted to invest it conservatively. She went to see a financial adviser who recommended she take out a margin loan and invest in shares in a small mining company. Bronwyn was not comfortable with the advice she received and did not implement the advice. Instead, she decided to seek a second opinion from a different financial adviser.

Bronwyn's new adviser reviewed the SOA she was given by the other adviser and told her that the previous adviser had made recommendations that he considered to be very aggressive and not suitable for her conservative risk profile. As well as developing a more suitable strategy, documented in a SOA for Bronwyn, the new adviser obtained Bronwyn's permission to keep a copy of the original SOA and use it to notify ASIC of his concerns regarding the first adviser's advice.

This intelligence was processed by ASIC. ASIC looked into the adviser's conduct and discovered a number of instances of inappropriate advice. ASIC banned the adviser.

I Streamlining the planning process

Key points

The current planning process is seen as being alienating for some consumers, in that it can take too long to get advice and advice documentation is often too long and complex.

Advice providers have started using technology more to streamline the process (e.g. collecting information from clients over the web or by email, or embracing internet-only solutions).

The challenge

230 The majority of consumers still want to receive advice face-to-face. However, the time it can take to get face-to-face advice might be off putting to some consumers. For example, one large licensee said that its planner typically meet with prospective clients up to six times before the consumer is provided with any advice. Perhaps not surprisingly, more than 50% of consumers drop out of the advice process after the first meeting.

231 There seems to be a growing opportunity for industry to couple face-to-face advice with other communications tools like email. For instance, 69% of consumers cite email as the best way for their financial institution to contact them regarding advice.[78]

Work underway on this issue

232 Some advice providers have been considering whether they can provide advice more efficiently and cheaply to consumers by sending them information like fact finds upfront by email. Much of the advice process can be done before the face-to-face meeting which can lead to a better result for both the planner and the consumer.

233 In addition, there seems to be a definite demand for simple online advice particularly in areas like insurance. The vast majority of consumers think they would be likely to use an online service to obtain simple advice and 9% of consumers already use such a service. The majority of licensees have been slow to embrace simple online advice options. There seems to be a growth opportunity for industry in this space.

[78] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

234 Long documents do not speak to consumers with 62% of consumers wanting advice that is not more than three pages. There is nothing in the legislation that requires the production of long, complicated SOAs and industry needs to work harder to produce more user-friendly advice documentation.[79]

Industry actions

I1 Some advice providers have started streamlining the advice process through the better use of technology (i.e. collecting information from clients over the web or by email) and have re-evaluated their business models to better meet consumer needs. See: Example 13

Example 13: Working with ASIC

ABC Advisory Group has developed a new way of giving financial advice. Their objective was to create a new business model for delivering financial advice that is:

- scalable;
- conflict-free;
- cost-effective and therefore accessible to the majority of Australians; and
- commercially viable.

When a client contacts ABC Advisory Group, they are asked to give a brief overview of their situation, what it is they're looking for and what they hope to achieve by getting advice. This approach allows the client to direct the advice, for example:

- Am I on track for retirement?
- Can you give me advice on how to reduce my tax through negative gearing and salary sacrifice?
- I want an opinion on a new investment I've heard about (e.g. ETFs, a new share trading scheme)
- I need help organising and planning my affairs, I have no real financial direction.

The type of advice offered in response could be either general or personal:

- *General advice:* If the client is self-directed and is looking for factual and educational information, ABC Advisory Group provides information on relevant websites such as the Australian Taxation Office, Centrelink, FIDO (ASIC's consumer website) or ASX websites and suggests they visit the website of their industry/employer super fund.
- *Personal advice:* If the client needs advice about their existing holdings or on their various options, they are offered an 'Advice Consultation'.

[79] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.

Example 13 (cont.): Working with ASIC

ABC Advisory Group considers that the purpose of the Advice Consultation is to understand the client's situation and provide advice, all on the spot. A written version of the advice is emailed to the client afterwards. This session lasts up to an hour, costs $440 and is paid for in advance.

Before the client agrees to the Advice Consultation they are warned about two circumstances in which advice might not be possible on the day and what happens if this is the case. These are:

- if the client has insufficient information on which the adviser can form an opinion; or
- if more consideration, research or financial modelling is required before advice can be finalised.

