REPORT 279

Shadow shopping study of retirement advice

March 2012

About this report

In 2011, ASIC conducted shadow shopping research which looked at financial advice about retirement. This report outlines the results of that study.

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- 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).

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Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

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Executive summary

About our research

1 In 2011, ASIC conducted shadow shopping research which looked at financial advice[1] about retirement. We undertook this research to investigate the quality of advice being provided to people to help them plan and prepare for retirement at or around the time they are retiring. Our aim was to enable us to understand and illustrate, using real examples, what constitutes good and poor quality advice.

2 We also wanted to gain a greater understanding of people's experience and their impressions of obtaining financial advice.

How our research was conducted

3 Participants in this study were real consumers of financial advice. We engaged a fieldwork agency, Colmar Brunton Social Research, to recruit people aged 50 to 69 years who were intending to seek retirement advice or who had sought this advice in the past 15 months.

4 Participants chose to seek financial advice on their own initiative. They found and chose their own adviser and bore the cost of any advice they received. Participants were not directed to consult any particular advisers or to seek advice on particular topics. Our sample included people who received financial advice for the first time, as well as people who had received financial advice before.

5 Participants provided us with information about their personal circumstances (their objectives, financial situation and needs) and copies of the advice they had received. We also examined participants' experience and their impressions of the adviser and the advice process.

6 Our participant recruitment process resulted in 64 examples of retirement advice (advice examples) for analysis.

7 This study was a research project rather than surveillance under the notice requirements of the *Australian Securities and Investments Commission Act 2001* (ASIC Act). This means that we obtained information from the participants directly, including the Statement of Advice (SOA). We did not see the adviser's client file. We conducted our own investigation of personal

[1] In this report, 'financial advice' or 'advice' is used to refer to 'personal advice', as defined in s766B(3) of the Corporations Act.

circumstances and risk assessment. For further details on the methodology we used in our research, see Section B.

8 While this shadow shopping research canvasses some themes and issues investigated by ASIC in previous shadow shopping exercises, the results of our analysis are not directly comparable with the results of earlier studies. In part, this is because of the different aims of the current project and the different research methodology used. Also, financial advice about retirement can be more complex than other types of advice. The cohort of 'baby boomers' transitioning much of their personal wealth from the accumulation to pension phase of superannuation creates new considerations for advisers providing advice.

Assessment of the advice given to research participants

9 When we looked at the financial advice examples in this study, we assessed the quality of advice participants received, as well as checking that the advice complied with the law (specifically, that the advice was appropriate for the client, as required by s945A of the Corporations Act[2]).

10 Good quality financial advice improves a client's financial situation. This is not necessarily confined to a monetary improvement, but encompasses a person's preparedness for the future. Good quality advice has some or all of the following features:

(a) a clearly defined scope and a thorough investigation of the client's relevant personal circumstances;

(b) assistance given by the adviser to the client to set prioritised, specific and measurable goals and objectives;

(c) where relevant, consideration of potential strategies;

(d) where relevant, consideration of the wider impact of the advice—for example, tax or social security consequences; and

(e) good communication with the client. This includes SOAs that are logically structured and easy to understand, and verbal interactions that aim to ensure that the advice and recommendations are understood.

[2] Section 945A provides that: '(1) the providing entity must only provide the advice to the client if: (a) the providing entity: (i) determines the relevant personal circumstances in relation to the giving of the advice; and (ii) makes reasonable inquiries in relation to those personal circumstances; and (b) having regard to information obtained from the client in relation to those personal circumstances, the providing entity has given such consideration to, and conducted such investigation of, the subject matter of the advice as is reasonable in all of the circumstances; and (c) the advice is appropriate to the client, having regard to that consideration and investigation'. 'Relevant personal circumstances' is defined in s761A as, 'in relation to the advice provided or to be provided to a person in relation to a matter, are such of the person's objectives, financial situation and needs as would reasonably be considered to be relevant to the advice'.

11 We reviewed the advice in this study using an advice review template based on quality of advice benchmarks. These benchmarks were developed in consultation with our expert reference group. This group comprised 12 nominees from advice groups and superannuation funds nominated by the Financial Planning Association, Association of Financial Advisers, and Association of Superannuation Funds of Australia. The reference group also had a nominee from the Financial Ombudsman Service and a nominee from ASIC's Consumer Advisory Panel.

12 Our analysis of the advice focused on:

(a) the adviser's investigation of the client's personal circumstances;

(b) the strategies recommended;

(c) the products recommended; and

(d) the adviser's communication.

13 We also looked at whether participants received the advice they sought, were happy with the adviser, felt that the advice had been clearly explained to them, and felt that overall the advice met their needs. However, these factors were not considered in the grading of the advice.

14 In addition, we commissioned Colmar Brunton Social Research to conduct one-on-one qualitative interviews with 11 participants from the shadow shopping sample.[3] The key objective of the interviews was to provide deeper insight into the interactions between financial advisers and their clients from the perspective of the participants.

15 Each advice example in our study was reviewed and assessed by at least two ASIC analysts. When assessing each advice example, our analysts considered all of the information we had obtained from the participants, including:

(a) what they told us about their personal circumstances;

(b) the SOA and any other documentation they received from the adviser; and

(c) their answers to a questionnaire we asked them to complete after they had received the advice.

16 Each advice example was given a rating of good, adequate or poor based on how well it performed against our advice review template. Individual sub-components of the advice were also rated. If the analysts disagreed on the advice grade for any advice example, it was then reviewed by a third analyst or it was sent to the expert reference group for consideration.

17 For further information on our advice review template and quality of advice benchmarks, see Section C.

[3] The 11 participants selected reflected a range of retirement planning situations and different advice outcomes in the sample. For more information, see Section E, paragraph 177.

Key findings

18 We found that, while the majority of advice examples we reviewed (58%) were adequate, 39% of the advice examples were poor, and two examples were good quality advice (3%).

19 Advisers whose advice examples were rated as good by our analysts had a clearly defined scope, and assisted the client to form realistic and measureable objectives about their retirement and to implement strategies to try to achieve them. We saw evidence of multiple strategies being compared and evaluated, good budgeting and cash flow projections, and realistic discussions about what clients could fund in their retirement. Good written and personal communications ensured that the clients were aware of their options, while the SOAs were logical, well structured and easy to understand.

20 Advice that was graded as adequate met the requirements of s945A. Many of the advice examples that were rated as adequate had good elements, but the overall advice generally fell short of being good because of a key problem with the recommended strategy or products. Within the grade of adequate, there was a spread of quality, with some advice examples close to good, moving along the spectrum towards poor quality advice. This reflects the issue that quality of advice is, to some extent, a subjective measure, and that there will generally be a range of ‘appropriate’ advice for any particular person—however, some recommendations and advice will be of better quality than others.

21 Poor advice failed to meet the requirements of s945A. All examples of poor advice have been referred to ASIC’s Misconduct and Breach Reporting team for further investigation and review.

Participant perceptions and actual quality of advice received

22 Participants in our study rated their advisers and the advice they received highly: 86% of participants felt they had received good quality advice and 81% said they trusted the advice they received from their adviser ‘a lot’.

23 Care needs to be taken when interpreting participants’ self-reported adviser and advice satisfaction. The absence of any variation in adviser and advice satisfaction between those who received good quality advice and those who received poor quality advice suggests that many people have difficulty in objectively assessing the quality of advice they receive.

24 From the in-depth interviews with 11 participants, we found that, in many instances where participants had received poor or adequate advice, they still reported feeling quite satisfied with the adviser and the advice experience. This was not surprising, given the complexity of retirement advice.

25 Our in-depth interviews also suggested that these participants' level of comfort with their adviser was an important factor when evaluating their satisfaction with the advice and the advice experience. This sense of comfort was informed by a range of factors relating to a generic notion of the adviser providing a 'professional service', including their organisation and preparation, their interpersonal skills and manner, and their knowledge or expertise.

Adviser communication

26 The adviser's ability to communicate clearly and effectively in the SOA was an important aspect of the quality of their advice overall. In the advice examples rated as good, and in some of the examples rated as adequate, we saw evidence of the adviser teaching and mentoring their clients and explaining complicated financial concepts. For example, rather than simply stating the client's desired income in retirement, we saw evidence in the SOAs that some advisers coached their clients to set more realistic expectations for retirement income needs and explained the trade-offs involved in pursuing different strategies.

27 Several advice examples were downgraded in quality because the adviser failed to include any discussion of longevity, or to acknowledge that if the client expended their desired retirement income, their total retirement savings would be exhausted after four or five years.

Investigation of personal circumstances, strategic advice and product recommendations

28 In 16 of the advice examples, the investigation of the client's personal circumstances was poor. In 15 of these 16 examples (94%), the overall quality of advice was also rated as poor. Clearly, the likelihood of an adviser providing high-quality financial advice is severely reduced if they do not adequately determine the client's personal circumstances.

29 Strategic advice was also a key determinant of the overall advice grade. The majority of strategic advice in this study was graded as adequate—in most cases, also resulting in 'adequate' overall grades.

30 The 25 cases of poor advice all involved poor strategic advice. Poor strategies generally occurred where the client's expressed needs and objectives were not addressed. This commonly included the failure of advisers to address areas that did not directly involve investment products. For example, several clients had borrowings and debts that were not addressed in circumstances where a reasonable adviser would have considered these debts.

31 Our research assessed the appropriateness of recommended products in the context of the client's personal circumstances and the strategy

recommendations. In most cases (64%), the financial products recommended were appropriate and in line with the client's personal circumstances. In 16 advice examples, the financial products recommended did not suit the client's personal circumstances, having regard to the strategy recommended and the risk tolerance. All resulted in an overall advice grade of 'poor'.

Conflicts of interest

32 ASIC's August 2009 submission to the Parliamentary Joint Committee on Corporations and Financial Services (PJC) *Inquiry into financial products and services in Australia* stated that remuneration structures in the financial advice industry can create conflicts of interest that may distort the quality of advice. These payments include commissions:

> Commission payments can create real and potential conflicts of interest for advisers. They could encourage advisers to sell products rather than give strategic advice (e.g. advice to the client that they should pay off their mortgage), even if the advice is in the best interests of the client and low-risk. Commissions also provide an incentive to recommend products that may be inappropriate but are linked to higher commissions.

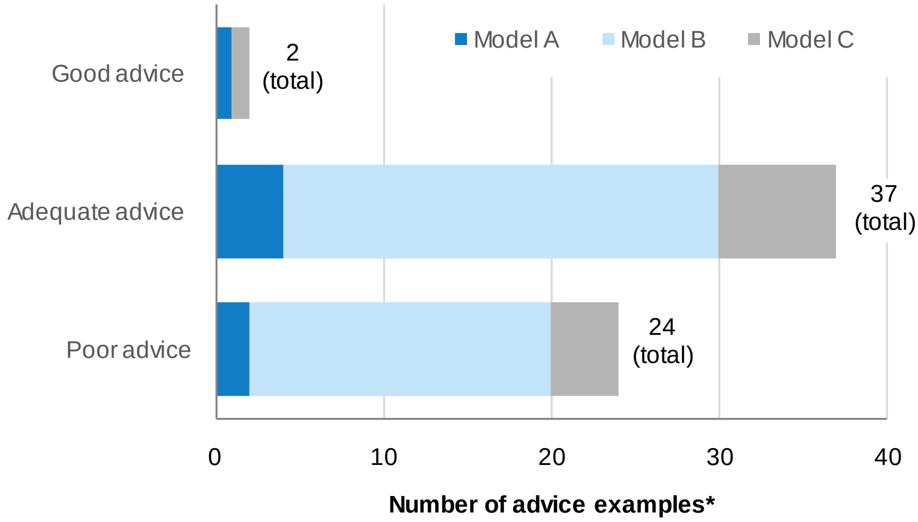
33 The submission also stated that fees based on a percentage of the client's investments can also present conflicts of interest that may distort the quality of advice.

> Remuneration based on the amount of funds under advice can also create conflicts of interest. Advisers who are remunerated by reference to funds under advice have an interest in selling investment products to their clients and encouraging their clients to borrow to invest.

34 In this shadow shopping research, commissions and asset-based fees were common sources of adviser remuneration. Because of our sample size, it was not possible to investigate any correlation between remuneration models and conflicts of interest or poor quality advice. However, there was evidence that conflicts of interest had a detrimental effect on the quality of the advice being delivered.

35 In 78% of the advice examples, the adviser was remunerated through product commissions or fees that were based on a percentage of the client's assets or investments under advice. These fees may have been charged as an up-front percentage of the initial investment, or an ongoing percentage (trailing commission or other percentage fee), or a combination of the two. A fixed fee-for-service may also have applied in conjunction with percentage-based fees. While the method of remuneration was not considered when the quality of advice was being evaluated, none of these advice examples were rated as good.

Figure 1: Quality of advice by remuneration model



Notes:

Remuneration Model A—The adviser was paid for their advice through a fee-for-service. This may have been a flat dollar amount or an hourly rate, and may have been charged up-front or on an ongoing basis. The fee(s) were not based on a percentage of the client's funds or financial product investments.

Remuneration Model B—The adviser's remuneration included commissions or fees that were based on a percentage of the client's assets or investments under advice. These fees may have been charged as an up-front percentage of the investment, or an ongoing percentage (trailing commission or other percentage fee), or a combination of the two. A fee-for-service (flat dollar amount or hourly rate: see Model A) may also have applied in conjunction with percentage-based fees: see paragraph 218 for an explanation of why percentage fees and commissions are included together.

Remuneration Model C—The adviser was a salaried employee of the superannuation fund or a wholly owned subsidiary of the superannuation fund. Advisers may be eligible for incentives or bonuses based on client retention or funds under management (FUM) targets. Individual members paid a flat dollar fee for their advice or there was no additional charge to the member. The costs of providing financial advice were funded by the (percentage-based) administration or management fee levied on all superannuation fund members.

* In one advice example, the remuneration method could not be categorised in the chart because inadequate documentation was provided to the participant.

36 Unsurprisingly, where advice fees were contingent on a product recommendation, there were numerous examples where the advice appeared to be structured towards recommending or selling financial products. In some cases, this was at the expense of optimal strategic advice, and prevented some otherwise adequate advice from being rated as good.

37 Two-thirds of the advice in the shadow shopping study involved the recommendation or continuation of in-house products or products associated with the advice group.

Pro forma advice

38 We came across examples of 'pro forma' advice in the research sample.

39 In some cases, it was obvious that the adviser had not adequately tailored the advice to the particular client, because sections of the SOA had no relevance to the client's circumstances. In others, it appeared that generic templates

were applied to clients, irrespective of their individual needs and circumstances, with the end result often being a financial product recommendation. In some cases, the SOA stated the client’s goals in unrealistic generic statements that were clearly linked to particular product recommendations.

Switching advice

40 Approximately two-thirds of the total sample contained recommendations to replace one financial product with another. For a detailed breakdown of the types of products recommended, see Figure 4. Typical product switch recommendations included:

(a) advice to switch between accumulation-phase superannuation funds;

(b) account consolidation advice;

(c) investments outside superannuation;

(d) self-managed superannuation funds (SMSF) and a separately managed account;

(e) advice to switch an accumulation superannuation fund to a new pension-phase product to provide an income stream. This included account-based pensions, annuities and transition-to-retirement strategies;

(f) advice to switch from a pension-phase product back to the accumulation phase, usually for tax or social security benefits; and

(g) switches in other product areas, such as insurance.

41 While the reasons for some of the switches were very clearly explained—including acknowledgement of the potential benefits lost as a result of the switch, and a tailored explanation of why the new product was better for the client—this was not the case in several advice examples. We found cases where clients’ superannuation was switched into inappropriate or more expensive products, often in-house products, without obvious advantages to the client. There were also shortcomings in the information and warnings provided by advisers.

Scope of advice

42 The scope of most of the advice reviewed was limited in some way. Whether advice covers all topics related to a client’s financial affairs in retirement, or is limited to a single topic, for it to be of high quality, the adviser should clearly define its scope, undertake the relevant investigations in the context of that scope, and present strategic recommendations that benefit the client.

