Association of Financial Advisers – Key Policy Positions

Association of Financial Advisers

Introduction

The Association of Financial Advisers is a professional association representing financial advisers and the Australian community with the primary purpose of ensuring that more Australians access great financial advice and take advantage of the financial, emotional and behavioural benefits that flow from financial advice. To achieve this objective, it is important that financial advice remains both accessible and affordable for average Australians and not just something that is available to the affluent. In a time of huge regulatory reform and sector disruption, it is important that policy settings work to ensure that this is achievable. We have set out below our analysis in respect to the key reforms that are currently underway and our recommendations to ensure that they will achieve the overall objective of lifting the level of professionalism, without making financial advice unaffordable.

Professional Standards and FASEA

Analysis. As part of the 2017 Professional Standards legislation, financial advisers are being required to complete an exam, undertake further study to achieve degree equivalence, meet new Continuing Professional Development standards and comply with a new Code of Ethics. Whilst this will help to drive an increase in professionalism, in many cases financial advisers are being required to do too much additional study and are not being allowed adequate time to undertake this study. This is most obvious in terms of the lack of any means to recognize experience, and it is the older advisers who entered the profession at a time when degrees were uncommon and where the courses at that time are not being recognized by the Financial Advisers Standards and Ethics Authority (FASEA). Financial advisers required to do eight postgraduate subjects in four years, whilst running a business and maintaining a family have no flexibility to cover set-backs, health issues or absences such as for maternity leave. In the case of specialist advisers, they are being asked to undertake study in areas which will deliver little value to the adviser, their business, or their clients. The Government originally committed to advisers having two years to complete the exam, however the exam was only made available in June 2019 and those doing it in the first round, have undertaken it without the opportunity to complete the study that will become available (two post graduate units) and without access to practice exams or adequate preparation guidance. FASEA has had a huge amount to do and it is not overly surprising that some of the deliverables are running late. The program therefore needs to be updated.

AFA Recommendations. Our recommendations are as follows:

- An extension of 12 months in the deadline for the completion of the exam from 31 December 2020 to 31 December 2021.
- An extension of 24 months in the deadline for the completion of the Graduate Diploma from 31 December 2023 to 31 December 2025. Financial advisers need to balance their study obligations with their business and family responsibilities.
- Experienced advisers should be given credit for the courses and CPD that they have undertaken in the past, as was suggested in the Explanatory Memorandum to the Bill. We propose 3 subjects credit for an adviser with over 15 years' experience, and 2 subjects for someone with between 10 and 15 years' experience.
- Financial advisers should have the flexibility to study areas that will be beneficial for them, their business and their clients.

The Banking Royal Commission Recommendations

Analysis. The Banking Royal Commission put a spot light on some of the practices in the financial advice marketplace. The financial advice profession rightly needs to take responsibility for some of these issues and it is understandable for the Government to respond assertively to something as important as the Banking Royal Commission in order to meet consumer expectations. Nonetheless, it is important that any response is measured, adequately analyzed and consulted. It is also essential that the industry be given the time to adjust to major changes that threatens existing businesses with flow-on effects for affordable advice.

The Royal Commissioner was not an expert on financial advice and the complexities of advice didn't get the necessary level of consideration, but they will impact implementation with likely consequences for consumers. The Government responded very quickly, including in providing directives to both ASIC and AFCA, which will each have deep consequences. APRA and ASIC, through a letter to superannuation fund trustees, have sought to fundamentally reform the model for financial advisers to charge clients though their superannuation fund. Trustees and ASIC are also looking to drive the removal of grandfathered commissions in advance of any legislation and in a timeframe that does not allow advisers, or their clients to adequately respond. Grandfathered commissions are payments built into pre 1 July 2013 investment and superannuation products to remunerate financial advisers for the provision of ongoing services to clients. It is argued that not all of these clients are receiving ongoing services, however there are many who are. When trail commissions on investments and superannuation were banned for new clients in 2013, financial advisers were told that this would not happen for existing clients. Financial advisers have made business decisions since, including the purchase of businesses that included grandfathered commission clients with debt. These financial advisers will be greatly impacted and need time to restructure their businesses and to assist their clients – some of whom will have adverse Capital Gains Tax or Centrelink issues, to move to alternative arrangements.

AFA Recommendations. Our recommendations are as follows:

- We would like to see APRA and ASIC modify their letter to trustees, accepting that trustees should be able to rely upon the client authorization process for ongoing adviser fees undertaken by the financial adviser and that any checks that the agreed services are being provided, is undertaken at a high level and relying upon system based measures.
- The AFA supports the extension of the renewal (client authorization) process to all ongoing fee clients, however we continue to believe that doing this every second year rather than every year, along with an annual Fee Disclosure Statement, sets the right balance between client protection and business efficiency and cost to serve.
- Financial advisers reasonably need three years to remove grandfathered commissions and legacy products (i.e. lifetime annuities and whole of life policies) should be exempt where there is much greater complexity and limited or no client benefit. Clients in situations where they are prevented from moving to modern products by such issues as Capital Gains Tax or Centrelink grandfathering, should get Government relief or be allowed to opt-in to remain in a grandfathered commission paying product.
- The Royal Commission has indicated support for the 2021 ASIC review of life insurance advice, however suggested in the absence of justification, that commissions should be removed. The Commissioner also acknowledged that life insurance commissions were different and indicated room for further discussion. To address the lack of clarity with respect to the 2021 review, in the context that ASIC have already expressed a preference for the removal of life insurance commissions, we recommend that Government consult with the financial advice profession and the life insurance industry on the scope of this review and then issue a directive to ASIC accordingly. Ultimately, Government should control this process and make the final decision on what should happen, based upon the outcome of a well designed and supported 2021 ASIC review.

Conclusion

The AFA is keen to work with Government, the Opposition, the cross-bench, and other stakeholders to ensure that the financial advice profession is based upon robust rules and delivers quality outcomes for Australian consumers, however this will only happen if there is enough financial advisers left to provide affordable financial advice and that the obligations for the provision of financial advice demonstrate a sensible balance to ensure that it remains both accessible and affordable.