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File Name: 2011/59

25 November 2011

Mr Tim Bryant
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Email: corporations.joint@aph.gov.au

Dear Mr Bryant,

INQUIRY INTO THE CORPORATIONS AMENDMENT (FUTURE OF FINANCIAL ADVICE) BILL 2011 AND THE FUTURE OF FINANCIAL ADVICE REFORMS GENERALLY

The Association of Superannuation Funds of Australia (ASFA) would like to provide this submission in relation to the inquiry into the *Corporations Amendment (Future of Financial Advice) Bill 2011* ("Bill") and the Future of Financial Advice reforms generally.

In your letter of 7 November 2011 you indicated that, despite the requirement for advisers to act in the best interests of clients and the ban on conflicted remuneration not being contained in the Bill, the committee would welcome comment on these measures as well. The *Corporations Amendment (Further Future of Financial Advice Measures) Bill 2011* ("Further Measures Bill"), which contains these measures, was introduced into the House of Representatives yesterday.

Given this, in a 'phone discussion with the secretariat on 24 November 2011 it was agreed we could have until 30 November 2011 to make a submission.

Accordingly, this submission is only with respect to the Future of Financial Advice reforms generally. We will provide a supplementary submission with respect to the best interests duty and the ban on conflicted remuneration by 30 November 2011.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

A) VALUE OF ADVICE, NEED FOR SCALED ADVICE AND INTRA-FUND ADVICE

ASFA is supportive of the Future of Financial Advice ("FOFA") reforms and of the enhanced ASIC powers proposed in the Bill.

ASFA's primary interest in the development of the FOFA legislation is to ensure that it does not have the unintended consequence of precluding superannuation fund members from having access to assistance with respect to their retirement savings. This assistance should be available from the trustee of their fund or the superannuation product provider, whether the assistance amounts to factual information, general advice or personal advice.

1) Value of advice

Research clearly demonstrates that people who seek financial advice are more likely to achieve their goals for retirement.

The value of financial advice relative to its costs has been explored in recent research conducted for the Financial Services Council. In a January 2011 report prepared by KPMG Econtech the basic findings were that: -

- after making allowance for differences in income, assets, etc the average individual with a financial adviser saved an additional $6,900 between 2005-06 and 2008-09 compared to similar individuals without a financial planner;
- the average cost of developing a savings plan was $530;
- those with a financial planner are more likely to have insurance cover, and the policy amounts are higher as well, compared to individuals without a financial planner.

2) Need for simple \ scaled advice

Research also indicates that superannuation fund members are interested in advice of various types delivered in a variety of ways.

According to ASIC Report 224, *Access to Financial Advice in Australia*, December 2010, there is growing interest in email, phone and internet based advice.

A third of Australians are now expressing a preference for piece-by-piece simple advice rather than holistic or comprehensive advice. The preference for piece-by-piece simple advice is more pronounced for those consumers who have never used a financial planner than for those consumers who have previously used a financial planner.

The ASIC research findings also indicate that consumers are only prepared to pay relatively low amounts for financial advice, with a sizeable proportion of people who are not willing to pay anything at all.

Research conducted by Mercer and released in a November 2010 report, *The Trustee Dilemma: Low fees or more services?*, confirms that fund members are generally unwilling to pay extra for financial advice provided over the phone or over the internet or by mobile device. Mercer Research released in March 2011 showed that 40 per cent of superannuation fund members will contact their fund if they need advice.

Research conducted for ASFA by Rice Warner Actuaries indicates that in 2009-10 the cost per fund member of advice delivered through call centres and advice delivered by a financial planner that is paid for directly by the fund rather than by the member is relatively low.

The average cost per member per year for call centre activities is $11.23 with average cost of financial planning $2.99. The average cost per call received is $17.00.

There was, however, a reasonably wide variation across each of these expenses. Significant contributors to the variation include differences between funds in the level and quality of service, particularly in respect of member contact centre services, and also in the incidence of members taking advantage of different services.