43 When reviewing advice examples, we saw some evidence of the scope of the advice being inappropriate. In several instances, particular topics were

excluded from the scope of the advice, to the potential benefit or convenience of the adviser, and to the significant detriment of the client. For example, an adviser might have excluded consideration of a client's debts from their retirement advice. However, if the debts were significant, retirement advice could not have been properly provided without taking this into consideration. In such a situation, the client might mistakenly think that the advice was comprehensive, and that all of their financial circumstances and needs had been taken into account.

44 Even for very limited advice, there are some topics that cannot reasonably be excluded from the scope. For example, it would be difficult for an adviser to recommend significant extra salary sacrificing to superannuation without some understanding of the client's cash flow and other financial commitments.

45 For a more detailed discussion of the findings of our research, see the 'scope of advice' section, beginning at paragraph 122.

Barriers to improving the quality of advice

46 We identified a series of barriers, or issues that will need work, if our goal of improving the quality of retirement advice is to be achieved. These barriers are on both the supply side and the demand side, and are outlined in more detail in Section E.

47 Supply-side barriers include product-focused advice and conflicts of interest that limit the quality of the advice being provided, a heavy reliance on pro forma advice, and the need to improve training and professional development.

48 On the consumer side, the barriers are just as challenging. The main problem resides in the difficulty consumers have in evaluating the quality of advice they receive. The advice relationship is asymmetric. In the past, advice costs have been obscured so that the true costs of advice are not always appreciated, and disclosure often fails to prompt consumers into making informed decisions about how to find and value good quality advice.

49 We note that the Federal Government's Future of Financial Advice (FoFA) reforms were not in place at the time our research was conducted. The FoFA reforms will have a crucial impact on setting the regulatory framework under which to achieve good quality advice. The reforms propose:

(a) requiring advisers to act in the best interests of their clients;

(b) banning all trailing and up-front commissions and like payments;

(c) a broad ban on volume-based payments, targeted at removing payments that have similar conflicts to product provider-set remuneration, such as commissions. This includes those payments based on volume or sales targets from platform providers to financial advisory dealer groups; and

(d) a ban on any 'soft dollar' benefit that is $300 or more (per benefit) (excluding professional development and information technology administration services where set criteria are met).[4]

50 In separate work (see paragraph 54), we have also proposed a number of measures designed to ensure that financial advisers are adequately assessed on their ability to satisfy minimum standards of competence before providing advice, as well as promoting and providing a framework for their ongoing professional development.

Further work

51 There are a number of areas where the financial advice industry, ASIC and consumer groups can work together to improve the quality of financial advice provided.

52 Shortly after the release of this report, we will work with financial advice industry associations to provide workshops covering the more detailed findings of this report so that the concept of good quality advice can be further refined and implemented. We will also work with industry associations to ensure that quality advice frameworks are incorporated into professional development programs.

53 We will review and reissue the *Getting advice* booklet, and update relevant content at our consumer website www.moneysmart.gov.au, based on, among other things, the findings in this study. These resources will provide consumers with guidance for finding a financial adviser, preparing to see the adviser and getting the most out of their advice interactions.

54 This report reinforces the importance of implementing the proposed assessment and professional development framework, as described in Consultation Paper 153 *Licensing: Assessment and professional development framework for financial advisers* (CP 153), to ensure that financial advisers are adequately assessed on their ability to satisfy minimum standards of competence before providing advice.

55 We will consider carrying out further shadow shopping research on financial advice in accordance with Recommendation 2 of the PJC *Inquiry into financial products and services in Australia* (the 'Ripoll report'), released in November 2009. The possible focus of future shadow shopping research would be to benchmark the quality of financial advice under a new

[4] *Future of Financial Advice prioritises consumers*, Media Release, The Honourable Bill Shorten MP, 28 April 2011.

regulatory framework, if a duty to act in the clients' best interest is implemented in accordance with proposed legislative changes.[5]

56 We are interested in discussing with financial advice groups, compliance organisations, consumer groups and research agencies whether it is possible to establish an independent service that evaluates advisers and advice groups for consumers. While our role does not include providing an advice evaluation service for consumers, a key finding from this research is that it is difficult for consumers to objectively judge the financial advice they receive, and they do not know where or how to shop around to find the best advisers.

57 We will issue an example of scaled financial advice that covers retirement topics in ASIC's forthcoming regulatory guide on scaled advice.

[5] As set out in the Corporations Amendment (Future of Financial Advice) Bill 2011, and the Corporations Amendment (Further Future of Financial Advice) Bill 2011.

A Introduction

Key points

We undertook this shadow shopping research to help consumers receive good quality retirement advice and to provide feedback to industry.

Retirement advice was targeted, in particular, because of the increasing number of people reaching retirement age, the relative complexity of the decisions they face, and the impact of retirement advice on their livelihood in retirement.

Purpose and objectives of our research

58 We have been concerned about standards of financial advice, and have been working towards improving the quality of advice since our inception in 1991. Our *Good advice* report was published in 1996, and we began shadow shopping research on financial advice in 1998. Shadow shopping research is a particular type of market research that specifically does not involve individuals identifying themselves to their financial advisers as participants in the study.

59 This shadow shopping study assessed the *quality* of retirement advice given to participants and its aim was to enable us to understand and illustrate, using real examples, what constitutes good and poor quality advice.

60 We also wanted to provide feedback to the financial advice industry about our expectations regarding financial advice and our assessment of the advice currently being provided. It will also enable us to provide further guidance to people about seeking financial advice.

Why focus on retirement advice?

61 We chose to focus on advice about retirement. The advice examples we analysed included advice about:

(a) when to retire (including goals about adequate income levels and planning finances for retirement);

(b) pension eligibility;

(c) retirement income product options and strategies;

(d) superannuation (including switching funds, investment options and planning how to access and use superannuation);

(e) longevity risk strategies;

(f) what to do with redundancy payments; and

(g) other topics related to retirement planning.

62 We chose to focus on retirement advice because more and more people are getting advice in this area. For many people, advice about retirement will be the most important, and sometimes only, financial advice that they will receive. Good retirement advice can make a significant difference to people's wellbeing and financial circumstances after they retire.

63 The first of the 'baby boomers' are now retiring. Over the coming decades we expect a large number of people to retire, many of whom will have significant amounts of superannuation savings. This is reflected in superannuation projections by Rice Warner, which estimate current post-retirement assets at 30.3% of total superannuation. Rice Warner predicts that post-retirement assets will rise to 32.4% of total superannuation assets by 30 June 2016 and 42.1% by 30 June 2026.[6]

[6] *Superannuation projections,* Rice Warner, 2011.

B Methodology

Key points

Our research recruited real consumers who had sought or intended to seek financial advice about their retirement. Participants chose their own adviser and the topics they sought advice on.

As well as submitting SOAs, participants also completed a personal circumstances form and a post-advice questionnaire. We used all this information to analyse the quality of advice provided.

We also arranged for one-on-one interviews to be conducted with 11 participants to supplement the primary fieldwork.

A 12-person expert reference group, comprising industry representatives, a representative of the Financial Ombudsman Service and a representative of ASIC's Consumer Advisory Panel, provided guidance and oversight of the advice assessment process. Each advice example was reviewed by at least two ASIC analysts.

Recruitment

64 We commissioned Colmar Brunton Social Research to recruit real consumers for this shadow shopping research. Participants had to be aged 50 to 69, and fell into two groups: those who had already received retirement advice within the past 15 months and those who intended to seek retirement advice.

65 Our fieldwork agency identified 1,205 people who met the selection criteria. Of those, 266 expressed an initial interest in taking part in the study. Eighty people actually completed the fieldwork (i.e. participated and sent materials to Colmar Brunton Social Research). This sample yielded 64 useable advice examples for our final sample. The remaining 16 participants were excluded because there was insufficient information available for our final analysis.

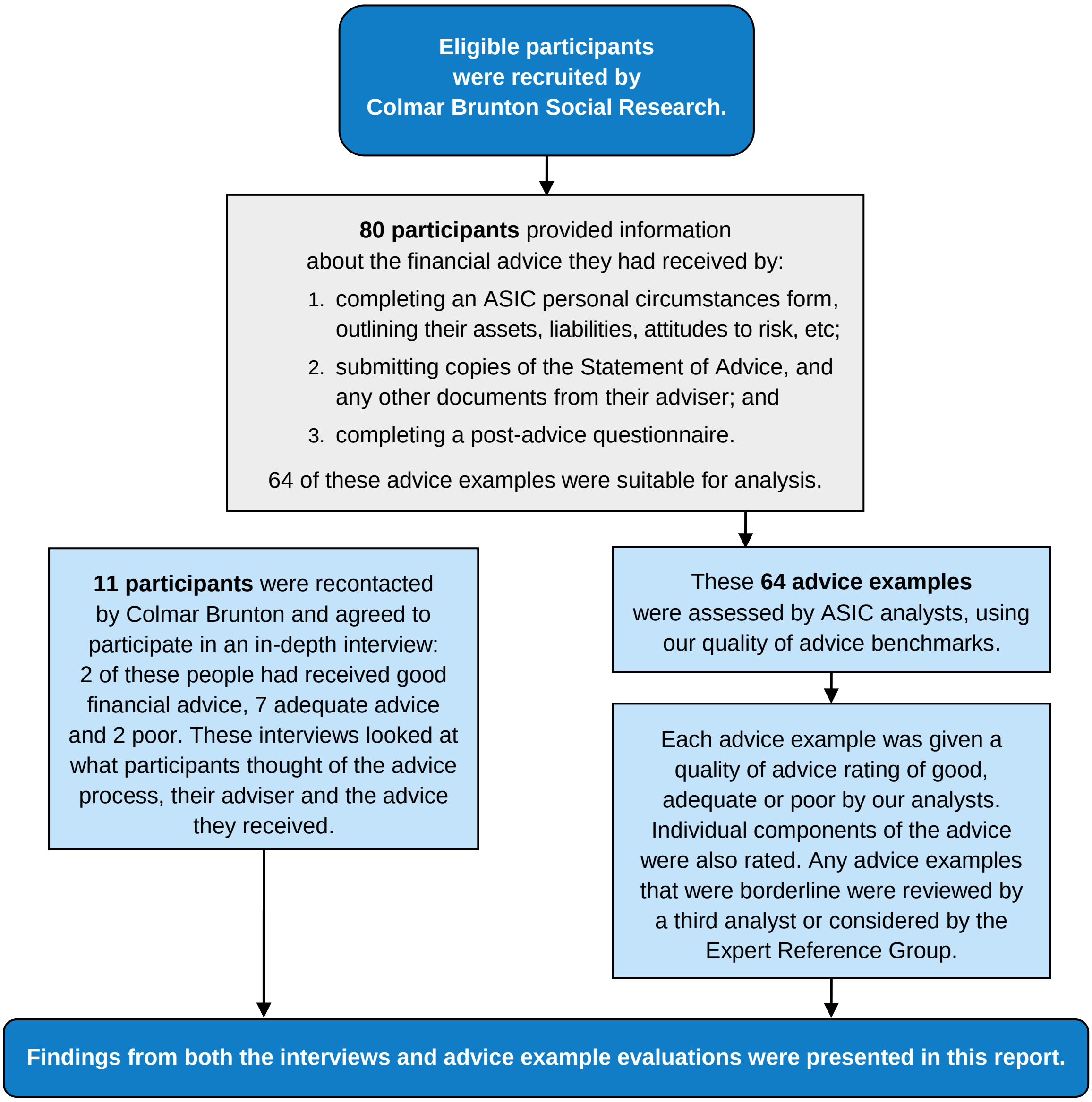
66 Couples that went to see a financial adviser together were treated as one participant. Summary demographic details of the participants in this study can be found in paragraphs 89–94 of this section. Our sample included people who had an ongoing relationship with a financial adviser and people who were seeing new financial advisers.

67 We paid a minor incentive of up to $250 as a thank you for participating in the research and submitting all the required materials. No restrictions were placed on the geographic location of the participant, the scope of advice they were seeking (i.e. which topics they wanted advice on), or the business model or type of advice firm used (superannuation fund owned, bank owned,

independently owned or owned by another financial services conglomerate). People were free to select their adviser and advice firm, resulting in a random selection of advisers and licensees.[7]

68 Figure 2 provides an overview of the different stages of our research project.

Figure 2: How we conducted our research



[7] In this report, we use the term 'licensee' to mean Australian financial services (AFS) licensees that provide personal advice to retail clients.

Instruments

69 All participants provided us with information about themselves and the financial advice they had received by completing an ASIC personal circumstances form and a post-advice questionnaire, and by submitting copies of all documentation they had in their possession from the adviser (such as an SOA).

70 None of the material provided to us by Colmar Brunton Social Research identified the names of the participants seeking advice or any other identifiable personal information, as defined in the *Privacy Act 1988*.[8]

71 The ASIC personal circumstances form was designed to obtain information that a financial adviser should know in order to provide good quality financial advice, as well as demographic details for analysis. Information asked for in the form included details about the participant's financial situation (including current income, expenditure, assets and liabilities), investment and financial objectives in retirement, attitudes to investment risk, and general demographics (including age, gender, location, relationship status, occupation and employment details).

72 We asked all participants to complete a post-advice questionnaire to obtain further information about the client's experience with the advice process. This questionnaire covered:

(a) details of their contact with the adviser (e.g. methods of communication and number of meetings);

(b) questions to provide a cross-check on the accuracy of the SOA (e.g. 'Did your adviser recommend that you sell any of your current investments to purchase new ones (i.e. switch investment products)?') or to provide further information to supplement the SOA (for more information on our cross-checking of the SOA, see paragraph 82);

(c) questions that explored the adviser's actions in the advice process (e.g. 'Did your adviser discuss any of their conflicts of interest with you?': see Appendix 3 for a more detailed description of these questions); and

(d) a subjective assessment of the advice and adviser by the participant.

73 Participants who had already received financial advice before the research commenced were asked the questions in one sitting and had the option of responding online or by telephone. Participants who sought advice during the research period were asked the questions immediately after each advice meeting.

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[8] In accordance with the requirements of the *Privacy Act 1988*, the participants' personal information was de-identified by the fieldwork agency before being provided to ASIC. We did not initiate direct contact with any of the participants in this study, although participants could contact ASIC's Infoline to verify the authenticity of the study.

74 In addition, we commissioned Colmar Brunton Social Research to conduct one-on-one in-depth interviews with 11 participants from the shadow shopping sample.[9] The key objectives of the interviews were:

(a) to provide deeper insight into the interactions between financial advisers and their clients from the perspective of the participants, including how participants felt about their advisers and the advice experience;

(b) to explore the participants' understanding of the advice received;

(c) to examine the effect of financial advice on participants' retirement planning; and

(d) to provide further evidence for what constitutes good quality advice.

75 We also used a 2010 Susan Bell Research qualitative research study that we commissioned on decision making for retirement to build context and to understand consumer motivations for seeking financial advice about retirement.

Analysis of the advice

76 Each advice example was reviewed by at least two ASIC analysts. The majority of our analysts are former financial advisers with Certified Financial Planner or Diploma of Financial Planning qualifications and years of financial advice experience, or have years of experience in regulating financial advice.

77 When assessing each advice example, our analysts considered all relevant information we had obtained from participants, including:

(a) what they told us in the ASIC personal circumstances form;

(b) the SOA and any other documentation they received from the adviser; and

(c) their answers to the post-advice questionnaire (although participants' subjective responses were not taken into consideration for the grading of the advice).

78 Analysts used an advice review template to standardise the assessment of the quality of advice received by the participants. This template had a series of questions that followed the advice process and applied the quality benchmarks: see Section C for further details. The advice review template was reviewed after initial pilot testing and was endorsed by the expert reference group: see paragraph 84.

[9] The 11 participants selected reflected a range of retirement planning situations and different advice outcomes in the sample. For more information, see Section E, paragraph 177.

79 There were three types of questions in the advice review template:

(a) type one questions were 'knock-out questions' that, if answered in the negative, meant that the advice was immediately graded as poor;

(b) type two questions assessed the quality of the advice; and

(c) type three questions recorded additional information for assessment and reporting purposes.

80 The analysts were asked to grade the overall investigation of personal circumstances and the overall strategy of the advice as either good, adequate or poor. They were also asked to assess whether or not any product recommendations met the personal circumstances of the client.

