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Quality of Advice Review Secretariat  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES QCT 2600

Email [advicereview@treasury.gov.au](mailto:advicereview@treasury.gov.au)

Dear Sir/Madam

## QUALITY OF ADVICE REVIEW: SUBMISSION BY CENTREPOINT ALLIANCE LIMITED

On 24 March 2022, Treasury released an Issues Paper calling for submissions on the Quality of Advice Review with a view to promoting access to high quality affordable advice to consumers. Centrepoint Alliance Limited supports the Terms of Reference of the Quality Advice Review and we are pleased to make a submission to Treasury that will assist in Treasury's objectives to:

- streamline regulation;
- introduce principles-based regulation replacing rules-based regulation;
- simplify advice documentation and disclosure; and
- reduce unintended consequences.

Centrepoint Alliance Limited ('Centrepoint') is an ASX listed financial services company (ASX Code: CAF) which provides licensee services to over 1,300 financial advisers who in turn provide financial advice to over 130,000 Australian consumers. As a key participant in the industry, Centrepoint is well placed to provide input based on the advice professionals we support and their client feedback.

The demand and need of Australian consumers to be able to access quality advice remains as high as ever with consumers requiring advice in order to navigate multiple layers of inherent complexity in financial products, taxation, and superannuation regulation. However, many consumers cannot access affordable high quality advice, many find it too complex to understand and the supply of qualified financial advisers is constrained.

We endorse and support the intent of the regulatory reforms introduced by successive Governments to date, with the aim of raising the quality of advice, raising the quality of professionalism of financial advisers, and raising the trust and confidence of consumers to access financial advice.

However, over time the implementation of the many reforms has had the unintentional consequence of significantly increasing the cost and complexity of providing consumers with financial advice, which threatens the sustainability of the industry as a result of:

- the burden of producing complex, lengthy advice documentation such as the Statement of Advice ('SOA') and records of advice, which consumers struggle to read and understand;
- the introduction of the Best Interests Duty ('BID') safe harbour provisions and subsequent ASIC regulatory guidance and reports, the Code of Ethics, Design and Distribution Obligations ('DDO'), which have all added significant cost in financial advisers being able to demonstrate procedural compliance at every step of the advice process;
- multiple ongoing disclosures, fee consents and regulatory overlap resulting in increased administration costs and consumer confusion; and
- the impost and interplay of layers of supervision from ASIC, Licensees, Responsible Entities and Superannuation Trustees.

Our submission of a number of recommendations to address certain Quality of Advice Review questions is set out on the following pages.

We appreciate the opportunity to provide this submission to Treasury. If further information or discussion is required, please contact the writer via email at [john.shuttleworth@cpal.com.au](mailto:john.shuttleworth@cpal.com.au) or by telephone on (02) 8987 3016.

Yours faithfully



John Shuttleworth  
Chief Executive Officer

# Quality of Advice Review Submission

## 1. INTRODUCTION

High quality financial advice makes a fundamental difference to the financial wellbeing of consumers and the community.

The demand for consumers for access to quality advice remains as high as ever as evidenced by:

- household assets in Australia being quite considerable in value. Australia has \$6.5 trillion in investible assets<sup>1</sup>;
- an Australian retirement system with \$3.4 trillion in assets<sup>2</sup>; and
- demographic shifts which will see an intergenerational wealth transfer estimated around \$3.5 trillion over the next 10 years<sup>3</sup>.

Two key areas upon which Treasury has sought comments on as part of the Review are:

- defining and measuring the quality of advice; and
- the drivers of cost that make quality advice so expensive and time consuming to deliver efficiently.

### 1.1. Defining and measuring the quality of advice

Centrepoint believes that high quality financial advice enhances the financial wellbeing of consumers in Australia, their families and the community. The objective of financial advice is ultimately to improve a consumer's overall financial wellbeing.

Quality financial advice is advice that achieves the objective of the consumer and places them in a better position. However, today's regulatory environment is heavily weighted towards measuring the weight of compliance documentation on a consumer file rather than the advice itself and whether the advice given at that point in time was more or less likely to assist the consumer achieve their goals or solve their financial issues.

Whilst it is reasonable to assume that a good advice process is more likely to achieve good advice outcomes, it is also possible to have situations where high quality advice is accompanied by compliance processes that do not meet the prescriptive regulatory requirements or poor quality advice is accompanied with very good compliance and documentation. The issue is finding the balance between good advice outcomes and the amount of compliance documentation, or evidence to support the adviser's recommendations to the consumer, required throughout the advice process.

### 1.2. The drivers of cost that make quality advice so expensive and time consuming to deliver efficiently

The current advice process is highly complex, involves multiple systems and processes and is not efficient to enable delivery of quality advice to consumers.

