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Mind the advice gap

IFA Cover Story

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On 26 April, the federal government threw Australia's financial services sector into a spin.

Almost six months after the industry experienced the anti-climax of the Ripoll report into Australia's financial services, Financial Services, Superannuation and Corporate Law Minister Chris Bowen released the government's response in the form of the Future of Financial Advice (FFA) reforms.

Atop the FFA reforms were a ban on commissions and volume-based payments, the introduction of a statutory fiduciary duty so financial advisers must act in the best interests of their clients, the increasing transparency and flexibility of payments for financial advice by introducing adviser charging, percentage-based fees and the expansion of the current scope of simple intra-fund advice.

"The expansion in the provision of low-cost, simple advice will be of particular benefit to individuals and families who may not currently have access to financial advice," Bowen said at the time.

Earlier this month, the retail advice industry pounced on the government's push for intra-fund expansion, raising a series of concerns.

"Whilst we need to help our members take advantage of the expansion to intra-fund, we will also be making sure the government carries through on its promise on other areas of advice, and potentially remove the barriers in that space as well," FPA acting chief executive Deen Sanders said.

Association of Financial Advisers (AFA) chief executive Richard Klipin voiced strong opposition to the proposed changes.

"Having a two-tiered landscape for advice, those that come under FSR (financial services reform) and those that come under the exemption 'know your client, know your product' rule, it's still a concern to advisers," Klipin said.

"We think advice will be dumbed down, we think there's a decent chance that consumers won't get a good deal out of it and that's the very thing that the government is trying to address."

Industry tensions

The tension between the retail financial advisory industry and Australia's industry super fund sector is well documented.

The industry super fund sector won over members with the introduction of its now infamous compare the pair campaign, yet polarised the retail section with its barbs aimed at financial planners and commission payments.

However, with the proposed FFA reforms, commission payments may soon be a fee model of the past, affording the retail financial advice and industry fund advice sectors a much sought after level playing field.

For Association of Superannuation Funds of Australia (ASFA) chief executive Pauline Vamos, such industry change will hopefully ease tensions and end inaccurate perceptions.

"There is a real perception that superannuation fund trustees have suddenly become financial planners and they don't need to carry the same qualifications that a more stand-alone financial planner has. The answer is there is no choice in that," Vamos says.

"If you are going to deliver financial planning services then you must have an AFSL (Australian financial services licence) and you must be qualified under that AFSL."

She says the increase in demand from fund members has prompted more industry fund trustees to offer single-issue advice within their respective funds.

"I think we'll see with the government response to Ripoll and the complete restructure of the way financial planning groups work, and then implementation of a fiduciary obligation, their ability to provide scaled services is going to be much greater," she says.

She says the government's extension of intra-fund advice will now offer great opportunity for industry funds.

"Now the fund can also talk about their retirement product, which is again an enormous opportunity for financial planners because for financial planners to forge a close relationship with a fund and therefore really understand the intricacies of the product and the fund it enables that adviser to really help the client and that would be disclosed," she says.

"It is a key part of people's strategic discussions now. Getting this right for fund members so that they get very good advice delivered at a lower cost as possible for the highest value is what we're trying to do here.

"The big thing about intra-fund advice and the big change is this: financial planning really is a longer process and is a linear process, so you get to know the client, you gather the information, you take them through the whole decision-making process; intra-fund advice is a single process that has all the elements of collecting information, educating, providing recommendations and actually helping people implement.

"So rather than doing it over a three-month, four-month period, you kind of do it all in the same time and that disclosure, education implementation, that's the big difference with intra-fund advice. It's really making it a single process."

The advice gap

A recent RiceWarner Actuaries report, commissioned by the Industry Super Network, found demand for simpler targeted advice will increase substantially to where one in 13 people across Australia's population or one in seven employed people will seek regulated financial advice each year.

The report projected that by 2024, there will be around 3200 extra advisers providing targeted advice to clients/fund members due to demand for advice.

It also found that in 2024, a reduction in overall adviser remuneration will be $2.5 billion, representing 0.23 per cent of gross domestic product - the amount flowing directly into superannuation and savings from individuals.

"The cost of obtaining financial advice will be lower. Many new clients will be satisfied with pieces of targeted advice limited to their needs at different points of their life cycle," the report found.

"Consequently, there will be a shift from full-service advice to targeted advice delivered periodically throughout an investor or member's lifetime.

"Initially, increased transparency may result in a perception that costs for comprehensive advice are too high, potentially resulting in reduced demand for holistic advice.

"However, full-service advice will still be required and provided for people with complex financial and/or family arrangements."

The report found the demand for full (holistic) advice is likely to be broadly stable as there is a large number of individuals and families with complex affairs requiring this invaluable service.