In these circumstances, the adviser will decide whether this will incur an additional fee which is quoted and approved by the client before that additional work commences. The fee will include a second meeting if required to explain the advice and any additional issues the adviser feels the client ought to consider getting additional advice on, at the client's discretion.

J Access to general advice and information

Key points

For many consumers, general advice and factual information is sufficient to deal with their advice needs at a particular point in time.

ASIC's new consumer website aims to increase consumers' financial awareness and general knowledge, helping people feel more confident and comfortable in accessing personal financial advice when needed.

The challenge

235 In many instances, consumers might not necessarily want personal financial advice, but might just want access to general advice and reliable information.

236 In our view, improving access to advice involves a combination of helping consumers get better personal financial advice as well as helping consumers access general advice and information.

Work underway on this issue

237 ASIC is in the process of developing a new consumer website. A core feature of the new consumer website will be a generic guidance service. The service aims to not only inform consumers about financial matters, but through calculators, questionnaires and other decision making tools, help them navigate the options available to them so they can make decisions and implement them.

238 The money guidance service will:

(a) give consumers and investors access to tailored financial guidance that is free, readily accessible, of high quality and independent;

(b) provide guidance and support in a way that helps consumers set goals, act on the guidance and stick with their plan over time; and

(c) encourage consumers with more complex needs to seek more sophisticated, commercial advice services.

239 The service will not recommend or suggest specific products.

240 The website will include calculators and decision trees to engage and motivate Australians of all ages and backgrounds and help them convert good intentions into action. It will gradually build a range of types of assistance and be highly interactive to maximise return visits.

241 In addition to money guidance the new website will also contain several pages about financial advice, including information on:

(a) different types of advice services available;

(b) how to work out if you need advice;

(c) guidance on choosing a financial adviser; and

(d) questions to ask your financial adviser.

242 The new website is currently under development.

ASIC actions

J1 ASIC's new consumer website will help give consumers access to independent information and general advice. It will demonstrate clearly the value of making good financial decisions (by using projections and case studies) and show how personal financial advice can assist consumers who could benefit from personalised recommendations and strategies, including product selection.

J2 Consultation with industry and consumer groups and consumer testing of website content will be used to ensure that the content is accurate, unbiased and user friendly.

K Financial literacy

Key points

Good financial literacy skills help individuals and families make the most of opportunities, meet their goals and secure their financial wellbeing, as well as contributing to the economic health of society.

Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector and potentially reduce regulatory intervention.

The challenge

243 Low levels of consumer interest in accessing financial advice are part of a broader issue of low levels of consumer financial literacy and financial awareness. Overall, people seem to be more knowledgeable and confident about simple and familiar finance topics such as budgeting and less knowledgeable and confident about more complex and unfamiliar topics such as investing and saving for retirement, as discussed in Section B.[80]

244 Knowing how to make sound money decisions is a core skill in today's world regardless of age. It affects quality of life, opportunities we can pursue, our sense of security and the overall economic health of our society.

Work underway on this issue

245 ASIC has a long term strategy for the development and delivery of initiatives to improve the financial literacy of all Australians and enhance their financial wellbeing. Part of that strategy involves ensuring that financial literacy is well covered in the new Australian Curriculum. The Government has also committed $10 million to ensure that teachers are well equipped to teach financial literacy to our children and have the teaching resources that they need.

246 To implement the strategy, we will work collaboratively with a number of stakeholders, including the financial services sector. The financial services sector has already implemented and is continuing to develop a number of financial literacy initiatives, including:

(a) guides to products and product classes and how to get the best out of them;

[80] The topic of financial literacy is covered in greater detail in our forthcoming report, *Financial literacy and behavioural change*.

(b) information about good practices (e.g. how best to reduce debt and save, and guides to budgeting);

(c) surveys and reviews of consumer financial literacy;

(d) programs partnering with community organisations aimed at assisting people in financial disadvantage; and

(e) the delivery of financial literacy programs and resources for schools.

247 Raising levels of financial literacy is a long term project. However, over time, the financial sector, including financial advisers, will benefit from more confident, informed and engaged consumers.

ASIC actions

K1 We will continue with our implementation of our financial literacy strategy. This includes:

(a) initiatives to increase and promote financial education in schools and through other educational pathways;

(b) a consumer information and education strategy, including consumer publications and other information sources; and

(c) initiatives which seek to move beyond education and implement behavioural change, including money guidance on our new consumer website.

