

SUBMISSION TO CONSULTATION PAPER CP 284 EXAMPLE STATEMENT OF ADVICE FOR LIFE INSURANCE

This paper is in response to ASIC's call for submissions to Consultation Paper CP 284. The below provides some background of who we are and what we do in the financial advice industry. The paper aims to respond to each of ASIC's questions as outlined in CP 284. The responses represent our opinions based on our experience and observations from working within this industry for over 17 years.

Who we are

YTML Group is a fintech company specializing in the financial planning industry. We provide technology solutions and advice delivery consultancy services to licensees. Our clients range from self-licensed practices, to small and mid-tier dealer groups through to large institutions such as the top 4 banks and industry funds.

Our technology solutions and services enable the efficient and compliant delivery of advice to the end customer. This is supported by over 40 staff and a strong leadership team with deep experience in advice and technology.

Our Submission

Overview

To ensure the customer makes an informed decision, the SoA must provide clear and relevant information. The example SoA is generally structured well and delivers relevant information in a concise manner. The length of the SoA can be shortened slightly by combining some information. One of our key suggested improvements is to change the positioning of the commission disclosure and have the document lead with the advice as opposed to leading with payments.

To overcome barriers and to encourage the take-up of this example SoA, financial advisers and licensees need to see that the information in the SoA is presented in a balanced manner. In its current form, we believe the example SoA would have a negative impact on customer take-up of the advice also. In addition, we believe further guidance is needed in other common areas of advice such as superannuation with regular contributions.

Lastly, we believe it is essential that there be representation from financial advisers and software providers during the consultation stage of developing the example SoAs to ensure sufficient practical perspectives can be taken into consideration.

Detailed Commentary

Further commentary on each question is below.

ASIC Proposal/Question	Commentary
Language used in the example SoA	
<p>B1Q1</p> <p>Do you have any comments about the way that any of the information in the example SOA is expressed? In particular, do you have any specific suggestions about how to make the language simpler and easier for customers to understand?</p>	<p>We find the language used in the example SoA to be clear and simple – it seeks to explain terms and concepts without sounding condescending.</p> <p>It is inevitable that SoAs will need to be templated to some degree in order to ensure sufficient consistency and efficiency. In addition, these SoA templates will need to cater to customers with varying degree of investment experience and financial literacy and as such, the language, whether templated or not, also needs to cater to such customers.</p> <p>We also find that the example SoA is not overly repetitive and we do agree that repetition of key information does assist customers to understand and reinforce key information.</p> <p>However the use of large and frequent font size for headings has the effect of “dumbing” down the document and does not help reinforce the professionalism that sits behind the document. From our experience, this can be perceived negatively.</p>
Structure of the example SOA	
<p>B2Q1</p> <p>Do you think the structure of the example SOA assists customers to understand and find information? If you do not find the structure helpful, please explain why.</p>	<p>The structure of the example SoA does clarify and not confuse the customer. Effective use of headings and sub headings providing clear direction to the customer on where to source the right information.</p> <p>Consistent with our earlier feedback we believe remuneration disclosure best follow the value and benefits of advice. This provides more clarity and context to the customer on cost/benefit. The objective is for the customer to acknowledge that it is in their best financial interests to take heed of the advice presented.</p>
<p>B2Q2</p> <p>Do you have any suggestions that would improve the structure of the example SOA so that it is easier for customers to follow?</p>	<p>We strongly believe that the SoA should not start with payments on the first page as discussed above.</p> <p>We believe the SoA format should follow other consumer targeted, lengthy and technical documents eg instruction manuals. Document Navigation is more user friendly when the table of contents follows the introductory page..</p>
<p>B2Q3</p>	<p>Largely we believe the order of information makes sense and is easy to follow. However, we would suggest that the three sections covering scope</p>

<p>Do you have any specific comments about the order in which the information has been set out? For example, what do you think about where the information about the scope of the advice has been placed? Please provide an explanation for your comments.</p>	<p>and limited advice (“What my advice covers”, “What my advice does not cover”, and “My advice is limited”) be re-positioned to immediately follow the “Summary of my insurance recommendations” section.</p> <p>Information in context is extremely important to enhance understanding. Therefore we believe the scope or context under which the recommendations have been made should be brought forward.</p>
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Content and length of the example SOA

