TSY/AU

Quality of Advice Review

Template for response: IGNITION ADVICE

August 2022

Consultation process

Request for feedback and comments

Interested parties are invited to provide feedback on the proposals for reform listed in the Quality of Advice Review Proposals Paper using the template in Appendix 1. Consultation will close on Friday 23 September 2022.

While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses in a Word or RTF format via email. An additional PDF version may also be submitted.

Publication of submissions and confidentiality

All of the information (including the author's name and address) contained in submissions will be made available to the public on the Treasury website unless you indicate that you would like all or part of your submission to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as such in a separate attachment.

Legal requirements, such as those imposed by the *Freedom of Information Act 1982*, may affect the confidentiality of your submission.

View our submission guidelines for further information.

Closing date for submissions: 23 September 2022

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Appendix 1: Consultation template

Name/Organisation: Ignition Advice

Questions

Intended outcomes

1. Do you agree that advisers and product issuers should be able to provide to personal advice to their customers without having to comply with all of the obligations that currently apply to the provision of personal advice?

Ignition Advice welcomes the Proposals Paper and is supportive of the Good Advice model. It is principles-based, simpler and more direct. Combined with proposals relating to relaxation of advice documentation requirements such as SoAs, encouragement of institutional participation, broadening the definition of who can provide personal advice, and delivery via digital advice, a good advice standard should substantially increase the supply of advice, particularly for simple advice topics.

What should be regulated?

2. In your view, are the proposed changes to the definition of 'personal advice' likely to:

a) reduce regulatory uncertainty?

b) facilitate the provision of more personal advice to consumers?

c) improve the ability of financial institutions to help their clients?

a) We note that industry perception of regulatory uncertainty today relates primarily to an inability to secure ASIC approval of proposed advice models. Given ASIC's approach to advice regulation and enforcement does not encompass "pre-approvals", this is unlikely to fundamentally change. Should the Good Advice model be accepted and implemented by Government, we expect ASIC to issue regulatory guidance that expands on and clarifies the model. Provision by ASIC of examples and case studies which assist industry's understanding of how ASIC would interpret and enforce proposed changes to the definition of personal advice will be valuable.

b) The proposed changes, taken together, if implemented will have a major positive impact on the provision of personal advice to consumers. In our view, the proposed changes pull on all the major supply levers which can have a material impact on provision:

Simplify regulation: broaden the scope of personal advice, focus on outcomes, eliminate general advice…creates a single advice "product" which will be delivered in larger volumes.

Simplify advice: "good advice" standard, which caters to and reflects the relative simplicity or complexity of the situation, and provides more effective consumer protection while not pretending to be "best" or exhaustive….defines simpler advice which benefits the consumer and can therefore be delivered at lower cost, faster, and at scale.

Deepen supply via financial institutions: broaden how advice is provided via more institutional involvement, and a wider spread of people within institutions delivering simpler advice…consumers expect advice from their institution, and institutions should be providing it.

Deepen supply via removing advice obstacles for super funds: as a category of financial institutions, super funds are an obvious source of advice for members; the Retirement Income Covenant also assumes this. The sole purpose test should be clarified and intra-fund advice extended to retirement issues….in combination with the broadening of personal advice, super funds should become major providers of advice, especially simpler advice.

Leverage supply via technology: digital advice is key to making personal advice more accessible and affordable; digitally-delivered personal advice can be good advice just as much as human-delivered advice can be….digital advice is the multiplier which allows a deeper supply of simplified advice to have a large scale impact on access and affordability.

We note other proposed changes which will ease the regulatory burden on advice delivered by traditional human financial planners, including relaxation of advice documentation requirements. These are worth doing but will have only an incremental impact to the provision of advice. While these changes are likely to modestly reduce the costs of traditional financial advice, we do not expect to see any material reduction in its price point. This is a function of demand and supply. Material impacts on supply and price points can only occur via simpler advice, institutional participation, and broad use of digital advice technology as discussed above.

c) The return of financial institutions as large providers of financial advice, especially simpler advice, is a necessary pillar to achieving the Review's objectives of material improvements to the accessibility and affordability of personal advice. Ignition notes three aspects:

Regulation: Institutions will be drawn back in by the broadening of personal advice and the scrapping of general advice.