"However, we anticipate that the number of full-service financial advisers, currently around 15,400, is likely to remain broadly stable over the next five years and will then decline to around 8600 by 2024. These advisers will have much higher productivity than present day practices," it said.

A recent Investment Trends survey commissioned by the FPA found 49 per cent of Australians aged 40 and over would use a financial planner for retirement planning advice.

The survey found 28 per cent would turn to an accountant and less than 22 per cent would turn to a super fund representative or friend or family member for retirement income planning.

It also found of those currently using a planner as their main adviser, 88 per cent would turn to the planner for help.

The strong preference for using a financial planner is true for people at all levels of superannuation assets above $10,000, and increases with super balance, rising from 47 per cent of those with $10,000-$25,000 to 60 per cent of those with over $ 200,000.

Two-thirds of consumers citing a financial planner as their main adviser are in regular contact with their planner, and consumers find financial planners to be the most accessible of financial advisers used, the survey found.

Only 15 per cent of those aged 40-plus using a planner as their main adviser have not contacted their financial adviser in the past 12 months.

Retail planners versus industry fund planners

The finding of both surveys demonstrates that advice is in demand, with financial planners the first point of call. The question now is with low-cost advice slowly becoming more available, will clients prefer a retail financial adviser or industry fund financial planner?

"At the end of the day, if I was a retail planner and I was offering good value to my customer, and I'm removing the fees debate from this, whether it's commission or fee for services, I think the material thing from a customer's point of view is they are not fussed whether they are a retail planner or industry fund planner," Equipsuper manager of communications Geoff Brooks says.

Brooks believes clients just want to feel there is some value to the service and it adds value to their decision making, ultimately reflecting in the investment performance.

"I think in many respects and particularly now that a lot of them [retail financial advisers] are moving to fee for service that retail planners have an enormous advantage over industry funds and that is because they deal with clients on a face-to-face basis, they have one-to-one communication," he says.

"One of the challenges for our fund and other industry funds is we've got a very high proportion of members who are just not engaged.

"So I think if we're all operating on a fee-for-service basis, and let's face it there will probably be a difference from the fees charged by industry funds and those by retail planners, but ultimately customers are going to make the decision on the value that's going to be delivered to them."

Equipsuper has been offering advice through its financial planning division for a number of years, he says.

"Equipsuper Financial Planning was a strategic decision and has been a massive uptake by members," he says.

"One thing we did find from some focus groups we ran, and I don't think will be a surprise to anyone, but the older members in the fund - some who had been with the fund for 30 years and pre-Financial Services Reform Act days - just didn't get the difference between general advice and personal advice.

"They just couldn't understand why the fund used to give them personal advice and all of a sudden couldn't. We explained the regulation so we're not allowed to do it anymore, but the feeling they had, and in a sense it's damaging to the brand, is they felt the fund was no longer interested in them."

While its financial planning has been well received by existing fund members, the gap between offering advice in between the helpline and full-service advice is still unresolved, he says.

He says for the moment, Equipsuper has put aside plans to introduce intra-fund advice to its members, instead planning to offer limited advice through its financial planning division.

"What we have resolved is that we probably won't go down the intra-fund advice road," he says.

The fund was in the early stages of development with an exact fee structure and an overall advice model yet to be finalised, he says.

"We certainly won't use the Mercer call centre to deal with that [limited advice], and we're still working out the model precisely whether we'll charge or not, but we will offer limited advice through Equipsuper Financial Planning," he says.

He says as part of the fund's development of its limited advice model, Equipsuper Financial Planning is also considering offering advice outside of superannuation.

"What we're looking at is trying to give it [Equipsuper Financial Planning] a differentiated entity than to the fund so that it is a little bit more stand-alone, but underlying that we may look over the longer term to expand the advice it might offer outside of superannuation," he says.

"These are all things that we're still very much in the early planning stages. The next cab off the rank will certainly be a way of delivering limited advice through Equipsuper and how we're going to offer it."

Equipsuper first mentioned it would introduce an intra-fund advice service to its members in March this year.

UniSuper executive manager Chris Davies says his firm provides single-issue advice by phone and face-to-face as well as comprehensive advice through a team of advisers located across Australia.

"UniSuper began a number of years ago providing simple personal advice about superannuation. Over time our members requested a more comprehensive advice service, including on non-super investments and insurance," Davies says.

"So our response was to a clear demand from our members for wide-ranging financial advice. We continue to provide education and information as well, via the net and seminars on campus."

UniSuper has not adopted the intra-fund advice offering, though while his firm may not use it, Davies believes there is a definite place for it in the industry.

"We feel it is necessary for many funds to have this exemption so that members can access advice specifically about their fund at a reasonable cost," he says.

"Any fund can offer this service, not just industry funds. As all advisers and dealer groups are seeking ways to reduce costs and simplify the way they deliver advice I would have thought they could look at using intra-fund advice for this purpose."

