ASIC

Australian Securities & Investments Commission

REPORT 562

Financial advice: Vertically integrated institutions and conflicts of interest

January 2018

About this report

ASIC has conducted a project to examine how Australia's largest banking and financial services institutions manage the conflict of interest that arises as a result of institutions engaging in both the provision of personal advice to retail clients and the manufacture of financial products under a vertically integrated business model.

This report outlines the results of this project.

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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.

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

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Executive summary

1 ASIC conducted a project to understand how well Australia's largest banking and financial services institutions manage the conflict of interest that arises as a result of both providing personal advice to retail clients and manufacturing financial products.

Note: See the 'Key terms' for definitions of 'conflict of interest', 'personal advice', 'retail client' and 'financial product'.

2 Managing conflicts of interest is an important part of how Australian financial services (AFS) licensees who provide financial product advice can help to ensure their customers' trust and confidence.

3 As set out in *ASIC's corporate plan 2017–18 to 2020–21: Focus for 2017–18*, one of ASIC's aims in the sectors we regulate is to promote investor and consumer trust and confidence. For the financial advice industry, this can be achieved if financial advisers:

(a) act professionally, treat consumers fairly and prioritise consumers' interests;

(b) provide accessible strategic financial product advice that is aligned with consumer needs, and delivers value for money; and

(c) ensure that consumers are fully compensated when losses result from poor conduct.

4 The project covered by this report is part of a broader set of regulatory reviews of the wealth management and financial advice businesses of Australia's largest financial institutions (including work done as part of ASIC's wealth management project).

5 ASIC has separately reported on related work. For example, in March 2017 we released a report which outlined how effectively Australia's largest banking and financial services institutions oversee their financial advisers: see Report 515 *Financial advice: Review of how large institutions oversee their advisers* (REP 515). Also, in October 2016 we reported on a project to review the extent of failure by large institutions to deliver ongoing advice services to financial advice customers who were paying fees to receive those services: see Report 499 *Financial advice: Fees for no service* (REP 499).

6 ASIC is undertaking a series of regulatory actions in response to the findings of this project to ensure customers receive advice that is in their best interests, is appropriate and prioritises their interests. Some of the required improvements to institutions' business practices, such as reforms to adviser audit processes, are already underway. ASIC is ensuring that reasonable steps are taken to identify and remediate affected customers.

Background

7 The business model of combining activities at two (or more) different stages of production is known as 'vertical integration'. It is a model that is used across the financial services sector and, in particular, the financial advice industry, in various forms.

Note: In this report, we use the terms:

- 'advice' or 'personal advice' to refer to personal advice provided to retail clients;
- 'advice licensee' to refer to AFS licensees that provide personal advice; and
- 'customer' or 'client' to refer to 'retail client'.

8 Vertical integration can provide economies of scale and other benefits for both the financial institution and its customers. The economies of scale may allow customers to access advice at lower cost. Customers may choose to obtain both advice and financial products from a vertically integrated institution because of the convenience of a relationship with a single financial institution. They may also value the perceived safety of dealing with a large institution, and have trust and confidence in the ability of the institution to both deliver the services and compensate them appropriately if required.

9 However, a vertically integrated business model also gives rise to an inherent conflict of interest. While the law permits this conflict to exist, it must be managed appropriately.

What we did

10 This project focused on five of the largest banking and financial services institutions in Australia:

(a) AMP Limited (AMP);

(b) Australia and New Zealand Banking Group Limited (ANZ);

(c) Commonwealth Bank of Australia (CBA);

(d) National Australia Bank Limited (NAB); and

(e) Westpac Banking Corporation (Westpac): see Section B.

11 More specifically, we requested information from the two largest advice licensees controlled or owned by each of the five institutions, where these licensees were authorised to provide personal advice to retail clients. The information covered the periods from 1 July 2014 to 28 February 2015 (first relevant period) and from 1 January 2017 to 31 March 2017 (second relevant period).

12 This project had two components. Firstly, we reviewed the composition of each advice licensee's approved product list, and compared the proportion of funds invested by customers in in-house products (i.e. those manufactured by a related party) with the funds invested in external products (i.e. those manufactured by an unrelated third party), as a result of the customers receiving personal advice.

Note 1: An 'approved product list' is a list of financial products, determined by the advice licensee. It sets out the financial products the licensee considers are suitable for the licensee's representatives to recommend to customers. Approved product lists will often include deposit products, investment and superannuation products, and life insurance products.

Note 2: In this report, we use the term 'invested' when referring to the allocation of customers' funds to financial products. For example, we have used the term 'invested' to refer to the allocation of customers' funds to life insurance premiums and transaction cash accounts.

Note 3: In this report, we use the term 'in-house product' to refer to any product manufactured by a related party of an advice licensee. A product may be an in-house product even if other non-related parties receive a product-related fee in relation to the product.

13 Secondly, we assessed the quality of personal advice being provided to customers by the advisers of the largest advice licensee within each of the five institutions.

14 Specifically, we looked at customer files where advisers had recommended an in-house superannuation platform to new customers, to test whether advisers had demonstrated compliance with the obligations under the *Corporations Act 2001* (Corporations Act) to:

(a) act in the best interests of the customer (s961B);

(b) provide the customer with appropriate advice (s961G); and

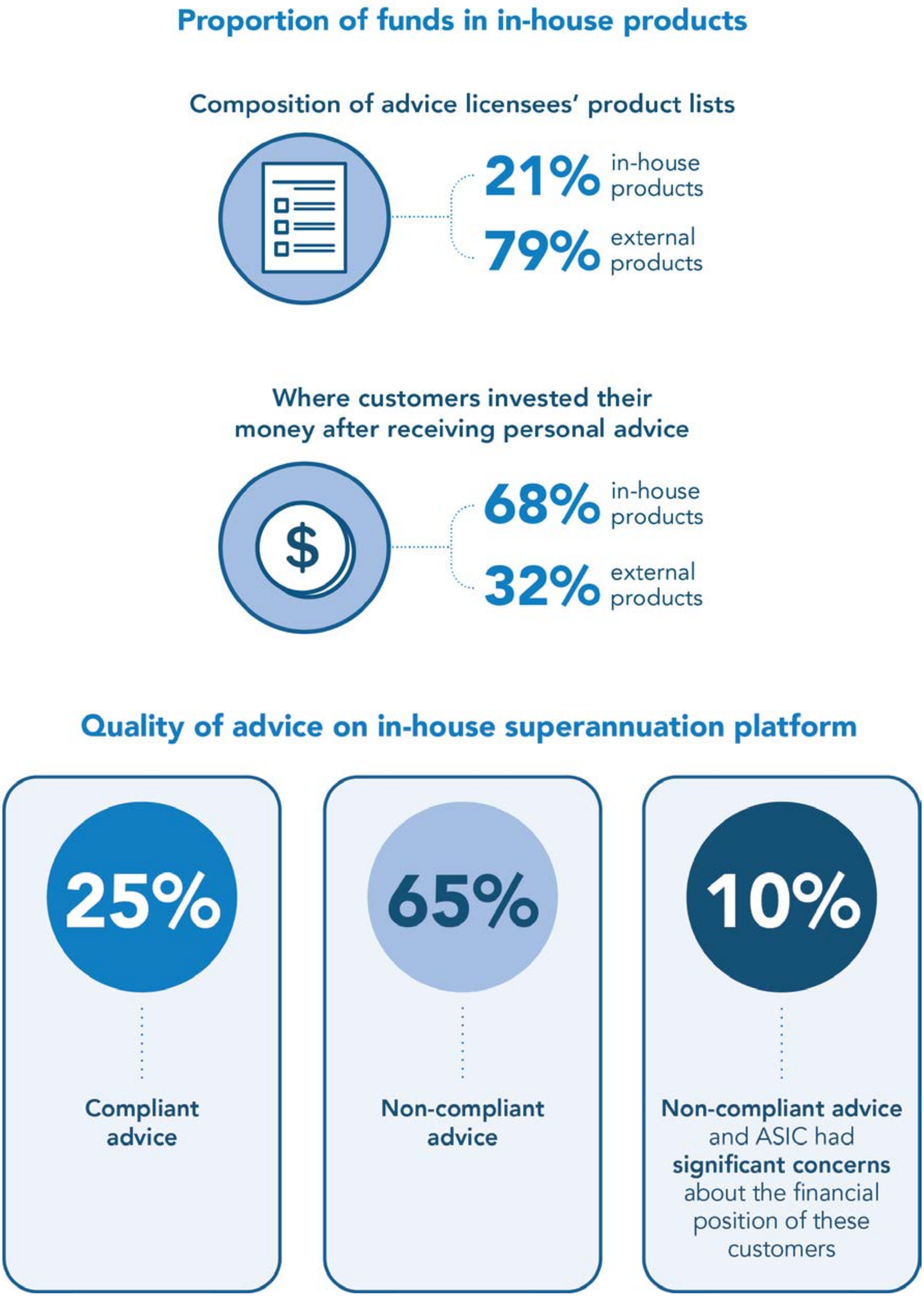
(c) prioritise the customer's interests over their own interests or those of a related party (s961J).

Note: These obligations are known as the 'best interests duty and related obligations': see Div 2 of Pt 7.7A of the Corporations Act.

What we found

15 Figure 1 summarises the key results of this project.

Figure 1: Key results of this project



Note: See Table 3 in the appendix for the complete data used in this figure (accessible version).

Source: ASIC

Findings about approved product lists and product sales

16 We found that the combined total of all products across the approved product lists of the two largest advice licensees of each institution included a higher proportion of external products (79%), compared with in-house products (21%). However, the value of funds invested by customers in these external products, as a result of the advice provided, was 32% of the total value of funds invested, compared with 68% invested in in-house products: see Section C.

17 There was variation in the results between each advice licensee. While more than half of the advice licensees had more than 60% of the customers' funds invested in in-house products, there were three advice licensees where customers had invested less than half of total funds in in-house products.

18 There was also variation across product types. For example, of customers' funds invested in platforms, 91% of funds were transacted through in-house products, while funds invested in investments were more evenly split between in-house (53%) and external products (47%).

19 There did not appear to be a significant change from the first relevant period to the second relevant period in either the composition of the approved product lists, or the proportion of total funds invested by customers in in-house products compared with external products.

Note: We do not make direct comparisons between the two relevant periods in which we reviewed information about the advice licensees' approved product lists for the reasons set out at paragraph 108.

Findings from the advice reviews

20 In 10% of the sample advice files, we had significant concerns about the impact of the non-compliant advice on the customer's financial situation. We were significantly concerned because, for these customers, switching to the new superannuation platform resulted in inferior insurance arrangements and/or a significant increase in ongoing product fees—without additional benefits being identified that were consistent with the customer's relevant circumstances: see Section D.

Note: A customer's 'relevant circumstances' are the objectives, financial situation and needs of a customer that would reasonably be considered relevant to the subject matter of advice sought by the customer.

21 We also found that in 75% of the customer files we reviewed (which includes the 10% identified above) the adviser had not demonstrated compliance with the best interests duty and related obligations.

