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Via email: AdviceReview@treasury.gov.au

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Subject: **Quality of Advice Review Consultation – Issues Paper**

Thank you for the opportunity to provide feedback on the matters raised in the Issues Paper.

What is financial advice?

The current definition of “Financial Product Advice” is focused on influencing client decisions about financial products (or classes of products). This definition is split into “General Advice”, where the client’s circumstances are not taken into account, and “Personal Advice” where they must be taken into account.

These definitions are focused around the sale of financial products, which is not always the primary guidance that consumers need. More commonly, they seek to better understand the complex financial system in place in Australia. We propose instead that the definition(s) for Financial Advice be revised to focus on a model relating to the types of guidance that consumers want and need.

Advice leading to the sale of Financial Products should of course be regulated appropriately, but we propose that certain types of advice and guidance, not focused on the sale of specific Financial Products be defined, so that a wider variety of consumer advice needs may be met cost-effectively.

We suggest the Review gives consideration to a regulatory framework that facilitates the provision by AFS licensees of the classes of financial information and advice set out in Appendix 1.

Categories of financial information/counsel or advice

We propose that Financial Product advice be more clearly defined through five definitions. Of those, Factual Information, General Advice and Personal Financial Advice would all be retained with little modification. In addition, we propose the addition of the following advice categories:

- **Restricted Advice**, which would extend the guidance that financial product providers can provide to their customers, using some of their personal information, without triggering the full personal financial product advice requirements
- **Personal Strategic Advice**, which would create a lower cost framework for the provision of personal advice about *classes of financial products*

Restricted Advice

We think the addition of this category would greatly assist in maximising the benefits of the Retirement Income Covenant for superannuation fund members, for example, by clearly allowing superannuation funds to pro-actively present information to members about potentially suitable fund retirement products and/or strategies taking into account the member's personal information held by the fund. Another use would be for a superannuation provider to provide comparison information against statistical norms, for example, projecting the retirement income that an individual might be on track for based on their existing circumstances and how this compares to statistical averages. Another example might be to demonstrate the impact that additional contributions might be expected to have in improving these future retirement outcomes.

Personal Strategic Advice

We see evidence of a large unmet need for affordable non-product specific personal advice – for example, a young person wanting guidance on whether to invest surplus income into a term deposit or shares or superannuation. Having a single regulatory regime capturing advice about specific “Financial Products” in an identical manner to “Classes of Products” significantly restricts the ability of advisers to provide simpler forms of advice such as this in a cost effective manner.

The aim of the “Strategic Advice” concept is to reduce the regulatory burden on simpler forms of non-product personal advice to enable such advice to be provided cost effectively in a format that consumers would engage effectively with – that is, a face-to-face meeting (real or virtual) with a financial adviser. By excluding specific financial product choice from the conversation, advice becomes inherently simpler as it does not require extensive calculation of fee comparison, or consideration of the internal asset holdings of many available investment choices. It would also alleviate the requirement to provide some written disclosure, such as that required by *Corporations Act S947D*.

As the cost of this work is inherently passed on to the advice consumer, the removal of these complex issues would allow the service to be priced significantly lower than a traditional Personal Financial Advice service. In fact, the remaining disclosure required under the current model (eg S947C) may be simple enough, that this advice could be provided verbally and simply recorded (audio, visual or written notes) without the client needing a complex disclosure document at all. This would help fill the gap between financial counselling services, which are really only made available to people with significant financial problems, and full personal financial advice at a cost of thousands of dollars – which may be more than the consumer's yearly excess income available for saving. There is a significant segment of the population that could achieve substantial benefit from basic financial advice, but is priced out of receiving advice at all, by the complexity and cost of providing this service under the current model.

Responses to specific questions from the Issues Paper

Our responses to a number of specific questions raised in the Issues Paper are set out in Appendix 2.

Who is Mercer?

Mercer is one of the world's leading firms for superannuation, investments, health and human resources consulting and products. Across the Pacific, leading organisations look to Mercer for global insights, thought leadership and product innovation to help transform and grow their businesses. Supported by our global team of 22,000, we help our clients challenge conventional thinking to create solutions that drive business results and make a difference in the lives of millions of people every day.

Mercer Australia provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have over \$280 billion in funds under administration locally and provide services to over 2.2 million superannuation members and 15,000 private clients, including the Mercer Super Trust, which has around 230 participating employers, about 200,000 members and more than \$29 billion in assets under management.

