

31 July 2017

SUBMISSION TO: Australian Securities & Investments Commission (ASIC)

**In response to Consultation Paper 284: Example Statement of Advice for Life Insurance: Update to RG 90.**

## Background

Mortgage Choice is an ASX listed company that seeks to help Australians with all of their financial needs. Established in 1992, Mortgage Choice was originally established to help Australians improve their financial situation by offering a choice of home loan providers, coupled with the expert advice of a mortgage professional.

Since that time, the company has grown and developed into a fully-fledged financial services provider. Mortgage Choice Financial Planning Pty Limited (AFSL 422854), or 'MCFP', is a wholly owned subsidiary of Mortgage Choice Limited. Having commenced operations in October 2012, there were 46 advisers authorised to provide advice under MCFP's AFSL as at June 2017.

As a relatively new entrant to the industry, Mortgage Choice welcomes the opportunity to provide input into the **Consultation Paper 284: Example Statement of Advice for Life Insurance: Update to RG 90**. We welcome the opportunity to provide input on the proposed updates, and in particular the new sample Statement of Advice (SoA).

In summary, our feedback on the proposed changes outlined in Consultation Paper 284 includes:

## Compliance Costs

With any amendments to SoA templates there are always costs incurred, including:

- Legal advice to consider the implications of the amendments
- Coding costs to get the SoA templates amended within the financial planning software being used to produce the SoA templates
- Training costs of updating advisers and paraplanners on the new requirements
- Training costs for licensee compliance staff to understand the new requirements

We are constantly reviewing how we can improve the content of our SoA templates, with a view to continuous improvement when it comes to meeting our obligations as a licensee. Wholesale changes obviously require greater effort and incur higher costs than a continuous improvement approach.

We also note that the deeply personalised nature of this document makes it harder to incorporate into the word assembly programs used in our industry, such as X-Plan or Coin, and

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will likely increase the time taken to produce each SOA due to the increased manual input. Therefore, if this document was used as the basis of a template, it would increase the overall cost of advising a client.

## Competitive Impacts

We welcome the concept of a more standardised approach to the structure of an SoA within the industry where the goal of that standardised approach supports better education of, and decision making by, our clients. It is our view that competitive advantage in relation to personal retail advice lies more in the quality of the advice and the nature of the relationship than specifically in the structure of advice documents. We would however seek to retain the ability to be able to tailor any SoA template to meet the unique needs of our predominantly wealth accumulator client base, rather than being forced to adopt a standardised structure that may not meet their needs. We understand that this is not the intention of ASIC, but rather to provide guidance around how ASIC believes these documents can be improved.

Having said that, we believe that an unintended consequence of potential cost increase resulting from the deeply personalised nature of the sample SoA provided is that it would then provide a competitive advantage to companies selling life insurance under general advice or no advice models who don't have to provide an SOA. ASIC Report 498 pointed out that clients who take out a policy without seeing a financial adviser have a higher chance of any claim made against the policy denied and therefore have an overall inferior outcome.

In terms of the sample SoA provided in **Appendix 2: Example SoA**, our specific comments on the structure and content of the proposed changes include:

- **Product Comparison**

The product comparison section is well thought out and easy to follow from a retail client perspective. As part of MCFP's standard product comparison process the same information is already captured, albeit in a different format. MCFP are currently considering incorporating something along the lines of the example format into our SOAs and suggest that if this format were to become an industry standard, it would help retail clients to become generally more familiar with it. Greater familiarity would assist clients in being better able to understand the information presented to them and to compare the advice received from one provider relative to another.

- **Repetition**

Within the SOA, the recommendations are outlined on page 3 in the executive summary, discussed in detail on pages 8 to 12 and then again on pages 18 to 22 under the section outlining why the advice is in the client's best interest.

From a client engagement perspective, the unnecessary repetition makes it much harder for the reader to stay focused on this very important section and increases the risk they will not read the detailed sections thoroughly (“I've already seen this, so I'm not reading it again”).

The *best interests* section could potentially be used more effectively with the inclusion of a brief explanation of how *best interest* duty has been met and the reasons why the advice has been restricted to the recommendations section.

From an existing ASIC policy perspective, RG175.184 (c) requires the SoA to avoid repetition of content (so as to avoid adding unnecessary length to the SoA) by using clear cross-referencing and it seems that this example SoA has failed the clear and concise requirement by having too much repetition of content.

