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23 September 2022

Quality of Advice Review Secretariat
AdviceReview@treasury.gov.au

Re: Quality of Advice Review Proposals for Reform

Dear Ms Levy

Thank you for inviting feedback on the Quality of Advice Review Proposals for Reform ('Proposals Paper'). I am writing in my capacity as Chair and co-founder of Catalpa Pty Ltd ('Catalpa').

We choose to work differently

Catalpa is a community (AFSL #530665) of professional financial advisers who choose to meet the independence conditions of s923A. Our authorised representatives are retirement specialists who have active relationships with their clients, but they do not have ongoing arrangements. Our advisers' clients are in control of when they access services. Each engagement of services is separate, explicitly agreed and our fixed fees are payable only after the service is provided. The benefits of this approach include satisfying client preferences, while increasing our capacity to service more clients.

Proposals will make advice more accessible

We believe that the proposals in the Proposals Paper, if implemented, will achieve the intended outcome of more Australians accessing advice. Professional advisers will immediately be released from the current overwhelming bureaucracy, reducing costs to serve, and creating capacity for them to service more clients. In the short-term we will see permanent reductions in professional fee levels, removing a major barrier to accessing advice.

More Australians accessing advice will be a positive outcome. MYMAVINS research has found that advised Australians experience advantage over the unadvised[1]. The advised are less likely to suffer from financial stress, have increased financial literacy, more confidence around their spending decisions and increased resilience when faced with change.

[1] Fidelity International, *Retirement: The Now and the Then,* 2021

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Potential unintended consequences of proposals 5 and 6 (superannuation advice)

The interaction of proposals 5 and 6 will certainly achieve the intended outcome of more Australians accessing advice, but consideration of unintended consequences is pertinent.

It is our understanding that Proposal 5 aims to provide legislative certainty to superannuation trustees, so they have more confidence to provide advice to their members. The advice contemplated is in relation to existing interests in super accounts and can incorporate the members' other household resources.

Proposal 6 makes this advice more accessible by allowing trustees to bundle advice fees across the entire membership. There is capacity to remove all user pays fees completely, within the constraints of the trustee duties. And if the user of the service doesn't pay, the adviser is not required to be a relevant provider and professional obligations don't apply.

It is also our understanding that the advice from a non-relevant provider would still need to meet the good advice standard.

We see the utility of the interaction of proposals 5 and 6 in Cameo 2 in the Proposals Paper. Ms Hughes' circumstances are well-suited to the service provided by Mr Ram, a superannuation fund telephone adviser. Ms Hughes only has one super fund and has limited other assets, and Mr Ram can provide appropriate and relevant advice around a retirement income stream and the age pension.

It is our belief that this type of advice experience is fit for its intended purpose, and it is clear to members that the service is not a professional advice service. In these circumstances it makes reasonable sense that professional standards need not apply to the adviser.

The risk of unintended consequences increases when members are ill-informed as to the distinction between superannuation advice not provided by a relevant provider and professional advice that is; that the former may not be as thorough as the latter.

Members' financial circumstances are often not simple

Members frequently have money outside of their main super fund, which limits the utility of providing advice on existing interests in a superannuation fund.

One in three members has more than one super fund[2]. And the biggest intergenerational wealth transfer on record has already begun. It is estimated that $3.5 trillion will be gifted or inherited between now and 2050[3] in Australia.

From the Proposals Paper, it appears it is possible for super funds to solve these complications by extending their advisory capacity beyond existing interests. They can include new buy or consolidation recommendations into the scope of their advice.

If so, that is an entirely different proposition to that described in Cameo 2 in the Proposals Paper.

The potential re-emergence of vertical integration

Super funds measure their success in various ways. When it comes to the commercial success of a super fund, an important measure is Funds Under Management ('FUM'). Historically, the drivers of FUM have included new members joining, existing members adding money to their accounts, and stemming the flow of redeeming members, especially at retirement.

The attraction to a mega fund of building up an in-house advice function should be considered. The potential exists for a mega fund with a million members to charge each member an extra $1 per week and raise more than $50 million per year. Enough to finance hundreds of super fund advisers.

Importance of truth in labelling

We would argue that vertical integration has the potential to introduce hidden agendas, product bias and self-interest that most clients don't understand. Vertical integration has historically been problematic because financial advice does not involve transactions of equally capable parties. There is information asymmetry, where the adviser knows more, creating a power imbalance between the adviser and the client.

We expect that most members will not understand the difference between a super fund adviser who is not operating as a relevant provider, so has no professional obligations, and a professional adviser who does. It is important that consumers have clarity if their superannuation adviser is not subject to professional standards and is not abiding by a professional code of ethics.

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[2] https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/super-statistics/super-accounts-data/multiple-super-accounts-data/

[3] Productivity Commission

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Building on inroads into professionalism

Superannuation advisers being perceived as professionals when they are not relevant providers and subject to professional standards is a serious issue.

Professionals are accountable for their own careers and reputations. They serve the client first, prioritising the client's interests over their own and their employer's.

Over the past several years, the advice industry has made significant inroads on its pathway to professionalism. A critical step in this process was the separation of fees and products and the dismantling of vertical integration. All four major banks have closed their in-house advice functions, and there has been a shift to self-employment for advisers. At the same time, self-licensing is increasing.

It is our hope the professionalism in the advice industry continues to increase over time.

If our concerns in relation to Proposal 5 and 6 are addressed, the measures in the Proposal Paper will bring the benefits of professional advice to more Australians.

Our recommendations

1. Superannuation advice paid for across the membership to be restricted to advice on existing superannuation interests only.

In many member circumstances, this superannuation advice will suffice. But for more complex advice, it will not.

2. Superannuation advisers who give buy recommendations (including to consolidate or start an income stream) should be relevant providers and the advice paid for by the user of the service.

This will require the superannuation adviser to adhere to the professional standards.

Yours sincerely

Jason Andriessen
Chair & Co-Founder, Catalpa