81 The analysts also provided an overall grade for the advice. This was a two-part process designed to integrate the client's experience of the advice process with the SOA. First, the analysts were asked to review the SOA without reference to the client's post-advice questionnaire responses. After this, they were asked to review the client's post-advice questionnaire responses and to consider whether these responses would change their grading of the advice. As noted above (see paragraph 72), the relevant questions from the post-advice questionnaire were selected on the basis that they provided insight into the quality of the advice process.

82 As part of our analysis of each advice example, we compared the information provided by participants in the ASIC personal circumstances form and the post-advice questionnaire with what was contained in the SOA. The purpose of this cross-check was not to catch advisers out for unintentional oversights or minor discrepancies. Instead, we were seeking to ascertain whether there were any major diversions between the client's personal circumstances and information provided to the adviser, and what was recorded in the SOA. Our analysts were instructed to give the benefit of the doubt to the adviser, where possible, in the event of any conflict between information in the SOA and information provided in the ASIC personal circumstances form and the post-advice questionnaire.

83 Where our analysts disagreed on the advice grades, either a further review was sought from a third analyst or, depending on the circumstances, the advice example was sent to the expert reference group (see paragraph 84) for consideration.

Project board and expert reference group oversight

84 The study had two levels of oversight:

(a) key strategic decisions on the study were made by a project board consisting of senior ASIC staff and ASIC Commissioners; and

(b) an expert reference group acted as an advisory panel on key industry issues. This reference group comprised 12 nominees from advice groups and superannuation funds nominated by the Financial Planning Association, Association of Financial Advisers, and Association of Superannuation Funds of Australia. The reference group also had a nominee from the Financial Ombudsman Service and a nominee from ASIC's Consumer Advisory Panel. The group assisted in defining the quality of advice benchmarks and provided guidance on the grading of the advice, including calibration with industry standards.

Research limitations

85 The purpose of our research was to assess the *quality* of retirement advice given to participants in order to understand and illustrate, using real examples, what constitutes good and poor quality advice. Our analysis of the quality of advice went beyond checking that the advice met s945A, although any advice that did not meet this standard was automatically classified as poor. Advice quality is a more subjective concept than legal compliance. In this research, we recognised that there would generally be a range of appropriate advice for any particular person but that some recommendations and advice would be of better quality than others. For further discussion of how we assessed the quality of advice, see Section C.

86 Shadow shopping research is a particular type of market research that specifically does not involve individuals identifying themselves to their advisers as participants in the shadow shopping study. Because individuals did not identify themselves to their advisers as participants in the study, we did not cross-check the information and answers given to us by participants with the advisers themselves. This would have compromised the confidentiality of the participants and would have changed the nature of our study from a research project to a surveillance exercise.

87 In all consumer research studies, participants' questionnaire and interview responses are a reflection of their recollection and interpretation of events. In some cases, how participants recall events, and 'hindsight biases', can affect the quality of responses. In this study, however, a range of material was collected and analysed—some of it subjective (e.g. participant one-on-one interviews) and some of it objective (e.g. the SOAs).

88 The study was conducted as research rather than surveillance under the notice requirements of the ASIC Act. This means that we only reviewed the participant's SOA and their questionnaire responses. We did not see the adviser's client files, including file notes, fact finds or risk assessments. We conducted our own investigation of personal circumstances and assessment of the client's risk tolerance.

Profile of participants in our sample

89 The average age of primary participants in our research was 59. Forty-two primary participants provided details of a partner or spouse (the 'secondary participant'). Secondary participants ranged in age from 48 to 74.

90 There was a fairly even split in primary participants between females (30 participants) and males (34 participants), while secondary participants included 27 females and 15 males.

91 The sample included people from most states and territories, with more than 75% of the sample located in the eastern states of New South Wales, Queensland and Victoria.

92 The shadow shopping study targeted people in the pre- and post-retirement phase. Of primary participants, 36 stated that they were employed (including self-employed and contracting). The expected retirement age of primary participants ranged from 50 to 70, with 65 being the most common response.

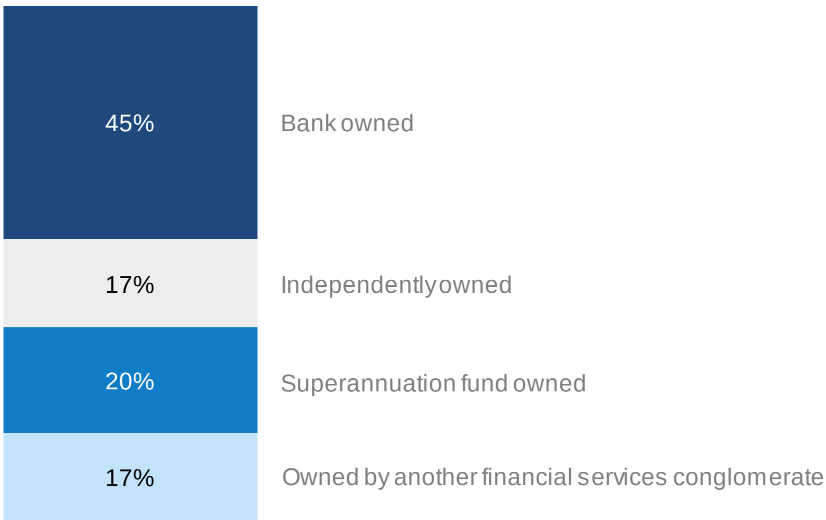
93 Participants' total assets exceeded $800,000 (median), with this wealth often being driven by the value of the participant's home and superannuation. Approximately two-thirds of the sample had some liabilities, including those with relatively small debts. While a small number of participants had substantial debts, this was relatively uncommon; the median debt was $12,000. Overall, participants' net financial position (assets minus liabilities) was $687,000 (median).

94 For more details on the profile of participants in this study, including their income, financial goals, risk tolerance and satisfaction with their financial affairs, see Appendix 1.

Profile of AFS licensees

95 In total, 36 Australian financial services (AFS) licensees were included in the shadow shopping study. Figure 3 shows the licensee ownership structure. Approximately 45% of the advice came from bank-owned licensees, 20% were from licensees owned by superannuation funds, 17% were independently owned, and a further 17% were owned by another financial services conglomerate.

Figure 3: Ownership structure of advice firms in the shadow shopping study



Note: The total does not add to 100% due to rounding.

96 We did not find any examples of financial advice by unlicensed individuals in this study. The majority of advisers in this study (69%) were affiliated with a top 50 licensee.

97 Table 1 shows that just over half the advice firms in the study were from licensees that were in the top 25 advice groups, based on the number of advisers employed.

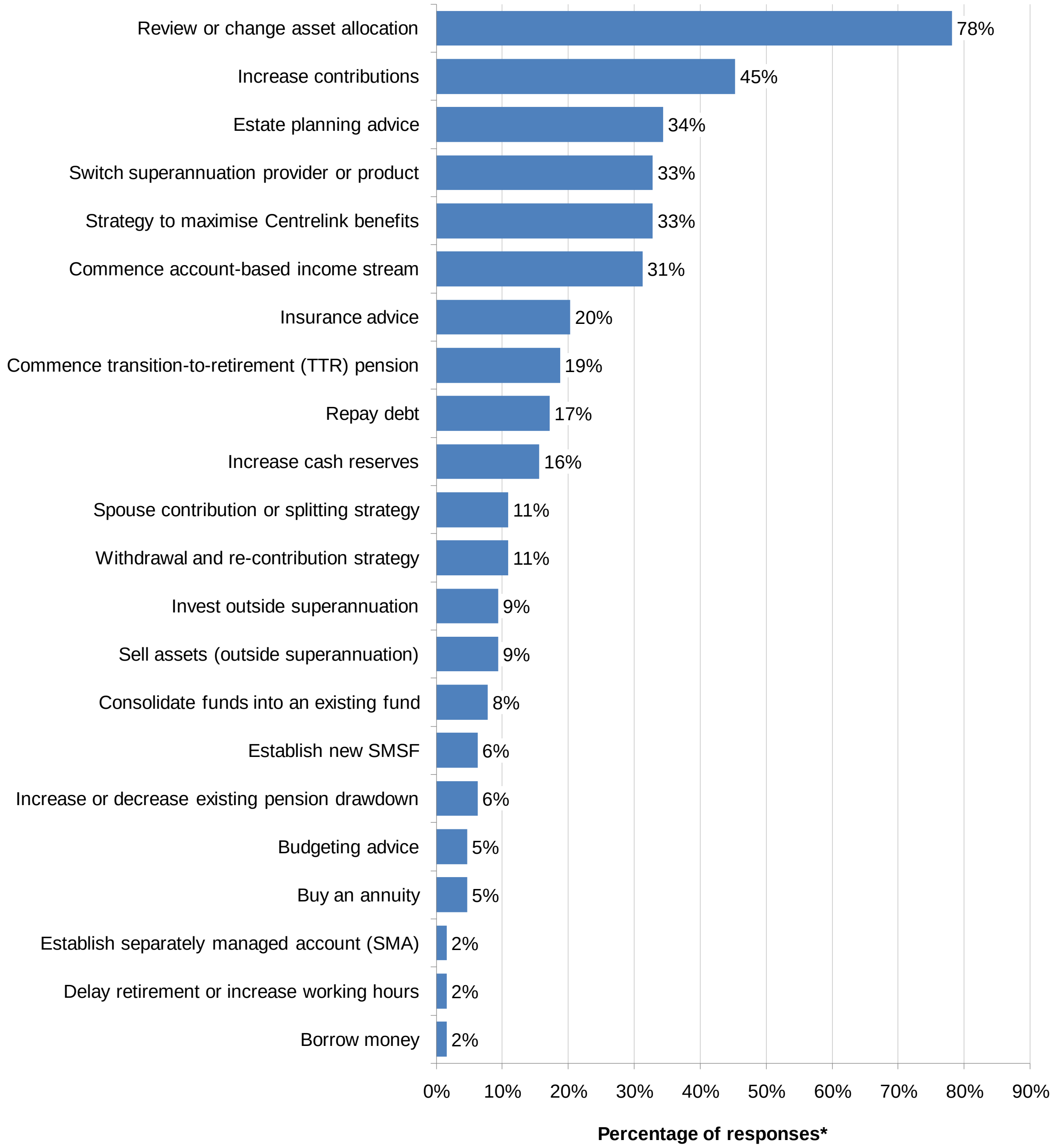
Table 1: Advice group size

Size of licensee	Number of advice firms in the study	Percentage (%)
Top 25	33	52
26–50	11	17
Outside top 50 (or not applicable)	20	31
Total	**64**	**100%**

Note: The licensee size is based on the number of advisers employed. Advisers from outside the top 50 included superannuation funds or related entities providing financial advice.

Advice topics

Figure 4: Topics of advice provided to participants



* Multiple responses were permitted.

98 Figure 4 shows the topics of advice provided to shadow shopping research participants, based on our analysis of the SOAs. Most of the time, the advice involved several of the advice topics listed below. The most popular topics for advice were:

(a) reviewing or changing asset allocation (50 advice examples, 78% of the sample);

(b) making or increasing superannuation contributions (25 advice examples, 45% of the sample). Strategies involving spouse contributions, and withdrawal and re-contribution strategies, are shown separately in the chart;

(c) estate planning advice (22 advice examples, 34% of the sample). In many of these cases, advisers recommended that clients contact a legal or estate planning specialist for more detailed advice;

(d) strategy to maximise Centrelink entitlements (21 advice examples, 33% of the sample);

(e) switching superannuation provider or product (21 advice examples, 33% of the sample[10]); and

(f) commencing an account-based pension (20 advice examples, 31% of the sample). Advice to commence a transition-to-retirement pension is shown separately in Figure 4.

[10] This figure is a subset of the overall product switching or replacement advice, identified in paragraph 40. The figure for switching superannuation provider or product includes recommendations to consolidate accounts within an in-house superannuation fund.

C Quality of advice benchmarks

Key points

We consulted with industry and the expert reference group to define and articulate the principles that underpin good quality financial advice.

From these principles, we developed quality of advice benchmarks that were used to develop a template for the assessment of advice in this study.

Each advice example was rated as good, adequate or poor quality. Individual components of the advice, such as the investigation of personal circumstances and strategy recommendations, were also graded.

Defining good quality advice

99 One of the challenges of this project has been to develop and articulate a definition of good quality financial advice, based on criteria that can be measured.

100 Defining good quality advice is an issue that both ASIC and the financial advice sector have been working on for some time. We have been working towards improving the quality of advice since our inception in 1991, and began shadow shopping research in 1998. More recently, in 2009, we engaged with industry participants and academics on how to define good quality advice. A series of forums was held, which discussed:

(a) the key elements of good quality advice;

(b) indicators that defined good quality advice; and

(c) the methodologies and processes a licensee could use for auditing and deciding on whether a particular piece of advice was of an appropriate quality level.

101 In preparation for our shadow shopping research on the quality of advice, we drew on this earlier work, and also consulted with the expert reference group on how to define and identify good quality advice.

102 As a result of our work and consultation in this area, we identified the following principles that underpin good quality retirement advice:

(a) good quality advice meets the client's needs, as well as satisfying the requirements of the law;

(b) good quality advice refines and clarifies a client's objectives, and helps the client, as much as possible, to achieve those objectives;

(c) good quality advice can be comprehensive or limited in scope, depending on the client's needs and circumstances;

(d) good quality advice educates and equips clients to make informed decisions about their finances, including whether to accept and implement the strategies and products recommended to them;

(e) sound strategic advice is a key component of good quality advice. Product recommendations should follow, rather than direct, the suggested strategies; and

(f) good quality advice involves good communication—including SOAs and verbal communication.

Benchmarking quality of advice

103 A series of quality of advice benchmarks were developed in conjunction with the expert reference group, based on the above principles. These benchmarks follow an advice process, comprising:

(a) the investigation of personal circumstances;

(b) strategic recommendations; and

(c) product recommendations.

104 We also established quality benchmarks for written communication.

105 Our quality of advice benchmarks sit alongside the legal requirements for providing personal advice to retail clients. As well as assessing whether advisers had a reasonable basis for their advice in accordance with the process in s945A, we looked at the quality of advice in terms of how well the adviser investigated a client's relevant personal circumstances, whether they recommended appropriate strategies and products, and how they communicated with the client.

106 Section 945A provides that:

> (1) the providing entity must only provide the advice to the client if:
>
> (a) the providing entity:
>
> (i) determines the relevant personal circumstances in relation to giving the advice; and
>
> (ii) makes reasonable inquiries in relation to those personal circumstances; and
>
> (b) having regard to information obtained from the client in relation to those personal circumstances, the providing entity has given such consideration to, and conducted such investigation of, the subject matter of the advice as is reasonable in all of the circumstances; and
>
> (c) the advice is appropriate to the client, having regard to that consideration and investigation.

'Relevant personal circumstances' is defined in s761A as:

> in relation to the advice provided or to be provided to a person in relation to a matter, are such of the person's objectives, financial situation and needs as would reasonably be considered to be relevant to the advice.

107 Financial advice does not need to be 'holistic' or comprehensive to be considered good quality advice. In fact, the majority of advice in the study was limited in scope to some degree.

108 Our benchmarks were designed to be appropriate both for more limited and more extensive financial advice. When assessing the quality of limited advice we looked at the appropriateness of those limitations given the preferences and circumstances of the client, and how well the limitations were explained.

109 For more discussion of issues relating to the scope of advice, see paragraphs 122–129.

Summary of the advice grades

110 When we applied our quality of advice benchmarks to analyse the advice examples in this study (via our advice review template), we decided that a range of grades was needed to reflect the range of advice available to consumers.

111 Advice in each grade has *some or all* of the following characteristics:

(a) *Good quality advice*—The advice is appropriate in accordance with s945A. Good quality advice demonstrates that the adviser has improved the client's financial situation. The adviser has clearly defined the scope of the advice and obtained detailed information about the client's relevant objectives, financial situation and needs. The adviser assists the client to set and prioritise specific and measurable goals and objectives. The strategy meets the client's relevant personal circumstances well, is specific, measurable and achievable, does not expose the client to more risk than necessary, and presents options (where relevant). The adviser considers the wider impact of the advice (where relevant)—for example, the tax or social security consequences. There is evidence of good communication with the client. This includes SOAs that are logically structured and easy to understand and verbal interactions that aim to ensure that the advice and recommendations are understood. The products meet the strategy.