Customers: we agree that customers expect and want to be able to get personal advice from their financial institution, and financial institutions should be encouraged to respond accordingly.

Economics: advice has increasingly become a cottage industry since the Royal Commission with greatly reduced numbers of financial advisers typically organised in smaller units with less scale than previously. Only financial institutions have the resource scale to impact advice supply so that there can be a significant improvement to access and affordability; their return is essential.

In any event, the proposed definition of personal advice suggests many interactions by financial institutions with existing customers will become personal advice, and therefore financial institutions will see a large increase in personal advice interactions. The good advice concept should make it easier for financial institutions to give simple personal advice because:

Process: there will be no longer be a prescribed process, and

Delivery: advice can be provided by an institutional employee who is not a relevant provider; ie an employee who is not a specialist financial adviser (we note the Proposal Paper case studies include a call centre employee providing simple advice as an example).

These measures are essential to improving the ability of financial institutions to help their customers. If a financial institution were to be limited, for example, to the use of relevant providers for delivery, the industry will remain stuck in its current state with just 16,000 financial advisers as at June 2022 (considerably less in practice).

Given the shrinking number of human financial advisers, institutional advice models will be essential to increasing access and bringing down advice costs, but clearly comes with a need for strong assurance controls. We note that the Proposal Paper states that the institution (or licensee) will continue to have an obligation to ensure those employees delivering advice are competent, adequately trained, and supervised.

In practice this will almost certainly be achieved via digital advice technology. For example, using the Proposal Paper case study of a financial institution call centre employee dealing with a simple advice issue we identify at least two ways an institution can use digital advice technology to improve help to customers, while being confident that their advice delivered is good advice:

Online: the call centre employee taking the call directs the customer to a digital advice journey online at the financial institution's website.

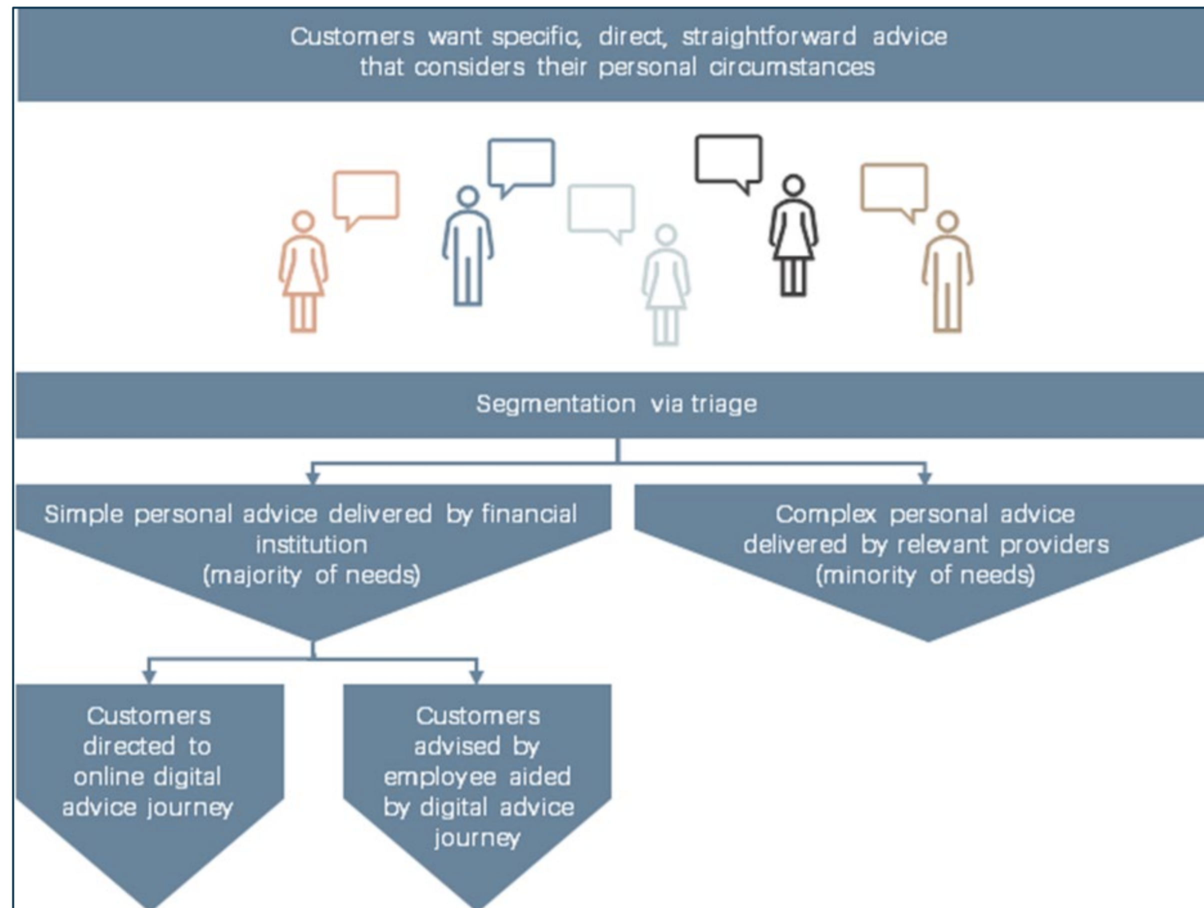
Phone-based: the call centre employee deals with the issue personally, in combination with the digital advice journey on their screen.