The cost of operating call centres ranged from a low of $4.47 a year per member to a maximum of $21.16 per member. Expenditure on financial planning services varied from $0.65 a year per member to $26.25. That said, in each fund such costs generally were only a relatively small proportion of overall fund costs.

By way of example of some of the financial advice provided to members of superannuation funds, Mercer is a global company that specialises in employee benefit services for large organisations and their employees. They run a financial advice business for superannuation trustees and their members, including corporate, public sector and industry funds, as well as their own master trust.

Their financial advice business employs 100 people, including 55 salaried advisers, who provide scaled advice on the phones and in the workplace, and strategic advice for more complex needs, through their five offices around Australia. They established a phone and workplace advice business in 2003 to support the many superannuation fund members who continued to ask questions about their superannuation.

They provide scaled advice to some 20,000 super members each year, mainly in relation to investment options, contributions and insurance. Their financial advice business is fee based and they provide annual client reviews for those clients who have an ongoing service.

Similarly another financial advice provider, Money Solutions, has delivered scalable advice since 2004 with over 90,000 statements of advice provided to members over this time.

3) Scaled advice and interrelationship with MySuper \ intra-fund advice

a) Scaled advice

FOFA needs to bolster confidence in the provision of financial advice, without making it too difficult for superannuation fund members to obtain advice. If it were to become too difficult members may not seek advice and disengage further from their superannuation. At different stages in a member's life, and in times of market volatility especially, there is a need to be able to support members with simple, scaled advice in an efficient and cost effective manner.

ASFA believes that it is essential that: -

- members of superannuation funds are easily able to obtain cost effective, simple financial advice with respect to their retirement savings;
- individuals and members of funds have access to advice about simple, specific or single-issue scenarios, particularly lower to middle income or first time employees;
- any person providing advice should be required to act in the best interests of the person seeking advice;
- persons seeking advice may receive it in person, over the phone, on-line or via tools such as calculators;
- the advisor bears the onus of ensuring that the person receives appropriate advice relevant to their current circumstance; and
- the advisor has a duty to not provide advice where it would be in the best interests of the person for advice not to be provided.

By way of illustration, we have enclosed in the Annexure to this submission material with respect to ASFA's revised Diploma of Financial Planning which includes a diagrammatic representation of the different types of financial advice which can be given.

Given the above, it is imperative that "scaled", or "de-scoped", generally single issue, advice be readily available, especially to those on a relatively low income. It is critical that the FOFA legislation does not have the unintended consequence of creating barriers to the provision of scaled advice, thereby limiting superannuation fund members' access to assistance with advice about their retirement savings.

b) Interaction with MySuper and the concept of "intra fund advice"

As part of the Stronger Super announcements it is proposed that superannuation fund members should be able to access no fee, simple advice about their superannuation through their fund through enabling the provision of "intra-fund", scaled advice. This advice would be able to be provided to members as part of their standard administration fee.

Obviously the FOFA reforms, and in particular the application of the best interests duty, will affect how such intra fund advice may be provided to fund members.

Given the degree of interdependency between FOFA and intra fund advice it is critical that the FOFA legislation be considered in conjunction with the MySuper legislation re intra fund advice, once it has been introduced. To consider the FOFA legislation in isolation, without consideration of its interaction with, and potential impact upon, the provision on intra fund advice risks there being unintended consequences which, at the extreme, may affect the viability of providing such advice.

B) IMPLEMENTATION, LEGISLATIVE TIMEFRAME & TRANSITIONAL ARRANGEMENTS

1) Practical implementation issues

While ASFA supports the FOFA reforms, it is important to note that implementation of these reforms, especially for superannuation funds which will also have to implement changes resulting from the StrongerSuper reforms, will necessitate significant and comprehensive changes having to be made to what are mature and complex arrangements.

For financial advisers and trustees to be in a position to be able to implement the required changes necessitates a degree of certainly as to the regulatory requirements.