22 There were two areas, in particular, that led to a customer file being rated as not having demonstrated compliance with the best interests duty and related obligations—that is, where the adviser had not demonstrated that they had:

(a) sufficiently researched and considered the customer's existing financial products; and/or

(b) based all judgements on the customer's relevant circumstances.

23 The fact that 75% of the customer files we reviewed were non-compliant does not mean that these customers were significantly worse off as a result of following the advice. As indicated in paragraph 20, we assessed that in 10% of the files reviewed it was readily apparent that customers were likely to be significantly worse off as a result of following the advice. For the balance of the files (i.e. 65%), the fact that customer files reviewed were non-compliant does not mean that the advice, if implemented, would result in negative outcomes. However, these files did not demonstrate that the customer would be in a better position following the advice.

Note: In this report, we use the term 'non-compliant advice' to mean personal advice provided to a retail client by an adviser who has not demonstrated compliance with the best interests duty and related obligations in providing the advice.

24 It is also important to note that the results of our analysis do not mean that, if an adviser recommends an in-house product to a customer, the in-house product will automatically be unsuitable or the advice non-compliant.

25 We do not expect the proportion of customer funds invested in in-house products to be the same as the proportion of in-house products on an approved product list (e.g. if in-house products represent 30% of an approved product list, we do not necessarily expect to see 30% of customer funds being invested in these products).

26 Despite this, the high level of non-compliant advice, combined with the high proportion of funds invested in in-house products, suggests that the advice licensees we reviewed may not be appropriately managing the conflict of interest associated with a vertically integrated business model. This is consistent with the results of the advice reviews conducted for REP 515. In those advice reviews we observed a higher level of non-compliant advice where advisers recommended an in-house product compared to where an adviser recommended an external product.

27 Finally, in our advice reviews for this project we did note that there were some improvements in the practices of the advice licensees and their advisers, compared with the findings from our previous surveillance work before the Future of Financial Advice (FOFA) reforms became mandatory in 2013.

Reporting on the results

28 This report outlines our observations and findings to date. We do not name specific institutions or licensees because the information on which this report relies:

(a) was provided by the institutions in response to our compulsory information-gathering powers, which require us to maintain confidentiality; and

(b) may be used to seek an enforcement outcome against the institutions or, depending on the conduct, individual advisers.

29 It is also worth noting that we do not name specific institutions or advice licensees because of the limitations in the quality of the data provided by the institutions on their approved product lists: see paragraphs 89–90. The institutions used different methodologies to identify the data and, in some instances, were reliant on third parties to provide the data. Due to the difficulties encountered by some licensees in sourcing external data, the information provided to ASIC may be incomplete.

30 The approved product list data collected was sufficient to identify trends across the five banking and financial services institutions, but not to make direct comparisons between the advice licensees in our review: see paragraph 89.

31 The advice reviews were conducted by ASIC staff and an independent external company: see paragraphs 99–103. The advice review results in this report reflect the views of ASIC and the independent external company. These views may not be accepted by all the institutions.

Next steps

32 ASIC is undertaking a range of regulatory actions following our broad scope of work in relation to the largest banking and financial services institutions. There is already work underway to improve the quality of advice provided by these institutions—this includes:

(a) improvements to monitoring and supervision processes;

(b) improvements in advice processes; and

(c) ASIC banning advisers with serious compliance failings.

33 There is also ongoing work that focuses on remediation where advice-related failures within these institutions have led to poor customer outcomes. The outcomes of this work will be reported on separately.

34 Specific to this project, where relevant, we will ensure that each advice licensee we reviewed puts in place remediation processes that address the

customer loss identified by ASIC in relation to reviewed files. The remediation will be subject to the principles set out in Regulatory Guide 256 *Client review and remediation conducted by advice licensees* (RG 256), and consideration will be given to whether broader inquiries need to be made across particular licensees, or advisers' files.

35 We will discuss, with each of the advice licensees in our review, an appropriate response to the findings from this project to improve their processes for managing conflicts of interest.

36 It is likely that initiatives implemented by these advice licensees can be scaled to address similar concerns at other advice licensees.

37 We will also consult with the financial advice industry and other relevant groups on introducing public reporting on approved product lists and where client funds are invested for advice licensees that are part of a vertically integrated institution. This would provide some transparency around management of the conflicts of interest that are inherent in vertically integrated business models.

A Background—Conflicts of interest and vertical integration

Key points

Vertical integration is a business model where activities at two (or more) different stages of production are combined. It is a model that is used across the financial services sector in various forms.

For large banking and financial services institutions, the vertically integrated model occurs where the institution engages in both the provision of financial advice and the manufacture of financial products.

Vertical integration can provide economies of scale and other benefits for both the institution and its customers. Customers may be attracted to the perceived safety of a relationship with a large, vertically integrated institution, and prefer dealing with a single institution which facilitates easier access to financial services.

In a vertically integrated advice business, however, there is an inherent conflict of interest between an advice licensee's interest in selling its in-house products and the customer's interest in receiving advice that is in their best interests. While the law permits this conflict to exist, it must be managed appropriately.

We sought to understand whether this conflict of interest was being managed appropriately by the advice licensees.

Purpose of the project

38 The aim of this project was to understand how five of Australia's largest banking and financial services institutions deal with the conflict of interest that exists when they are engaged in both providing personal advice to retail clients and manufacturing financial products.

39 The business model of combining activities at two (or more) different stages of production is known as 'vertical integration'. It is a model that is used across the financial services sector in various forms. For example, smaller advice licensees may partner with a product issuer to distribute the issuer's products under the branding of the advice licensee. In the superannuation industry, it is common for superannuation funds to also provide financial advice.

40 In the case of large banking and financial services institutions, vertical integration occurs where the institution engages in both the provision of financial advice and the manufacture of financial products.

Note: The extent of vertical integration in the large banking and financial institutions is subject to continual change. For example, in October 2016, NAB divested 80% of its shareholding in the MLC Limited life insurance business, and Westpac sold part of its share in BT Investment Management Limited to reduce its ownership. Westpac has also announced its intention to sell its remaining 10% holding in BT Investment Management Limited by May 2018, and CBA announced, in September 2017, the sale of 100% of its life insurance business, CommInsure Life. Further, ANZ announced in October 2017 the sale of its OnePath pensions and investments business and aligned dealer groups to IOOF Holdings Limited and, in December 2017, announced the sale of OnePath Life Australia Holdings Pty Limited to Zurich Financial Services Australia.

41 There may be benefits to vertical integration: see paragraphs 56–57. However, a vertically integrated advice business gives rise to an inherent conflict of interest between the advice licensee's interest in selling its in-house products and the customer's interest in receiving advice that is in their best interests. While the law permits this conflict to exist, it must be managed appropriately: see paragraphs 68–78.

42 We sought to understand whether this conflict of interest was being managed appropriately by the advice licensees.

43 We did this by collecting data on the composition of the advice licensees' approved product lists, and the proportion of funds invested by customers in in-house products, compared with the funds invested in external products, as a result of the customers receiving advice from the advice licensees' advisers.

Note: We also reviewed the processes that advice licensees used to select products for their approved product lists: see paragraphs 128–133.

44 We also sought to assess the quality of personal advice being provided. We tested whether, when providing advice to new customers to purchase an in-house superannuation platform, advisers had demonstrated compliance with the best interests duty and related obligations.

45 We reviewed the advice provided to new customers because we wanted to understand how advisers would comply with the best interests duty and related obligations in the context of a new advice relationship, in which advisers could potentially provide advice on a new strategy and recommend new products.

Note: We only examined advice provided to new customers in relation to an in-house superannuation platform.

46 The institutions reviewed in this project often have programs in which they sell in-house products under a general advice model. This project did not examine these sales programs.

Background and context

47 We have been concerned for some time about the quality of personal advice provided to consumers, and about conflicts of interest in the financial advice industry. These concerns first arose as a result of our monitoring and surveillance work, reports of misconduct, and market intelligence, and were reinforced by the results of our 'shadow shopping' surveillances in 1998, 2003, 2006 and 2011.

48 Our concerns were not limited to a few non-compliant advisers, or even a few non-compliant firms. Instead, they reflect broader systemic issues within the financial advice industry, driven by conflicts of interest relating to ownership and remuneration, and unacceptable levels of competence, compounded by weaknesses in the regulatory framework.

49 As part of our work to address these concerns, in recent years we have conducted extensive reviews of advice (focused on the largest banking and financial services institutions, which represent a significant proportion of the financial advice industry). These reviews have looked at:

(a) individual advisers providing non-compliant advice and how they are identified and reported to ASIC;

(b) how the large institutions monitor and supervise their advisers through file audit processes and background and reference checking when appointing advisers; and

(c) broad failures to provide services that clients have paid for on an ongoing basis.

50 This work is still ongoing, with some matters in a remediation phase and others under review. Work that has been done in other parts of the industry has been separately reported on.

51 Conflicts of interest are not unique to vertically integrated institutions. For example, remuneration arrangements can also give rise to conflicts of interest. However, the vertically integrated business model gives rise to a particular type of conflict of interest—at times, because of the ownership structure of large institutions and, at other times, because of institutions' links with product manufacturers.

Regulatory reforms

52 In recent years, there has been considerable legislative reform to address a number of these concerns about the quality of financial advice:

(a) The FOFA reforms, which commenced in 2012 and became mandatory from 1 July 2013, introduced a number of new requirements—as listed in paragraph 53—designed to improve the quality of financial advice and reduce conflicts of interest in the financial advice industry.

(b) The financial advisers register was introduced on 31 March 2015, and provides key information on all individuals who have, since this date, provided personal advice to retail clients on relevant financial products (i.e. all financial products other than basic banking products, general insurance products or consumer credit insurance, or a combination of any of these products).

(c) The *Corporations Amendment (Professional Standards of Financial Advisers) Act 2017*, which commenced on 15 March 2017 and will come into effect between 1 January 2019 and 1 January 2024, seeks to increase the professional, ethical and education standards for financial advisers (professional standards reforms).

(d) Reforms to the payment of life insurance commissions in 2017, under the *Corporations Amendment (Life Insurance Remuneration Arrangements) Act 2017*, commenced on 1 January 2018 and aim to better align the interests of customers with those providing advice on life insurance products (life insurance reforms).

Note: See paragraphs 72–95 of Report 515 *Financial advice: Review of how large institutions oversee their advisers* (REP 515) for further detail on these and other reforms introduced to address poor conduct and structural problems in the financial advice industry.

53 The changes introduced by the FOFA reforms are most relevant for this project, including:

(a) a prospective ban on most conflicted remuneration, including commissions and volume-based payments;

(b) an obligation for financial advisers to act in the best interests of their customers (known as the 'best interests duty'), and to place the customers' interests ahead of their own when providing advice;

(c) an opt-in obligation requiring advisers to renew their customers' ongoing fee agreements every two years;

(d) a requirement to provide an annual fee disclosure statement; and

(e) enhanced powers for ASIC.

54 We strongly support the FOFA reforms and believe they have gone a long way to addressing some of the problems in the financial advice industry. While the FOFA reforms prohibit certain types of conflicts of interest in the financial advice industry (i.e. conflicted remuneration), they allow the conflict of interest that arises from a vertically integrated business model. Importantly, this conflict of interest is addressed through requirements such as the best interests duty and the obligation to prioritise the interests of the client over the interests of the adviser and related parties.