Ignition also notes that the Proposal Paper maps out a logical segmentation model of future personal advice provision:

Simple personal advice: delivered by financial institutions via employees who are not professional financial planners, and / or digital advice.

More complex personal advice: referred to, and delivered by, relevant providers.

We agree this is a segmentation model which is realistic for institutions to implement. We have illustrated below a potential framework by which institutions can bring this to life:



3. In relation to the proposed de-regulation of 'general advice' - are the general consumer protections (such as the prohibition against engaging in misleading or deceptive conduct) a sufficient safeguard for consumers?

a) If not, what additional safeguards do you think would be required?

Yes.

How should personal advice be regulated?

4. In your view, what impact does the replacement of the best interest obligations with the obligation to provide 'good advice' have on:

a) the quality of financial advice provided to consumers?

b) the time and cost required to produce advice?

a) Ignition Advice is confident that the replacement of the best interest obligations with the obligation to provide 'good advice' will not have an adverse effect on the quality of financial advice provided to consumers; in fact we can see a rationale for why it will improve quality overall.

The good advice obligation would replace the current set of duties, including best interests duty. Each of the duties has highly prescribed processes to be followed in order to discharge them, the most infamous being the seven "safe harbour" steps for discharging the best interests duty. Whether these have actually been effective is open to debate. It has been argued (for example "Tick-a-box 'best interest' test for financial advisers must go", AFR 14/9/22) that these steps have "almost nothing to do with serving or advancing the client's best interests".

Despite some stakeholder claims to the contrary, this does not mean a dilution in consumer protection. Where personal advice is provided by an individual and the client is paying, the individual will be a "relevant provider", and remains subject to professional standards including education and the Code of Ethics, which includes a best interests duty.

We support the Proposal Paper's contention that the obligation to give good advice should make it easier for digital advice providers (which may be financial institutions) to give personal advice, and assessing that it reflects good advice will be able to be performed from the outputs and the design of the program. The compliance-by-design nature of digital advice provision means the return of financial institutions to financial advice, almost certainly deploying hybrid digital advice models, will result in the quality of financial advice provided rising across the industry as a whole.

The Paper asserts that the advice industry has learnt and matured. Ignition also highlights the effect of the contemporary institutional ESG environment, which has created a powerful set of carrot and stick incentives for financial institutions, their CEOs, and boards. This has been underestimated in the discussion to date. One of the top drivers of ESG controversies for financial institutions – with all its consequences for reputation damage, regulatory intervention, mediation costs, and careers - is advice conduct risk. A sense of self-preservation, and the ability of digital advice to provide a high level of assurance in relation to conduct risk, means that the return of financial institutions to advice will look very different to the past and a positive force for the quality of advice.

b) As noted above in 2(b), easing the regulatory burden on advice delivered by traditional human financial planners is likely to only modestly reduce the costs of traditional financial advice, and we do not expect to see any material reduction in its price point. Material impacts on supply and price points can only occur via simpler advice, institutional participation, and broad use of digital advice technology as discussed above in 2(c).