Naturally, we would be happy to discuss this submission at your convenience.

Yours sincerely,



Dr David Knox
Senior Partner

Appendix 1

Proposed categories of financial information/counsel and advice

- **Factual Information** represents information and facts about the investment markets, products, Government benefits etc. The provision of objectively verifiable facts should never be considered to be a form of financial advice.
- **Personal Strategic Advice** represents specific financial advice relevant to the personal circumstances of the client, based on the limited information provided by the client through discussion. Personal Strategic Advice does not recommend particular products, although it may comment on classes of products. These restrictions mean the advice will be simpler to devise, but therefore also has limits. Should the client then ask “which product?” this leads to other forms of advice, as outlined below. A fee would be payable (maximum \$1000) with appropriate limits and caveats concerning the advice. The objective of introducing Personal Strategic Advice is to create a category of personal advice that can be provided verbally in discussion with the client, which will substantially broaden the access and availability of low cost financial advice.
- **Restricted Advice** represents a situation where a financial product provider (e.g. bank, insurer, super fund) advises a member/customer how they may be able to *improve their outcomes* from this provider or product, similar to the operations of Centrelink with respect to government benefits. It would normally be provided without any fee (or additional fee) based on the availability of some limited personal information that the provider already holds such as age, super balance and possibly single/couple status. Examples could include:
 - a super fund encouraging members aged over 65 but in accumulation phase to consider transferring to a retirement pension product thereby reducing their tax.
 - the provision of benefit projections by super funds.
 - a call to action based on heuristic information, such as alerting individuals with a relatively low balance for age about the likely retirement outcomes they may achieve along with statements about the improved outcomes that might result from making contributions.
 - nudging retired members to consider particular retirement products in line with the Retirement Income Covenant, including examples of cohort-based cameos.

This guidance would currently meet the definition of personal financial advice, as the member’s age, balance and other factors may be taken into account, but it is suggested that this form of advice would be pro-active in nature based solely on what is known about the member and would not require substantial enquiries to be made of the member.

- **General Advice** represents financial advice of a general and particular nature that does not take into account any personal circumstances and is not restricted to factual information. An example would include a presentation to a group of employees about the superannuation plan selected by their employer that includes statements of opinion as well as general information and facts about a particular product.

- **Personal Financial Advice** represents other forms of personal advice, such as a comprehensive financial plan and individual product advice after the advisor has considered products from a range of providers. A fee would generally be charged to the consumer, except where provided by a superannuation fund to a member under the intra-fund advice arrangements.

Each of the classes of financial information/counsel or advice could be provided by an AFS licensee in person, in writing, virtually or through technology. The mode of advice does not matter (although unrecorded verbal advice should be restricted to straightforward matters). Provision of Personal Strategic Advice and Personal Financial Advice would be restricted to registered financial advisers.

Appendix 2

Responses to specific questions from the Issues Paper

14. In what circumstances do people need financial advice but might not be seeking it?

See our response to Q 15. Also see page 2 of this submission for our commentary on the unmet needs which would be addressed by Personal Strategic Advice.

15. What are the barriers to people who need or want financial advice accessing it?

Ignorance – many people do not know how much they don't know, or where to go to obtain advice. See Appendix 1 and pages 1-2 of this submission for comments on our proposal for a Restricted Advice category which would allow product providers to proactively assist their customers.

Cost – The cost of comprehensive personal financial advice is unaffordable for many. Our proposals for Personal Strategic Advice and Restricted Advice would help address this issue.

Lack of trust – Despite the lift in professional standards in recent years, the financial advice industry still suffers from a lack of trust. Trusted institutions – such as superannuation funds – may be able to help overcome this through avenues such as Restricted Advice and referral to trusted financial advisory firms.

16. How could advice be more accessible?

The introduction of intra-fund advice has enabled super funds to service people, many of whom would otherwise not be receiving advice at all.

However the topic restrictions for intrafund advice (which we consider are appropriate) mean it cannot meet the wider financial advice needs of members, who often cannot afford comprehensive personal advice. Our proposal for Personal Strategic Advice would provide a more affordable means of filling this gap and reaching many more under-advised people.

17. Are there circumstances in which advice or certain types of advice could be provided other than by a financial adviser and, if so, what?

Yes, Restricted Advice and General Advice should be permitted to be provided by AFSLs.