The cost of providing advice documentation (SoA and/or record of advice) represents a significant burden that consumers struggle to read and understand. This adds a significant number of interactions between the adviser and the consumer, to the overall advice process. The balance has tipped too far to an overly complex, and documentation heavy advice process whereby financial advisers are required to manage multiple systems, paperwork and disclosures, and client consent forms. This all leads to significant time/cost and delays in the financial adviser being able to provide timely advice to the consumer

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<sup>1</sup> ABS National Accounts June 2021.

<sup>2</sup> APRA Superannuation Statistics September 2021.

<sup>3</sup> McCrindle, 2017, Wealth Transfer Report.

and affects a financial adviser's ability to serve each consumer efficiently. Implementation of the various regulatory changes over the years has created inefficiencies within the industry.

Whilst Centrepoint believes that good process does lead to good outcomes, we seek a better balance between a sensible advice process which would meet the consumer's goals on a timely basis, whilst also managing prudent risk and compliance requirements.

As a result of the two key themes set out above, Centrepoint makes the following recommendations.

## 2. RECOMMENDATION 1 - SIMPLIFY ADVICE DOCUMENTATION

**Centrepoint recommends replacing the Statement of Advice (SoA) and record of advice with a single 'advice record'.**

The Corporations Act clearly sets out what must be included in a Statement of Advice (SoA). The complexity arises due to the overlay of Regulatory Guides (RG), ASIC information sheets, reports, surveillance, and enforcement activity, as well as AFCA determinations. As a result, SoAs are onerous to prepare, lengthy and costly, with extensive disclosures and disclaimers, which consumers struggle to read and understand.

For example, the requirements of s947B and C are quite brief and should be straightforward, however there is ambiguity especially surrounding the definition of the basis of advice. In administering the law, and with their best endeavours to provide certainty within the environment they were operating, ASIC has provided extensive and prescriptive guidance on what they consider must be included in an SoA and what the basis of advice should include.

The legislation and guidance around SoAs is voluminous and it is quite difficult to decipher the intent. This includes but is not limited to:

RG175 Financial Product Advisers – Conduct and Disclosure – 123 pages;

RG90 Example Statement of Advice – 23 pages;

RG244 Giving information, general advice, scaled advice – 139 pages;

Report 413 Review of Life Insurance Advice – 77 pages;

Report 515 Review of how large Institutions oversee advisers – 92 pages; and

Information Sheet 182 Super Switching advice – 4 pages.

Licensees operate in an environment where they must adhere to these additional layers to avoid the risks and consequences of enforcement action from the regulator and adverse determinations from AFCA. As a result, SoAs are not providing consumers with clear, concise and effective disclosure.

In addition to SoAs, records of advice may be used when providing further advice to consumers. The Corporations Act outlines that an adviser can 'record their advice' in a form that can be provided to the client in limited situations. These are where a previous SoA was provided to a consumer, the basis for the previous advice has not changed significantly, and there has been no significant change to the consumer's circumstances. Uncertainty about what constitutes a significant change in consumer circumstances, plus the overlay of risk management measures has resulted in the over reliance on SoAs and lengthy, costly records of advice. To mitigate potential claims risks and regulatory overlay Licensees have templated records of advice generally within software that has limitations, which has resulted in longer documents.

Reforms to simplify advice documentation would improve consumers access to affordable, quality advice and advice documents that are clear, concise and effective. We would like to see streamlined regulations, more principles based

regulations, and advice documents with disclosures that are designed for consumers, not for the purpose of risk management.

To solve the above issues, Centrepoint recommends replacing the Statement of Advice (SoA) and record of advice with a single 'advice record' for which content can be scaled according to the circumstances. For example, a 'no change' recommendation or minor underlying switch of investments should not require the same level of documentation as holistic advice with multiple strategies. Stripping out unnecessary information from the advice record would result in a more consumer friendly document, that consumers are more likely to read and understand. It would also enable advisers to produce documents more efficiently, which ultimately flows down to the cost of advice for consumers. Any additional information could be incorporated by reference such as the Product Disclosure Statements (PDS), information gathered to provide the advice and previous SoAs or records of advice. We also support that alternative strategies, alternative product research, alternative projections should be able to be stored on file or in modelling scenarios in software rather than needed to be included in the advice document.

The benefits of the above suggestions would significantly reduce the cost of providing advice as well as improve the end-to-end client experience for advice to be provided and implemented.

### **3. RECOMMENDATION 2 - BEST INTERESTS DUTY – REMOVAL OF THE SAFE HARBOUR STEPS**

**Centrepoint recommends that the safe harbour steps (section 961B(2) of the Corporation Act) be removed from the Best Interest Duty provisions.**

The best interests duty was introduced to ensure the processes and motivations of financial advisers are focused on what is best for their clients ahead of their own, those of the licensee and any relevant associates. Its primary goal was to regulate conflicts, not to target the intrinsic quality of the advice provided.