55 We note that it will take some time for all the reforms identified at paragraph 52 to have their full intended effect on the financial advice industry. The life

insurance reforms and professional standards reforms are being phased in over several years from 1 January 2018 and 1 January 2019, respectively. We believe that all these reforms are leading to significant improvements in the quality of advice provided to retail clients in Australia.

Vertical integration

56 Vertical integration can offer benefits to both the institution and its customers. It can provide economies of scale for the institution, and potentially improve cost efficiencies in the provision of services. These savings may then be passed on to the customer and improve access to advice.

57 Customers who obtain financial services from a vertically integrated advice business may also benefit in other ways. They may be attracted to the convenience of a relationship with a single financial institution. They may also value the perceived safety of dealing with a large institution, and have trust and confidence in the ability of the institution to both deliver the services and compensate them appropriately if required.

> Note: The Financial Ombudsman Service Australia (FOS) reported in its *Annual review 2016–17* (at page 31) that '[a]s at 30 June 2017, consumers were owed more than $14.1 million (excluding interest) in unpaid FOS determinations. A total of 218 consumers were affected by 39 FSPs [financial services providers] unwilling or unable to comply with 154 determinations. Of these FSPs, half (51%) were financial planners and advisors.' Unpaid determinations are concentrated in the small-to-medium advisory services sector. AFS licensees of larger institutions are more likely to be able to ensure compensation (through self-insurance) for their customers.

58 However, we have identified for some time conflicts of interest as a key risk in the financial advice industry. These conflicts may create a culture and incentives that result in the provision of poor quality financial advice, and undermine trust and confidence in the financial system. In *ASIC's corporate plan 2016–17 to 2019–20: Focus for 2016–17* (page 11), we noted:

> The industry still faces challenges in providing good quality financial advice. For example, the continued vertical integration between product designers and distributors has the potential to exacerbate conflicts of interest and deliver poor outcomes for consumers.

> Note: This concern was also noted in *ASIC's corporate plan 2015–16 to 2018–19: Focus for 2015–16* (page 8). We also recognise that the extent of vertical integration is constantly changing: see paragraph 40 (note) which provides a summary of some of the recent changes in ownership of the wealth management businesses that relate to the institutions in this project.

Funds management

59 In March 2016, we released a report in which we considered the conflicts management practices in vertically integrated businesses in the funds management industry: see Report 474 *Culture, conduct and conflicts of*

interest in vertically integrated businesses in the funds management industry (REP 474).

60 We found that, in the funds management industry, businesses demonstrated a commitment to maintaining and reviewing their policies on conflicts of interest and information barriers, with some focus on training. However, on matters of outsourcing, product selection, remuneration and board membership, there were areas where organisations could better demonstrate a commitment to managing and, where appropriate, avoiding conflicts of interest: see REP 474.

Financial advice

61 The project covered by this report considered the conduct of some of the advice licensees within five of Australia's largest banking and financial services institutions, as listed at paragraph 10.

62 We sought to understand how well these institutions manage the inherent conflict of interest arising as a result of both providing personal advice to retail clients and manufacturing financial products.

63 This conflict of interest does not mean that, if an adviser recommends an in-house product to a customer, the in-house product will automatically be unsuitable. However, as with any product recommendation, the adviser is required to demonstrate that the advice recommending the in-house product is in the best interests of the customer and that it is appropriate.

64 Furthermore, given the requirements of s961J of the Corporations Act, an adviser who recommends an in-house product must acknowledge the conflict of interest, and give priority to the customer's interests when providing the advice.

65 Where advisers recommend replacing, in full or in part, one financial product with another (also known as 'switching advice'), advice licensees should ensure that their advisers only recommend that a customer switches products if the adviser can demonstrate that the customer is likely to receive additional benefits as a result of the switch. The benefits can take a variety of forms, for example:

(a) lower costs;

(b) the customer valuing the convenience of dealing with the same institution for a range of products; or

(c) availability of extra features or reporting within the new product that are relevant to the client's needs and objectives.

Regulatory framework

Conduct obligations for financial advisers

66 Under Div 2 of Pt 7.7A of the Corporations Act, financial advisers providing personal advice must:

(a) act in the best interests of the customer (s961B);

(b) provide the customer with appropriate advice (s961G); and

(c) prioritise the customer's interests over their own interests or those of a related party (s961J).

67 A summary of these obligations is set out in Table 1.

Table 1: Summary of the best interests duty and related obligations in the Corporations Act

Obligation	Summary of requirements
Best interests duty: s961B(1)	An advice provider must act in the best interests of the customer in relation to the advice they provide to the customer.
Safe harbour for complying with the best interests duty: s961B(2)	Section 961B(2) provides a 'safe harbour' that advice providers may rely on to prove they have complied with the best interests duty. If an advice provider shows they have taken the steps in s961B(2), they have met their obligation to act in the best interests of the customer.
Providing appropriate advice: s961G	Advice providers must only provide advice if it is reasonable to conclude that the advice is appropriate for the customer, assuming the best interests duty has been complied with.
Prioritising the interests of the customer: s961J	When providing customers with advice, advice providers must place the interests of the customer ahead of any interests they have or those of their related parties.

Note: An 'advice provider' is generally the adviser who provides the personal advice. This is the person to whom the obligations in Div 2 of Pt 7.7A of the Corporations Act apply: see also the key term definition of 'advice provider' in Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175).

Source: ASIC

Obligations for AFS licensees to manage conflicts of interest

68 Under s912A(1)(aa) of the Corporations Act, AFS licensees must have in place adequate arrangements for managing conflicts of interest that may arise wholly, or partially, in relation to activities undertaken by the licensee or a representative of the licensee in providing financial services as part of the financial services business of the licensee or the representative.

69 Regulatory Guide 181 *Licensing: Managing conflicts of interest* (RG 181) sets out our guidance in relation to s912A(1)(aa). RG 181.15 defines a 'conflict of interest' as:

> [C]ircumstances where some or all of the interests of people (clients) to whom a licensee (or its representative) provides financial services are

inconsistent with, or diverge from, some or all of the interests of the licensee or its representative.

70 Conflicts of interest can be actual, apparent or potential.

71 The obligation to have adequate arrangements to manage conflicts of interest does not prohibit all conflicts of interest, but it does require arrangements to ensure that all conflicts are adequately managed: see RG 181.27.

72 There are three mechanisms that can be used to manage conflicts of interest:

(a) controlling conflicts of interest;

(b) avoiding conflicts of interest; and

(c) disclosing conflicts of interest: see RG 181.20.

73 Controlling a conflict of interest involves the AFS licensee identifying any conflicts of interest relating to its business, assessing and evaluating those conflicts and deciding on, and implementing, an appropriate response to those conflicts.

74 In vertically integrated institutions, specifically, an example of controlling the conflict of interest would be for advice licensees to have in place a rigorous approval process for selecting the products on their approved product list, and for all products to undergo the same process, regardless of whether they are in-house products or external products.

75 Advice licensees may wish to monitor the allocation of customer funds invested in in-house products compared with external products. There should be no incentives (monetary or non-monetary) for an adviser to recommend an in-house product.

76 In general, we consider that many conflicts of interest can be managed by a combination of control and disclosure. However, there are some conflicts that are so serious that they cannot be managed in such a manner. In these circumstances, advice licensees must avoid the conflict or refrain from providing the financial service affected.

77 Adequate conflicts management arrangements help to minimise the potential impact of conflicts of interest on customers. In a vertically integrated institution, the conflict between the interests of the advice licensee and the interests of the customer is acute in two situations:

(a) when the advice licensee decides which products to include on its approved product list; and

(b) when the adviser decides which products to recommend to an individual customer.

78 We sought to understand how this conflict of interest is managed in the context of product selection for an advice licensee’s approved product list.

79 We also sought to assess the quality of advice being provided—specifically, where an adviser recommends that a new customer acquire an in-house superannuation platform.

B Project scope and methodology

Key points

We collected data from the two largest advice licensees (by number of advisers) owned or controlled by five of Australia's largest banking and financial services institutions.

We asked for information on the advice licensees' approved product lists and associated data, including the proportion of funds invested by customers in in-house products, compared with the funds invested in external products, as a result of the customers receiving personal advice from the licensees' advisers.

We collected a sample of customer files from the largest advice licensee for each institution to review the quality of advice being provided—specifically, where new customers were advised to acquire an in-house superannuation platform.

Project overview

80 This project had two components. Firstly, we reviewed the composition of the approved product lists of each of the advice licensees listed at paragraph 83, and compared the proportion of funds invested by customers in in-house products with the funds invested in external products, as a result of the customers receiving personal advice.

81 Secondly, we reviewed the quality of personal advice being provided by the advice licensees listed at paragraph 93. Specifically, we tested whether advisers were complying with the best interests duty and related obligations when giving advice to new customers on an in-house superannuation platform.

Reviewing the approved product lists

Selection of advice licensees

82 We focused on five of Australia's largest banking and financial services institutions. Each of these institutions has a number of advice licensees that they own or control.

83 We selected the two largest advice licensees (by number of advisers) from each institution:

(a) AMP Financial Planning Pty Limited (part of AMP);

(b) Charter Financial Planning Limited (part of AMP);

(c) Millennium 3 Financial Services Pty Ltd (Millennium 3) (part of ANZ);

(d) ANZ Financial Planning;

(e) Count Financial Limited (part of CBA);

(f) Commonwealth Financial Planning Limited (part of CBA);

(g) GWM Adviser Services Limited (part of NAB);

(h) NAB Financial Planning;

(i) Securitor Financial Group Ltd (part of Westpac); and

(j) Westpac Financial Planning.

Note: The institutions ANZ, NAB and Westpac hold AFS licences with the authorisation to provide personal advice to retail clients. To identify them in their capacity as advice licensees, we refer to them by their trading names in this report.

Collection of data

84 We asked a series of questions, under our compulsory information-gathering powers, about each advice licensee's approved product list.

85 We were interested in the financial products that each advice licensee had approved that could be offered by their advisers when providing personal advice to customers. We collected this data for two time periods: the first relevant period from 1 July 2014 to 28 February 2015 and the second relevant period from 1 January 2017 to 31 March 2017.

86 The information we asked for included:

(a) the names of all financial products approved by the advice licensees that could be offered by their advisers when providing personal advice to customers;

(b) a description of the status of each product—that is, whether advisers could recommend the product to new customers, and whether this status had changed;

(c) a description of the type of each product;

(d) whether the product was manufactured by a related party;

(e) for each product, the total amount of funds invested, or insurance premiums paid;

(f) the total number of customers:

  (i) who made new or additional investments in each product; or

  (ii) for insurance products, who began or continued using each product to insure against a risk;

(g) for each product, the total amount of money invested, or insurance premiums paid, by new customers; and

(h) the total number of new customers:

(i) who made new investments in each product; or

(ii) for insurance products, who began using each product to insure against a risk.

Note: We refer to 'new customers' in this paragraph to mean customers who had not previously received financial advice from either the particular representative of an advice licensee or the advice licensee.