The level playing field

In Sanders' view, there are two issues at play when it comes to industry funds moving further into offering financial advice.

The first issue is that more Australians need to get more advice and they need to get it more accessibly and affordably. The second issue is that Australians need professional advice and they need to be able to have an informed choice about the professional advice they are getting and the quality of it.

"So if you put those two pieces together then we're not particularly perturbed about where it's being offered from as long as consumers generally are getting professional advice, they're not getting product advice masquerading as professional advice," Sanders says.

"They are truly getting access to professional advice. So what we've liked to see and what we've called for and the Minister [Bowen] has promised is a level playing field here and significant improvements to allow financial planners to be able to leverage off the same compliance benefits and streamline benefits that the superannuation funds get."

For Davies, the tension between retail and industry financial planners no longer has a place where the client is concerned.

"There doesn't need to be tension between retail and fund advisers if we both focus on what is best for our clients," he says.

"Many of our fund members will continue to use external advisers and that's their decision to make.

"We just wish to offer a fee-for-service advice alternative to our members and we say our strong knowledge of our own fund's technical details is our competitive advantage."

UniSuper has added 12 advisers to its advice business, UniSuper Advice, since its establishment in December 2009.

The fund has already appointed regional managers to UniSuper Advice offices in Queensland, New South Wales and Victoria.

"We have had over 4000 members contact our Financial Advice Centre in Melbourne since we launched, with over 900 seeking an interview with an adviser as a result. Many of these interviews have already led to a full financial plan being prepared for the member," Davies says.

Victoria and NSW will soon each have four full-time advisers working in the business.

Klipin says while Australia's financial advice landscape has been in evolution for sometime, the FFA reforms are going to accelerate super funds further into the advice space.

"I think that landscape is shifting and it's shifting quickly and dramatically. There are some retail financial advisers who do a lot of work in the superannuation space, particularly installing and managing employee benefit programs, but in the main it's mainly the institutions and the industry funds that look after that," he says.

"It's really mainly in the personal advice space where obviously industry funds and retail funds will now offer more advice to members of their super funds. In some ways that's going to pose an opportunity and a threat for independent advisers and it comes back to what consumers want, which is a trusted relationship with service and transparency around the offer and the good advisers will absolutely thrive in that environment where their clients see value."

Vamos believes with the government push on intra-fund and limited advice the time is right for the advice gap to be at last narrowed.

"You've got financial planning organisations [that] are starting to merge and they are starting to develop scale and with scale you can start to offer again career paths for people," she says.

"You can offer people different types of services, different payment arrangements, it really professionalises the industry."

Sanders says the retail advice industry will also benefit from limited advice.

"I do believe the advice community will be able to leverage off that and benefit from that to be able to deliver advice affordably and effectively to consumers. I don't think it has been a level playing field for quite some time frankly," he says.

"This is a good initiative and . it's true some super funds will no doubt take the opportunity to try and expand their ambit.

"I think that consumers need to know what they are getting and what they are paying for and we'd obviously think professional advice is more beneficial and frankly a lot bigger than super.

"Super represents only 30 per cent of the average revenue models of financial planners and consumers need more than just advice on super and they should be able to access that cheaply and appropriately for their needs from the financial planning community."

To a degree, Klipin agrees.

"I'm quite optimistic about this. The industry funds are going to become the competitors in a sense of the future in the mainstream," he says.

"They've in a sense tried to hide their light under the bushels in some way and just be seen as industry funds, but clearly they are going to become advice providers, fund providers, so I think they are going to move front and centre into competition with the retail sector across the board, not just in advice.

"I think competition is healthy. Ultimately consumers will go where they think they've got value and good-quality advisers deliver high-end personal bespoke advice."

More work needed

Brooks says the next step for funds is to see the government reforms as an opportunity.

"I think the industry funds have certainly got an opportunity to step up to the plate and start looking at providing some of the support and infrastructure if planning groups were prepared to take them on," he says.

"That includes things like daily unit pricing and feeding regular information to research companies and having that transparency that planners say they need now."

Vamos says ASFA intends to work with ASIC and Treasury on formulating a regulatory framework for intra-fund advice.

"The next job for ASFA is to work with ASIC and Treasury to get the regulatory framework right," she says.

"So that's the work we're doing with our members now."

She says the superannuation fund industry needs a framework that will allow it to be a combination of disclosure, data collection and implementation.

"You've got to help people do what you're recommending people to do otherwise they won't do it," she says.

The association is also developing its expertise around advocacy and best practice of intra-fund advice, she says.

"We will focus on intra-fund advice. We will leave it up to the FPA, the AFA and the advisory panel to the government on full financial planning," she says.

"We don't want to duplicate, but intra-fund advice is different and I think we can assist traditional planners actually look at those opportunities as well."

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