Ignition Advice's experience in UK / Europe, where we have live institutional clients which have deployed digital advice to deliver simpler types of advice to their customers (ie analogous to the good advice model principles), has shown substantial improvements in the time and cost required to produce advice, including approximately:

85% reduction in the time taken to deliver advice

60% reduction in advice delivery overheads

Changes of this magnitude permit the deployment by financial institutions (and indeed larger adviser groups) of new advice offers to their customers at substantially lower price points than prevail for advice delivered via traditional financial advice channels, delivered far faster, and via channels and times of day which are convenient for the customer.

5. Does the replacement of the best interest obligations with the obligation to provide 'good advice' make it easier for advisers and institutions to:

- **a) provide limited advice to consumers?**
- **b) provide advice to consumers using technological solutions (e.g. digital advice)?**

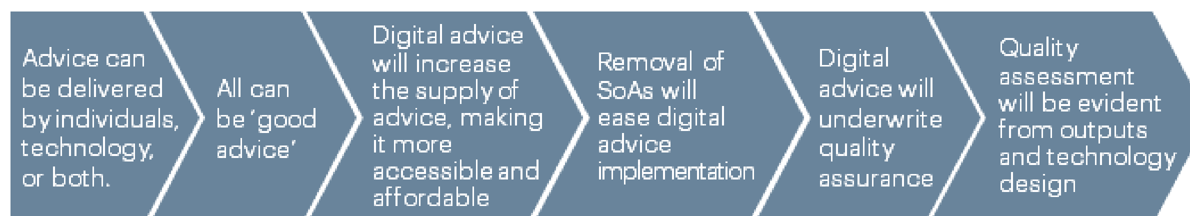
a) Please see our response to 2(c). Our expectation is that good advice will make it easier for both advisers and institutions to provide limited advice to consumers, but that in practice the response will largely come from institutions. The large reduction in adviser numbers, lack of scalability of traditional financial advice, and worthwhile but incremental nature of the effect of the proposed changes for advisers means that advisers are likely to remain primarily focused on the upmarket position to which advice has retreated since the Royal Commission. The biggest impact on provision will come from financial institutions applying digital advice technologies with scale resources. The proposed good advice model is especially supportive of the provision of limited / single issue / simple advice to the large number of consumers unable to access financial advice in an affordable manner since the retreat of traditional financial advice upmarket.

b) We note the Proposal Paper asserts that the current state of advice regulation *inhibits* the development of digital advice, rather than preventing. Ignition Advice outlined in a September 2021 white paper that digital advice can be fully compliant today already, and we observe a range of early initiatives in-market already. However, we accept that the development of the digital advice market has been inhibited by uncertainty within financial institutions about the policy of ASIC, which as discussed at 2(a) is to not offer "pre-approvals" of any specific type of advice model. Since the Royal Commission, institutional aversion to advice risk remains at an elevated level and some are reluctant to engage with advice, including digital advice, in what they see as an uncertain regulatory current state.

All that said, the good advice model will make it easier to provide digital advice to consumers. We note and support that the Proposals Paper outlines that digital advice is not lower quality advice; and that the provision of digitally-delivered good advice would not expose customers to the risk of poorer quality advice. Indeed, as discussed at 4(a), there is a rationale why digital advice may result in consumers receiving higher quality advice than previously. That endorsement of the fundamentally beneficial nature of digital advice is part of the process which will give financial institutions increased confidence to re-engage with financial advice for their customers.

Under the good advice model, there will be more personal advice, more institutions providing it, and more consumers reaping the benefits of it. However, it is digital advice technology which glues it together to make it a reality. Digital advice allows good advice to be delivered at scale. Digital advice allows people delivering advice to be leveraged. Digital advice allows financial institutions to return to advice and super funds to expand their advice delivery in the knowledge that technology will provide assurance that their advice is good advice, whether delivered by their people, technology, or both.