- **Prominence of Fee disclosure**

At MCFP, we are fully supportive of complete transparency of fees for our customers. Our client base tends to be wealth accumulators who are seeking professional financial advice for the first time, and a significant part of the advice process with these clients is to educate them on the value of advice, and how appropriate advice can benefit them. Until they understand the value of advice, they are extremely fee sensitive.

We are concerned that if the clients' first focus is drawn purely to the fees on the first stage (first page of the SoA), before they have had an opportunity to properly understand the value of the advice being provided, these clients will disengage with the remainder of the advice process.

With the prominence of the fees on the first page, the client's focus is immediately drawn to the fees before they have had a chance to think about the advice and why that advice is in their best interest. It is our view that the fees should be listed after the advice within the SoA, at which time the fees can be properly considered in the context of the advice provided.

- **Removing educational material**

Some of the background information contradicts the previous guidance from ASIC in RG 175 on the importance of justifying the recommendations, specifically making the reader aware that choices are being made and the reasoning for taking a particular course of action. The sample SOA gives recommendations for policy terms and reasons why they are desirable, but does not give the reasons why this particular course of action is more appropriate than the other choices available to the client.

How can the adviser be certain that the client understands their choices during their discussions if, instead of explaining this choice and the main concepts involved and evidencing this in writing

by setting them out in the SOA, the adviser simply refers them to another source? Some general statements are made about stepped and level premiums and why they are chosen, but the reader is still left to wonder what the expected consequences would be of the recommendations. Does the SoA demonstrate that the risk for clients wanting to maintain trauma insurance, for example, through their late fifties and early sixties - and yet potentially being unable to afford it due to the steep premium increases that occur during this period - been explained? Have the actual long-term savings of having their Income protection premiums on level premiums through to retirement been made clear to the client, has this been demonstrated, or have general remarks been made without evidence? We would question how advisers are able to demonstrate they have met their *best interest* requirements without having clearly explained the choices being made to our clients.

- **Non-specific references to Product Disclosure Statements (PDSs)**

Listing the various PDSs, noting that they were provided and the importance of reading them is a positive aspect of the SOA and an approach to the issue that we support. However, the sheer volume of this reading material and an inherent belief by the reader (client) that the adviser has reviewed this material and taken it into consideration when making their recommendations means that, regardless of how it is referenced in the SOA, the chances of the client then reading it again are unlikely to improve.

The same people who are interested in reading the documents will read them, whilst those who want to avoid as much of the reading material as possible will avoid it.

This issue is endemic to the industry and despite advances made, it has never been resolved. Short form PDSs for superannuation funds have not yet been able to adequately deal with all the relevant information in one place, and as a result additional insurance and investment guides are required. If these additional guides were to be incorporated into the PDS, the PDSs would revert back to the length of documents provided pre-reform.

These PDSs are very clear to point out that the information in these additional documents must be considered in conjunction with the PDS and the PDS cannot be considered in isolation. Insurance PDSs contribute to the volume as each PDS will also have an additional policy document 'available on request' that provides the actual terms of their insurances, rather than the summary form available in the PDS.

- **Not giving context to super contribution recommendations, and risks/benefits**

The recommended contribution conflicts with the readers' stated goal of prioritising the mortgage over super/insurance from personal cash flow.

Where the recommendation is to fund insurance premiums through super, it is critical that contributions to the superannuation fund and the consequences of not contributing to the fund be considered.

However, some basic analysis of the receiving fund must be done to ensure it's a reasonable vehicle to receive the funds, and comparative projections must be included to help the client understand the long-term consequences and the trade-offs being made with this funding structure. Once they understand both the risks and benefits of the recommendations, coming now from an informed decision and in conjunction with their adviser, would they be in a position to confirm their decision.

Mortgage Choice welcomes the opportunity to provide some input into ASIC's Consultation Paper 284. As highlighted several times, we are extremely supportive of the need to make SOAs more effective and easier for customers to read and understand, as well as to assist advisers to make better use of SOAs. However we believe that there are a number of further changes that would be required to the sample document to achieve the goals as currently stated.

If we can provide any further information or feedback, we would be more than happy to do so. Please contact Tania Milnes, General Manager – MCFP on mobile: 0434 184 483 or email: [tania.milnes@mortgagechoice.com.au](mailto:tania.milnes@mortgagechoice.com.au).

Yours faithfully

**MORTGAGE CHOICE FINANCIAL PLANNING PTY LIMITED**



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