87 We also asked the advice licensees for information about their processes for constructing their approved product list.

Note: We covered a similar topic in paragraph 85 of REP 474.

88 We asked the advice licensees for information about:

(a) how they selected the financial products for their approved product list;

(b) how they managed any potential conflicts of interest;

(c) how they reviewed the previously approved products on their approved product list; and

(d) how they dealt with providing personal advice to new customers who had existing financial products.

Note 1: One of the advice licensees was only able to provide us with the information requested on its approved product list and associated data for the second relevant period. We therefore chose to focus on the second relevant period when analysing the approved product list data provided by the advice licensees: see also paragraphs 107–109.

Note 2: For the second relevant period, two advice licensees (including the advice licensee referred to in Note 1) were unable to provide us with the information requested on new customers. This means that the analysis for new customers in relation to the second relevant period excludes these licensees.

Data analysis

89 The data collected was sufficient to identify trends across the five banking and financial services institutions, but not to make direct comparisons between the advice licensees. This is because the advice licensees provided their approved product list data in different ways. This should be taken into account when reviewing our analysis.

90 Specifically, we note the following:

(a) Each licensee used a different methodology to identify and retrieve the data.

(b) The licensees were unable to provide the data we requested about the funds customers invested in financial products, or the products customers purchased on approved product lists, as a result of the personal advice they received, with complete reliability. For example, in some instances, the licensees could not identify whether:

(i) the advice provided on investments or insurance related to new customers or new accounts;

(ii) the customer receiving the advice was a retail client or a wholesale client; and

(iii) for investment advice, the funds were invested after a customer had received personal advice or were invested directly by the customer.

(c) Each of the licensees provided information about the platforms on their approved product lists, and information about some of the individual products available on each platform. Some licensees allocated the same customer funds to both the platform and the individual products invested in through the platform, showing the flow of customer funds. However, there were gaps in the data provided by all of the licensees on the underlying products available on each platform.

(d) Some licensees had difficulties in identifying and providing us with the data we requested on insurance products. The reasons varied, but the way in which insurance companies recorded their data and the limitations in the licensees' systems were common themes. Consequently, the data on insurance products was less reliable than the data on other product categories.

91 We adopted the following approach in analysing the approved product list data provided by the advice licensees:

(a) We used the information, as provided, without adjusting the data to ensure consistency.

Note: The one exception to this is that Westpac Financial Planning considered that products issued by BT Investment Management during the second relevant period were not 'in-house' products. Westpac advised ASIC that it held a 29% shareholding at the relevant time and that BT Investment Management was separately listed. Despite the additional information provided by Westpac, ASIC's legal view is that the BT Investment Management products were 'in-house' products and the data provided by Westpac was reclassified on this basis.

(b) Although we had some engagement with the licensees about the data provided, we did not verify that the data was accurate.

(c) Missing values or 'not applicable' responses provided by the licensees were not included in our calculations.

Reviewing the advice

92 To test the quality of personal advice being provided, we decided to look at customer files where advisers had recommended an in-house superannuation platform to new customers.

Selection of advice licensees

93 We selected the largest advice licensee for each institution, based on the number of advisers. The five selected advice licensees were:

(a) AMP Financial Planning Pty Limited;

(b) ANZ Financial Planning;

(c) Commonwealth Financial Planning Limited;

(d) NAB Financial Planning; and

(e) Westpac Financial Planning.

Product selection

94 We chose to review advice on superannuation platforms because customers commonly receive advice on superannuation platforms.

95 For each of the five advice licensees selected for this aspect of the project, we selected the in-house superannuation platform with the largest amount of funds received from new customers in the first relevant period.

96 The in-house superannuation platforms chosen for each advice licensee were generally similar in features and fees and costs. However, the insurance offered within the platform did vary across the platforms.

Selection of customer files

97 We asked the five advice licensees to provide us with a list of new customers who received personal advice on the selected in-house superannuation platform in February 2015.

Note: In general, the customer files provided by the advice licensees reflected these parameters. However, in a few instances, the customer was new to the adviser but not new to the advice licensee. We do not consider that this materially affected our analysis.

98 Using the lists of new customers provided by the advice licensees, we selected 80 customer files for each licensee at random, and requested the full file for each selected customer from the licensee. We wanted to obtain a sample of 40 customer files for each licensee, and it was necessary to request more files than we needed in order to obtain a full sample that met our criteria.

99 This provided us with 200 customer files to review in total. ASIC staff reviewed 100 files using an ASIC advice review template, which assisted in standardising the assessment of the files. This template considered factors similar to those set out in Appendix 3 to REP 515.

100 All of the sample files were also subject to a consistency check by two senior ASIC analysts.

101 At the same time, we engaged an independent external company to review the other 100 customer files, using the same ASIC advice review template.

102 This company was selected from a panel of experts, each of which had the capability and capacity to undertake the reviews in a reasonable timeframe, and did not have any conflicts of interest with the five advice licensees that were selected for this part of the project. The files reviewed by the independent external company were also subject to the company's own quality assurance checks.

103 The results of the 100 file reviews conducted by the independent external company were similar, but not identical, to the 100 file reviews completed by ASIC.

C Findings about approved product lists and product sales

Key points

There was generally a good mix of both in-house products and external products on the approved product lists of the advice licensees we reviewed.

A clear majority of customer funds were invested in in-house products, both for existing and new customers who were provided with personal advice.

All of the advice licensees reviewed had a similar governance structure for constructing their approved product lists.

Background

104 There is no requirement for an advice licensee to have an approved product list. However, they are often used by advice licensees as a risk management tool to:

(a) help the licensee comply with its legal obligations when providing financial product advice; and

(b) help the licensee's representatives comply with their legal obligations.

105 In vertically integrated businesses, information about an advice licensee's approved product list can assist the licensee to manage the inherent conflict of interest. For example, this information can highlight whether advisers are able to provide advice on a reasonable range of in-house and external products in specific product categories. A substantial bias towards in-house products may signal that it would be difficult for the licensee and its advisers to manage the conflict of interest.

106 Information about the proportion of funds invested by customers in in-house products, compared with external products, may also indicate whether or not advice is being delivered with a bias towards the institution's in-house products. However, we do not expect the proportion of customer funds invested in-house products to be the same as the proportion of in-house products available on an approved product list.

107 As set out in Section B, we collected a range of information about the approved product lists of the advice licensees we reviewed as part of this project. We collected this information over two time periods: the first relevant period and second relevant period.

108 It is not possible to make any direct comparisons between the data analysed in each of these relevant periods for the following reasons:

(a) the data was collected over two different periods of time (eight months and three months);

(b) the data was collected at two different points in time, and is therefore likely to be affected by seasonal variations;

(c) as noted in paragraph 90, there were gaps in the data provided by the advice licensees—partly due to the advice licensees' reliance on third parties to provide the information requested;

(d) the advice licensees did not use a consistent methodology to provide the data; and

(e) the composition of the approved product lists changed over the two relevant periods so the data analysed did not report on the same products.

109 Despite the above qualifications on our ability to make data comparisons between the two relevant periods, there does not appear to be a significant change from one period to the next in either the composition of the approved product lists or the proportion of total funds invested by customers in in-house products compared with external products.

110 As stated in paragraph 88 (Note 1), we chose to focus on the more recent information relating to the second relevant period for our analysis of the data on approved product lists and product sales.

Overall findings

111 We conducted our analysis to find out the number of products available on the approved product list of each of the advice licensees we reviewed and the ratio of in-house products to external products.

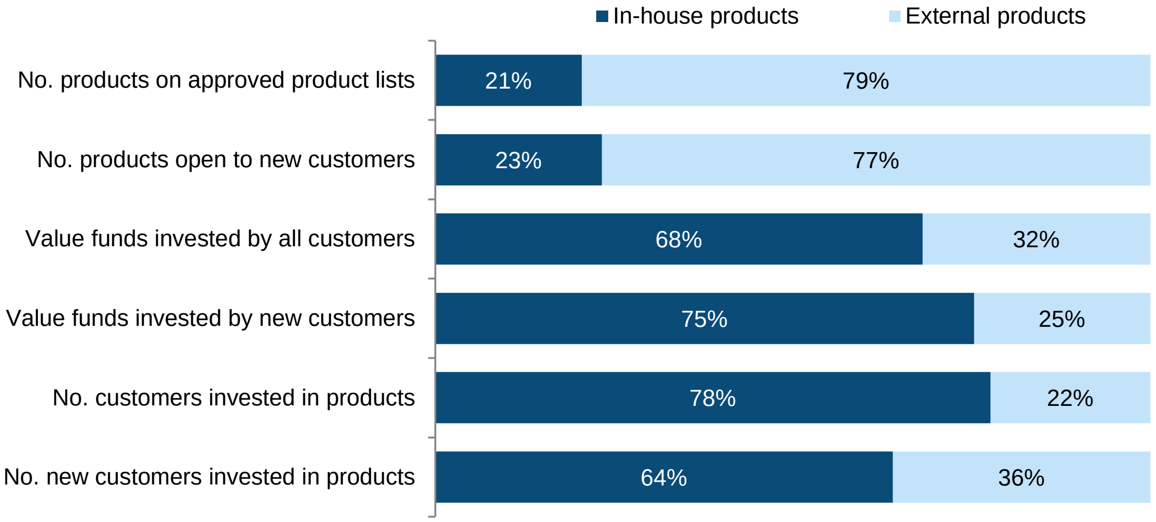
Note: If licensees told us of products on their approved product lists but not the value of funds invested in these products, we did not count these products in determining the number of products on the approved product list (see paragraph 91(c)).

112 Overall, our analysis of the data provided by the 10 advice licensees showed that, although there was generally a good mix of both in-house products and external products on the approved product lists, a clear majority of customer funds were allocated into in-house products—both for existing and new customers who were provided with personal advice. These findings are shown in Figure 2, which aggregates all of the licensees' data.

Note 1: Unless otherwise stated, the findings in this section relate to the second relevant period.

Note 2: The advice licensees have been de-identified in the findings for the reasons described in paragraphs 28–29. Different letter identifiers are used in each of the tables and figures in this report to represent the licensee.

Figure 2: Proportion of customers and funds invested in in-house or external products



Note: See Table 4 in the appendix for the complete data used in this figure (accessible version).

Source: Advice licensees, ASIC

113 Our analysis showed that, as an aggregate of all 10 advice licensees, in-house products represented 21% of all products on the various approved product lists for the period. However, these products represented 68% of the total value of funds transacted by all customers as a result of receiving personal advice from the licensees' advisers.

114 In addition, 78% of all customers (both new and existing customers) who made a new or additional investment during the period, as a result of receiving personal advice, transacted through in-house products.

115 This data shows that the relative balance of both in-house and external products on the advice licensees' approved product lists was not reflected in the advice provided and the products recommended to customers, with advisers being more likely to recommend in-house products.

Structure of approved product lists

116 Table 2 shows the proportion of in-house and external products on the approved product lists of each advice licensee, where funds were allocated to the products during the second relevant period.