The safe harbour steps provide that where a financial adviser can demonstrate that they meet each process step, they have reached the minimum required to fulfil section 961B(1) of the Corporations Act. The legislation was intended to strike a balance between certainty and flexibility for advisers when satisfying the duty. However, the safe harbour steps and the guidance described in ASIC's Report 515 for demonstrating compliance with the steps are detailed and overly prescriptive. Further, under section 961G of the Corporations Act, advice may only be deemed appropriate if the best interests duty has been complied with. Minor process or documentation faults at any step result in the financial adviser being deemed as not complying with the best interests duty, and their advice may be deemed to be inappropriate. Good financial advice may be deemed to be inappropriate as a result.

As the industry completes the transition to a profession with higher education standards for financial advisers, the introduction of a principles based Code of Ethics, and the removal of various conflicted remuneration arrangements, Centrepoint supports the removal of the safe harbour steps as part of the best interest duty obligations. We support the best interest duty (s961B(1)), where advice must be fit for purpose and place the consumer in a better position, but without the burden of the complex, prescriptive safe harbour steps (s961B(2)). Financial advisers should be trusted to use their professional judgement.

It is Centrepoint's view that the safe harbour steps should be removed from the regulatory process.

## 4. RECOMMENDATION 3 – REMOVE FEE DISCLOSURE STATEMENTS AND STREAMLINE THE ONGOING ADVICE CONSENT PROCESS

**Centrepoint recommends removal of complex and duplicate disclosure and consent requirements which drive up the cost of advice for consumers.**

Recent reforms require financial advisers to obtain consent for advice fees from consumers. In many cases consent must be provided annually. Consent obligations apply to both financial advisers and product issuers.

The reforms place consent obligations on both financial advisers and product issuers, with a disconnect between the consent requirements for financial advisers and product issuers. An adviser enters into an arrangement with the consumer to provide services for a total fee. That fee may be deducted from multiple accounts with multiple product issuers and consent for each fee is obtained and provided to each product issuer. Each product issuer has different procedures for obtaining that consent. This causes confusion for consumers and further administration for the financial adviser to reconcile and explain each component to the consumer.

Standardising consent procedures across all product issuers (e.g., using a standard form to administer consents) would remove some of the administrative burden on financial advisers. Aligning the annual consent date used by the product issuer to the fee arrangement between the financial adviser and the consumer would also assist in this regard. This would reduce instances where each product issuer has different rules regarding the definition of the consent date which causes confusion for consumers, and administrative issues for the financial adviser. A single consent form for the consumer's multiple entities i.e., individuals, trusts, joint account would also streamline the process for obtaining consent.

Additionally, the reforms changed the existing fee disclosure obligations so that financial advisers must provide enhanced Fee Disclosure Statements (FDS) to consumers where there is an ongoing fee arrangement and renew those arrangements in writing annually. This legislation built on previous legislation, which has increased the administrative complexity for financial advisers. The reforms did not address existing issues with obtaining and disclosing accurate fee information in accordance with the legislation due to the timing of revenue paid to advisers and technology constraints. While initially FDS obligations were aimed at transparent fee disclosure they have become increasingly complex, and with the addition of consent obligations, confusing for consumers.

In combination, these two reforms mean consumers must provide consent for fee deductions annually to product issuers, and they must also renew ongoing fee arrangements between themselves and advisers annually. These reforms have resulted in duplicate and confusing disclosure to consumers and an increase in complexity and administration for financial advisers.

Removing the FDS and standardising the fee consent forms and dates across the industry would reduce administrative burden on financial advisers and product issuers and make it easier for the consumer to understand. Consumers should enter into a fee arrangement with the adviser and provide consent to the product issuer(s) annually to continue to deduct fees under that existing arrangement.

## 5. RECOMMENDATION 4 – RETAIN LIFE INSURANCE COMMISSIONS

**Centrepoint recommends that the exemption of life insurance commission from the ban on conflicted remuneration, be retained.**

Consumers are not accustomed to paying a fee for life insurance advice. Should commissions payable to financial advisers on life insurances policies be removed, consumers will be required to pay the financial adviser a fee to replace the loss of commissions. Only those consumers who are willing to pay or can afford to pay will seek advice.

It is anticipated that in the event the exemption on life insurance commission is removed, fewer financial advisers will provide life insurance advice and those who do will be more likely to advise wealthier clients.

Consumers with life insurance policies will not seek advice as their circumstances change and may cancel cover where financial advisers could assist consumers to maintain appropriate and affordable cover. Consumers may also experience erosion of their superannuation balances without access to advice.

A removal of the exemption of life insurance commission, the resultant cost of seeking advice for consumers, and reduced access to advice may cause severe underinsurance in the community with society, government and families then having to bear the cost of care provided to consumers who fall sick or are injured.

## **6. CONCLUSION**

Centrepoint believes the recommendations above will have a significant impact on the quality of advice and the significant cost and complexity to produce it.

Centrepoint would welcome the opportunity to assist Treasury further in the Review and provide detail in any public hearings in relation to matters of significant interest to the Review.

Should the Review have any questions, please contact John Shuttleworth, Chief Executive Officer of Centrepoint.