We have illustrated below the role of digital advice in the good advice framework:



6. What else (if anything) is required to better facilitate the provision of:

a) limited advice?

b) digital advice?

a) No response

b) As per our response to 5(b), we believe that repetition of an official view that digital advice is a valid and necessary means of delivering good advice at scale to have a material impact on accessibility and affordability, is the most important thing which can help give financial institutions the confidence to facilitate the provision of digital advice. We support the view of the Proposals Paper that digital advice is an important way in which good advice can be delivered, especially simpler advice, and that it is not a different or lower quality form of advice. The obligation to provide good advice is channel-neutral: it applies irrespective of whether the advice is delivered by human or technology, and whether by an institutional employee or independent financial planner. Digital advice does not need, and should not be given, different regulatory treatment.

We highlight what we see as an *incorrect assumption* in the Proposals Paper that the provision of digital advice would be a direct-to-consumer tech-only channel. This overlooks the reality that hybrid human / technology models have dominated the early evolution of digital advice in UK / Europe, where human advisers are still active in the advice process either via issues triage and / or advice confirmation. Consistent with UK / Europe, the majority of Australian digital advice volume is much more likely to be hybrid models offered by financial institutions. Without doubt there will also be propositions which are principally D2C channels to digital advice, but these are likely to be niche by comparison to the offers of financial institutions.

7. In your view, what impact will the proposed changes to the application of the professional standards (the requirement to be a relevant provider) have on:

a) the quality of financial advice?

b) the affordability and accessibility of financial advice?

a) No response.
b) No response.

8. In the absence of the professional standards, are the licensing obligations which require licensees to ensure that their representatives are adequately trained and competent to provide financial services sufficient to ensure the quality of advice provided to consumers?

a) If not, what additional requirements should apply to providers of personal advice who are not required to be relevant providers?

Ignition Advice believes that the licensing obligations as outlined are sufficient; however also that licensees, especially financial institutions including super funds will need to deploy digital advice technology to achieve this in practice.

The proposed definition of personal advice suggests many interactions by financial institutions with existing customers will become personal advice, and therefore that financial institutions will see a large increase in personal advice interactions. In order to deliver this increased volume of personal advice, it is also proposed that advice can be provided by an employee who is not a relevant provider. Given the shrinking number of human financial advisers, institutional advice models will be essential to increasing access and bringing down advice costs, but clearly comes with a need for strong assurance controls.

We agree the institution / licensee will continue to have an obligation to ensure those employees delivering advice are competent, adequately trained, and supervised. In practice this will almost certainly be achieved via digital advice technology as described in our response to 2(c).

We do not believe additional requirements should apply to providers of personal advice who are not required to be relevant providers. Each additional requirement and constraint reduces the ability of the proposals to achieve the objectives of the Review.

Superannuation funds and intra-fund advice

9. Will the proposed changes to superannuation trustee obligations (including the removal of the restriction on collective charging):

a) make it easier for superannuation trustees to provide personal advice to their members?

b) make it easier for members to access the advice they need at the time they need it?

a) Given the desirability of super funds offering personal advice about retirement issues and the current lack of clarity, respect of intra-fund advice, and the sole purpose test, Ignition Advice strongly supports the proposal that the sole purpose test should be amended as outlined, to expressly permit the provision of personal advice about members' interests in a fund, and to apply funds for that purpose. We also support the related repeal of section 99F of the SIS Act.

We note and agree with the Proposals Paper that the Retirement Income Covenant assumes that trustees can provide advice to their members. We also agree that section 99F of the SIS Act is unclear, and that consistent with the Retirement Income Covenant, it could be interpreted today as permitting intra-fund advice in relation to retirement issues, subject to the powers and duties of the trustee. It would be highly illogical if super funds could not provide collectively charged personal advice in relation to retirement issues, given that the end-goal of super funds is the provision of retirement income to their members. The assumptions of the Retirement Income Covenant make that clear enough.

Accordingly, an amendment of the sole purpose test to provide explicit permission for super funds to provide collectively charged personal advice to members in relation to their interests in the fund (including retirement income and related issues, including the member's assets / other personal circumstances, social security, and their partner's financial position where applicable) will be welcomed, and will make it easier for superannuation trustees to provide personal advice to their members. Subject to their powers and duties, it will remove doubts as to their ability to do so, which, as we have discussed earlier, function as a larger barrier than actual regulatory barriers.