Table 2: Proportion of in-house and external products on approved product lists

Licensee	In-house products (% of total)	External products (% of total)
A	52%	48%
B	39%	61%
C	36%	64%

Licensee	In-house products (% of total)	External products (% of total)
D	29%	71%
E	29%	71%
F	24%	76%
G	22%	78%
H	20%	80%
I	16%	84%
J	7%	93%

Note: If licensees told us of products on their approved product lists but not the value of funds invested in these products, we did not count these products in determining the number of products on the approved product list (see paragraph 91(c)).

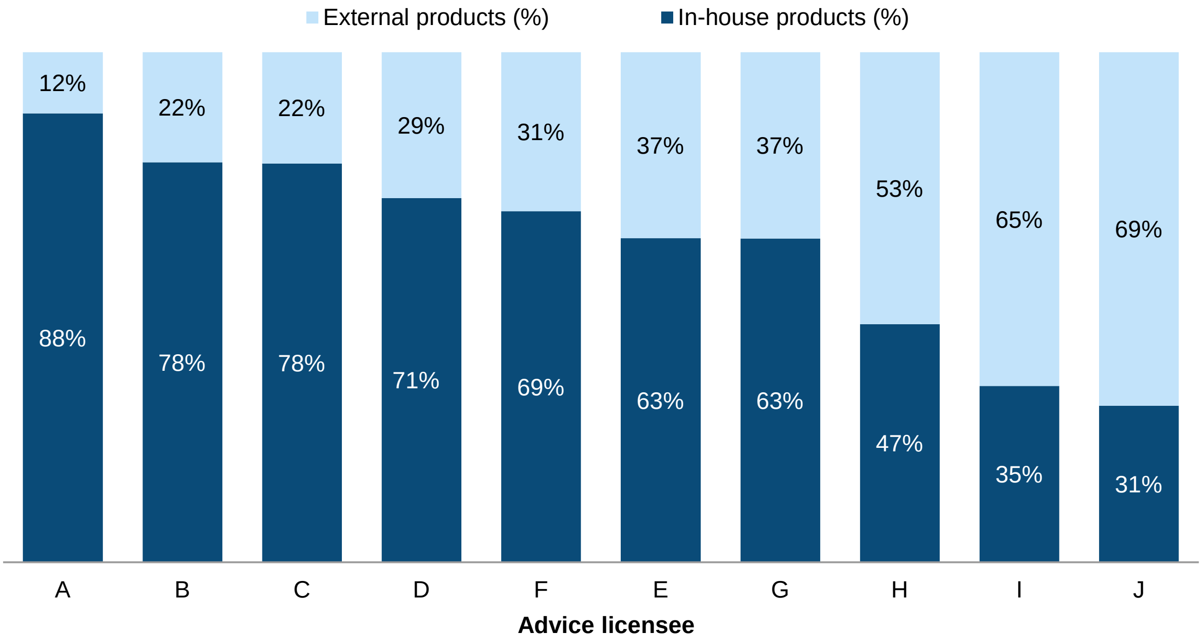
Source: Advice licensees, ASIC

Information on existing and new customers

Proportion of funds invested in in-house or external products

117 At an individual licensee level, the proportion of total funds invested by all customers in in-house products varied widely from 31% up to 88% across the licensees. This is illustrated in Figure 3.

Figure 3: Proportion (%) of total funds invested by all customers for each advice licensee



Note: See Table 5 in the appendix for the complete data used in this figure (accessible version).

Source: Advice licensees, ASIC

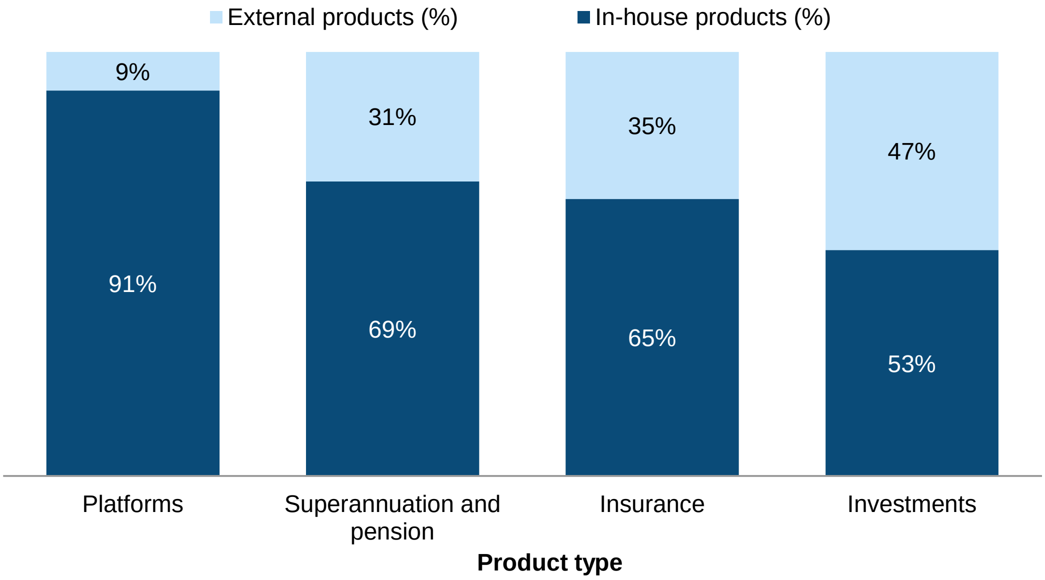
118 Our analysis showed that, for seven of the 10 advice licensees, there was a higher concentration of funds invested by customers in in-house products than external products.

Proportion of funds invested by product type

119 Examining the data by product type, Figure 4 shows the proportion of total funds invested by all customers in in-house products compared with external products.

120 Platforms (91%) had the highest proportion of total funds invested by all customers in in-house products. Superannuation and pension (69%) and insurance (65%) also had significantly higher proportions of all customer funds invested in in-house products. By contrast, investments were more evenly split between funds invested in in-house products (53%) and funds invested in external products (47%).

Figure 4: Proportion (%) of total funds invested by all customers by product type



Note 1: As noted at paragraph 91, we used the information as provided by the advice licensees, without adjusting the data to ensure consistency. We did not verify the data provided.

Note 2: The products were categorised between product type and between in-house and external products according to the data reported by the advice licensees, except for the circumstances noted at paragraph 91(a) (note).

Note 3: If the advice licensees reported transaction flows then it is possible that the same funds may be allocated to more than one product type and may be counted twice. For example, if the advice licensee's data separately showed the allocation of customer funds to a platform and to the underlying investment made through the platform, then the same customer funds may be allocated to the platforms category and the investments category.

Note 4: The investments category includes some transactional cash accounts.

Note 5: See Table 6 in the appendix for the complete data used in this figure (accessible version).

Source: Advice licensees, ASIC

Information on new customers

121 We were interested to understand how many new customers were provided with advice by each of the 10 advice licensees in the relevant period, which products these new customers were advised to acquire and/or retain, and how much money was invested by new customers.

Note: As noted in paragraph 88 (Note 2), two advice licensees were unable to provide us with information on new customers for the second relevant period, and were therefore excluded from our analysis of information on new customers: see paragraphs 122–127.

122 Our analysis showed that each licensee had a low proportion of new customers, and that, in general, the majority of funds from these new customers were invested in in-house products.

Number of new customers

123 The eight licensees reported a similar range for the proportion of new customers to the total number of customers in the second relevant period — from 3% up to 7%.

Proportion of funds invested by new customers

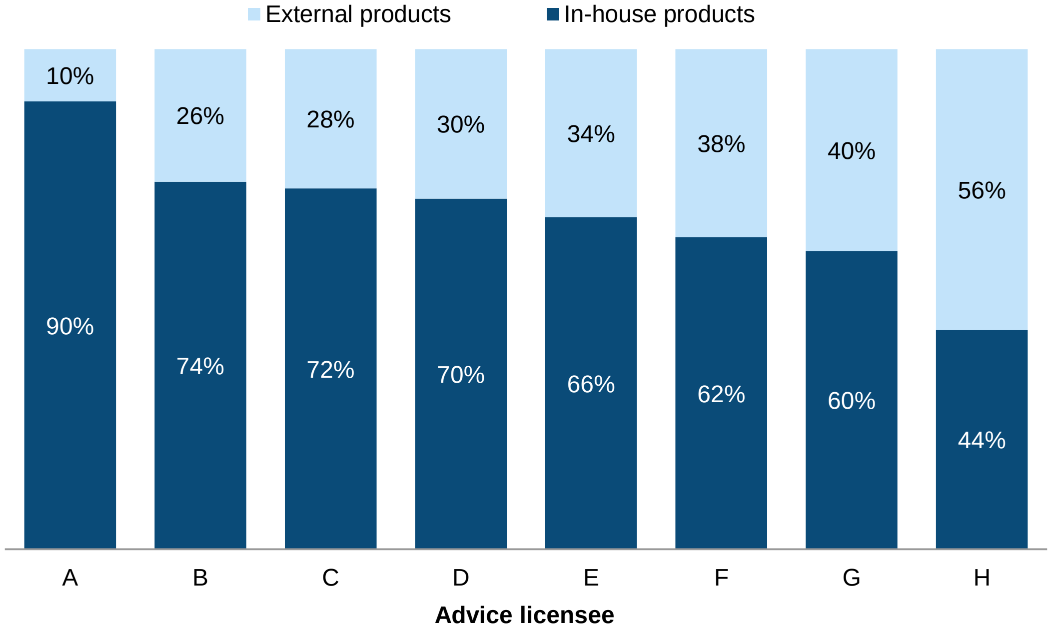
124 A total value of $16.3 billion was transacted during the relevant period as a result of customers receiving personal advice from the licensees' advisers. Of this total, $6.2 billion (38%) related to new customers.

Proportion of funds invested in in-house or external products by new customers

125 At a licensee level, Figure 5 compares the proportion of funds invested by new customers in in-house products compared with external products. Most licensees had between 60% and 74% of new customer funds invested in in-house products.

126 One licensee had a particularly high concentration of new customer funds invested in in-house products (90%). By contrast, another licensee had a more even split of new customer funds invested in in-house products (44%) compared with external products (56%).

Figure 5: Proportion (%) of funds invested by new customers for each advice licensee



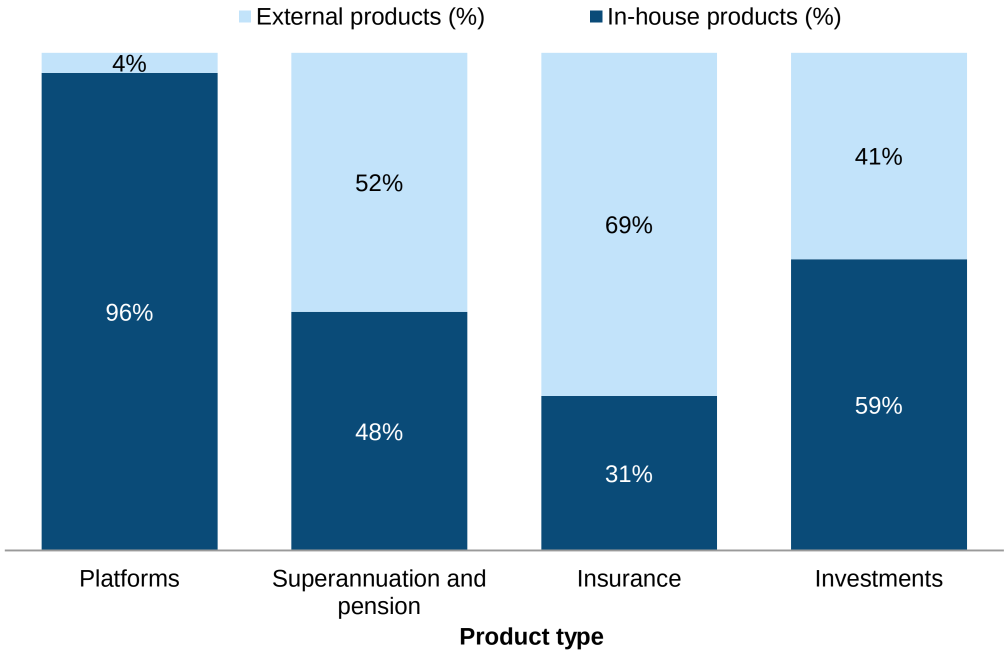
Note: See Table 7 in the appendix for the complete data used in this figure (accessible version).