(b) *Adequate quality advice*—The advice is appropriate in accordance with s945A. The adviser has obtained information about the client's relevant objectives, financial situation and needs. The strategies are reasonable but may not necessarily improve the client's situation—that is, the adviser may not present the client with multiple options (where relevant), may not show evidence of working with the client to set and prioritise specific and measurable goals and objectives, or may not consider the wider impact of the advice (where relevant), although this may not necessarily result in inappropriate advice. The products recommended are suitable for the client but other products, which could deliver more value, may not have been recommended.

(c) *Poor quality advice*—The advice does not meet the requirements of s945A. The adviser has not obtained sufficient information about the client's personal circumstances, does not make reasonable inquiries, and makes little attempt to clarify the client's retirement expectations. The strategy does not meet the client's personal circumstances or is unrealistic. The recommended products may not meet the client's personal circumstances.

Grading advice examples

112 To illustrate how our quality of advice benchmarks and advice review template work in practice, we have created the following example, drawn from different elements of several of the advice examples in our study. We first outline a case study of our hypothetical client, and then outline the sort of advice recommendations that would be considered poor, adequate or good based on our advice review template and the advice examples we reviewed.

Example: Hypothetical client

Jim is single, 63 years old and plans to permanently retire from work next month. He owns his home, has a small amount of debt and thinks he may be entitled to some social security benefits. He has two superannuation funds: one will pay him a relatively small defined benefit when he retires, and the other is an accumulation fund with $150,000.

After retiring, Jim wants to upgrade his car and travel overseas for at least six months. He expects to need about $50,000 a year as retirement income. He has always taken a 'hands off' approach to investing, with his superannuation in the default investment option. He knows there are some ups and downs in investment markets, but does not like the thought of taking risks and losing money.

Jim approaches three advisers for comprehensive advice about:

- whether he can afford to retire;
- the income he can expect from the superannuation he's accumulated;
- what to do with his superannuation; and
- retirement income products.

113 Table 2 gives some examples of good, adequate and poor advice that may have been given to Jim, drawn from the advice examples we reviewed in our study. This example is for illustrative purposes. The list of features under each grade is not definitive. Real advice examples might include features from each of the good, adequate and poor examples. In particular, it should be noted that we would not expect *all* of the features listed under 'Examples of good advice' to be present for advice to be rated as good quality.

Table 2: Illustration of typical advice in the shadow shopping study

Advice stage	Examples of poor advice	Examples of adequate advice	Examples of good advice
Investigation of personal circumstances	There were errors in the statement of assets and liabilities. There was no investigation of Jim's debts and defined benefit fund. There was no cash flow analysis. A fairly superficial risk profile assessment was included.	The adviser: • collected relevant information needed to provide retirement advice within the specified scope; • tested Jim's attitude towards investment risk; • clearly stated the scope of the advice; and • did not exclude the defined benefit fund from the scope of the advice.	The adviser: • completed a detailed collection and investigation of all relevant information needed to provide Jim with retirement advice, and developed the scope of the advice with Jim as part of the education process; • tested Jim's attitude towards investment risk; • clearly stated the scope of the advice; • did not exclude the defined benefit fund from the scope of the advice; and • conducted extensive inquiries into Jim's circumstances and needs.
Strategy advice	The adviser recommended a strategy of transferring both of Jim's superannuation funds to an account-based pension (see below) to set up a retirement income stream. The strategy did not include projections of how long Jim's money would last in retirement. The strategy did not consider Jim's debts, estate planning or social security entitlements. The SOA did not provide information about the potential loss of insurance or income benefits resulting from the product replacement.	The adviser: • recommended that Jim pay off his debts as soon as possible, and set up an account-based pension to provide an income in retirement; and • included some projections, but only for the next five years—this failed to show how long Jim's money would last based on the recommended annual drawdown.	The adviser: • explained that Jim did not have sufficient money to provide the income he expected for his retirement; • presented the pros and cons of different strategic options, including working for longer, increasing superannuation contributions, and downsizing to a smaller property. For each strategy, the potential impact on social security benefits and cash flow was calculated and explained; • explained the impact that buying a car and travelling would have on the longevity of Jim's retirement funds; • explained the trade-off between investment risk and expected returns, and helped to refine Jim's goals so that they were realistic and achievable; • recommended eliminating debts, and presented strategies to maximise retirement income from a variety of sources, including Centrelink and superannuation. Provided reasons for their recommendation; and • considered tax implications and estate planning needs.

Advice stage	Examples of poor advice	Examples of adequate advice	Examples of good advice
Product advice	The adviser: • recommended switching both superannuation funds to an 'in-house' account-based pension; • gave no warning or explanation of the loss of benefits as a result of terminating the defined benefit scheme; • did not compare the features and fees of the old and new products, nor the risks of cancelling the old product; • recommended a 'high growth' investment option for the maximum potential returns, given Jim's relatively small super-annuation balance; and • did not explain this recommendation with respect to Jim's conservative risk profile.	The adviser recommended maintaining the defined benefit fund and transferring the accumulation fund to an 'in house' account-based pension. A table comparing the costs of the old and new fund was included.	The adviser: • compared the features and costs of several retirement income products, including an annuity, and account-based pension from Jim's superannuation fund and two other institutions. In this comparison, the adviser demonstrated specifically how features of the new products would suit the client's particular goals and objectives; • recommended maintaining the defined benefit fund and transferring the accumulation fund to another account-based pension provider; and • explained the basis for their recommendation and provided some independent research comparing highly rated products.
Communication	The SOA included some factual errors and sections of generic information that were irrelevant to Jim's circumstances. The adviser did not explain the recommendations and technical aspects verbally, but sent the SOA in the post after the advice meeting.	The SOA included sections of generic information that were irrelevant to Jim's circumstances. The adviser explained most of the advice verbally.	The adviser explained their recommendations and made sure they were understood. The SOA was tailored for Jim, clearly laid out and structured, and, when possible, used simple, non-technical language.

Key results

114 Table 3 shows the number of advice examples in our research in each quality grade.

Table 3: Overall quality of advice

Grade	Number of advice examples	Percentage (%)
Poor	25	39
Adequate	37	58
Good	2	3
Total	**64**	**100%**

Further explanation of advice grades

115 Poor advice did not comply with s945A. In addition, following the advice may have had negative consequences for the client. In the shadow shopping sample, we saw examples of advice that resulted in clients experiencing inappropriate risks, a loss of benefits or income, or higher than necessary costs, and strategies that failed to address important needs.

116 The quality of advice graded as adequate varied, with some bordering on good and others close to poor. At a minimum, adequate advice was judged to have complied with s945A. Adequate advice also had one or more of the following features:

(a) The advice contained some very good elements, but there were key areas that prevented it from being graded as good advice. These cases were a missed opportunity to provide significant value for the client.

(b) While the advice was appropriate, it may not have left the client in a better position than before.

(c) Financial products, particularly the adviser's in-house products, were often recommended.

(d) The adviser may have included some future projections for the outcomes of the advice, but did not always consider different strategies, or include sufficiently long timeframes.

117 The two examples of good advice had some or all of these features:

(a) The advisers obtained all relevant information, including, in one case, relevant details of the client's health issues and work preferences as well as finances.

(b) Specific attention was paid to the client's objectives, how realistic they were, and the trade-offs required. In one case, the adviser explained that the client's objectives were unrealistic and unachievable, and subsequently presented tough but necessary measures.

(c) The scope of the advice was clearly explained, including the areas that were not covered. This scope was appropriate for the client, taking into account their financial situation, needs and objectives.

(d) The advisers considered the tax and social security implications, maximising the potential benefits for the client and/or their estates.

(e) Strategies focused on non-product topics that were crucial to providing good advice for the client's situation and needs, including budgeting, cash flow, debts, defined benefit funds and the need to delay retirement.

(f) Several different strategies were considered, and actions to address the client's deficiencies and maximise their retirement income were recommended.

(g) Good written and personal communications ensured that the client was aware of their options. The SOAs were logical, well structured and easy to understand.

D Detailed findings

Key points

This section provides detailed analysis of the advice received by participants, and examines the investigation of personal circumstances, strategy recommendations, product recommendations (when appropriate) and communication.

When giving good quality advice, advisers accurately and appropriately investigated the client's relevant personal circumstances, and presented personalised strategies to meet their objectives.

The quality of written communications also distinguished good advice from some of the adequate or poor advice.

Investigation of client's personal circumstances

118 The first building block for providing good financial advice is the investigation of the client's personal circumstances. Table 4 shows that the majority of advisers (41) performed adequately in this area and seven were rated as good. In 16 of the advice examples, the investigation of the client's personal circumstances was poor.

Table 4: Investigation of personal circumstances

Grade	Number of participants	Percentage (%)
Poor	16	25
Adequate	41	64
Good	7	11
Total	**64**	**100%**

119 In 15 of the 16 cases where the investigation of personal circumstances was poor, the overall quality of the advice was also rated poor. Clearly, the likelihood of an adviser providing high-quality financial advice is severely reduced if they do not adequately determine the client's relevant personal circumstances.

120 Conversely, in the two advice examples where the overall quality of advice was graded as good (see Table 3), the adviser's investigation of the client's personal circumstances was also good. A good investigation of the client's relevant personal circumstances is a necessary component of providing good

advice, although this on its own will not be sufficient, because good strategic and other recommendations must also follow, as appropriate.

121 The key areas that determined how well advice was scored in terms of the investigation of personal circumstances were:

(a) how clearly the scope of the advice was defined;

(b) the appropriateness of the scope of the advice;

(c) the accuracy of the information collected and documented;

(d) the degree to which the adviser helped the client to refine and establish their goals; and

(e) the adviser's assessment of the client's risk tolerance.

How clearly was the scope of advice defined?

122 Most SOAs clearly defined the scope of the advice. However, there were also a small number of cases where the advice scope was not clearly explained in the SOA.

123 The scope of the advice did not need to be 'holistic' or comprehensive to be of high quality. We saw examples where advisers had clearly explained that their advice would be confined to particular topics or needs. Unfortunately, however, we found that, in approximately half of all advice examples where limited advice was provided, the limitations of that advice were not adequately disclosed.

124 Table 5 shows how the advice examples performed against the advice review template questions about the scope of the advice and how it was described in the SOAs.

Table 5: Scope of the advice

Quality of advice benchmark	Yes	No	Other
Did the SOA clearly state the scope of the advice?	56	6	2
Were all of the client's needs and objectives covered by the scope of the advice?	38	24	2
Where a client need was not addressed, was there adequate disclosure when advice was limited?	16	15	33

Example

One participant's objectives in seeking advice were to work out whether their finances were on track, when they could afford to retire and what their retirement income would be. While the adviser considered these topics and provided recommendations, they did not address the client's existing debt, despite its relevance for their future planning and overall finances. Further, the adviser did not clarify that debt was outside the scope of the advice.

Inappropriate scope of advice

125 When reviewing advice examples, we saw some evidence of the scope of the advice being inappropriate. In several instances, particular topics were excluded from the scope of the advice, to the potential benefit or convenience of the adviser, and to the significant detriment of the client. For example, an adviser might have excluded consideration of a client's debts from their retirement advice. However, proper retirement advice could not have been provided without consideration of the debts, particularly where these were significant. In such a situation, the client might mistakenly think that the advice was comprehensive, and that all of their financial circumstances and needs had been taken into account.

126 Advice with an inappropriate scope is different to advice where it is clear that the advice only covers particular topics and this has been clearly communicated to clients so that they understand what the advice will and will not cover. Examples of limited advice with an appropriate scope may include recommendations about how to maximise superannuation contributions before retirement, or about an asset allocation appropriate to the client's risk tolerance.

127 Even in very limited advice about retirement, there are some topics that cannot reasonably be excluded from the scope. For example, it would be difficult for an adviser to recommended significant extra salary sacrificing to superannuation without some understanding of the client's cash flow and other financial commitments.

128 Advisers are generally in a better position than clients to determine which topics are critical to their advice. They should discuss and agree with the client an appropriate scope for the advice service. They should then clearly communicate the scope of their advice, taking particular care when excluding important issues from the scope. Advisers should provide the advice that clients ask for. We consider it poor practice to exclude a central or core issue that the client may need or expect the advice to cover.

129 Some clients have difficulty in determining the scope of advice that they need. Clients place considerable trust in their adviser, and advisers should help their clients to understand what advice options are available and to decide on an appropriate scope of advice in the circumstances. We expect

advisers to consider what scope of advice would be in the best interest of the client in the circumstances, including the fees and costs associated with the advice.

Example

In one SOA, the adviser attempted to exclude the client's cash flow, expenses, defined benefit fund and insurance within superannuation from the scope of the advice. However, ASIC analysts felt that these aspects could not legitimately be disregarded, given that the adviser was purporting to provide broad 'retirement planning' advice.

Collecting and documenting accurate information

130 Advisers generally collected enough information to enable goals and objectives to be well defined and specific to the client.

131 However, in 21 cases, the client's financial position, as stated in the SOA, was at odds with the details provided in the personal circumstances forms. Analysts were instructed to ignore minor discrepancies and, where possible, give advisers the benefit of any doubt—however, we found several clear examples of significant adviser errors and failure to collect and document relevant information. These included:

(a) simple errors of fact—for example, an advice that incorrectly stated that the client had no insurance cover;

(b) recommendations that were based on insufficient research—for example, advice to transfer out of a defined benefit fund without having undertaken an adequate investigation of that fund. Another example was advice to increase superannuation contributions without budgeting or cash flow figures that indicated the client's capacity to do so;

(c) reasonable evidence of failure to properly investigate relevant personal circumstances—for example, an adviser determined the client's risk tolerance as aggressive, while the client's questionnaire responses and personal circumstances form indicated a conservative asset allocation was more suitable. In this example, the client had sufficient funds to invest conservatively and meet their retirement income objectives, yet the adviser recommended a high-growth asset allocation; and

(d) incorrect and potentially misleading statements—for example, an adviser claimed to be an authorised representative of a particular licensee, when our records showed that this was not the case.

Understanding and refining the client's goals

132 Good financial advice often involves advisers working with clients to refine their goals, particularly if their original expectations or objectives are unrealistic or unachievable.

133 A typical example we found in our research was that a client had a conservative risk tolerance and a reluctance to accept investment risk or volatility, but still expected to achieve moderate to high investment returns. In this case, the adviser could play an important educational role, explaining the typical trade-offs between investment risks and expected returns. The client would have benefited from frank advice that clarified their financial position and helped them to set realistic goals.

134 In most cases (41), the adviser did not provide any comments in the SOA on the client's objectives, such as whether the goals were realistic. However, in examples of good advice, advisers worked with their clients to set expectations and devise reasonable goals.

Example

In an example of good goal setting, the adviser explained that the client's current financial arrangements would not meet their retirement income needs. The adviser indicated that the recommended strategies would bring the client closer to achieving their desired retirement income, but that a shortfall would remain. While the client felt less confident about their financial future as a result of receiving this information, the adviser worked with the client to set achievable and realistic goals, and to put effective strategies in place to make the most of their financial resources.

Assessing the client's risk tolerance

135 The majority of SOAs included an assessment of the client's risk tolerance, and a target asset allocation that the adviser recommended as suitable for that client.

136 However, in 11 advice examples, we found that the client's risk tolerance, as stated in the SOA, was inconsistent with the risk tolerance indicated by the information provided to us in the ASIC personal circumstances form. In some cases, this may have resulted in investment recommendations that had inappropriate risks for these clients.

Strategy recommendations

137 The next step in our grading process was to assess the strategy recommendations provided. The findings in this section had a large bearing on the overall advice scores.

138 Table 6 shows that:

(a) 9% of recommended strategies were considered to be of good quality;

(b) 52% of recommended strategies were considered adequate—most of these resulted in 'adequate' overall grades; and

(c) 39% of advice examples documented poor strategic advice—each of these resulted in a poor overall score for the financial advice.