20. Is there a practical difference between financial advice and financial product advice and should they be treated in the same way by the regulatory framework?

There is a major practical difference between advice about classes of financial products (which we have suggested should form the separate category of Personal Strategic Advice) and advice about specific financial products. Personal Strategic Advice is inherently simpler (and hence less costly) to provide as it does not require extensive product research and calculations of fee comparisons, or consideration of the internal asset holdings of many available investment choices, for example. See Appendix 1 and page 2 of this submission for further commentary about the Personal Strategic Advice concept.

23. Should there be different categories of financial advice and financial product advice and if so for what purpose?

Yes, see Appendix 1 and pages 1-2 of this submission.

24. How should the different categories of advice be labelled?

See Appendix 1 of this submission.

25. Should advice provided to groups of consumers who share some common circumstances or characteristics of the cohort (such as targeted advertising) be regulated differently from advice provided only to an individual?

Yes, see Appendix 1 and pages 1-2 of this submission for comments on our proposal for a Restricted Advice category.

29. Should superannuation trustees be encouraged or required to provide intra-fund advice to members?

Our observation is that most large funds already provide intra-fund advice to assist members and be competitive. There are some funds (mainly platforms) that are designed for distribution through advisers and do not provide intra-fund advice on the basis that most members obtain advice through their adviser and would not wish to be collectively charged for an intra-fund advice service they will never use. Therefore we are not in favour of compulsion and think this service is prevalent enough that encouragement is not necessary.

30. Are any other changes to the regulatory framework necessary to assist superannuation trustees to provide intra-fund advice or to more actively engage with their members particularly in relation to retirement issues?

Yes, we think the addition of our proposed Restricted Advice category would enable super trustees to better assist their members, particularly in maximising the benefits of the Retirement Income Covenant for superannuation fund members - for example, by clearly allowing super funds to pro-actively present information to members about potentially suitable retirement products offered by the fund and/or strategies taking into account the member's personal information held by the fund.

32. Do you think that limited scope advice can be valuable for consumers?

Yes. However the utility of limited advice should be considered as to what it achieves in terms of increasing affordability and allowing people to access the advice they need at times when they need it.

The most under-serviced segment of the population is younger people who do not have significant wealth to invest and don't want to spend large portions of what they have on advice fees. Their advice needs are often that they want answers to simple questions such as how to prioritize their many financial needs and help with understanding affordability of the options available to them in broad terms. Currently, these clients (where they seek advice at all) are paying higher fees driven by the need to compare the minutia of relatively similar products. While it's very true that small differences in product fees can make a substantial difference over the lifetime of a product, the damage to retirement outcomes from this issue is much less than it often is for clients who reach middle-ages without ever having sought advice at all due to the expense - and as a result, for example, still not understanding how salary sacrifice works, or if they should have taken out insurance under level premiums 10 years ago when it was cheap.

Current “limited advice” models inherently drive ignoring some of these issues and still result in expensive advice. The Strategic Advice model we propose would allow oversight over a range of issues at a more cost effective price point, which is likely to drive much better long-term outcomes. This would be supplemented by the zero-cost advice types, such as Restricted Advice and General Advice.

34. Other than uncertainty about legal obligations, are there other factors that might encourage financial advisers to provide comprehensive advice rather than limited scope advice?

The current regulatory framework requires personal advice to address all areas of advice relevant to the subject matter raised by the client, unless the client declines some aspect of the advice. Due to the interconnected nature of the client’s financial arrangements, this often results in the practice of having to provide advice on everything, as the client will often be happy to have a broad conversation about all of their financial arrangements. Expecting clients to understand which areas of their financial arrangement *don’t* require advice (prior to receiving advice on this) and that they can agree to exclude, is an unrealistic expectation on the consumer.

The consumer’s willingness to discuss wide-ranging topics is not a bad thing. Our proposed Personal Strategic Advice category is the best way of providing this advice in a cost effective manner, in a way that alleviates a significant amount of the adviser hours (and resulting cost) from the provision of advice, without forcing the client to choose which areas of their financial arrangements are not going to be discussed. It’s difficult for a client to choose whether they should get advice about insurance or super, if they can only afford one. On the other hand, it’s quite easy for a client to understand that they’re agreeing to strategic advice about insurance and super, and that they’ll have to either make product-specific decisions themselves, or (if necessary) pay for advice about the specific product choice that they now understand is necessary, as a result of the strategic advice provided.