Source: Advice licensees, ASIC

Proportion of funds invested by new customers by product type

127 Examining the data by product type, Figure 6 shows the proportion of funds invested by new customers in in-house products compared with external products. Platforms (96%) had the highest proportion of total funds invested by new customers in in-house products. Investments (59%) and superannuation and pension (48%) were more evenly split. By contrast, insurance (31%) held the lowest proportion of funds invested in in-house products by new customers.

Figure 6: Proportion (%) of funds invested by new customers by product type



Note 1: As noted at paragraph 91, we used the information as provided by the advice licensees, without adjusting the data to ensure consistency. We did not verify the data provided.

Note 2: The products were categorised between product type and between in-house and external products according to the data reported by the advice licensees, except for the circumstances noted at paragraph 91(a) (note).

Note 3: If the advice licensees reported transaction flows then it is possible that the same funds may be allocated to more than one product type and may be counted twice. For example, if the advice licensee's data separately showed the allocation of customer funds to a platform and to the underlying investment made through the platform, then the same customer funds may be allocated to the platforms category and the investments category.

Note 4: The investments category includes some transactional cash accounts.

Note 5: See Table 8 in the appendix for the complete data used in this figure (accessible version).

Source: Advice licensees, ASIC

Governance structure for approved product lists

128 Our findings on the governance structure advice licensees had in place for approved product lists were consistent with the findings in REP 474: see paragraphs 85–87.

Note: Our review of the governance structure for approved product lists was based on the information provided by the advice licensees for the first relevant period.

129 In general, most advice licensees used a separate research team to provide research on and manage their approved product lists.

130 Some advice licensees dealt with the potential conflict of interest by having separate reporting lines for the research and product teams, and information barriers to further separate these teams. Others claimed that the use of external research providers provided another means of addressing the conflict of interest. Most advice licensees also identified their conflict of interest policies as a way to manage this particular conflict.

Note: On 4 December 2017, the Financial Services Council released *FSC Standard No. 24: Life insurance approved product list policy* (PDF 424 KB), which commenced on

1 January 2018 on a voluntary basis with mandatory compliance from 1 July 2018. Under the standard, the approved product lists of AFS licensees bound by the standard must contain life insurance products issued by three or more life insurance providers. Licensees must also have robust processes to facilitate advisers recommending products not on the approved product list, unless the licensee has an 'open' approved product list.

131 There was generally oversight of the approved product lists through executive committees, although the extent to which the construction and revision of approved product lists were reported and reviewed at a board level was unclear.

132 All except two of the advice licensees (from the same institution) conducted product segment reviews at least annually as their process for reviewing previously approved products on their approved product lists.

133 All the advice licensees had a process by which an adviser could seek approval to recommend a customer's existing financial products if these products were not on the licensee's approved product list. For most licensees, this process was quite involved. Advisers may have needed to prove that the non-approved products were in the best interests of their customer, and may also have been required to personally research and monitor the products.

D Findings from the advice reviews

Key points

We looked at the quality of personal advice being provided. Specifically, we tested whether advisers of the advice licensees we reviewed were complying with the best interests duty and related obligations when recommending an in-house superannuation platform to new customers.

Overall, we found non-compliant advice in 75% of the customer files reviewed.

We commonly saw the unnecessary replacement of financial products, where advisers recommended that customers switch to a new product when their existing product appeared to be suitable to meet the customer's needs and objectives.

In 10% of the files reviewed, we had significant concerns about the potential impact of the non-compliant advice on the customer's financial situation.

Advice review approach

134 We tested the quality of personal advice being provided. Specifically, we looked at customer files where advisers had recommended an in-house superannuation platform to new customers, to test whether advisers had complied with the best interests duty and related obligations when providing this advice.

135 We reviewed 40 customer files from each institution, making a total of 200 files. The methodology for selecting and reviewing customer files for this project is set out in more detail in Section B.

136 It is important to highlight the following aspects of our approach:

(a) The reviews were based on the contents of the customer file. In some instances, where the information on file appeared incomplete, we may have researched the customer's existing superannuation or insurance products. However, no supplementary investigations or further requests for information were made to validate or otherwise support the advice provided.

Note: Section 912G of the Corporations Act, as notionally inserted by Class Order [CO 14/923] *Record-keeping obligations for Australian financial services licensees when giving personal advice*, requires advice licensees to ensure that records are kept of the information relied on and action taken by an adviser to demonstrate compliance with the best interests duty and related obligations.

(b) We requested the full customer file because it is our view that, without the complete record, it is very difficult to determine whether the adviser has complied with the law.

(c) If our review of the full customer file demonstrated that the adviser had complied with the law, we gave the file a 'pass' rating; but if, on reviewing the full file, we found that the adviser had not, in our view, demonstrated that they had met the relevant legal standard, we rated the file as a 'fail'.

(d) We only requested customer files in which an adviser provided advice on an in-house superannuation platform.

Results of the file reviews

Overall findings

137 Overall we found that, in 75% of the customer files we reviewed, the adviser had not demonstrated compliance with the best interests duty in s961B of the Corporation Act. This was the case when assessing compliance under both the safe harbour steps in s961B(2) and s961B(1).

138 There were two areas in particular that led to a customer file being given a 'fail' rating—that is, where the adviser had not demonstrated that they had:

(a) sufficiently researched and considered the customer's existing financial products; and/or

(b) based all judgements on the customer's relevant circumstances.

139 A common theme we saw across the non-compliant advice was the unnecessary replacement of financial products, where advisers recommended that a customer switch to a new product when their existing product appeared to be suitable to meet the customer's needs and objectives.

140 Flowing on from these deficiencies, in 75% of the customer files, the adviser also had not demonstrated that the advice provided was appropriate under s961G, or that they had prioritised the customer's interests in accordance with s961J.

141 The high level of non-compliant advice, combined with the findings from our analysis of the approved product list data (see Section C), suggests that the advice licensees we reviewed may not be appropriately managing the conflict of interest associated with a vertically integrated business model.

142 However, we noted some improvements in the practices of the advice licensees and their advisers, compared with the advice we observed in our previous surveillance work across the financial advice industry before the FOFA reforms became mandatory in 2013.

143 When considering whether the advice was in the customer's best interests, our analysis of the individual safe harbour steps showed that advice licensees and their advisers had improved in:

(a) identifying and recording the customer's relevant circumstances;

(b) identifying the nature of the advice being sought;

(c) developing an appropriate strategy, which was often considered to be valuable to the customer; and

(d) record keeping—as demonstrated by the quality of some file notes, supplementary product information and general explanations on file.

Customer impact

144 We further analysed the non-compliant advice to determine the potential impact of the advice on the customer's financial situation.

145 We identified 19 customer files (10% of all files reviewed) where we had significant concerns about the potential impact of the advice on the customer's financial situation. We were concerned because:

(a) the advice to change insurance arrangements resulted in exclusions or loadings being applied to the new policy, and it appeared that the adviser had not made adequate inquiries into the customer's pre-existing medical condition(s) before providing the advice;

(b) the new insurance arrangements within the new superannuation platform resulted in the customer paying significantly higher insurance premiums, on a like-for-like basis; and

(c) the advice to move to a new superannuation platform resulted in a significant increase in ongoing superannuation product fees without additional benefits being identified that were consistent with the customer's relevant circumstances.

146 We were not significantly concerned about the potential financial impact of the remaining non-compliant advice (65% of all files reviewed) because these files fell into the following categories:

(a) while there was a potentially negative impact on the customer's financial position, the consequences were less significant than those described at paragraph 145;

(b) there did not appear to be any impact (either negative or positive) on the customer's financial situation; or

(c) there was not enough information on the file to assess what the impact on the customer would be.

147 In all the non-compliant advice identified, the adviser had not demonstrated that following the advice would leave the customer in a better position.

148 We will communicate the concerns identified in our advice review to each advice licensee, and ensure that appropriate customer remediation takes place, where required, in relation to all non-compliant advice.

Using the safe harbour to meet the best interests duty

149 In our file reviews, we found that all of the advisers relied on the framework of the safe harbour steps in s961B(2)(a)–(g) of the Corporations Act in providing the advice. This is consistent with our guidance in Regulatory Guide 175 *Licensing: Financial product advisers—Conduct and disclosure* (RG 175) at RG 175.258–RG 175.262.

150 As stated in Table 1, advisers can take the safe harbour steps to demonstrate compliance with the best interests duty in s961B(1).

151 Despite advisers relying on the safe harbour framework to provide advice, when we tested whether advisers had complied with the best interests duty, we found that, in 75% of files, advisers did not show that they had taken all of the safe harbour steps—that is, only 49 files (25%) were rated as a ‘pass’.

152 Where the adviser had not demonstrated that they had taken one or more of the safe harbour steps, we then considered whether the advice was in the customer’s best interests under s961B(1). In each case where the adviser could not rely on the safe harbour, we also found that the advice provided was not in the customer’s best interests under s961B(1).

Product research and consideration

153 There were a number of ‘failed’ files where the adviser demonstrated that they had conducted a reasonable investigation into the customer’s relevant circumstances and formulated an appropriate strategy—for example, to consolidate superannuation and take out suitable levels of insurance cover. However, instead of considering the customer’s existing financial products as a potentially viable option to effect the strategy, the advice licensee’s in-house products were recommended.

154 Section 961B(2)(e) of the safe harbour for the best interests duty requires that, if it would be reasonable to recommend a financial product, the adviser must conduct a reasonable investigation into the financial products that might achieve the objectives and needs of the customer, and assess the information gathered as part of the investigation.

155 In addition, s947D requires that, where an adviser recommends the replacement of one product with another, the Statement of Advice must include certain information about the costs of switching, any benefits a customer may lose, and any other significant consequences of switching products.

156 Investigating and assessing a customer’s existing products is a critical part of showing that advice is in the customer’s best interests. These are very important considerations when recommending that a customer replace an existing financial product.

157 We have set out below an example of non-compliant advice, taken from our review of customer files. In this example, the adviser failed to comply with the best interests duty and related obligations because they did not demonstrate that they had properly researched and considered the customer's existing superannuation fund.