Table 6: Strategy rating

Grade	Number of participants	Percentage (%)
Poor	25	39
Adequate	33	52
Good	6	9
Total	**64**	**100%**

139 Good strategy recommendations considered clients' personal circumstances and addressed their objectives. Depending on the scope of the advice (see the section beginning at paragraph 122), the advice may have presented a series of alternative strategic options, and would be expected to improve the client's financial situation after implementation.

140 Although six strategies were graded as good by ASIC analysts, four of these advice examples were downgraded because of other shortcomings—in some instances, because of the product recommendations—and were graded as adequate overall.

141 The majority of strategies (33) were considered adequate. Most of these resulted in 'adequate' overall grades

142 The quality of strategies developed for clients was closely linked to the overall quality of advice they received. The key areas that distinguished good strategies from adequate or poor strategies were:

(a) tailoring individual strategies to the client;

(b) evaluating and comparing alternative strategies; and

(c) considering the wider implications of the advice.

Tailoring individual strategies

143 In most cases (54), the advisers' recommendations were tailored to their clients' circumstances. However, in nine advice examples, this was not the case, and each of these resulted in a poor strategy and a poor overall advice grade.

144 In some cases, the client's expressed needs and objectives in seeking advice were simply not addressed. This commonly included the failure of advisers to address areas that did not directly involve investment products—for example, borrowings and debts.

145 The failure to tailor individual strategies to the client can also be seen in the asset allocations recommended. In 11 cases, the adviser's proposed asset allocation did not suit the client's psychological risk tolerance. In other examples, the asset allocation recommendations directly contradicted the client's stated wishes in the personal circumstances form—for example, to avoid particular investment products or sectors.

Example

A participant sought financial advice specifically to reduce the risk in their superannuation portfolio. They had a substantial balance and relatively modest retirement income requirements, which meant that they did not need to take risks to meet their objectives. However, the adviser put a high-growth asset allocation in place, with the majority of the client's retirement funds in shares and property. While the SOA stated the investment mix, the asset allocation was not sufficiently highlighted or explained to the client, who believed that their risks had been appropriately adjusted.

'Pro forma' advice

146 The poor quality of some documentation also provided evidence that strategies had not been appropriately tailored. For example, participants often appeared to have received 'pro forma' financial advice, where the company's advice template had been applied to the client without sufficient modification to the client's individual circumstances.

147 In some cases, this led to sections of the SOA that had no relevance to the client's circumstances. In others, it appeared that advice templates were being applied to clients, irrespective of their individual needs and circumstances, with the end result often leading to financial product recommendations.

148 There were also some examples of factual errors. For example, in one SOA, the consequences of replacing a particular investment product seemed to have been copied and pasted from someone else's SOA, because the client

did not hold the particular product. In another, an incorrect client name was left in the template.[11]

Evaluating and comparing alternative strategies

149 Good financial advice usually includes, where relevant and applicable, an investigation of several strategic options, including a presentation of their advantages and disadvantages. However, in 39 advice examples, advisers did not consider more than one suitable strategy, or evaluate the risks and rewards of alternative options.

Table 7: Consideration of alternative strategies

	Yes	No	Other
Does the SOA consider more than one suitable strategy?	23	39	2
Does the strategy consider the implications for taxation, estate planning and/or social security entitlements?	38	23	3
Does the advice adequately consider the risks and rewards of alternative options?	22	37	5

Example

In an example of good strategic advice, the adviser explored all the options that were available to the client within their defined benefit scheme, as well as two further options about what to do with a redundancy payment.

Advice that considers wider implications

150 While highly dependent on the client's individual circumstances, good strategic advice also tends to consider strategies that may affect other areas, such as taxation, social security entitlements and estate planning. This often requires some level of technical expertise.

151 In 23 cases, the recommended strategy did not consider the implications for taxation, estate planning and/or social security entitlements. In some cases, this may have been acceptable, but in others it contributed to advice being graded as poor or merely adequate.

152 Failure to consider wider implications and the potential knock-on effects of financial advice can be detrimental. For example, one adviser's recommendation that their client should withdraw a relatively large income stream payment had the effect of significantly reducing the client's social

[11] The fieldwork agency masked all participants' names in the SOAs and other documents provided to ASIC. The names were replaced with identifiers such as 'main respondent', 'main respondent's partner', etc. In this advice example, instead of the main respondent's name, the SOA specified a third 'unknown respondent'.

security entitlements. As a result, the client's limited superannuation benefits would be depleted sooner than necessary in retirement.

153 In a contrasting example of good strategic advice, restructuring the client's finances enabled the client to maximise income from a range of sources, and receive thousands of additional dollars each year in age pension payments.

Example

In a good piece of strategic advice, the client wanted to check the health of their finances and their eligibility for the age pension. The strategic advice provided would enable the client to claim the full government pension, which may not otherwise have been possible. Separate recommendations would also minimise the tax their estate would owe if they died, and extend the longevity of their retirement capital. The adviser also provided detailed, clear information about each step the client needed to take to implement the strategy, how the funds would be invested, and how pension funds would be withdrawn.

Strategies that justify their fees

154 While the study did not seek to evaluate the advice outcome in dollar terms, there were some cases where consideration of the advice and product costs, in the context of the benefits that would be achieved, was unavoidable.

155 In several advice examples, we saw adequate and even good strategies, where a combination of the product fees and advice fees effectively cancelled out the value of the advice (i.e. the client was unlikely to be better off after fees and costs). For example, in one case, the client's superannuation was switched to a cheaper superannuation fund, which resulted in substantial tax and product fee savings. However, the adviser's initial and ongoing fees more than offset the benefits gained in the first year, leaving the client no worse off, but no better off either. The client's benefit in subsequent years would be determined by the ongoing advice fees, which had not been agreed when we reviewed the advice.

Product recommendations and advice

156 We did not set out to evaluate the quality of financial advice based on product recommendations alone, nor did we attempt to evaluate the quality of *products* that were recommended. However, we did assess the appropriateness of products in the context of the client's personal circumstances and the strategy recommendations.

157 Table 8 shows that, in most cases (40 advice examples), the financial products recommended were generally appropriate and in line with the client's personal circumstances, having regard to the strategy recommended

and their risk tolerance. This does not necessarily indicate that they were the best, or the most suitable, products that could have been recommended. We also saw cases where advisers put their clients' needs first, rather than recommending strategies or products that would have maximised the advice fee or commission revenue.

Table 8: Did the product recommendations meet the client's personal circumstances?

Response	Number of participants	Percentage (%)*
Yes	40	63
No	16	25
Not applicable	8**	13
Total	**64**	**101%**

* The total does not add to 100% due to rounding.

** In some cases, this question did not apply because, for example, the advice did not include product recommendations.

158 However, in 16 advice examples, inappropriate financial products were recommended. All of these resulted in an overall advice grade of poor. They were products that did not suit the client's personal circumstances, having regard to the strategy recommended and the client's risk tolerance. Examples included:

(a) switching or consolidating multiple superannuation funds into a more expensive 'in-house' fund, without sufficient benefits;

(b) recommending a transition-to-retirement pension, where the client had no need for the extra income that was to be withdrawn from their account. Rather than drawing down on this money, the client may have benefited from leaving it to grow in superannuation until their retirement; and

(c) recommendations to start self-managed superannuation funds that were not appropriate for the particular individuals.

159 In many cases of poor or merely compliant advice, product recommendations seemed to take precedence over advice that focused on the client's needs. In some of these cases, the advice process appeared to have been driven towards a product sale, with a predominance of in-house product recommendations.

Replacement products

160 Forty-three advice examples (two-thirds of the total sample) included product replacement (i.e. switching) advice. Given that the participants were often transitioning from the accumulation phase to the pension phase of their

superannuation, it may not be surprising that financial products were being replaced and recommended.

161 However, we found cases where clients’ superannuation was switched into inappropriate or more expensive products—often in-house products or those paying commissions or fees to the adviser, and often with no obvious advantages to the client.

Inadequate or poor disclosure

162 When financial products were replaced, there were also significant shortcomings in the information and warnings provided by advisers. In some cases, this was a factor that contributed to advice being graded as poor or adequate.

(a) When there is a product replacement, s947D requires that SOAs provide information comparing the old and new products (i.e. costs, benefits and other consequences of switching). This did not happen in 24 cases, representing 56% of product replacements.

(b) In 22 advice examples, the product replacement recommendation was not presented in a format that was detailed and easy to compare, so that clients could make an informed choice. This represented over 50% of advice examples where there was a product replacement.

(c) The risks of cancelling a product were not clearly set out and communicated with the client in 17 advice examples (39% of product replacements).

(d) There were further examples of potentially misleading comparisons between the ‘before’ and ‘after’ products.

In-house products

163 We saw widespread replacement of existing financial products with ‘in-house’ products. In this study, when replacement products and new products were recommended to research participants (57 advice examples), almost three-quarters were for ‘in-house’ products. Eleven of the 13 advice interactions with advisers from one of the ‘big four’ banks (or their financial planning divisions) resulted in an in-house product recommendation.

164 This aligns with wider industry research that finds the recommendation of in-house products is endemic in financial and superannuation advice. Roy Morgan Research surveys found that, in the four years from July 2007 to June 2011, the six largest institutionally owned advice groups had directed 73% of superannuation recommendations to their own products, which included superannuation funds and platforms.[12]

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[12] *Superannuation & wealth management in Australia*, Roy Morgan Research report, December 2011.

Example

In one example, the client saw a financial adviser employed by a major bank. The client had insurance and estate planning needs, as well as substantial upcoming expenses. However, these requirements were not considered by the adviser, who focused on the lump sum required to provide the client's desired income, and on switching their superannuation to one of the bank's funds.

The basis for the product switch was lower fees, but no comparison of costs (the old fund versus the new fund) was provided. The risks of switching superannuation funds, including the possible loss of benefits, were not addressed.

Self-managed superannuation funds

165 Our study did not seek to find examples of self-managed superannuation fund (SMSF) recommendations, which were relatively uncommon. However, of the small number of SMSF recommendations that emerged (4), we found three examples of inappropriate advice.

166 Problems identified included recommendations to start an SMSF where the client's funds were unlikely to make this an economically viable option, and cases where the basis for recommending the commencement of an SMSF, instead of using a public offer superannuation fund, was not explained.

Communicating with clients

167 One of the key findings of this shadow shopping research was the gap between the technical quality of the advice provided (as assessed by us), and the research participants' own assessment of that advice. Section F describes how the information and knowledge asymmetry between advisers and clients is a defining feature of the financial advice dynamic.

168 This asymmetry heightens the need for advisers to clearly and effectively communicate their recommendations in a way that will be understood. While we saw examples of excellent SOAs and clear, helpful communications, we also found problems in the quality and accuracy of disclosure documents, such as written advice statements.

169 In some cases, financial advice clients' limited experience and proficiency with complex financial matters appeared to be a barrier to understanding the advice they receive. Advisers should consider the financial experience and financial literacy levels of clients when communicating and providing their recommendations.

170 The research highlights the important position of trust that advisers are in when giving financial advice. Because it is difficult for clients to assess the quality of the advice, it is crucial that licensees' ensure that their advisers provide good quality advice.

Documentation provided

171 Most of the time, clients received written SOAs and other necessary documentation. Advisers also usually provided additional documentation, such as educational material, that explained technical concepts.

172 However, sometimes the necessary documentation (advice statements) was not provided. For example, one client who had received personal financial advice did not receive an SOA.

173 While disclosure in SOAs may be accurate and compliant, this does not always mean that the information in such documents is well explained and well understood. For example, in at least one case, the client did not realise that their superannuation had effectively been switched into a new product by the adviser. We saw several cases where clients may not have understood that the advice would have negative consequences for them, despite written statements to that effect. An example of a product switch that would leave the client tens of thousands of dollars worse off in retirement is provided in the examples below.

174 The better advice examples included SOAs that were clear, well structured and presented, and did not contain unnecessary superfluous material.

175 Based on the in-depth interviews, we understand that in the better advice interactions, advisers went through the SOAs with their clients to attempt to ensure that these were genuinely understood. This was an educational experience for clients, with advisers playing an important ‘coaching’ role.

Examples

In one case, the client’s SOA clearly stated that the benefit of implementing the adviser’s recommended strategy would be ‘zero’. Even this may have been an overestimation, as the strategy was likely to result in a loss of social security entitlements. Further, while the SOA explained how paying lower superannuation fees can lead to a higher retirement balance and can assist clients to achieve their goals, it also showed that the product advice would leave the client tens of thousands of dollars worse off. A diagram illustrated how the product switch would result in *fewer* product features as well as higher costs (including a tenfold increase in annual product fees).

Despite these clear written disclosures of the poor value and quality of the product switching advice, we learned from the in-depth interviews that the client rated both the advice and the adviser highly, and implemented most of the recommendations that were in the SOA.

The above example was not unique. Another SOA stated clearly how the recommended changes would have an ‘estimated net benefit decrease’ of close to $10,000, which was ‘predominantly due to the recommended superannuation fund being more expensive’ than the client’s existing platforms. The SOA stated that the adviser’s recommendations had ‘reduced [the client’s] overall net worth over time’, but that the new fund offered income protection insurance, which was advised as an advantage of the switch.

E The client experience of financial advice

Key points

In general, people report being very satisfied with the financial advice they are receiving—86% of shadow shopping research participants felt that they received good quality advice.

Participants in the in-depth interviews reported mostly positive feelings about their advisers and the advice or advice experience. In the absence of an ability to judge the accuracy of the advice because of the complexity of the issues, participants' satisfaction with the advice experience may be influenced by their level of comfort with the adviser, which is informed by a range of factors relating to a generic notion of 'professional service'.

176 This section draws on a number of sources of information to develop a picture of why people seek financial advice approaching retirement, their levels of satisfaction with the advice and advice process, and their evaluation of advice received. Generally, licensees checking the compliance of their representatives, and ASIC surveillance, only review the advice using the client file. Shadow shopping research approaches the advice process not only by reviewing SOAs, but also by trying to understand the consumers' (or demand-side) experience of that advice.

177 The sources of information that this section draws on to develop a picture of the client or consumer experience include:

(a) the 64 participants whose advice was analysed in our primary 2011 shadow shopping study. In particular, these participants were asked a series of post-advice questions in relation to what they thought about their advice and their adviser;

(b) the 11 participants who not only participated in the primary shadow shopping fieldwork but also agreed to a supplementary one-on-one in-depth interview with Colmar Brunton Social Research. We selected these participants to reflect the range of retirement planning situations and different advice outcomes in the sample. Two had received good advice, seven adequate advice and two had received poor advice. The objectives of the interviews were:

   (i) to provide deeper insight into the interactions between financial advisers and their clients, from the perspective of the participants, including how participants felt about their advisers and the advice experience;

   (ii) to explore the participants' understanding of the advice received;

   (iii) to examine the effect of financial advice on participants' retirement planning; and

(iv) to provide further evidence of what constitutes good quality advice;[13] and

(c) a 2010 Susan Bell Research qualitative research study that we commissioned on decision making for retirement. This research was conducted in March 2010 with more than 70 Australians aged 50 and over via six group discussions, 16 face-to-face interviews and 12 telephone interviews. The research participants spanned across Sydney, the New South Wales Central Coast, the Queensland Gold Coast, Adelaide and Perth. These participants are referred to as the 'retirement research participants', when directly quoted in this section, to distinguish them from the 'shadow shopping research participants'.