A variety of strategic and tactical decisions need to be made, which involve the identification of, and agreement upon the approach to, considerable and extensive alterations to IT systems; processes and procedures, documentation and training. Business requirement documents, let alone functional and technical specifications, cannot be agreed upon and signed off, nor most work commenced, until such time as there is a high degree of legislative certainty.

Change management on this scale and with this degree of interrelatedness is not only expensive but, more importantly, making significant alterations to IT systems and databases poses considerable risks of lost or corrupted data, resulting in inaccurate or incomplete records. The most effective means by which such a risk is mitigated is by utilising robust project management methodologies to determine timelines; identify interdependencies; produce a staged project plan, including sufficient time for regression and user acceptance testing, and then executing in accordance with the plan.

All of this takes time. Often there are capacity constraints, especially with respect to skilled personnel and system \ database access, which create bottlenecks and there are interdependencies, particularly when it comes to coding and testing system changes, which can produce unintended consequences. Rushing to meet deadlines materially increases the risks to any project.

2) Legislative timeframe

The Bill has been referred both to this Committee, with a reporting date of 29 February 2012, and the Senate Economics Committee, with a reporting date of 14 March 2012. The Further Measures Bill was not introduced in to the House of Representatives until 24 November 2011.

Given the Parliamentary sitting calendar for 2012 is it unlikely that the Bill, or the Further Measures Bill, will be passed through Parliament until May 2012 at the earliest.

Superannuation funds are also affected, amongst other things, by the *Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011,* which was only introduced into Parliament on 3 November 2011. The mooted exposure draft of the next tranche of MySuper legislation is yet to be released, let alone the bill introduced into Parliament.

3) Need for transition period

These delays to the enactment of the FOFA legislation, and the MySuper legislation with respect to superannuation, significantly impacts on the ability of the industry to implement the required changes in an orderly and appropriately risk-managed fashion.

Many FOFA obligations commence from 1 July 2012. Further to this, the necessary regulations – which frequently contain the details pertinent to decision-making and change implementation – cannot be made until after the bills have been passed.

Even at the best of time it is a considerable risk to authorise the expenditure of resources based on draft legislation. In the context of FOFA, where there have been material differences between some policy announcements and the draft legislation, it is even riskier.

Decision makers committing significant financial and other resources to implementing change of this complexity and scale deserve legislative certainty.

Both the *Financial Services Reform Act 2001* and the RSE licensing amendments to the *Superannuation Industry (Supervision) Act 1993* included a two year transition period for implementation.

Accordingly, given the significant effect on the industry of implementing the FOFA reforms, there should be a transition period of 12 months from 1 July 2012 to allow the industry to implement these changes in an appropriate fashion.

* * * *

If you have any queries or comments regarding the contents of our submission, please contact me

Yours sincerely

Pauline Vamos
Chief Executive Officer

ASFA Diploma of Financial Planning

Getting you to work – from the first subject

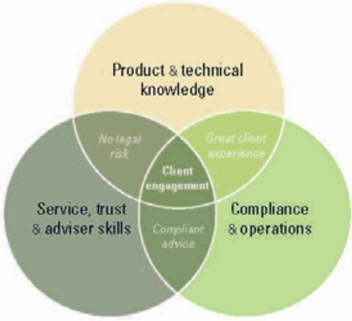
ASFA's Diploma of Financial Planning has been designed to give aspiring financial planners and advisers the most relevant tools and materials available to prepare for work in the financial advice industry.

Developed in consultation with financial planning dealer groups and superannuation fund advice providers, ASFA's Diploma of Financial Planning accurately simulates real-world delivery of financial advice, setting you on a pathway to your first role in the industry. From there, you can gain the experience you need to prepare for higher qualifications such as Master of Financial Planning or CFP® and progress towards more senior roles.

