Future of advice is in peril – it can only be assured by understanding past failings

By Paul Tynan, CEO Connect Financial Service Brokers

If the future and well-being of consumers is truly the highest priority of the federal government and financial services industry, then the quality of judgment has to improve and decisions made based on the lessons embedded in the experiences of the past.

The future viability of the advice sector is quite literally at the precipice!

Practitioner numbers are at an all-time low; exits and premature retirements continue to mount; and the industry's reputation and obsession with over-regulation is dissuading new advice entrants.

It's for this reason, that politicians and stakeholders must ensure that the decisions of the past that has brought about this scenario are not repeated or compounded going forward.

When looking back at history, the litany of disasters has quite literally been horrendous with most catastrophic being retrospectivity. Basically, a misguided belief that arbitrarily changing the past will improve the present and secure the future. The reality has been –

Education Standards: I've haven't met one person in the industry that does not support lifting standards and the standing of the advice sector with appropriate entry level academic qualifications and ongoing professional development. However, they should never have been introduced retrospectively.

Remuneration: Whether referred to as commission or brokerage, they constitute the cost of distribution that is incorporated into the product by the manufacturer. They are not conflict of interest, hence, retrospective banning of commission is wrong.

ASIC (Lookbacks): ASIC's preoccupation with lookbacks has resulted in advisers looking over their shoulders like never before and quite literally living in fear. Bringing down the cost of advice will never be achieved; and will only result in more compliance and administrative imposts.

In all seriousness, no industry should be required to operate under a lookback regime of ten years or more. Imagine if politicians or the legal profession was required to adhere to the same requirements!

BoLR: Retrospective legislation by government has given the green light for institutions like AMP to change their buyer of last resort agreements resulting in drastically devalued businesses for many advisers. This has been another decision that further undermined the standing of government, financial institutions and the industry as a whole.

Through no fault of their own; not breaking any rules or doing anything wrong – retrospective law making and arbitrary changing of contractual arrangements has quite literally brought the advice sector to the point of failure.

The purpose of the advice industry is to provide quality advice that is affordable, scalable and is in the best interest of clients. Consumers have every right to question an industry that for two decades has wreaked havoc on itself, advisers and retrospectively changes rules and overturns supposedly iron clad assurances and undertakings.

We need leadership from both sides of parliament to work together to deliver a sustainable workable framework. Hence my firm belief that the present structure needs to be reviewed with a view to implementation of the following –

Individual Licencing: Move the industry away from corporate structure to advisers operating on a licencing framework that is no different to other professions such as accountants, lawyers, doctors, etc.

Past experience has proven that putting any entity that operates / and is motivated by profit between the consumer and their adviser inevitably leads to a conflict of interest.

The adviser's sole role must be to act in the best interest of the client, not to a licencing group. The larger institutional licensees have compounded the environment for their advisers by adding extra layers of red tape, complexity and compliance.

Regulation: Regulation and constant legislative tinkering by the federal government has only served to damage the industry and disadvantage consumers by making advice unaffordable. There needs to be a concerted effort to remove this burden.

Who is the Regulator? The industry is drowning in regulatory authorities and voices demanding to be heard. As if FASEA, ASIC, ATO, TPB, APRA, AUSTRAC, ACCC and AFCA weren't enough, new bodies are being established in conjunction with associations, lobby groups, academia, institutions, industry super, the media and list goes on.

At what point do we say enough is enough!

Too Many Voices: There are too many industry associations representing the advice industry vying to be heard (and taken seriously) by government. Until these groups unite and merge into a single and powerful representative voice, it will only reaffirm to regulators the fragmented and self-interest nature of the industry.

Statements Statements Statements: No other advice profession is required to provide so many statements i.e. annual opt in statement, fee disclosure statement, statement of advice (SOA), etc. All of which are ultimately paid for by the consumer.

SOAs continue to grow, not because clients read them but out of fear of litigation.

Defining Advice: The provision of advice in reality is demarcated into two clear models – Independent (open APL) and Proprietary (can only provide advice on proprietary products e.g. industry funds, bank products). The formalisation of this distinction would be of most benefit to the consumer and provide greater transparency.

Technology: A failing and legacy of industry domination by large institutions has been a lack of innovation and the restricted application of new technologies. The advancement and application of FinTech is vital and needed to drive efficiencies and benefit consumers.

Career Pathways: How can financial services attract the next generation of advisers when the current pathways actually inhibit new entrants joining the advice industry? Two decades of non-stop regulatory reform, industry rationalisation and uncertainty has resulted in the next generation of advisers preferring alternate career paths with more attractive work life balance opportunities.

What's the Answer? Firstly, a combined effort and joint approach by government can halt the demise of financial services and the advice sector. However, action is needed now with a united effort and joint approach that can create a viable future for the industry and provide affordable advice for consumers.

A good start would be a bipartisan working group NOT comprised of the usual retired judges, lawyers, vocal interest groups and individuals who have no practical experience running an advice business or face-to-face interaction with clients! It's for this reason that Australia has a track record of royal commissions and industry reviews failure.

There are many quality advisers who genuinely care about the industry and ensuring consumers receive quality advice and service that would gladly participate in a genuine and inclusive bipartisan review.

Secondly, as the world moves into the new era of the digital age, a national priority has to be raising the financial literacy for all Australians. People need to be able to manage their financial affairs in order to improve their standard of living. In addition, it will benefit the economy by improving the strength, performance and efficiency of the financial services system.

I am confident that this approach is the best way forward and would provide the all-important building blocks for a sustainable future for the advice sector – and most importantly – where the consumer will finally be the winner and beneficiary.

ENDS

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