<p>B3Q1</p> <p>Have we included any information in the example SOA that you think should be excluded? Please provide an explanation for your comments.</p>	<p>We do not believe the example SoA included information that should be removed.</p> <p>Our general comments would be that the SoA length can be reduced in some parts. For example, we note that the advice for Brad and Zara can be combined using inclusive language in the areas of What you want, Insurance needs, How my advice is appropriate, and How to follow my advice.</p> <p>In addition, the My commissions section (page 26) may be better displayed using one table for commissions relating to each person’s insurance advice.</p>
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<p>B3Q2</p> <p>Have we excluded any information in the example SOA that you think should be included? Please provide an explanation for your comments, bearing in mind that the SOA is only one part of the advice process and that additional information can be provided to the customer in other ways.</p>	<p>We do not believe the example SoA excluded information that should be included.</p>
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Upfront disclosure of commissions

<p>B4Q1</p> <p>Do you think the disclosure of</p>	<p>We believe the disclosure of commissions is over-played in its current position within the example SoA. This represents too much of a focus on remuneration.</p>
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<p>commissions in the example SOA is sufficiently upfront and prominent? Please provide reasons.</p>	<p>The purpose of an SoA as stated under RG 90.33 is <i>“to communicate to the customer important and relevant information about the advice so they can make an informed decision about whether to act on the advice”</i>.</p> <p>This means providing information about the advice, together with the benefits, risks and costs associated with such advice. The Adviser’s job is to ensure the customer understands the key implications so that they can weigh up the benefits, risks and costs in order to make an informed decision.</p> <p>As such, the SoA should seek to present a balanced view and not over-play the benefits and under-play the risks. In the same vein, the SoA should not over-play the fees and costs either. Its position and prominence in the example SoA is an unbalanced representation of the cost/benefit relationship of advice. The benefits of the advice is not shown in full until page 18 whereas payments to the adviser is on page 1.</p> <p>We understand and appreciate the reasons why there is a need for clear and prominent disclosure of adviser remuneration. In our experience of many years working with different licensees on a multitude of templates, fee disclosure has been one of the most problematic areas to keep clear and concise on one hand and ensuring full disclosure on the other. LIF reforms and Best Interest obligations provide greater transparency and disclosure thereby helping the customer assess whether the value of the advice justifies the cost.</p> <p>These reforms are improving the perceptions of the financial planning industry as a trusted profession. That is why it is important to prioritise the message of value of advice followed by remuneration. So as an industry we focus on the difference advice makes and not price the service in the SoA before the value is communicated.</p> <p>In the development of the example SoA, we believe this message would have come across strongly had focus sessions taken place with quality financial advisers. Practical perspectives from this group are essential in understanding how an SoA is presented to a customer.</p> <p>We propose that payment disclosure is moved to page 3 under the Summary of My Recommendations. This would still ensure disclosure is sufficiently prominent but is also provided with context to the value this cost brings to the customer.</p>
<p>B4Q2</p> <p>Do you think that customer understanding of commissions is enhanced by upfront disclosure? If not, why not?</p>	<p>In our view, customers’ understanding of any concept or fact is largely influenced by how that information is described, disclosed and whether it is done in the right context.</p> <p>As such, we do not believe that merely placing payments information upfront in the document will enhance understanding in the true sense as it is without context of what the customer receives for that payment.</p>

