



ASIC

Australian Securities & Investments Commission

Appendix 4 to Report 515: Checklist—Key risk indicators for monitoring and supervising advisers

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Disclaimer

This document is a reproduction of Appendix 4 to [Report 515 *Financial advice: Review of how large institutions oversee their advisers*](#) (REP 515).

REP 515 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.

Examples in REP 515 are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Appendix 4: Checklist—Key risk indicators for monitoring and supervising advisers

- 300 Table 13 sets out some key risk indicators (KRIs) that we have observed from this project. Advice licensees can consider using these, as appropriate, for monitoring and supervising advisers in their retail advice businesses. Each licensee should tailor the application of this checklist to the unique nature, scale and complexity of its business. We expect that using these KRIs will help licensees to identify potentially high-risk advisers and non-compliant advice.
- 301 Before adopting these KRIs, advice licensees should consider:
- (a) *identifying the available data*—for example, data may be available from the software and systems used for compliance, revenue and remuneration, financial products, and financial planning;
 - (b) *determining which data sources will provide reliable data*—when appropriate, this will involve testing. Characteristics of reliable data include consistency and scalability;
 - (c) *choosing appropriate KRIs* for the nature, scale and complexity of the licensee’s particular advice business;
 - (d) *ensuring appropriate testing is undertaken* when setting thresholds for the KRIs, to minimise the incidence of ‘false positive results’, while still ensuring the KRI is effective. Consideration should be given to:
 - (i) the nature, scale and complexity of the advice business;
 - (ii) engagement with senior staff and subject matter experts to set and approve risk thresholds; and
 - (iii) research into industry tolerances and risk thresholds; and
 - (e) *monitoring and testing KRIs* and relevant thresholds on a regular basis to ensure they remain effective and achieve their stated purpose.

Table 13: KRIs for advice licensees to consider when monitoring and supervising advisers

Indicator category	Key risk indicators
Product or advice type	<p>High ratio of records of advice to Statements of Advice provided to customers</p> <p>High level of ‘execution only’ services or evident lack of advice documents</p> <p>Variations, spikes and changes in remuneration or revenue of advisers. This may be assessed on a product basis or on an adviser basis</p> <p>High level of insurance commission clawbacks and lapse rates</p> <p>High level of product replacement</p> <p>High level of funds withdrawal from financial products or platforms</p> <p>High level of higher-risk or complex strategies and/or products (e.g. gearing, direct share advice, structured products and SMSFs)</p> <p>Recommendation of similar advice strategies to all customers (i.e. a ‘one-size-fits-all’ advice or business model)</p> <p>Trend of recommending insurance premium payments to be paid from superannuation when cash flow is raised as a concern by customers</p>

Indicator category	Key risk indicators
Adviser profile	<p>Adverse complaints history in terms of both the number and value of complaints</p> <p>Adverse adviser audit outcomes</p> <p>High level of recorded incidents, issues and events, and breaches</p> <p>Note: The institutions use a variety of terms, similar to and including those in the product or advice category above, to describe and record matters of adviser non-compliance. These matters may result in a breach report to ASIC.</p> <p>Poor training history (e.g. training not completed by due dates or failure rates)</p> <p>Identified personal or behavioural concerns (e.g. gambling habits, financial stress or acute health concerns)</p> <p>Identified conflicts of interest</p> <p>Customer signature irregularities</p> <p>Customer file integrity issues (e.g. unexplained additions, omissions or variations to a customer file)</p> <p>Advisers working in the same office as an identified high-risk adviser</p>
Customer profile	<p>High percentage of advice to elderly or vulnerable customers</p> <p>High percentage of customers in retirement who hold gearing products that may be unsuitable for their circumstances (e.g. customers approaching or in retirement, vulnerable customers, or customers with insufficient cash flow)</p> <p>High percentage of customers approaching retirement, or in retirement, who have an aggressive or assertive risk profile</p> <p>Adviser charging excessive fees relative to the amount being invested by the customer</p> <p>Adverse customer survey results</p>
Other	<p>Adverse results of an ASIC surveillance</p> <p>Adverse results revealed by searching the ASIC registers</p> <p>Any judgements against the adviser, or tribunal or banning decisions</p> <p>Negative or concerning feedback from the business, para-planners and compliance teams</p> <p>Whistleblowing reports</p> <p>Industry-wide risks</p>