K2 We work collaboratively with industry participants seeking to develop or distribute financial literacy tools and resources, such as consumer publications and education programs.

Example 14: Empowering consumers

Bob has worked for the same company for 40 years and was recently made redundant. Bob intends to see a financial planner at some point to get a personalised plan, but before he does that he feels that he needs to understand the basic rules and treatment of redundancy payments and what his options might be. He thinks doing his own research is important to ensure that he is in a position to assess the advice he is given and make an informed decision.

Bob's ex-employer gave him a pack which included information about the National Information Centre on Retirement Investments (NICRI). He went onto the website and found a whole section devoted to redundancy with fact sheets, budget information and checklists. There was also a toll-free telephone service where he could speak directly with an information officer.

A friend also told Bob about ASIC's consumer website.

Appendix: How do demographics influence use of financial planners?

248 Socio-economic factors and age are the most consistent drivers of financial planner use. Data from research studies paints a picture of these trends: see Table 2.

249 We can conclude from this research that users of financial planners are more likely to be reasonably affluent, well-educated males either close to retirement age or already retired and who are fairly confident in their own financial skills.

250 Conversely, women and those who are younger, less affluent and have less confidence in their financial skills are the least likely to use a financial planner.

Table 2: Demographic influence on use of financial planners

Survey	Findings
Investment Trends Advice and Limited Advice Report (2009)[81]	Those who had used a financial planner in the previous 12 months: • rated their financial expertise as 5.5/10 • had an average of $254,000 in super • were an average age of 51 years • had an average personal income of $74,000 • had a total average investment portfolio size of $304,000,[82] and • just over 50% owned their owned homes outright. Those who had not used a financial planner in the previous 12 months: • rated their financial expertise as 4/10 • had an average of $63,000 in super • were an average age of 40 years • had an average personal income of $48,000 • had a total average investment portfolio size of $77,000,[83] and • under 10% owned their own homes outright.
Investment Trends Retirement Income Report (2009)[84]	Among pre-retirees,[85] those with higher super balances were more likely to nominate a financial planner as their preferred source of retirement planning assistance.[86] Use of financial planners tended to increase as people neared retirement: • Just under one quarter of pre-retirees with 3–5 years to retirement indicated that a financial planner was their main financial adviser. • This proportion increased to around one third, 1–3 years from retirement.

[81] Investment Trends, *Advice and Limited Advice Report*, Sydney, December 2009.
[82] Excluding superannuation and own home, and less any debt.
[83] Excluding superannuation and own home, and less any debt.
[84] Investment Trends, *Retirement Income Report*, Sydney, October 2009.

Survey	Findings
Industry Super Network (ISN) (2009)[87]	People who had at some stage consulted a financial planner were more likely to be: • male than female (64% compared with 56%) • older (66% aged 50+ compared with only 29% of those aged 18–24) • employed in a white collar role (63%) than a blue collar role (57%) • degree educated (65% compared to 54% of those having completed only primary/secondary school), and • enjoying a higher a household income (68% with incomes of $80,000+ compared with 53% of those earning under $40,000).

[85] Base sample: 1,218 Australians aged 40+.
[86] Around 60% of those with super balances of $200,000, compared with less than 50% for people with balances lower than $50,000.
[87] Industry Super Network, *Financial Planners,* Newspoll Market Research, Sydney, 2009 (unpublished).

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A.
ASIC	Australian Securities and Investments Commission
ASIC's retirement research	A qualitative research project commissioned by ASIC to investigate among other things the advice needs of pre-retirees and retirees
ASX	Australian Securities Exchange Limited
Corporations Act	*Corporations Act 2001*
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FLF	Financial Literacy Foundation
FPA	Financial Planning Association
GFC	Global financial crisis
Government	Australian Government
Government reforms	The 'Future of Financial Advice' reforms announced by the Government in April 2010
IFSA	Investment and Financial Services Association
licensee	The holder of an AFS licence
NICRI	National Information Centre on Retirement Investments
PDS	Product Disclosure Statement
RG 175 (for example)	An ASIC regulatory guide (in this example numbered 175)
s761A (for example)	A section of the Corporations Act (in this example numbered 761A)
SOA	Statement of Advice