Real tools for adviser success

In ASFA's DFP, you will learn the three crucial skill sets of successful financial advisers:

- Technical know-how;
- People skills;
- Compliance knowledge.



Without all three skills, the result could be sub-optimal advice or client experience. But together, they combine to produce client engagement – the best client experience, optimal advice outcomes and long-lasting adviser-client relationships.

First-rate technical skills for every advice role

The course includes financial modelling and analytical skills to help you give optimal, tailored advice to clients with more complex needs. It also prepares advisers for every advice delivery setting:

- General and personal advice;
- Scoped or comprehensive advice;
- Super funds, institutional advisers or independent financial planners.

Structured to help you progress

The course is structured to prepare you for entry-level roles from the first subject, progressing to higher-level knowledge and skills as you move through the qualification.

Core subjects	Study mode	Availability
ASFA Advice 1: Scoping, Compliance and Super	Flexible	Enrol at any time
ASFA Advice 2: Risk Strategies for Life	Flexible	Enrol at any time
ASFA Advice 3: Building Wealth for Clients	Flexible	Enrol at any time
ASFA Advice 4: Financial Planning for Engagement and Retention	Flexible	Enrol at any time
ASFA Advice: Personal Advice Skills Assessment	Flexible	Enrol at any time

To be awarded your DFP, you must complete ASFA Advice 1-4 and an ASFA Advice: Personal Advice Skills Assessment, which includes multimedia tools on client communication and building trust to prepare you for face-to-face client interaction.

For more information, visit **www.superannuation.asn.au**

ASFA Diploma of Financial Planning

	ASFA Advice 1: Scoping, Compliance and Super	ASFA Advice 2: Risk Strategies for Life	ASFA Advice 3: Building Wealth for Clients	ASFA Advice 4: Financial Planning for Engagement and Retention
RG 146 authorisation pathway 	**Generic knowledge** **Superannuation** General advice (optional personal advice) • Contact centre member engagement staff • Dealer group client service officers	**Life insurance** General advice (optional personal advice) • Contact centre member engagement staff • Scaled super advice staff • Dealer group client service officers	**Managed investments** **Securities Margin lending** General advice (optional personal advice) • Scaled investment advisers • Paraplanners	**Financial planning** Mandatory personal advice skills assessment • Paraplanners • Financial planners working under supervision
Client advice simulation **Lifecycle narrative:** client's financial needs, financial and life objectives, risks, planned and unforeseen events	**Client advice case study** **Scaled advice:** superannuation	**Client advice case study** **Scaled advice:** insurance	**Client advice case study** **Multi-product comparison:** provide product comparisons, projections and quantitative analysis	**Client advice case study** **Holistic advice simulation:** a full financial advice process walkthrough, including data collection, analysis, advice preparation and advice delivery
	Assessment Short-form SoA based on case study	**Assessment** Short-form SoA based on case study	**Assessment** Short-form SoA based on case study	**Assessment** Fully compliant SoA based on case study
	Personal advice skills assessment (optional)	**Personal advice skills assessment** (optional)	**Personal advice skills assessment** (optional)	**Personal advice skills assessment** (mandatory if not already completed)

Typical problems with DFP training

- Compliance delivered without customer service context
- Conventional DFP1-4 authorisation pathway doesn't fit job needs
- Little realism in portraying the adviser workplace
- Soft skills included in written assessments – no verbal practice
- Poor compliance behaviour outcomes and customer experience
- Poor student experience due to skills gaps on completion
- No support for follow-up training during induction process
- No ongoing narrative across the whole qualification

ASFA Diploma of Financial Planning

- Compliance for member engagement, customer service and retention
- Built from industry consultation
- Aligns to both super fund and comprehensive advice delivery models
- Courseware and assessments situated in the workplace
- Up-to-date regulatory guidance for advice delivery
- Facilitation guides for in-house soft skills sessions
- Lifecycle scaled and holistic advice simulations
- Investment products across the risk/return spectrum

asfa LEARNING