Reasons for seeking financial advice

178 There are a number of reasons why people seek financial advice when approaching retirement. All shadow shopping research participants (n=64) were asked a series of prompted questions about their reasons for seeking financial advice. Participants could give multiple responses. The top five reasons (in order) for seeking advice were to:

(a) work out whether their finances were on track to retire;

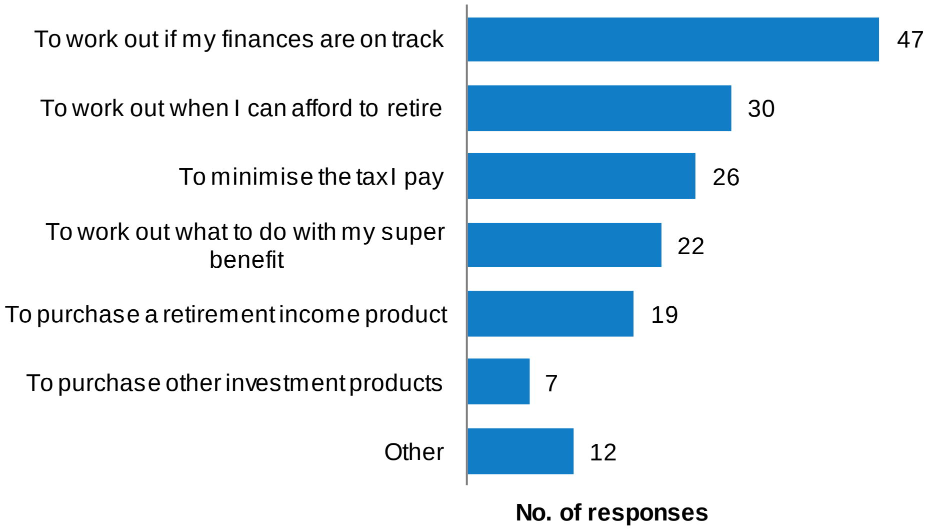
(b) work out when they could retire;

(c) minimise tax;

(d) work out what to do with their superannuation benefit; and

(e) purchase a retirement product.

Figure 5: Reasons for seeking advice (frequency)



Note: Multiple responses allowed

[13] This is based on ASIC's interpretation of the transcripts from the interviews, not the participants' subjective opinions.

179 The Susan Bell Research retirement research also provides information on why people sought financial advice for retirement. Although not a precondition of participating in the research, a number of people were interviewed who had already seen an adviser for retirement advice.[14] Their motivations included the following:

(a) Some wanted to learn what their options were, particularly if they knew that their financial situation was complex:

> 'I have been told you may have a fair amount of assets but you can still qualify for a health card and that is apparently worth quite a fair bit … And there must be different ways you can manage that money that you have got in different allocated pensions where you can have an income stream coming out and still qualify for the government benefits.'
>
> Retirement research participant: Intending retiree, Sydney, female

(b) Some wanted to validate their own thinking:

> 'There is still an opportunity to do all the homework yourself, to further understand. Show them your ideas. Spending less time with them and save some money. At the moment I have a regular check every six months myself. So if I did see a planner I would come prepared. I like to track where I am at.'
>
> Retirement research participant: Intending retiree, Sydney, male

(c) Some went to seminars and also visited financial planners one-on-one. There were mixed views on this, but some felt that the one-on-one consultation gave them the chance to gain advice on their own personal situation.

(d) Some who had never visited a planner before did so because someone else had suggested it, or they had seen a friend or colleague receive useful advice.

Satisfaction with the advice and advice process

180 This section explores in greater detail the findings from the in-depth interviews with 11 participants in the shadow shopping research sample, focusing on their levels of satisfaction with the advice received, the advice process, and their advisers.

181 The in-depth interview findings need to be considered in the context of four of the participants having long-standing advice relationships with their financial advisers.[15] A further four participants had received financial advice in the past but were seeing a new adviser (although not necessarily in a new advice firm) for their retirement advice. Only three of the 11 participants interviewed were receiving financial advice for the first time.

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[14] The Susan Bell Research retirement research was designed to understand how people plan for retirement generally. Therefore, the recruitment of participants did not specify that people had to have received financial advice from an adviser about retiring. The examples provided are a subset of the total participant sample in this research.

[15] It is a logical assumption that clients who have chosen to continue an advice relationship are satisfied with their advisers and the advice.

182 With one exception, these shadow shopping research participants were positive about the experience of obtaining financial advice for retirement. They rated their advisers, and the advice or advice experience, very highly. Our analysis of these interviews, in light of our knowledge about how the advice examples were graded by our analysts (i.e. two good quality, seven adequate quality and two poor quality), suggested that a participant's level of comfort with their adviser was an important factor when evaluating their satisfaction with the advice and the advice process. This sense of comfort, which was informed by a range of factors, is explored in further detail below.

Comments on the advice experience

183 When asked to rate the advice experience or the advice, participants interviewed were generally positive. The factors on which they based these ratings varied, but all related to a generic notion of the adviser providing a 'professional' service.

Meeting expectations

184 Some participants mentioned that the advice experience matched their expectations. For example, one participant said in relation to the advice:

> 'It was just right for our needs … it was done in a really satisfactory manner, a very professional manner … the format it was handed out to us, you know the booklet was bound and everything, I suppose it would have to be for professionalism but no it was really good.'
>
> Shadow shopping research participant, received adequate advice.

185 The one participant in the in-depth interviews who was not positive about the advice they received did not have their expectations met. They stated that they were looking for:

> 'Confirmation as to this is where you need to be or "yes, you're on the right track with this" or "no, you shouldn't be doing that". Just something a bit more concrete, a bit more definitely positive.'
>
> Shadow shopping research participant, received poor advice.

Feelings about the adviser

186 When asked about their feelings about their advisers, a common theme raised by the participants was the importance of feeling comfortable with them. This comfort was derived from different sources, depending on the participant. For example, some participants with an ongoing advice relationship felt comfortable with their adviser because they felt that their adviser knew them well because of the length of the advice relationship, or based their level of comfort on the fact that the adviser's recommendations had saved them money. Other participants based their feelings of comfort on the personal traits of their advisers, or on behaviours that accorded with general service expectations. Words they used to describe their advisers

included ‘knowledgeable’, ‘prepared’, ‘confident’, ‘friendly’, ‘proactive’ and ‘professional’.

Organisation and preparation

187 Some participants were reassured by behaviour that indicated the adviser was well prepared. Being prepared could be interpreted as both a sign of professional organisational skills and also personal attentiveness. For example, when commenting on the competence of their adviser, one participant stated:

> ‘… She didn’t sort of have to keep looking at the notes that we’d sent through or anything. It was obvious that she’d done her homework as far as we were concerned …’ and ‘ … so I thought she was well prepared and I think she’s fairly cluey actually.’
>
> Shadow shopping research participant, received adequate advice.

Interpersonal skills and manner

188 At least one participant nominated the adviser and their manner when asked what the best things were about the whole process. The participant said that the adviser had ‘put me at my ease.’

> Shadow shopping research participant, received adequate advice.

189 For some participants, comfort was derived from the adviser explaining the advice to them in their meetings, and having confidence and good communication skills. For example, one participant, comparing their new adviser to a previous one who had retired, explained how the new adviser ‘seemed very confident in what he was doing and I guess he made me feel more comfortable than the previous one’. The participant noted how the advice ‘tried to explain everything to me and, yeah, he was much better’.

> Shadow shopping research participant, received good advice.

190 Interpersonal skills also contributed to whether participants felt that the adviser understood their needs and was putting their interests first. For some, rapport and trust was built via ‘friendly’ conversations about themselves and their family, a courteous manner and the absence of an overtly sales-oriented approach:

> ‘I always find it really friendly, because we have initially a conversation [about] what’s been going on in my life, a little bit about what’s been going on in his life to help put me at ease, and to give him, I think, some structure around what advice he might be providing later … and he has gauged, and rightly, that my family is incredibly important to me.’
>
> Shadow shopping research participant, received adequate advice.
>
> ‘And he knew the range of products so I was comfortable with his knowledge of it. He was polite, he wasn’t rude, obnoxious, pushy.’
>
> Shadow shopping research participant, received poor advice.

191 Similarly, one participant, who received financial advice from two advisers at around the same time, preferred one adviser over the other because they did not feel they were being ‘preached at’.

Knowledge and expertise

192 The idea of the adviser as an expert was raised by some participants. One participant explained:

> ‘… Well, they’ve always explained all these things to me. They’re not the sort that just say, “oh, leave it to me, I know best” … I mean, to some extent, they have the expertise in financial management and I don’t have anything like their expertise so I respect that, and I’ll defer to their advice as long as it doesn’t run too much contrary to what I want.’
>
> Shadow shopping research participant, received adequate advice.

193 Others sought signs of expertise but admitted that it was difficult to accurately assess whether or not the adviser was knowledgeable:

> ‘I think I was interested in his qualifications, he didn’t seem very old so I was wondering how much experience he had. But I was open mind[ed] and everyone says, “They’re the professionals, they know what they’re doing, you’ve got to listen to them”.’
>
> Shadow shopping research participant, received poor advice.

Advice recommendations

194 Participants were generally satisfied with the advice recommendations. For some participants, there were minor points on which they did not agree in relation to the recommendations. For example:

(a) one participant disagreed with their adviser’s recommendation to resign from work as they preferred to go on unpaid leave and retain their income protection;

(b) one participant was unhappy that the adviser did not take into account their defined benefit superannuation when providing the advice; and

(c) one participant disagreed with their adviser for recommending in the SOA that all their redundancy payment go into superannuation because they intended to use a portion of the payment to pay off their mortgage.

195 When asked to describe their thoughts on the recommendations, most participants interviewed did not mention financial products as a key part of the recommendations. However, five of the 11 participants interviewed had a defined benefit superannuation account, which means that they may not have needed to consider other financial products. Also of interest is that just under half of the participants actively mentioned a link between financial advisers and product sales, as highlighted by comments such as:

> ‘I was fully aware the bank would promote its own products, which it did.’
>
> Shadow shopping research participant, received poor advice.

Evaluation of the advice

196 We asked all the shadow shopping research participants (n=64) to provide their subjective opinions on the quality of advice they received.[16] In keeping with results from previous shadow shopping research exercises, 86% of the participants felt that they had received good quality advice: Table 9. This result stands in contrast to our assessment, where only 3% of the advice was considered good quality. This highlights that it can be very hard for people to assess the overall quality of the advice they are receiving.

Table 9: How do you rate the quality of the advice you received?

Response	Number of participants	Percentage (%)
Good quality	55	86
Neither good nor poor quality	6	9
Poor quality	3	5
Total	**64**	**100%**

197 We also asked participants whether they trusted the advice they received from their adviser. The responses were very similar to their evaluation of the quality of advice. Table 10 shows that 81% of participants trusted the advice they received from their adviser 'a lot', and a further 14% said that yes, they trusted the advice 'a little'.

Table 10: Do you trust the advice you received from your adviser?

Response	Number of participants	Percentage (%)
Yes—a lot	52	81
Yes—a little	9	14
No	3	5
Total	**64**	**100%**

[16] This subjective assessment was not included in ASIC's assessment of the advice examples, and analysts were not informed of the participants' subjective assessment.

Communication

198 Most participants in the shadow shopping research rated the communication of their advisers highly.

199 In response to the question: 'How would you rate the quality of your adviser's communication with you?', approximately 77% of participants said the adviser's communication was 'very good'. A further 17% said it was 'good'. Just under 5% said the adviser's communication was 'okay' and only one participant said the communication was 'bad'.

200 We also asked: 'How difficult or easy was it to understand the topics your adviser discussed with you?' A third said it was 'very easy', 48% said it was 'easy', 14% said 'neither easy nor difficult', and 3% said it was 'difficult' to understand.

Conclusions from the client experience

201 In this study, people who had received financial advice or used an adviser reported mostly positive experiences. Most trusted their advisers and rated the quality of their advice extremely highly.

202 However, as most people lack the knowledge and expertise to assess financial advice, proxy measures are used instead. For example, the client may be influenced by the adviser's confidence, approachability, friendliness or professional manner. Or they may simply view the adviser as the expert in what is generally a complex subject matter, and assume, as a result, that the advice and service is high quality.

203 However, these subjective evaluations rarely agree with the technical assessment of quality of advice provided.

204 The following section explores, in more detail, the information and power asymmetry in financial advice relationships, and the concluding section presents recommendations for overcoming these barriers.

F Barriers to improving the quality of advice

Key points

The financial advice industry's remuneration structures often hinge on a financial product being recommended. This may drive the strategic recommendations, leading to sub-optimal outcomes for clients.

Most people are ill-equipped to identify good financial advisers or to assess the quality of financial advice they receive. The result is a form of market failure, where good financial advisers may not be appropriately rewarded with increased business or referrals, and those advisers providing merely compliant advice are not motivated to improve their services.

Compliance with the Corporations Act indicates that appropriate advice has been provided, but this is not necessarily a benchmark for good quality advice.

Introduction

205 There is widespread agreement that improving the quality of financial advice in Australia is in the long-term interests of all stakeholders. Many people are ill-equipped to make sound financial decisions and would benefit from good financial advice, and yet just 38% of the Australian adult population have used a financial adviser.[17] For the financial advice industry, improving standards should increase demand for services, and the long-term viability of financial advice practices.

206 However, a number of obstacles must first be overcome. These include barriers on the supply side (industry) and demand side (clients). We also note that, at the time this research was conducted, the legal and regulatory framework did not currently require that advisers act in their clients' best interests.

207 The barriers that currently prevent the quality of advice from improving are not the same as those that discourage people from accessing financial advice. For a detailed analysis of the barriers to accessing advice, see Report 224 *Access to financial advice in Australia* (REP 224), issued in December 2010.

208 Recommendations, and the actions already under way to help overcome the barriers to improving the quality of financial advice, are presented in Section G, 'Further work'.

[17] *ANZ survey of adult financial literacy in Australia*, ANZ, 2011.

Supply-side barriers

Introduction

209 This section discusses the barriers on the supply side currently preventing the standards of financial advice from improving in Australia. These are:

(a) the role of financial products;

(b) the ownership by or association with product manufacturers;

(c) remuneration structures;

(d) the use of 'pro forma' advice templates;

(e) current standards of adviser training and development; and

(f) the costs of providing financial advice.

The role of financial products

210 As detailed by this research, and in REP 224, much financial advice in Australia typically focuses on placing clients' funds into financial products. However, as shown in this research, a better approach that may lead to improved quality of advice is for advisers to focus first on the strategic advice rather than the advice being driven by product sales.

211 For example, advice to reduce debt is often neglected in many advice interactions because it will not result in a product sale. Strategic advice adds significant value for the consumer; products should be recommended when they facilitate optimal strategies.

212 A range of structural and operational features contribute to the focus of financial products in advice recommendations. They include:

(a) the ownership and vertical integration of advice licensees;

(b) remuneration methods; and

(c) the use of 'pro forma' advice templates.

Ownership by or association with product manufacturers

213 In our August 2009 submission to the PJC *Inquiry into financial products and services in Australia*, we stated that:

> Approximately 85% of financial advisers are associated with a product manufacturer, so that many advisers effectively act as a product pipeline. Of the remainder, the vast majority receive commissions from product manufacturers and so have incentives to sell products. This structure creates potential conflicts of interest that may be inconsistent with providing quality advice and these conflicts may not be evident to consumers.

214 These conflicts of interest were present in the financial advice we reviewed in the shadow shopping research study. For example, 66% of the advice examples involved the recommendation of 'in-house products' or products associated with the advice group. Of these, 11 of the 13 advice interactions with advisers from one of the 'big four' banks (or their financial planning divisions) resulted in an in-house product recommendation. While, in some cases, the products recommended may have been equivalent to or better than the client's existing product, there were also cases where the in-house products recommended were relatively more expensive, or other reasons meant that the product switch was not adequately justified.

Remuneration structures

215 Closely linked to a focus on financial products are the ways that financial advisers and licensees are typically paid. Remuneration and advice are often inextricably linked to products.

216 We categorised the remuneration of advisers in the shadow shopping research study into three types, based on whether the advice was solely paid for on a fee-for-service basis (Model A), whether the adviser's remuneration included commissions or other fees based on a percentage of the client's assets (Model B), or whether the adviser was a salaried employee of a superannuation fund or financial advice firm wholly owned by a superannuation fund (Model C).