Given the broadening of personal advice proposed, an implication is that super funds may spend considerably more on advice than at present. That said, advice usually is a very small part (<5%) of a super fund's cost structure, dwarfed by investment expenses and many other expense categories. The proposition that a super fund should spend considerably more on personal advice than today should not be controversial. A super fund spends 50-100bps every year, for decades, building up their members' balances – which can be quickly dissipated due to a lack of advice, or poor advice. Spending more on the provision of good advice to ensure as many members as possible actually realise their benefit in retirement, is a logical decision to protect that decades-long investment.

Notwithstanding that advice costs will still be a minor portion of costs even if expanded, trustees providing personal advice will need to consider how to allocate the costs of doing so to members. There is an implication in the Proposal Paper that simple personal advice might be collectively charged to the fund (therefore likely increasing advice spend), while more complex advice would be specifically charged to members, whether to their fund balance or otherwise. We support this as an appropriate methodology.

b) Accessibility to advice for members of super funds is a function of the volume of advice capacity and the channels through which advice is available. At this time, even large super funds often have very limited advice capacity (10-20 advisers offering intra-fund and / or comprehensive advice is a common range). That capacity is available to members either face-to-face, by phone, or less often via video; but generally restricted to business hours. Many super fund members, particularly members of industry funds, work shifts and might want to access advice late on a Friday night when they have time and mindspace available. The current state of advice delivery simply does not suit many members.

The proposed changes to superannuation trustee obligations will make it easier for members to access the advice they need, at the time they need it, because those changes will be largely implemented via digital advice technology (to manage the much larger volumes of personal advice while also assuring that the personal advice is good advice). The leverage of capacity offered by digital advice technology, creates the depth of advice supply necessary to cater to the large numbers of members in many super funds. Digital advice channels make advice available to members 24 hours a day, at a time and place which is convenient for them, with assistance from a human adviser on a triage basis if needed (in the hybrid advice models usually deployed by financial institutions).

Disclosure documents

10. Do the streamlined disclosure requirements for ongoing fee arrangements:

a) reduce regulatory burden and the cost of providing advice, and if so, to what extent?

b) negatively impact consumers, and if so, how and to what extent?

a) No response.

b) No response.

11. Will removing the requirement to give clients a statement of advice:

a) reduce the cost of providing advice, and if so, to what extent?

b) negatively impact consumers, and if so, to what extent?

a) The changes to disclosure via SoAs are beneficial for traditional financial advice in reducing the regulatory burden, but equally for digital advice in reducing the complexity of institutional configuration and implementation. This will result in lower cost structures for both. As discussed above in 2(b), we do not expect to see any material reduction in the price to consumers of traditional financial advice. However any reduction in implementation costs for digital advice will flow through directly to either institutional capacity to absorb collective charging; or lower price points where digital advice is explicitly charged for.

b) We do not believe the removal of SoAs will have a negative impact on customers. We agree with the proposition that the current highly prescribed form is unhelpful and suffocates innovation, and does not deliver what customers want and need. The flipside of the proposed removal of SoAs is that regardless of the form of communication adopted by the advice provider, all records must be retained. In practice this is likely to be include new forms of communication which replace the intended function of an SoA. We highlight that the use of digital advice is especially effective for permanent record retention; indeed far superior to an SoA. This is because leading digital advice technologies will capture all aspects of the customer interaction with the advice process, not just the final outcome.

12. In your view, will the proposed change for giving a financial services guide:

a) reduce regulatory burden for advisers and licensees, and if so, to what extent?

b) negatively impact consumers, and if so, to what extent?

a) Please see our response to 11(a) which would also apply to the changes to FSGs.

b) Please see our response to 11(b) which would also apply to the changes to FSGs.

Design and distribution obligations
13. What impact are the proposed amendments to the reporting requirements under the design and distribution obligations likely to have on: **a) the design and development of financial products?** **b) target market determinations?**
c) No response. **d)** No response.
Transition and enforcement
14. What transitional arrangements are necessary to implement these reforms?
No response.
General
15. Do you have any other comments or feedback?
Please find attached our in-depth analysis of the Proposals Paper.