Example 1: Failure by the adviser to show they have properly researched and considered the customer's existing superannuation fund

Personal circumstances	The customers were a couple, both 27 years of age, with no dependants. The customers owned two properties, with substantial loans on each. At the time of seeking advice, the customers held multiple superannuation funds between them. They also held multiple life insurance policies.
Reason for seeking advice	The customers were seeking to arrange life insurance. The file recorded that the customers were seeking insurance arranged through superannuation and that they wanted 'fixed' insurance cover where the sum insured would not reduce as they aged.
Advice	The adviser recommended the customers: • switch to the licensee's in-house superannuation platform; • cancel their existing insurances; • take out life, TPD and income protection insurance through the new superannuation platform, and take out separate trauma insurance; and • commence salary sacrifice into superannuation.
Commentary	The adviser had not documented adequate consideration of the suitability of the customer's existing superannuation fund for retaining and modifying insurance. The reason for the switch was to ensure that the customers obtained 'fixed' insurance cover. However, the file did not reflect adequate research into the insurance options available in the existing funds. Specifically, the adviser did not research whether fixed cover could be achieved without switching funds. The file contained evidence that the adviser believed the existing funds did not offer fixed levels of cover. However, this was not correct. At least one of the existing funds offered fixed cover options, as well as cover that would reduce as the customers aged. No insurance quotes were recorded on file for the existing funds, suggesting that the adviser did not research the cost of establishing the recommended levels of insurance cover within the existing superannuation funds. Further, research conducted by the adviser showed that the customers' existing superannuation funds had cheaper management fees.

Basing all judgements on the customer's relevant circumstances

158 In other examples of non-compliant advice, we found that the adviser had made some basic inquiries but had not investigated all of the customer's relevant circumstances, or had not demonstrated how they had considered them in the final advice given to the customer.

159 Section 961B(2)(f) of the safe harbour for the best interests duty requires the adviser to base all judgements, in providing advice to the customer, on the customer's relevant circumstances, as identified in the advice process. This

is set out in greater detail in our guidance in RG 175 at RG 175.353–RG 175.355.

160 It is essential that the advice provided to the customer clearly sets out how the customer's needs and objectives have been addressed. This is not possible if insufficient inquiries have been made at the start of the advice process.

161 We consider that, if an adviser recommends that a customer replace a financial product, they must clearly articulate and provide genuine reasons why the customer's existing product is unable to meet the customer's needs and objectives. The advice should also explain how the new product will leave the customer in a better position.

162 Example 2 sets out another example of non-compliant advice taken from our review. In this case, the adviser failed to comply with the best interests duty and related obligations because they did not demonstrate that they had properly based all judgements on the customer's relevant circumstances when giving the advice.

Example 2: Failure by the adviser to show they have properly based all judgements on the customer's relevant circumstances

Personal circumstances	The customer was 58 years of age, single, with no dependants. The customer was employed on a permanent part-time basis earning approximately $63,000 per year. The customer lived in a rental property. The customer had no debt and some cash assets. The customer's major asset was their superannuation, worth approximately $150,000 across two funds. The customer's objective was to retire at age 65 on an income of $35,000 per year.
Reason for seeking advice	The customer was approaching retirement and wanted a review of their situation including superannuation consolidation, an investment risk profile assessment and life insurance. The file recorded that the customer specified an amount of cover of $75,000 for life and TPD insurance, but did not wish to obtain any trauma insurance. It also recorded that the customer sought income protection cover that was indexed.

Advice	The adviser recommended that the customer: • roll over their existing superannuation funds to the licensee's in-house superannuation product, and set up future superannuation guarantee payments into this fund; • take out new life and TPD insurance policies for $75,000; and • take out new income protection insurance with a 90-day waiting period and five-year benefit period. By proceeding with the recommendations the customer would have paid a total of $10,857 in insurance premiums in the first year. This premium would increase each year due to stepped premiums. In the advice, the adviser identified that the customer was significantly underfunded in terms of their superannuation and would not meet their retirement goals. The adviser further acknowledged that funding insurance premiums though superannuation would reduce the balance and impact the income available for retirement. However, the adviser stated in the advice that protecting the customer and their family from debt if they suffer an insured event is a higher priority at this stage of the customer's life.
Commentary	Our major concern with this advice is the increase in the cost of the income protection cover from $132 per year to $7,552 per year. This increased cost did give the customer additional coverage and indexation. However, if the adviser had instead recommended that the customer alter their existing income protection policy to the recommended levels of cover and benefit period, the premium was projected to be only $2,658 per year. It is clear that the adviser did not base all judgements on the customer's personal circumstances. The adviser justified the priority given to insurance cover over retirement saving by referring to the need to protect the customer's family from debt. The customer had no debt or any family to protect. Further, their stage of life was pre-retirement, making superannuation and retirement income a key consideration.

Appropriate advice—s961G

163 We assessed whether the advice was appropriate for the customer: s961G. This obligation is set out in greater detail in our guidance at RG 175.362–RG 175.385.

164 In 75% of the customer files reviewed, the adviser had not demonstrated compliance with the appropriate advice requirement in s961G.

165 Often, the reasons for a file to 'fail' under s961G stemmed from the adviser not showing that they had taken each of the safe harbour steps in s961B(2): see paragraph 138.

166 For example, if an adviser did not demonstrate that they had properly investigated and considered an existing financial product that would have been appropriate for a customer to retain, the file would also 'fail' under s961G because the adviser would not have been able to demonstrate that the advice to dispose of the existing product was appropriate.

167 Switching advice will generally only be appropriate if it would be reasonable to conclude that the net benefits that are likely to result from the product (or investment option) to be acquired, or into which further investment is to be made, are better than under the existing product (or investment option) which is to be disposed of or reduced: see RG 175.376.

Conflicts priority rule—s961J

168 In addition to reviewing each of the customer files to check whether the advice was in the customer's best interests (s961B(1)) and appropriate for the customer (s961G), we assessed the advice to see whether the adviser had prioritised the interests of the customer: s961J.

169 Under s961J, an adviser is required to prioritise the customer's interests over their own interests or those of a related party of the adviser. This obligation is set out in greater detail at RG 175.390–RG 175.411.

170 In complying with s961J, advisers should consider what a reasonable adviser without a conflict of interest would do: see RG 175.398.

171 Demonstrating compliance with s961J requires an adviser to identify what interests they or their related parties have: see RG 175.395.

172 If an adviser recommends that a customer switch from their existing product to a new product, s961J requires that the customer's interests are prioritised. Where the adviser gives advice to switch products and the advice has no demonstrated benefits for the customer, but does benefit the adviser or a related party of the adviser, the interests of the customer will not have been prioritised.

173 Given the number of files that were rated as a 'fail' when testing advisers' compliance with the best interests duty (s961B(1)) and the appropriate advice requirement (s961G), it was perhaps not unexpected that, in a large number of files, advisers did not demonstrate how they had prioritised the needs of the customer (s961J).

174 In 75% of the files reviewed, we found that the adviser appeared to have prioritised their own interests—or those of a related party of the adviser—over the customer's interests, in breach of s961J.

E Next steps

Key points

It is important that all vertically integrated businesses appropriately manage their conflicts of interest and that advisers are provided with ongoing support to assist them in providing advice that is genuinely in the customer's best interests.

ASIC has a range of work currently underway in relation to the largest banking and financial services institutions. Specifically in relation to this project, we will:

- ensure that the advice licensees put in place remediation processes to address customer loss in relation to the non-compliant advice identified;
- discuss with each advice licensee how improvements could be made to their conflicts management processes;
- consider whether broader inquiries need to made across particular licensees, or advisers' files; and
- consider the implications of our findings for other vertically integrated advice businesses.

We will also consult with the financial advice industry and other relevant groups on introducing public reporting in relation to approved product lists where an advice licensee is part of a vertically integrated institution.

Actions for industry

175 Advice licensees in all vertically integrated businesses should regularly analyse which products from their approved product lists are being recommended by their advisers. We believe this analysis would assist each licensee to manage their conflicts of interest. It is likely that trends and exceptions identified through such analysis would alert the licensee to potential issues that may require further inquiries.

176 Advice licensees should collect similar data on the products recommended by each individual adviser. This will assist licensees to monitor and supervise their advisers by enabling the licensees to determine which advisers may require more frequent auditing.

177 Advice licensees should assess why their advisers are recommending such a large proportion of customer funds to be invested in in-house products, and whether all the necessary controls are in place and working effectively to ensure that conflicts of interest are appropriately managed.

178 Advice licensees must have appropriate remuneration arrangements in place. For example, if 'balanced scorecards' are used to measure adviser

performance, these should have the right focus on customer outcomes and compliance, and avoid giving undue weight to sales-related measures. Regulatory Guide 246 *Conflicted and other banned remuneration* (RG 246) provides detailed guidance on how advice licensees may pay performance benefits to advisers and what factors to consider.

179 Advisers need ongoing support to assist them in providing advice that is genuinely in the customer's best interests. This may involve regular coaching and training in compliance, improvements in the advice licensee's audit processes, or providing training for advisers on conscious or unconscious bias when giving advice on products on the approved product list.

180 Advice licensees should also ensure that their processes to allow advisers to provide advice on external products are not unduly onerous or difficult for advisers to comply with. This would allow advisers to easily consider a customer's existing products that are not on the approved product list.

181 While product approval processes and the approved product list are a risk management tool for advice licensees, these should not be used as a barrier to advisers considering, or advising on, a customer's existing products, particularly in circumstances where the existing products are equivalent to the in-house products.

ASIC actions

182 ASIC has instigated a number of outcomes aimed at improving the quality of advice, some of which arose out of our wealth management project. This work has focused on the largest banking and financial services institutions, and includes:

(a) measures being put into place across these institutions to:

- (i) improve the internal advice file audit processes and outcomes, which will be tested for their impact by external experts;
- (ii) enhance recruitment checks when appointing advisers; and
- (iii) strengthen existing data analytics capacity to identify and evaluate higher risk advisers;

(b) an ASIC program to assess conduct of advisers reported by the institutions as being subject to serious compliance concerns, and taking banning action where necessary;

(c) remediation of all clients identified through ASIC's reviews as receiving non-compliant advice;

(d) remediation programs, overseen by external experts, to compensate clients who have paid for, but not received, financial advice services—

as at 31 October 2017, $215.9 million has been paid or offered to affected clients; and

(e) introduction of improved processes to ensure that, in the future, promised financial advice services are actually delivered to the clients that paid for them.

183 We will also consult with the financial advice industry and other relevant groups on a proposal to introduce public reporting on approved product lists and where client funds are invested for advice licensees that are part of a vertically integrated institution. This would provide some transparency around management of the conflicts of interest that are inherent in these business models.

184 Specific to this project, we will communicate the concerns identified as a result of our advice review to each of the advice licensees we reviewed. We will ensure that each advice licensee we reviewed puts in place remediation processes in line with RG 256 that address the customer loss identified by ASIC in relation to reviewed files.