	<p>However we believe the way in which the payment information is outlined does enhance the customer’s understanding of what and how the adviser is paid, and by whom.</p>
<p>Proposed updates to RG 90</p>	
<p>C1Q1</p> <p>Do you have any comments about the draft updated RG 90?</p>	<p>We do not have specific comments on any other sections of the draft updated RG 90.</p> <p>However we believe financial advisers and licensees would benefit from similar guidance on further or additional advice post initial advice to a new customer. In particular, further guidance would be useful in the areas of keeping the Record of Advice document clear and concise and the extent to which incorporation by reference can be better utilized.</p>
<p>C1Q2</p> <p>Are there areas where you consider further guidance is needed?</p>	<p>Having worked with many licensees (ranging from small and medium sized to large institutions) on SoA templates, our experience is that there is much variation on how product replacement comparisons are outlined in the SoA. We believe this is due to different interpretation of requirements under s947D.</p> <p>We believe additional guidance on how this is disclosed is required, especially involving existing and ongoing investments and contributions (for non-insurance advice).</p> <p>As such, we suggest that the example SoA be extended (or a second example SoA be created) to include recommendations which cover an investment component (such as superannuation rollover) with existing regular contributions such as superannuation guarantee.</p>
<p>Adapting the example SOA to different scenarios</p>	
<p>C2Q1</p> <p>What, if any, difficulties do you think an adviser might face in adapting the example SOA to different life insurance or financial advice scenarios?</p>	<p>As per our comments to C1Q2 above, we suggest that the example SoA be extended (or a new example SoA be created) to include advice on an investment platform (eg. a superannuation or investment account).</p> <p>Our work in the financial planning industry suggests that there is a higher percentage of advice covering investments (such as personal investing and superannuation) than there is for insurance advice.</p> <p>In addition, insurance advice may not cover areas which investment/superannuation advice touches on such as charging fees for advice/service and ongoing investments/contributions.</p> <p>As such, we believe financial advisers and licensees would benefit greatly from an example SoA which covers investment/superannuation advice.</p>
<p>C2Q2</p>	<p>Please refer to our comments to C2Q1 above.</p>

<p>How do you think ASIC can assist advisers to overcome these difficulties?</p>	
<p>Addressing other barriers to industry take-up</p>	
<p>C3Q1</p> <p>What organisational barriers exist for advisers to use the example SOA as a model? Please explain how these barriers might hinder industry take-up of the example SOA.</p>	<p>It is our experience that most licensees will require their authorized financial advisers to use licensee issued templates. Such templates are driven by the licensee’s interpretation of the law and their risk appetite in relation to such interpretations. Many financial advisers are therefore not in control of many of the key sections of this document to a large extent.</p> <p>From the licensee’s perspective, fear of insufficient disclosure is further cemented by case decisions such as the New South Wales Court of Appeal's decision in Commonwealth Financial Planning Limited v Couper (2013) NSWCA 444 where some focus was on lack of disclosure of risks.</p> <p>As such, licensees would tend to over-disclose as opposed to relying on verbal explanations or other lengthy documents such as PDSs.</p> <p>In relation to practical impacts to changes required to existing SoA templates, where existing templates are generated from software, additional costs to make changes to coded templates will need to be considered. Consultation with industry software providers would be useful to estimate such costs.</p>
<p>C3Q2</p> <p>How do you think ASIC can assist advisers to overcome these barriers and use the new example SOA as a model in producing their own SOAs?</p>	<p>ASIC refers to the fact that the SoA is only one part of the advice process and that additional information can be provided to the customer in other ways.</p> <p>It would be helpful to provide guidance on (with exceptions of documents required to be provided such as FSG and PDS) what other additional information is considered acceptable, such as guidance on whether reference to information on ASIC’s Money Smart website without any further educational information would be sufficient.</p>
<p>Regulatory and financial impact</p>	
<p>To ensure that we are in a position to properly complete any required RIS, please give us as much information as you can about our proposals or any alternative approaches, including:</p>	<p>In our experience, advice document templates are often supported by an advice process, compliance policies, and a range of tools such as fees, portfolio calculators, and insurance needs calculators. To adopt the example SoA, advisers and licensees will need to take the following actions:</p> <ul style="list-style-type: none"> • Consult with their legal and compliance personnel to make decisions on changes to documents;

<p>(a) the likely compliance costs;</p> <p>(b) the likely effect on competition; and</p> <p>(c) other impacts, costs and benefits.</p>	<ul style="list-style-type: none"> • Review and amend advice process, compliance policies and tools where required; • Review and amend impacted advice documents (including legal and compliance sign-offs); • Where these templates are coded within a financial planning software, make coding changes; • Provide training to paraplanners and financial advisers on changes to process, policies, tools and templates. <p>Large licensees with robust processes, policies and tools are likely to be impacted by changes to advice document templates.</p> <p>In its current form, we do believe that there would be a direct impact on customer take-up of the advice and will rely more heavily on verbal explanation of value the advice brings.</p>
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Terri Ho – General Manager – Advice Delivery

YTML Group

Mobile: 0408 924 837

Email: Terri.ho@ytml.com.au

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