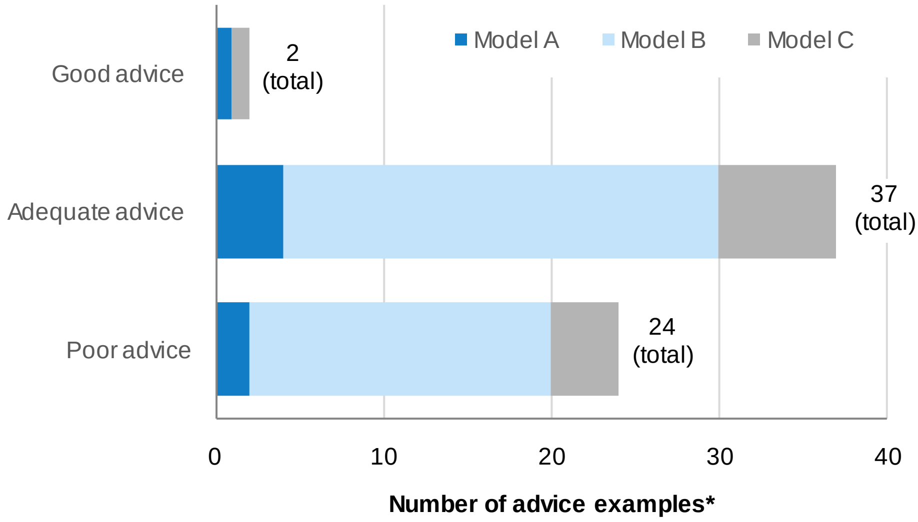
217 Initially, we distinguished remuneration models that primarily used asset-based percentage fees from those that applied percentage commissions. However, on close scrutiny of some of the SOAs and Financial Services Guides (FSGs), the distinction between these payment forms became unclear.

218 For example, one disclosure document stated that, in line with industry moves towards fee-for-service remuneration, the business was 'moving away from trailing commissions in favour of "adviser service fees" '. However, it also stated that, 'at this point in time the adviser service fee will remain the same as the previous trailing commission'. In other words, the substance and amount of the fee, and how it was charged, remained exactly the same. Only its name had changed—from 'trail commission' to percentage-based 'adviser service fee', with both automatically deducted from the client's superannuation fund balance each year.

219 While the method of remuneration was not considered when the quality of advice was being evaluated, Figure 6 shows the quality of advice grading by remuneration Models A, B, and C. Given the size of the sample (n=64), it was not possible to undertake any robust correlation analysis of the results. However, the figure shows the dominance of Model B in this study, and that none of the advice paid for partly or fully through commissions, or as a percentage of assets under management, was rated as good advice. Of the advice that was rated as good, one adviser was remunerated on the basis of a

flat fee (Model A), and the other was a salaried adviser employed by a superannuation fund or wholly owned subsidiary (Model C).

Figure 6: Quality of advice by remuneration model



Notes:

Remuneration Model A—The adviser was paid for their advice through a fee-for-service. This may have been a flat dollar amount or an hourly rate, and may have been charged up-front or on an ongoing basis. The fee(s) were not based on a percentage of the client's funds or financial product investments.

Remuneration Model B—The adviser's remuneration included commissions or fees that were based on a percentage of the client's assets or investments under advice. These fees may have been charged as an up-front percentage of the investment, or an ongoing percentage (trailing commission or other percentage fee), or a combination of the two. A fee-for-service (flat dollar amount or hourly rate: see Model A) may also have applied in conjunction with percentage-based fees: see paragraph 222 for an explanation of why percentage fees and commissions are included together.

Remuneration Model C—The adviser was a salaried employee of the superannuation fund or a wholly owned subsidiary of the superannuation fund. Advisers may be eligible for incentives or bonuses based on client retention or funds under management (FUM) targets. Individual members paid a flat dollar fee for their advice or there was no additional charge to the member. The costs of providing financial advice were funded by the (percentage-based) administration or management fee levied on all superannuation fund members.

* In one advice example, the remuneration method could not be categorised in the chart because inadequate documentation was provided to the participant.

220 We believe that remuneration models can limit the quality of financial advice. For example, advisers remunerated on the basis of funds under management have an incentive to:

(a) prioritise product recommendations or sales over product-neutral strategic advice;

(b) formulate strategic advice that leads to, or supports, product recommendations;

(c) recommend products or investment mixes that pay higher percentage fees to increase the amount they are paid for the advice;

(d) increase funds under management; and

(e) construct the advice in a way that moves most directly to a product recommendation.

221 In some cases, when advisers' remuneration was tied to product recommendations, they tended to focus less on strategic non-product related areas where clients would benefit. While the advice often managed to be compliant, conflicts of interest discouraged advisers from doing the extra work required to achieve good advice. This issue is examined more closely in Section D, 'Detailed findings'.

Use of pro forma advice

222 While pro forma advice is not a problem *per se*, when pro forma strategies dominate the content of financial advice provided to clients, advisers can miss opportunities to add value in other areas.

223 Further, there are times when it appears that advice is made to fit a pro forma 'one size fits all' checklist, rather than clearly reflecting the client's needs and circumstances.

224 Pro forma advice may occur for a variety of reasons. From a positive perspective, pro forma advice can serve a compliance mechanism, assisting advisers to follow processes and to meet their legal obligations, and allowing licensees to monitor and control the practices of their employees and authorised representatives. It can also reduce the cost of providing advice, benefiting both advisers and clients.

225 However, there are also negative consequences of pro forma advice. For example:

(a) standard advice templates may be applied to a wide range of clients, failing to address their individual needs;

(b) the advice practice or adviser may restrict their advice to certain topic areas that are covered by the advice template; and

(c) responsibility for preparing the SOA is sometimes given to a junior financial adviser or para-planner. This individual may not have met with the client, but implements the senior adviser's instructions by completing the advice template.

226 The key conclusion about pro forma advice is that the content of good advice is unlikely to be driven by the form of generic advice templates.

Training and professional development standards

227 The relatively low requirements to enter the financial advice industry as an adviser, combined with disparate standards of ongoing training and development, present significant barriers to the quality of financial advice that clients receive. For example, the length of training courses and nominal hours vary, ranging from providers of short compliance-only solutions to university masters programs.

228 The shadow shopping research did not record adviser qualifications or seek to draw any conclusions between qualifications and the quality of advice. It is, however, widely acknowledged that financial adviser training standards and qualifications need to improve and become more consistent in order to improve the quality of financial advice in Australia. For example, the PJC noted in the Ripoll report that it had received considerable evidence that contended that minimum training and qualifications for financial advisers should be raised. This was also confirmed by our recent review of the professional assessment and development regime, as detailed in CP 153.

229 As part of CP 153, we proposed a number of measures designed to ensure that financial advisers are adequately assessed on their ability to satisfy minimum standards of competence before providing financial advice, as well as promoting and providing a framework for their ongoing professional development. These include:

(a) adviser certification—financial advisers must pass a national adviser certification examination before providing personal or general advice to retail clients;

(b) monitoring and supervision—after passing the adviser certification examination, new financial advisers must undertake 12 months of full-time or equivalent monitoring and supervision by a supervisor who has at least five years relevant experience; and

(c) knowledge update review—financial advisers must undertake an online knowledge update review within two years of passing the adviser certification examination, and every three years thereafter.

230 The proposed assessment and professional development framework seeks to build on and complement the training and competence requirements in Regulatory Guide 146 *Licensing: Training of financial product advisers* (RG 146). We expect to release updated regulatory guidance in the second half of 2012.

The costs of providing advice

231 Financial advice businesses are expensive to run, with many operating on a cost recovery basis, or as a distribution channel for funds management.

232 Our study on access to advice (REP 224) found evidence that ‘one-off’ advice is often not profitable, and that advisers must secure a product sale and/or an ongoing client relationship to recoup the real cost of the initial advice. Many licensees reported that advice businesses needed some form of advice cost subsidy to survive.

233 Given these costs constraints, advisers may be under pressure to meet demanding performance targets that cover:

(a) the number of clients they see (new and ongoing);

(b) increasing their funds under advice; and

(c) the number or value of product sales.

234 As a result, some advisers are under substantial pressure to limit the time they spend with their clients, to do no more than the minimum research required, and to move clients to the product recommendation or sales phase as quickly and directly as possible. This can mean that there is less time for implementing some of the features of good advice, outlined earlier, such as educating clients, considering alternative strategies where appropriate, and ensuring that written and verbal advice is well understood.

Demand-side barriers

235 While the financial advice industry is responsible for the quality of advice it provides, several demand-side characteristics contribute to an environment where poor and merely adequate financial advice can prevail.

236 As Section E identifies, consumers find it difficult to assess the quality of financial advice they receive. This is not surprising, given the technical nature of the subject matter. But as well as affecting the individual recipients of advice, this dynamic has wider implications for the functioning of the financial advice market. If people cannot judge the quality of advice, and there is no easy way to find or choose a high-quality adviser, the natural 'filtering out' of poor and adequate advisers in favour of better ones is less likely to occur.

Information asymmetry

237 Information asymmetry occurs when one party to a transaction has more or better information than the other. It is often the 'buyer' of goods and services that is disadvantaged, and as a result may be prevented from making fully informed decisions.

238 This information asymmetry can be seen in financial advice interactions. The adviser generally has more knowledge and expertise, and the subject matter of financial advice is often complex and technical. Similarly to going to see a doctor for medical advice, clients put their faith and trust in their financial adviser.

239 Some clients may lack the confidence or financial literacy to evaluate the recommendations received. REP 224 noted recent research that found about one in two Australians do not have the skills required to make informed choices in their interactions with the financial services sector.[18]

[18] As part of an international study, the Australian Bureau of Statistics (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%)

240 Disclosure requirements, such as mandatory written SOAs, do not always provide a solution to this imbalance. Disclosure is often ineffective in changing behaviour or in promoting informed decision making. Individuals do not always make decisions that are in their best interests based on the information provided. This may in part be due to the length of these documents. Long advice documents are considered alienating, and past research has found that 62% of consumers prefer written advice documents to be no more than three pages in length.[19]

No reliable process for selecting a good adviser

241 Most people do not have a clear idea of how to find a good financial adviser. People who received good advice in the shadow shopping study appear to have done so by chance rather than by design: one client received a referral from another professional, while the other used the adviser who worked for their superannuation fund.

242 Research also suggests that many people do not shop around for their financial advisers. ANZ's most recent survey of adult financial literacy[20] found that 55% of those who had a financial adviser did not consider any financial adviser other than the one they currently used. Forty-two per cent had compared the financial adviser they currently used with others—either from different companies (26%) or from the same company (16%). Reasons given for not considering any other financial advisers included being willing to accept the advice of friends and family (35%) or a financial expert (17%), or having already established a satisfactory relationship with their adviser (14%).

243 Research conducted for ASIC also found that, when choosing a planner for retirement advice, people typically seek one through a referral (e.g. from family, friends or work) or a pre-existing relationship (e.g. via a superannuation fund or financial institution).[21]

244 Aside from general information provided by government, consumer and industry agencies to help consumers choose a good adviser (typically in the form of checklists, starting with checking that the adviser is licensed), there is no reliable mechanism ensuring that good advisers are selected by consumers. The Ripoll report touched on this theme when it noted that the licensing system does not currently provide a distinction between advisers on the basis of their qualifications, which is unhelpful for consumers when choosing a financial adviser.

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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': *Adult literacy and life skills survey results*, Cat. no. 4228.0, ABS, Canberra, 2006, p. 5.

[19] REP 224, sourcing *Advice and limited advice report*, Investment Trends, Sydney, December 2009.

[20] *ANZ survey of adult financial literacy in Australia*, ANZ, 2011.

[21] *How Australians plan for and make decisions about their retirement*, Susan Bell Research, Susan Bell and Associates, 2010.

245 The impact on industry advice standards is that, because consumers do not have a reliable way to locate and support high-quality advisers, good advisers are not appropriately rewarded with increased business. Further, there is a lack of competitive pressure on poor and adequate advisers to meet the higher standards of others in the industry.

Reluctance to pay for advice

246 Consumers' reluctance to pay for advice is one barrier that prevents many from seeking financial advice, and in turn, may be a barrier to the quality of advice improving.

247 A 2011 Investment Trends study found that consumers want to pay no more than $590, on average, for financial advice (those who have used a financial planner in the past were willing to pay somewhat more).[22] However, the average price of financial advice (for all levels of quality) is between $2,300 and $3,500. Retirement advice, which can be complex, often costs more (some participants paid $5,000 to nearly $8,000).

248 While our research did not find a correlation between the price of advice and its quality, demonstrating that good advice is worth paying for will be an important factor in further raising standards.

[22] *Advice and limited advice report*, Investment Trends, Sydney, November 2011.

G Further work

249 There are a number of areas where the financial advice industry, ASIC and consumer groups can work together to improve the quality of financial advice provided.

250 Shortly after the release of this report, we will work with financial advice industry associations to provide workshops covering the more detailed findings of this report so that the concept of good quality advice can be further refined and implemented. We will also work with industry associations to ensure that quality advice frameworks are incorporated into professional development programs.

251 We will review and reissue the *Getting advice* booklet, and update relevant content at our consumer website www.moneysmart.gov.au, based on, among other things, the findings in this study. These resources will provide consumers with guidance for finding a financial adviser, preparing to see the adviser and getting the most out of their advice interactions.

252 This report reinforces the importance of implementing the proposed assessment and professional development framework, as described in CP 153, to ensure that financial advisers are adequately assessed on their ability to satisfy minimum standards of competence before providing advice.

253 We will consider carrying out further shadow shopping research on financial advice in accordance with Recommendation 2 of the Ripoll report. The possible focus of future shadow shopping research would be to benchmark the quality of financial advice under a new regulatory framework, if a duty to act in the clients' best interest is implemented in accordance with proposed legislative changes.[23]

254 We are interested in discussing with financial advice groups, compliance organisations, consumer groups and research agencies whether it is possible to establish an independent service that evaluates advisers and advice groups for consumers. While our role does not include providing an advice evaluation service for consumers, a key finding from this research is that it is difficult for consumers to objectively judge the financial advice they receive, and they do not know where or how to shop around to find the best advisers.

255 We will issue an example of scaled financial advice that covers retirement topics in ASIC's forthcoming regulatory guide on scaled advice.

[23] As set out in the Corporations Amendment (Future of Financial Advice) Bill 2011, and the Corporations Amendment (Further Future of Financial Advice) Bill 2011.

Appendix 1: Profile of participants

Key points

Primary participants in the shadow shopping study were aged 50 to 68 and included workers and non-workers from most states and territories with a fairly even split between males and females.

Most participants had more assets than liabilities, with a net financial worth of over $687,000, including a median superannuation balance of $343,500.

Most participants were reasonably satisfied with the state of their financial affairs, and tended to conduct a monthly or annual review.

Age, gender and location

256 Primary participants in the shadow shopping study ranged between the ages of 50 and 68. The average age of primary participants was 59. Forty-two primary participants provided details of a partner or spouse (the 'secondary participant'). Secondary participants ranged in age from 48 to 74.

257 There was a fairly even split in primary participants between females (30 participants) and males (34 participants), while secondary participants included 27 females and 15 males, as shown in Table 11.

Table 11: Gender of participants

	Primary participants	Secondary participants
Female	30	27
Male	34	15
Total	**64**	**42**

258 The sample included people from most states and territories, with more than 75% of the sample located in the eastern states of New South Wales, Queensland and Victoria.

Table 12: Location of participants

	Number of participants	Percentage of sample (%)*
New South Wales	19	30
Victoria	17	27
Queensland	14	22
South Australia	6	9
Australian Capital Territory	3	5
Tasmania	3	5
Western Australia	2	3
Total	**64**	**101%**

* The total does not add to 100% due to rounding.

Employment status

259 The shadow shopping study targeted people in the pre- and post-retirement phase. Of primary participants, 36 stated that they were employed (including self-employed and contracting). They nominated a wide range of occupations and professions.

260 The expected retirement age of primary participants ranged from 50 to 70, with 65 being the most common response.

Table 13: Employment status of participants

	Primary participants	Secondary participants
Employed	29	19
Self-employed	5	3
Contractor	2	0
Other	17	9
Not answered	11	11
Total	**64**	**42**

Financial status

261 Participants provided details of their assets and liabilities, from which we derived net worth figures.

262 Participants' total assets exceeded $800,000 (median), with this wealth often being driven by the value of the participant's home and superannuation.

263 Approximately two-thirds of the sample had some liabilities, including those with relatively small debts. While a small number of participants had substantial debts, this was relatively uncommon; the median debt was $12,000. Overall, participants' net financial position (assets minus liabilities) was $687,000 (median).

264 There was a wide range of superannuation balances in the sample, ranging from little or no accumulated superannuation to the largest superannuation balance of over $1 million. The median superannuation balance in the sample was $343,500—for couples, we combined both partners' balances to derive this figure.