185 We will discuss, with each of the advice licensees in our review, an appropriate response to the findings from this project. This may include consideration of the licensees' conflicts management arrangements and their approach to data analysis in relation to the products being recommended by their advisers. We will also consider whether broader inquiries need to made across particular licensees, or advisers' files.

186 We will also consider the implications of our findings for other vertically integrated advice businesses. It is likely that initiatives implemented by the large institutions can be scaled to address similar concerns at other advice licensees.

Appendix: Accessible versions of figures

187 This appendix is for people with visual or other impairments. It provides the underlying information for the figures presented in this report.

Table 3: Key results of this project

Measure	Results (total across all licensees)	
Products on the advice licensees' approved products lists	21% are in-house products	79% are external products
Funds invested by all customers of the advice licensees	68% are in in-house products	32% are in external products
Quality of advice—we reviewed a sample of the advice provided by the advice licensees on their in-house superannuation platform	We had significant concerns about the customer's potential financial position in 10% of the advice reviewed 75% of the advice reviewed was non-compliant	25% of the advice reviewed was compliant

Note: This is the data contained in Figure 1.

Note: See Section B for which advice licensees were reviewed as part of this project.

Table 4: Proportion of customers and funds invested in in-house or external products

Type (number or value)	In-house products	External products
Number of products on approved product lists	21%	79%
Number of products open to new customers	23%	77%
Value of funds invested by all customers	68%	32%
Value of funds invested by new customers	75%	25%
Number of customers who invested in products	78%	22%
Number of new customers who invested in products	64%	36%

Note: This is the data contained in Figure 2.

Table 5: Proportion (%) of total funds invested by all customers for each advice licensee

Licensee	In-house products	External products
A	88%	12%
B	78%	22%
C	78%	22%
D	71%	29%
F	69%	31%
E	63%	37%
G	63%	37%
H	47%	53%
I	35%	65%
J	31%	69%

Note: This is the data contained in Figure 3.

Table 6: Proportion (%) of total funds invested by all customers by product type

Product type	In-house products	External products
Platforms	91%	9%
Superannuation and pension	69%	31%
Insurance	65%	35%
Investments	53%	47%

Note 1: As noted at paragraph 91, we used the information as provided by the advice licensees, without adjusting the data to ensure consistency. We did not verify the data provided.

Note 2: The products were categorised between product type and between in-house and external products according to the data reported by the advice licensees, except for the circumstances noted at paragraph 91(a) (note).

Note 3: If the advice licensees reported transaction flows then it is possible that the same funds may be allocated to more than one product type and may be counted twice. For example, if the advice licensee's data separately showed the allocation of customer funds to a platform and to the underlying investment made through the platform, then the same customer funds may be allocated to the platforms category and the investments category.

Note 4: The investments category includes some transactional cash accounts.

Note 5: This is the data contained in Figure 4.

Table 7: Proportion (%) of funds invested by new customers for each advice licensee

Advice licensee	In-house products	External products
A	90%	10%
B	74%	26%
C	72%	28%
D	70%	30%
E	66%	34%
F	62%	38%
G	60%	40%
H	44%	56%

Note: This is the data contained in Figure 5

Table 8: Proportion (%) of total funds invested by new customers by product type

Product type	In-house products	External products
Platforms	96%	4%
Superannuation and pension	48%	52%
Insurance	31%	69%
Investments	59%	41%

Note 1: As noted at paragraph 91, we used the information as provided by the advice licensees, without adjusting the data to ensure consistency. We did not verify the data provided.

Note 2: The products were categorised between product type and between in-house and external products according to the data reported by the advice licensees, except for the circumstances noted at paragraph 91(a) (note).

Note 3: If the advice licensees reported transaction flows then it is possible that the same funds may be allocated to more than one product type and may be counted twice. For example, if the advice licensee's data separately showed the allocation of customer funds to a platform and to the underlying investment made through the platform, then the same customer funds may be allocated to the platforms category and the investments category.

Note 4: The investments category includes some transactional cash accounts.

Note 5: This is the data contained in Figure 6.

Key terms

Term	Meaning in this document
advice	Personal advice given to retail clients
advice licensee (or licensee)	An AFS licensee that provides personal advice to retail clients
adviser (or advice provider)	A natural person providing personal advice to retail clients on behalf of an AFS licensee who is either: • an authorised representative of an AFS licensee; or • an employee representative of an AFS licensee Note: This is the person to whom the obligations in Div 2 of Pt 7.7A of the Corporations Act apply: see key term definition of 'advice provider' in RG 175.
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
AMP	AMP Limited
ANZ	Australia and New Zealand Banking Group Limited
APRA	Australian Prudential Regulation Authority
approved product list	A list of financial products, determined by the advice licensee, and considered suitable for the licensee's representatives to recommend to customers
ASIC	Australian Securities and Investments Commission
associate	Has the meaning given in Div 2 of Pt 1.2 of the Corporations Act
associated entity	Has the meaning given in Div 6 of Pt 1.2 of the Corporations Act
authorised representative	A person authorised by an AFS 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.
authorised representative model	Business model used by an advice licensee where the licensee's advisers are predominantly self-employed and appointed as authorised representatives of the licensee
best interests duty	The duty to act in the best interests of the client when giving personal advice to a client as set out in s961B(1) of the Corporations Act

Term	Meaning in this document
best interests duty and related obligations	The obligations in Div 2 of Pt 7.7A of the Corporations Act
CBA	Commonwealth Bank of Australia
conflict of interest	Circumstances where some or all of the interests of persons (clients) to whom an AFS licensee (or its representative) provides financial services are inconsistent with, or diverge from, some or all of the interests or duties of the licensee or its representatives
Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act
customer (or client)	See 'retail client'
customer's relevant circumstances	The objectives, financial situation and needs of a customer that would reasonably be considered relevant to the subject matter of advice sought by the customer
employee representative	A person employed by an AFS licensee, or by a representative of the licensee, to provide a financial service or services on behalf of the licensee
employee representative model	Business model used by an advice licensee where the licensee's advisers are predominantly employees of the licensee
external products	Financial products that are manufactured externally by an unrelated third party
financial advice	Financial product advice
financial adviser	See 'adviser'
financial product	Generally, a facility through which, or through the acquisition of which, a person does one or more of the following: • makes a financial investment (see s763B); • manages financial risk (see s763C); • makes non-cash payments (see s763D) Note: See Div 3 of Pt 7.1 of the Corporations Act for the exact definition.
financial product advice	A recommendation or a statement of opinion, or a report of either of these things, that: • is intended to influence a person or persons in making a decision about a particular financial product or class of financial product, or an interest in a particular financial product or class of financial product; or • could reasonably be regarded as being intended to have such an influence. This does not include anything in an exempt document Note: This is a definition contained in s766B of the Corporations Act.

Term	Meaning in this document
financial service	Has the meaning given in Div 4 of Pt 7.1 of the Corporations Act
first relevant period	1 July 2014 to 28 February 2015
FOFA	Future of Financial Advice
in-house products	Financial products that are manufactured by a related party
institutions	Five of Australia's largest banking and financial services institutions, including AMP, ANZ, CBA, NAB and Westpac
licensee	See 'advice licensee'
NAB	National Australia Bank Limited
new customer	A customer who has not previously received personal advice from a particular adviser and has also not previously been a customer of the advice licensee
non-compliant advice	Personal advice provided to a retail client by an adviser who has not demonstrated compliance with the best interests duty and related obligations in providing the advice Note: Further guidance on these provisions is set out in RG 175.
personal advice	Financial product advice given or directed to a person (including by electronic means) in circumstances where: • the person giving the advice has considered one or more of the client's objectives, financial situation and needs; or • a reasonable person might expect the person giving the advice to have considered one or more of these matters Note: This is a definition contained in s766B(3) of the Corporations Act.
product	Financial product
related party of an adviser	Means: • an associate of the adviser; • an AFS licensee of whom the adviser is a representative; • an associate of an AFS licensee of whom the adviser is a representative; • an authorised representative who has authorised the adviser to provide financial services (or a financial service) on behalf of an AFS licensee; or • an associate of an authorised representative who has authorised the adviser to provide financial services
related party	A related party is an associated entity or subsidiary of the advice licensee

Term	Meaning in this document
representative of an AFS licensee	Means: • an authorised representative of the licensee; • an employee or director of the licensee; • an employee or director of a related body corporate of the licensee; or • any other person acting on behalf of the licensee Note: This is a definition contained in s910A of the Corporations Act.
retail client	A client as defined in s761G of the Corporations Act and Div 2 of Pt 7.1 of the Corporations Regulations 2001
RG 175 (for example)	An ASIC regulatory guide (in this example numbered 175)
s961B (for example)	A section of the Corporations Act (in this example numbered 961B), unless otherwise specified
safe harbour (for the best interests duty)	The steps set out in s961B(2) of the Corporations Act. If an advice provider proves they have taken these steps, they are considered to have met their obligation to act in the best interests of their client
scaled advice	Personal advice that is limited in scope
second relevant period	1 January 2017 to 31 March 2017
Statement of Advice	A document that must be given to a client for the provision of personal advice under Subdivs C and D of Div 3 of Pt 7.7 of the Corporations Act Note: See s761A for the exact definition.
switching advice	Advice that recommends that a customer replaces (in full or in part) one financial product with another
TPD insurance	Total and permanent disability insurance
vertically integrated institution	Business model used by the institutions where financial advice, platforms and funds management are controlled by a single institution
Westpac	Westpac Banking Corporation

Related information

Headnotes

advice licensee, AFS licensee, banking and financial services institutions, best interests duty, conflict of interest, conflicts management, financial advisers, customer files, customer review and remediation, non-compliant advice, non-compliant conduct

Instruments

[CO 14/923] *Record-keeping obligations for Australian financial services licensees when giving personal advice*

Regulatory guides

RG 79 *Research report providers: Improving the quality of investment research*

RG 90 *Example Statement of Advice: Scaled advice for a new client*

RG 104 *Licensing: Meeting the general obligations*

RG 146 *Licensing: Training of financial product advisers*

RG 168 *Disclosure: Product Disclosure Statements (and other disclosure obligations)*

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

RG 181 *Licensing: Managing conflicts of interest*

RG 244 *Giving information, general advice and scaled advice*

RG 246 *Conflicted and other banned remuneration*

RG 256 *Client review and remediation conducted by advice licensees*

Legislation

Corporations Act, Div 2 of Pt 7.7A; s761A, 763B, 763C, 763D, 766B, 912A, 912G, 913B, 916A, 916B, 947D, 961B, 961G, 961J

Corporations Regulations 2001

Reports

REP 224 *Access to financial advice in Australia*

REP 251 *Review of financial advice industry practice*

REP 337 *SMSFs: Improving the quality of advice given to investors*

REP 362 *Review of financial advice industry practice: Phase* 2

REP 413 *Review of retail life insurance advice*

REP 474 *Culture, conduct and conflicts of interest in vertically integrated businesses in the funds management industry*

REP 515 *Financial advice: Review of how large institutions oversee their advisers*

Other documents

ASIC's corporate plan 2017–18 to 2020–21: Focus for 2017–18

ASIC's corporate plan 2016–17 to 2019–20: Focus for 2016–17

ASIC's corporate plan 2015–16 to 2018–19: Focus for 2015–16