265 It should be noted that the superannuation balance generally did not include the notional principal value of defined benefit income streams, and some participants did not include the value of their post-retirement pension funds as 'superannuation'.

Table 14: Financial net worth (primary participants and, where applicable, partner/spouse)

	Median	Mean	Minimum	Maximum
Total assets* (n=63)	$817,500	$1,068,019	$46,100	$6,065,000
Total liabilities* (n=63)	$12,000	$120,592	$0	$1,140,000
Net financial position (n=63)	$687,354	$947,247	($106,900)	$5,814,000
Total superannuation balance** (n=60)	$343,500	$404,103	$0	$1,229,500

* In the majority of cases, we sourced data from the participant's personal circumstances form. In a small number of cases, the personal circumstances form had insufficient information, so we sourced data from the participant's Statement of Advice.

** Some participants only reported their superannuation assets in the accumulation phase, but did not include pension accounts.

Note 1: 'n' refers to the sample size. (n=63) (for example) means that the data shown is based on information provided by (in this example) 63 of the 64 primary participants.

Note 2: Because these figures are self-reported by clients, and prone to error or misjudgement, caution is urged when interpreting the data.

Income levels

266 The median income for primary participants, including those who were working or retired, was $45,000. Secondary participants' median income was $24,000, and the combined median income was $73,000.

267 Participants' expected retirement income was $35,000 to $38,000 (median).

Table 15: Annual income levels of participants

	Median	Mean	Minimum	Maximum
Sum of all incomes (primary participants) (n=64)	$45,200	$56,527	$0	$280,000
Sum of all incomes (secondary participants) (n=50)	$24,111	$36,666	$0	$250,000
Combined participant and partner/spouse incomes (n=64)	$73,085	$85,172	$0	$280,000

Note: (n=50) (for example) means that the data shown is based on information provided by (in this example) 50 of the 64 primary participants.

Financial goals

268 Unsurprisingly, in light of this project's sample selection (people aged 50–69, and seeking or having sought retirement advice), the most common financial goals of participants overall were to maximise retirement income (73%), plan for retirement (70%), build wealth (47%), reduce tax (45%) and contribute more to superannuation (34%).

269 Less common financial goals expressed in participants' post-advice questionnaires included reviewing estate planning needs (6%) and making a one-off investment (8%).

Table 16: Primary participants' top financial goals

Goal	Percentage of participants who selected this as a top 5 goal (%)*
Maximise retirement income	73
Plan for retirement	70
Build wealth	47
Reduce tax	45
Contribute more to superannuation	34

Goal	Percentage of participants who selected this as a top 5 goal (%)*
Improve cash flow	28
Save for a future expense	27
Stop working altogether	17
Consolidate superannuation into one fund	16
Reduce debt	11
Commence a regular investment program	9
Reduce work hours	9
Review insurance needs	9
Make a one-off investment	8
Review estate planning needs	6
Other**	8

* Participants were presented with a list of goals and an 'Other' option in which they could specify goals that were not listed. Participants could select up to five goals when answering this question.

** 'Other' answers provided included seeking a change of lifestyle, making existing funds last longer, managing financial risk, reversing damage caused by poor investments, and generally reviewing financial or retirement circumstances.

Risk tolerance

270 Using information from the SOAs, the ASIC personal circumstances form and our post-advice questionnaire, we categorised each primary participant's 'psychological' risk tolerance, or their preferences and attitude towards investment risk.

271 We categorised each participant under one of the broad headings of conservative, conservative–balanced, balanced, balanced–growth or growth. A substantial number (21) could not be categorised based on the information available to us, as set out in the SOA or collected via the ASIC personal circumstances form and our post-advice questionnaire.

272 Perhaps unsurprisingly, the vast majority of participants that we could categorise fell into the conservative and balanced groups. When asked whether there were any financial products or strategies that they wished to avoid, participants frequently identified what they viewed as risky or highly risky strategies, including domestic and foreign company shares, as well as more complex and risky products such as contracts for difference and foreign exchange trading.

Table 17: Psychological risk tolerance of primary participants

Category	Number of participants
Conservative	15
Balanced/conservative	4
Balanced	16
Balanced/growth	4
Growth	4
Not categorised	21
Total	**64**

Satisfaction and involvement with financial affairs

273 Approximately two-thirds of participants stated that they were satisfied or very satisfied with their financial affairs.

Table 18: Participants' satisfaction with financial affairs

	Primary participants	Secondary participants
Very satisfied	9	4
Satisfied	33	25
Dissatisfied	15	7
Very dissatisfied	4	0
Don't know	3	1
Not answered	0	5
Total	**64**	**42**

274 Most primary participants tended to periodically review their finances either monthly or annually.

Table 19: Involvement with financial affairs (primary participants only)

Level of involvement	Number of participants
Regular oversight (daily or weekly)	2
Periodic review (e.g. quarterly)	26
Annual health check	25
Minimal contact	9
Not answered	2
Total	**64**

Appendix 2: Key topics covered in advice review template

275 The following tables provide details of the key topics covered and the questions asked in the quality of advice reviews. This is not intended to be a compliance or quality of advice 'checklist', but rather provides information about the advice features that we considered when reviewing the advice.

Table 20: Determining personal circumstances

Questions
Does the SOA clearly state the scope of the advice, including what is covered and what is not covered (limitations of the advice)?
Are all of the client's needs and objectives covered in the scope of the advice (and has the adviser identified all of the issues relevant to the client and personalised the objectives)?
Where a client need is not addressed, is there adequate disclosure when advice is limited?
Does the SOA display the client's existing position on which the advice was based?
Does the SOA provide a warning about the accuracy of the advice if information provided by the client was inaccurate or incomplete? (s945B(1))
Is the financial position stated in the SOA accurate according to the personal circumstances form (i.e. ASIC fact find)?
Is all information crucial to the advice included in the SOA?
Are the client's goals and objectives in the SOA clear and measureable?
Are the client's stated goals and objectives consistent with those listed in the personal circumstances form (i.e. ASIC fact find)?
Has the adviser provided any comments on the client's objectives—for example, whether they are realistic in regard to their current position and risk tolerance or do they require trade-off?
Does the document state the client's risk tolerance?
What is the client's psychological risk tolerance? (By 'psychological risk tolerance', we mean their preferences and attitudes towards risk.)
What is the client's situational risk tolerance? (By 'situational risk tolerance', we mean the technical or actual risk exposure that might eventuate if the client followed the recommended strategy.)
Do the above responses appear consistent with the answers provided in the personal circumstances form (i.e. ASIC fact find)?
Does the SOA include an explanation of the client's risk tolerance, including a target asset allocation?
Based on both the review of the SOA and the client questionnaire/survey responses, what is the rating for the investigation of personal circumstances? Please provide detailed reasons in the comments section.

Table 21: Recommendations—Strategy

Questions
What was the advice given? Provide a brief summary.
Does the SOA include a statement setting out the advice?
Is the recommendation tailored to this client's circumstances?
Does the strategy address the client's goals and objectives, including giving consideration to their risk tolerance?
Is the advice appropriate? Provide reasons for your answer.
Has the adviser provided cash flow projections to show how the strategy will meet income and expenditure objectives?
Does the SOA consider more than one suitable strategy?
Does the strategy considered include information about the implications for taxation, estate planning and/or social security entitlements?
Does the SOA include realistic projections to show the client's potential outcomes?
Is there evidence that the advice has been adequately researched, distinguishes between fact and opinion, and is not speculative?
Does the advice adequately consider the risks and rewards of alternatives?

Table 22: Recommendations—Products

Questions
Do the products recommended suit the client's personal circumstances, having regard to the strategy recommended and the risk tolerance?
Does the SOA provide information on the proposed asset allocation?
Does the proposed asset allocation suit the client's psychological risk tolerance?
Does the proposed asset allocation suit the client's situational risk tolerance?
If the proposed asset allocation does not suit the client's situational risk tolerance, has the adviser explained the variance and why it is still appropriate?
Does the SOA include a concise statement of the reasons why the advice and recommendation are considered appropriate, including in light of the alternatives considered, and the advantages and disadvantages for the client if the advice is acted on? (This means an alternative must have been described: RG 175). Also, consider the relativities of the existing products to the client's needs compared to the new products (if any).
Does the document present the replacement recommendation in a detailed and easy-to-compare format that would enable the client to make an informed choice?
Are the risks of cancelling a product clearly set out and communicated with the client?
Do the products recommended meet the personal circumstances of the client?
Are the products recommended 'in-house' products?

Table 23: Recommendations—Legal disclosures

Questions
Does the adviser disclose all fees and charges in both dollar and percentage terms?
If replacement product advice is provided, has all comparison information been disclosed (s947D)? Also, does this disclosure focus on lost benefits and costs rather than the benefits of new products?
Is the SOA presented in a manner that is clear, concise and effective?
Has the client received a Financial Services Guide (FSG) and/or Product Disclosure Statement (PDS) (based on the documentation provided by the client)?

Table 24: Other advice review information

Questions
Has the adviser explained the ongoing advice and reviews required to maintain the strategy?
Has the adviser provided additional information on technical concepts recommended in the advice (i.e. educational material)?
Does the SOA match the client questionnaire/survey for the investigation of personal circumstances?
Does the SOA match the client questionnaire/survey for the strategies and products recommended?

Appendix 3: Detailed participant post-advice questionnaire results

Table 25: Overall, how would you rate the quality of the advice that you recently received from your financial adviser?

Response	Number of responses	Percentage (%)
Good quality	55	86
Neither good nor poor quality	6	9
Poor quality	3	5
Total	**64**	**100%**

Table 26: Overall, do you trust the advice you received from your adviser?

Response	Number of responses	Percentage (%)
Yes—a lot	52	81
Yes—a little	9	14
No	3	5
Total	**64**	**100%**

Table 27: Which, if any, of the following methods have you used, or will you use, to pay your adviser?

Response	Number of responses*	Percentage (%)
Nothing—the advice was free	13	20
A flat fee that I will pay to the adviser	25	39
A commission that will be paid to the adviser from your investment	15	23
A fee based on a percentage of my investments	14	22
An ongoing fee	10	16
Other	6	9
I have not discussed payments and fees with the adviser yet	0	0
Don’t know / not applicable	1	2

*Multiple responses allowed.

Table 28: Overall, how would you rate the quality of your adviser's communication with you?

Response	Number of responses	Percentage (%)*
Very good	49	77
Good	11	17
Okay	3	5
Bad	1	2
Total	**64**	**101%**

* The total does not add to 100% due to rounding.

Table 29: Overall, how difficult or easy was it to understand the topics your adviser discussed with you?

Response	Number of responses	Percentage (%)
Very easy to understand	21	33
Easy to understand	31	48
Neither easy nor difficult to understand	9	14
Difficult to understand	2	3
Very difficult to understand	1	2
Total	**64**	**100%**

Table 30: How much, if at all, did your adviser help you set and refine your financial goals?

Response	Number of responses	Percentage (%)*
My adviser helped a lot	49	77
My adviser helped a little	12	19
My adviser didn't help at all	13	5
Total	**64**	**101%**

* The total does not add to 100% due to rounding.

Table 31: Which, if any, of the following things do you like about the written advice document you received from your adviser?

Response	Number of responses*	Percentage (%)
It's informative	49	78
It provides me/us with guidance for my/our retirement	45	71
It explains complex information	39	62
It's tailored for my/our needs and circumstances	56	89
It's insightful	33	52
Other	10	16
You don't like anything about the written advice document	2	3
Don't know / not applicable	0	0

* Multiple responses allowed.

Table 32: Which, if any, of the following concerns do you have about the written advice document you received from your adviser?

Response	Number of responses*	Percentage (%)
Too much information	6	9
Not enough Information	6	9
Too complex	6	9
Too much jargon	5	8
Too simple	3	5
It was a generic document	9	14
It contained mistakes	7	11
Language misleading	1	2
Too focused on making sale	7	11
Not appropriate for your needs	2	3
Other	10	16
You don't have any concerns about the written advice document	44	69
Don't know / not applicable	0	0

* Multiple responses allowed.

Table 33: Do you think the recommendations your adviser made matched with your personal circumstances?

Response	Number of responses	Percentage (%)
Yes—the recommendations mostly fit with my/our personal circumstances	52	81
Yes—the recommendations somewhat fit my/personal circumstances	11	17
Don't know	1	2
Total	**64**	**100%**

Table 34: Did your adviser discuss any of their conflicts of interest with you?

Response	Number of responses	Percentage (%)
Yes	20	31
No	27	42
Don't know / not applicable	17	27
Total	**64**	**100%**

Table 35: Did your adviser tell you how they matched strategies with your risk tolerance or discussion about risks of investing?

Response	Number of responses	Percentage (%)
Yes	45	70
No	9	14
Don't know / not applicable	10	16
Total	**64**	**100%**

Table 36: Did your adviser tell you how they matched strategies with your personal financial circumstances?

Response	Number of responses	Percentage (%)*
Yes	52	81
No	6	9
Don't know / not applicable	6	9
Total	**64**	**99%**

* The total does not add to 100% due to rounding.

Table 37: Did your adviser tell you how the products or investments matched with your risk tolerance?

Response	Number of responses	Percentage (%)
Yes	49	77
No	4	6
Don’t know / not applicable	11	17
Total	**64**	**100%**

Table 38: Did your adviser tell you how the products or investments matched with your personal financial circumstances?

Response	Number of responses	Percentage (%)
Yes	47	73
No	5	8
Don’t know / not applicable	12	19
Total	**64**	**100%**

Table 39: How difficult or easy was it to understand the risks of the recommendations that your adviser discussed with you?

Response	Number of responses	Percentage (%)
Very easy to understand	20	31
Easy to understand	31	48
Neither easy nor difficult to understand	6	9
Difficult to understand	1	2
Very difficult to understand	1	2
There were no risks and/or no risks were discussed	4	6
Don’t know / not applicable	1	2
Total	**64**	**100%**

Key terms

Term	Meaning in this document
advice	Refers to 'personal advice' as defined in s766B(3) of the Corporations Act.
adviser	A natural person providing personal advice to retail clients on behalf of a licensee who is either: • an authorised representative of a licensee; or • an employee representative of a licensee
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
ASIC Act	*Australian Securities and Investments Commission Act 2001*
authorised representative	A person authorised by the licensee, in accordance with s916A or 916B of the Corporations Act, to provide a financial service or services on behalf of the licensee Note: This is a definition contained in s761A.
ASIC	Australian Securities and Investments Commission
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
financial advice	Refers to 'personal advice' as defined in s766B(3) of the Corporations Act
FSG (Financial Services Guide)	A document that must be given to a retail client in relation to the provision of a financial service in accordance with Div 2 of Pt 7.7 of the Corporations Act Note: See s761A of the Corporations Act for the exact definition.
licensee	An AFS licensee that provides personal advice to retail clients

Term	Meaning in this document
personal advice	Financial product advice that is given or directed to a person in circumstances where the provider of the advice has considered one or more of a person's objectives, financial situation and needs, or a reasonable person might expect the provider to have done so. Note: See s766B(3) of the Corporations Act for the exact definition.
PDS	Product Disclosure Statement
PJC	Parliamentary Joint Committee on Corporations and Financial Services
Ripoll report	PJC *Inquiry into financial products and services in Australia*, released in November 2009
s945A (for example)	A section of the Corporations Act (in this example numbered 945A)
SMSF	Self-managed superannuation fund
SOA (Statement of Advice)	A document that must be given to a retail client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act

Related information

Headnotes

adviser, adviser communication, AFS licensees, conflicts of interest, demand-side barriers, financial advice, investigation of personal circumstances, personal advice, pro forma advice, product recommendations, quality of advice benchmarks, retirement advice, risk tolerance, scope of advice, SOA, statement of advice, strategy recommendations, superannuation, supply-side barriers

Regulatory guides

RG 146 *Licensing: Training of financial product advisers*

RG 175 *Licensing: Financial product advisers—Conduct and disclosure*

Legislation

Corporations Act, s766B(3), 945A, 947D

Consultation papers and reports

CP 153 *Licensing: Assessment and professional development framework for financial advisers*

REP 224 *Access to financial advice in Australia*